



Management Discussion & Analysis – Full Year 2018
PT Toba Bara Sejahtera Tbk and Subsidiaries

31st December 2018

SUMMARY

Global seaborne thermal coal prices, represented by the benchmark Newcastle (NEWC) Index, posted a 21.2% y-o-y rise from 2017 average price of US\$ 88.5 per ton to 2018 average price of US\$ 107.3 per ton, emanating from high calorie value (CV) producer concentration and supply capacity growth constraints. Meanwhile, 2018 NEWC Index performance compared favorably against that of mid-to-low CV coal segment as reflected by the former's widening premiums to historical highs over the latter. Since 1H18, the high CV seaborne coal faced supply tightness arising from Australia's weather-related issues as well as its more concentrated supply situation from fewer major producers post M&A. Meanwhile, seaborne demand for such high-quality coal from the notable North East Asian market of Japan (less so for South Korea, and Taiwan) was relatively more brisk than normal.

A contrary situation evolved in the mid-to-low CV seaborne market over the same period, driven predominantly by China's policy restrictions on imported coal, during which major suppliers such as Indonesia had been raising its production numbers. Indonesia faced a combination of better than expected dry weather and yet a government ruling to meet 25% domestic market obligation (DMO). Entering 2Q18, China's coal demand was strong due to a pick-up in industrial activity but failed to be met by sufficient domestic supply amidst low inventory. This prompted China to turn to more coal imports. In 2H18, China had improved domestic capacity, pushing inventory levels at coastal utilities over the period to one of the highest in recent years. Moreover, import controls at major southern coastal ports, better performance of hydro power generation, and weakening Chinese currency (RMB) against US\$ muted import demand for seaborne coal, particularly from Indonesia and Australia.

As China remains as the largest consumer and importer of coal, its demand for coal continues to grow on yearly basis albeit at slower pace. Meanwhile, India continues to need seaborne coal given its ongoing domestic power shortages and is the next best catalyst to complement China as importer of seaborne coal. As for Indonesian coal, the South East Asia markets are expected to serve as ideal destinations due to proximity advantage as well as their continued demand traction growth from existing and new coal-fired power plant capacity in Vietnam, Malaysia, Thailand, and the Philippines.

Against the backdrop of the still prospective market outlook above, PT Toba Bara Sejahtera Tbk (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, and Sulut-3 in Minahasa, North Sulawesi Province.

After achieving financial close in July 2017, Sulbagut-1 is currently in construction phase. Piling works for the plant structure commenced on 30th September 2018. Sulut-3 is currently in pre-construction phase. On 21st December, 2018, the project secured US\$ 158 million project financing to finance the construction. This led to its realization of financial close on 28th December 2018.

On 12th December, 2018, the Company completed acquisition of 100% direct and indirect shares of PT Batu Hitam Perkasa, which owned a 5% stake in PT Paiton Energy ("Paiton"). Paiton is the first independent power producer (IPP) in Indonesia, which owns three power plant units (Unit 7, Unit 8, and Unit 3), with total net capacity of 2,045 MW.

Note: The following discussion on the Company's performance is based on the Consolidated Financial Statements as per 31st December 2018 (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).

Financial and Operational Highlights				
<i>All figures are in million US\$ unless otherwise stated</i>		2017	2018	Changes
Operation				
Sales Volume	mn ton	4.8	4.9	2.1 %
Production Volume	mn ton	5.0	5.4	8.0 %
Stripping Ratio (SR)	x	13.1	13.6	3.8 %
FOB Cash Cost ^{a)}	US\$/ton	40.0	49.6	24.0 %
NEWC Index Price	US\$/ton	88.5	107.3	21.2 %
Average Selling Price (ASP)	US\$/ton	61.1	75.4	23.4 %
Financial Performance				
Profit (Loss)		2017	2018	Changes
Sales ^{b)}	US\$ mn	310.7	438.4	41.1 %
Cost of Goods Sold ^{b)}	US\$ mn	216.6	314.3	45.1 %
Gross Profit ^{b)}	US\$ mn	94.1	124.1	31.9 %
Operating Profit ^{b)}	US\$ mn	63.6	102.4	61.0 %
EBITDA ^{b) & c)}	US\$ mn	74.8	110.2	47.3 %
Profit for the Year	US\$ mn	41.4	68.1	64.5 %
Profit for the Year after MI	US\$ mn	21.4	37.8	76.6 %
EBITDA/ton ^{d)}	US\$/ton	15.3	18.0	17.6 %
Operating Cash Flows ^{e)}	US\$ mn	58.3	54.5	(6.5)%
Capex ^{f)}	US\$ mn	50.8	27.7	(45.5)%
Balance Sheet		Dec' 17	Dec' 18	Changes
Interest Bearing Debt	US\$ mn	98.8	155.1	57.0 %
Cash and Cash Equivalents	US\$ mn	74.7	82.2	10.0 %
Net Debt ^{g)}	US\$ mn	24.1	72.9	202.5 %
Total Assets	US\$ mn	348.3	501.9	44.1 %
Total Liabilities	US\$ mn	173.5	286.3	65.0 %
Total Equity	US\$ mn	174.8	215.6	23.3 %
Financial Ratios				
Gross Profit Margin	%	30.3%	28.3%	
EBITDA Margin	%	24.1%	25.1%	
Operating Profit Margin	%	20.5%	23.4%	

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 9M18

^(c) EBITDA = Gross profit - selling expenses G&A - DMO + depreciation and amortization + dividend income from Paiton

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

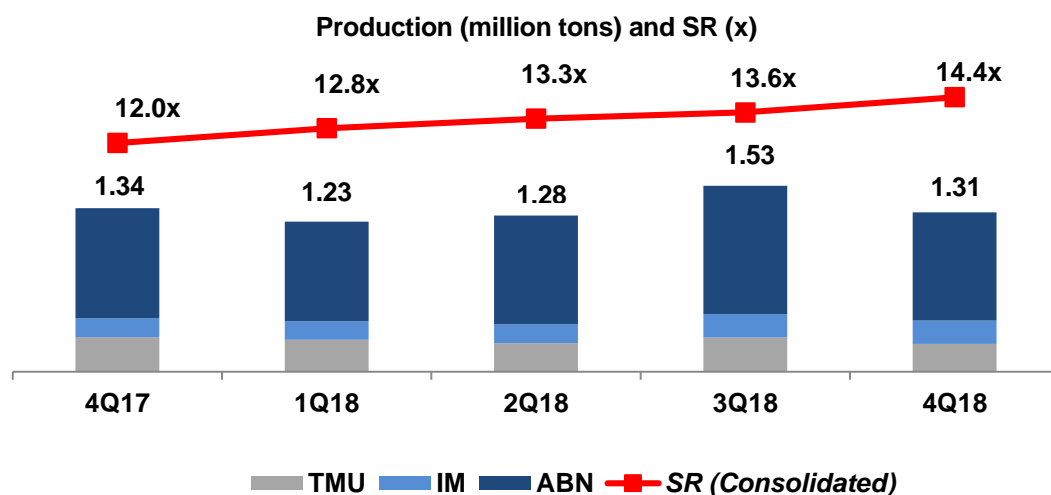
^(e) Excludes payment in relation to Sulbagut-1 and Sulut-3 projects amounting to US\$ 16.3 million in 2018 and US\$ 38.6 million in 2017, respectively

^(f) Includes payment in relation to Sulbagut-1 and Sulut-3 projects amounting to US\$ 16.3 million in 2018 and US\$ 38.6 million in 2017, respectively

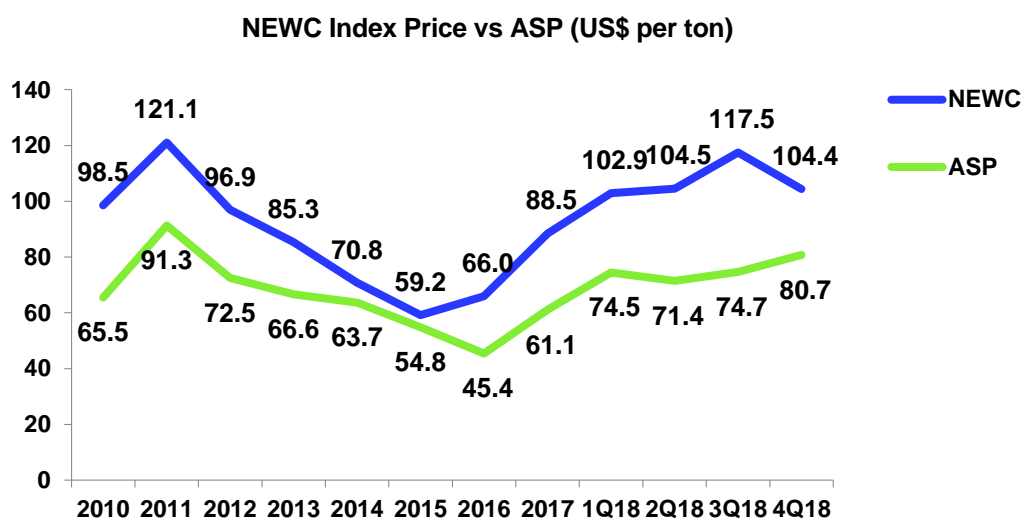
^(g) Net Debt = interest bearing debt - cash and cash equivalents

PRODUCTION & OPERATION

The Company's production volume of 1.31 million tons in 4Q18 was generated by all three mining subsidiaries of ABN, IM, and TMU, contributing 0.89 million tons, 0.19 million tons, and 0.23 million tons respectively. ABN remained the largest contributor to the Company's overall production volume, accounting for 67.9% of total 4Q18 production, followed by TMU and IM at 17.6% and 14.5%, respectively.



The quarterly SR and y-o-y SR were higher by 5.8% than in 3Q18 and by 20.0% than in 4Q17, respectively, due to pre-stripping activities at ABN pit during 4Q18.



ASP rose by 23.4% y-o-y from US\$ 61.1 per ton in 2017 to US\$ 75.4 per ton in 2018, in line with the rise in NEWC Index over the same period.

FINANCIAL

PROFIT (LOSS)

SALES

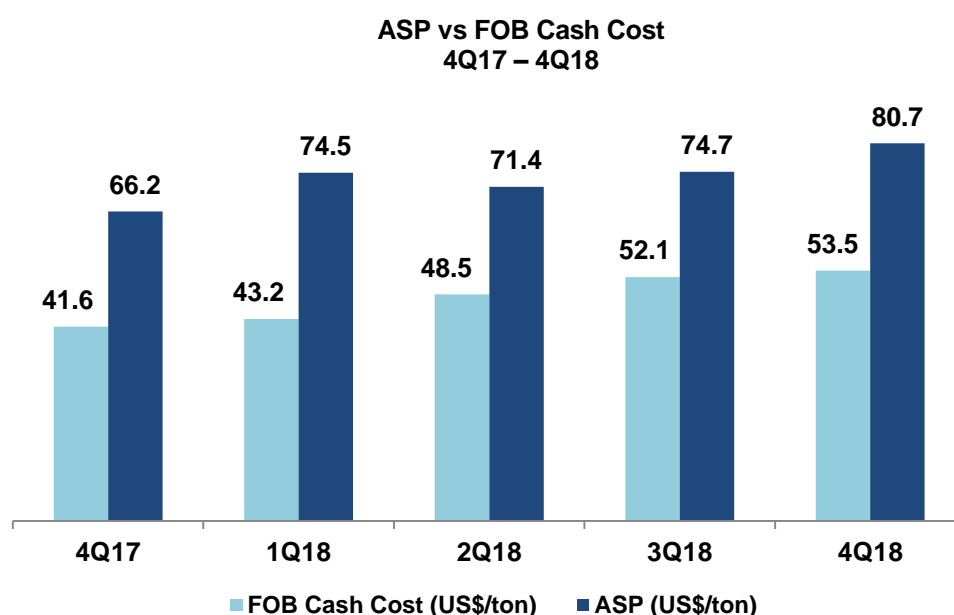
The Company recorded sales of US\$ 438.4 million in 2018, or 41.1% higher compared to that in 2017, stemming from much higher ASP, higher sales volume, and recognition of revenue from construction of Sulbagut-1 and Sulut-3 power projects (based on accounting treatment PSAK 34 and ISAK 16). Construction revenue recognized for both projects during the year stood at US\$ 39.5 million.

COST OF GOODS SOLD

Cost of goods sold rose by 45.1% y-o-y, reflecting a combination of higher sales volume in 2018, adjusted mining contractor tariff due to the higher coal index price, and construction cost of Sulbagut-1 and Sulut-3 power projects. Construction cost during the year was booked at US\$ 32.3 million.

EBITDA

A 47.3% y-o-y increase in EBITDA to US\$ 110.2 million in 2018 from US\$ 74.8 million in 2017 significantly increased EBITDA margin from 24.1% to 25.1% over the period.



PROFIT FOR THE PERIOD

After taking into account finance cost of US\$ 9.7 million and tax expense of US\$ 29.2 million, the Company booked total profit for the year of US\$ 68.1 million in 2018, up 64.5% y-o-y from the previous year.

FINANCIAL RATIOS

Gross profit margin was slightly lower y-o-y from 30.3% in 2017 to 28.3% in 2018. EBITDA margin and operating profit margin rose y-o-y from 24.1% in 2017 to 25.1% in 2018, and from 20.5% in 2017 to 23.4% in 2018, respectively. This was mainly attributable to the higher ASP and higher sales volume.

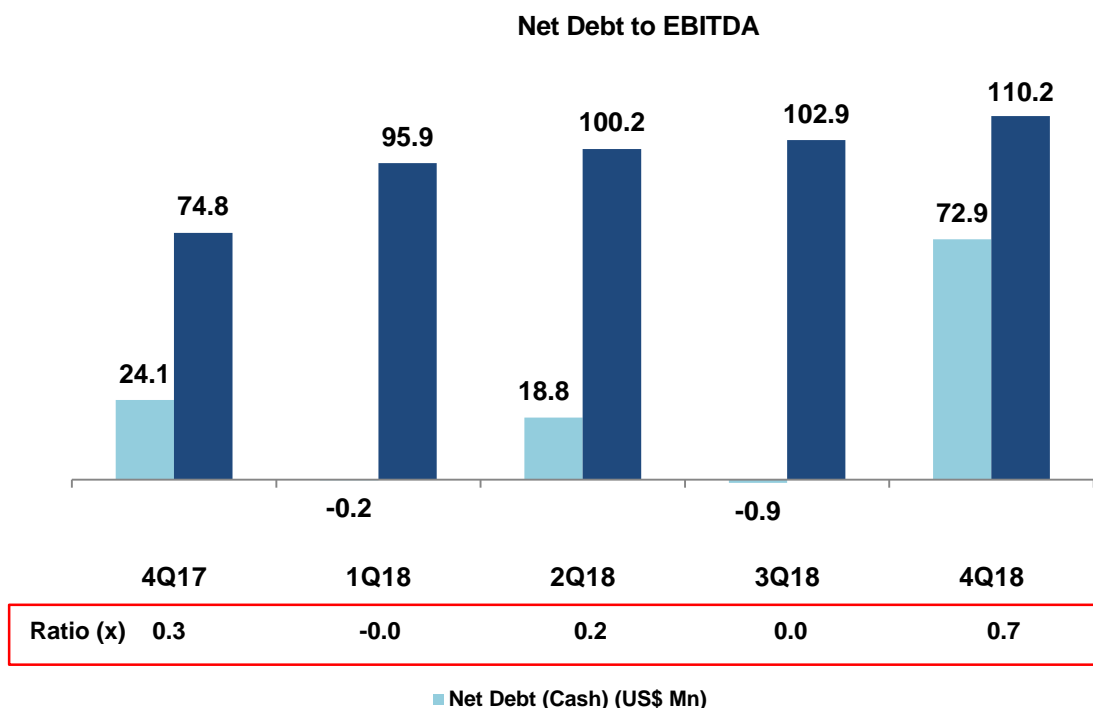
BALANCE SHEET

ASSETS

Total assets as at 31st December 2018 compared to 31st December 2017 rose by 44.1% to US\$ 501.9 million, mainly due to fair value of PT Paiton Energy's shares, higher sales performance, and production in 2018. This, in turn, translated to investment in shares in 2018 amounting to US\$ 63.0 million, 296.5% higher unbilled receivables of Sulbagut-1 and Sulut-3 to US\$ 56.3 million, 101.6% higher inventories to US\$ 49.8 million, and 10.0% higher cash and cash equivalents to US\$ 82.2 million.

LIABILITIES

Total liabilities as at 31st December 2018 compared to 31st December 2017 rose by 65.0% to US\$ 286.3 million, mainly due to 57.0% higher interest bearing debt position to US\$ 155.1 million over the period. In December 2018, the Company secured loan facility of US\$ 120.0 million from Bank Mandiri. Nominal amount of the loan as of 31st December 2018 stood at US\$ 101.3 million. Net debt to EBITDA ratio stood at 0.7x in 4Q18.



EQUITY

Total equity as at 31st December 2018 increased by 23.3% to US\$ 215.6 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 2018 came in at US\$ 54.5 million^{h)}, 6.5% lower than US\$ 58.3 million in 2017. This was mainly due to cash payments to suppliers increasing 48.0% from US\$ 177.4 million in 2017 to US\$ 262.6 million in 2018, and payment for corporate income tax increasing 105.3% from US\$ 13.2 million in 2017 to US\$ 27.1 million in 2018. This occurred despite cash received from customer rising 34.6% from US\$ 291.3 million in 2017 to US\$ 392.0 million in 2018.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash flows from investing activities were realized at US\$ 71.0 million in 2018ⁱ⁾, an increase from US\$ 28.2 million in 2017. This was mainly due to the Company's acquisition of 100% direct and indirect shares of PT Batu Hitam Perkasa amounting to US\$ 51.7 million, despite lower placement of US\$ 8.1 million in restricted cash in bank in 2018 for Sulbagut-1 power project.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash flows from financing activities increased from US\$ 29.1 million in 2017 to US\$ 32.9 million in 2018, mainly due to higher net proceeds from bank loans from US\$ 46.7 million to US\$ 57.0 million in 2018, despite higher payment of dividends to non-controlling shareholders of subsidiaries from US\$ 21.6 million to US\$ 27.9 million over the period.

Notes:

^{h)} Net cash flows from operating activities exclude payment in relation to Sulbagut-1 and Sulut-3 projects amounting to US\$ 16.3 million in 2018 and US\$ 38.6 million in 2017, respectively

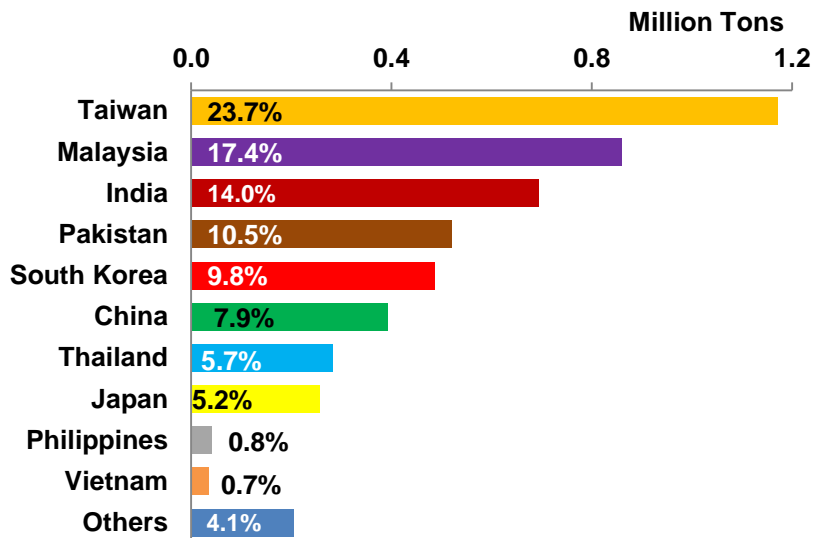
ⁱ⁾ Net cash flows from investing activities includes payment in relation to Sulbagut-1 and Sulut-3 projects amounting to US\$ 16.3 million in 2018 and US\$ 38.6 million in 2017, respectively

MARKETING

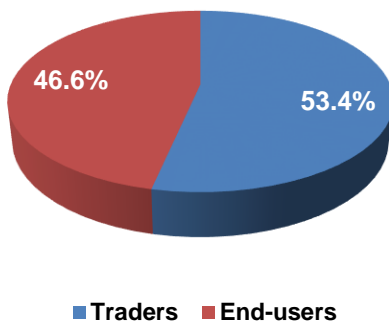
In 2018, the company predominantly sold its coal to Taiwan, Malaysia, India, and Pakistan. As a percentage of total customer base, the compositions of traders and end-users in 2018 came in at 46.6% and 53.4%, respectively, compared to 72.7% and 27.3%, respectively in 2017. As of 2018, a mix of 5200 - 5800 GAR coal still accounted for the Company's largest product composition. Around 51.8% of total sales volume by product was contributed by 5600 GAR, 19.4% by 5200 GAR, 14.5% by 4900 GAR, and 14.3% by the lower 4700 - 5000 GAR, 5700 GAR, 5800 GAR and 5900 low sulphur (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 2018

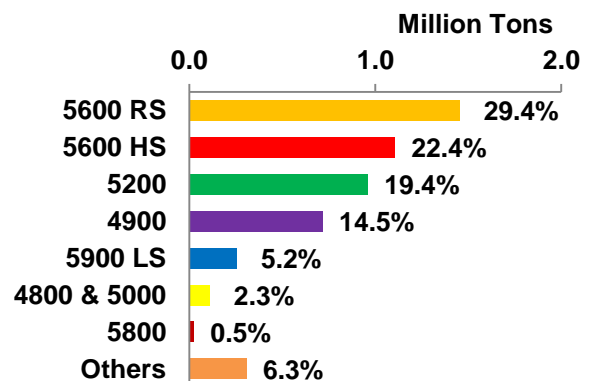
Total Sales Volume: 4.9 Million Tons



Total Sales by Customer 2018



Total Sales by Product 2018



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

POWER BUSINESS

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⁽ⁱ⁾ 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 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 (“MCL”) and 99.99% of PT Batu Hitam Perkasa (“BHP”).

PT Minahasa Cahaya Lestari (“MCL”)

On 31st March 2017, MCL was established and owned by Toba Energi (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 project value is estimated at US\$ 205 - US\$ 215 million.

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 first 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.

Note:

⁽ⁱ⁾ 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.

AWARDS AND ACCOLADES

The Company, through its three coal mining subsidiaries, received environmental awards by the Provincial Government of East Kalimantan on 5th June 2018 in Samarinda, following its participation in Provincial Government Program that assessed its performance rating based on environmental management (PROPER). ABN, IM, and TMU received green rating (GREEN PROPER). The Company also received Certificates for ISO 14001:2015 for the environmental section, BS OHSAS 18001:2007 for HSE section and ISO 9001:2008 for quality management system published by Llyod’s Register Quality Assurance at ABN and published by DQS Certifications Indonesia at IM and TMU.

In August 2018, the Company was awarded as top 30 Company among 50 Best Companies by Forbes Indonesia (on the 8th Annual Best of the Best Companies). Inauguration took place on 28th November 2018.

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 15th February, 2019, IM and PT RPP Contractors Indonesia entered into overburden removal agreement, effective since 1st March, 2019 until 31st December, 2024, related to works including but not limited to land clearing, overburden removal, hauling road maintenance and dewatering.

Such contract replaced the partnership between IM and CK, which had ended as of 1st March, 2019 under the amendment valid since 1st July, 2018.

- ii. On 15th March, 2019, IM received Notification Letter No. S-779/WPJ.19/2019 and No. S783/WPJ.19/2019 notice to be present in the discussion of the results of the research for the objections submitted. The letter stated the objection research team, giving all taxpayer objections and canceling inspectors' inspections.
- iii. On 16th January, 2019, TMU and PT Manado Karya Anugrah entered into overburden removal and machineries rental agreement, effective since 1st March, 2019 until 31st December, 2024 related to works including but not limited to land clearing, overburden removal, hauling road maintenance and dewatering.

Such contract replaced the partnership between TMU and CK (overburden removal and machineries rental), which had ended as of 1st March, 2019 under the amendment valid since the target of overburden volume achieved in December 2018. Until the completion date of these consolidated financial statements, the amendment to the termination of the TMU and CK contracts was still in the process of signing.

- iv. MCL entered into Bank Guarantee Agreement with PT Bank Mandiri (Persero) Tbk on 22nd January, 2019 with maximum limit amounting to US\$ 18,800,000.

The term of Bank Guarantee facility is until 6th November, 2021 from the date of agreement. The guarantee of the facility is the same as the Syndicated Loan Agreement with PT Bank Mandiri (Persero) Tbk dan PT Sarana Multi Infrastruktur as mentioned above (Note 46e). Obligations to be fulfilled by MCL in the Syndicated Loan Agreement also apply to Bank Guarantee facility.

MCL also entered into Treasury Line Agreement with PT Bank Mandiri (Persero) Tbk on 22nd January, 2019 with maximum limit amounting to US\$ 78,750,000.

This Treasury Line facility can be used for Interest Rate Swap ("IRS") transaction related to hedging based on Syndicated Loan Agreement with PT Bank Mandiri (Persero) Tbk dan PT Sarana Multi Infrastruktur.

The term of Treasury Line facility is 12 years from the date of agreement. The guarantee of the facility is the same as the Syndicated Loan Agreement as mentioned above. Obligations to be fulfilled by MCL in the Syndicated Loan Agreement also apply to Treasury Line facility.

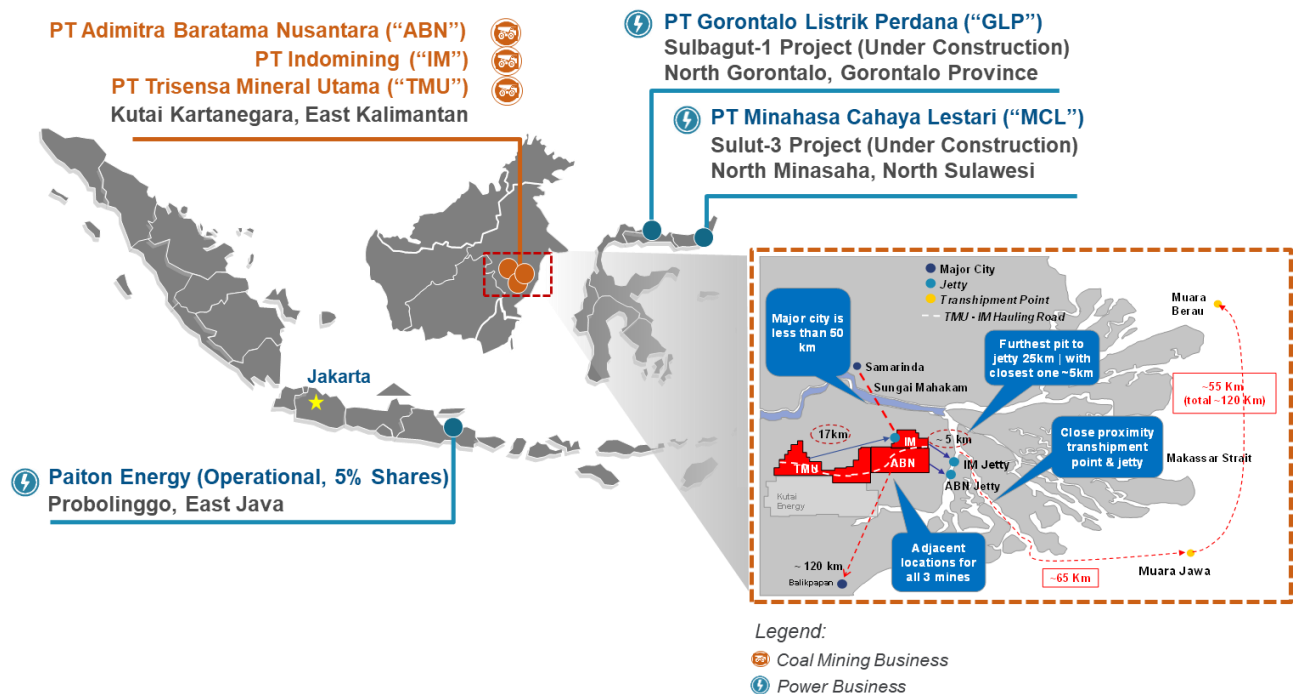
Until the completion date of the consolidated financial statements, MCL has not drawdown any of the facilities.

- v. In January 2019, the Company has performed drawdown amounting to US\$ 11,200,000 from the Credit Agreement No. 26.
- vi. In February 2019, MCL has performed drawdown amounting to US\$ 29,622,174 from the Syndicated Loan Agreement with Bank Mandiri (Persero) Tbk and PT Sarana Multi Infrastruktur.
- vii. On 6th March, 2019, Mr. Sudharmono Saragih has effectively resigned as Director of the Company.

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.

For further information, please contact:
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