Management Discussion & Analysis - Full Year 2015
Toba Bara Sejahtra Tbk and Subsidiaries

December 2015

SUMMARY

Throughout 2015, the seaborne coal market remained under pressure from predominantly supply-demand factors due to higher than expected year-on-year (y-o-y) decline in coal imports from China of around 30% - 35% and the still lack of supply consolidation from the major exporters resulting in excess capacity. Such weaker Chinese import demands stemmed from weaker economic growth (exacerbated by global economic slowdown) that in turn impacted industrial sectors' power demand, tighter coal import controls in an already oversupplied domestic market as well as much improved access to renewable energy sources supported by power plant efficiency. The other factors affecting the weakening global coal price in 2015 were the almost 50% drop in international oil price resulting from Saudi Arabia's relentless production and the strengthening US$ against other global currencies. With the exception of Indonesia, continued supply contributions from the major coal exporters such as Australia, Russia, Colombia,and South Africa due in part to respective home currency weakness against the US$, hence falling cost curve, remain a major concern on the supply side. As a result, the average Newcastle (NEWC) Index price fell 16.4% from US$ 70.8 per ton in 2014 to US$ 59.2 per ton in 2015, while on y-o-y basis, it corrected 21.9% from US$ 64.8 per ton as per end-December 2014 to US$ 50.6 per ton by end-December 2015.

As the global coal price is expected to remain subdued over the short-medium term until the market finds ground to rebalance, PT Toba Bara Sejahtra Tbk (the Company) remains well positioned in maintaining its existing costs structure ahead of another challenging year. This has come on the back of its ability in cutting FOB cash cost by 17.7% over 2015 as well as post a series of cost management initiatives implemented over the 2013 and 2014 periods. To date, the Company executes a mine plan that combines optimizing reserves preservation and profitable production output, while producing a current run-rate of 1.5 million tons per quarter and generating quarterly EBITDA per ton of US$ 7-8.

Strategically endowed with three concessions that are located adjacent to each other, the Company is expected to continually implement operational improvement and cost management initiatives through a combination of joint mine plan execution and infrastructure sharing over the upcoming years. With the much lower NEWC Index price in 2015 compared to 2014, the Company produced and sold 6.1 million tons and 6.4 million tons respectively, which came in line with the Company's 2015 internal guidance of 6 - 8 million tons.

In 2015, the Company registered improvement in margins such as gross profit margin, EBITDA margin, and operating margin on the back of continuous operational improvements and cost management disciplines, as reflected by cost of goods sold decreasing 32.8% year-on-year (y-o-y) from 2014 to 2015, higher than sales reduction of 30.3% over the same period. Meanwhile, FOB (Free on Board) cash cost also fell by 17.7% from US$ 51.3 per ton in 2014 to US$ 42.2 per ton in 2015 due to combination of better mine plan execution and lower mining costs. Average selling price (ASP) declined 14.0% from US$ 63.7 per ton in 2014 to US$ 54.8 per ton, or lower compared to 16.4% decrease in NEWC Index price over the same period. This was attributable to marketing initiative of predicting the market downtrend and taking position by securing annual fixed price contracts in advance with buyers.

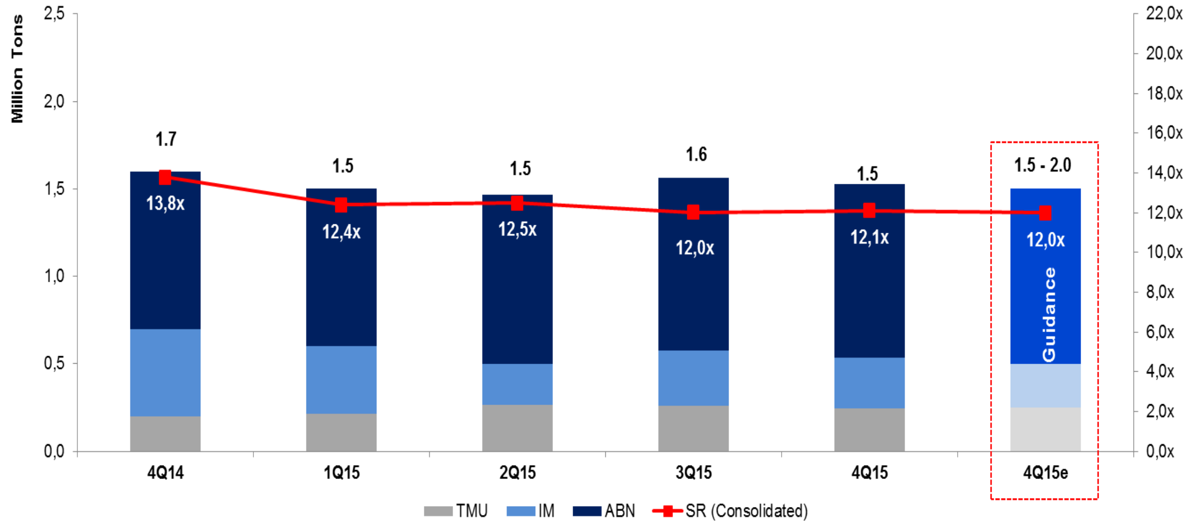
The Company has maintained stable financial position coupled with cash preservation as cash and cash equivalents stood at US$ 45.5 million as at 31st December 2015, a slight decrease from US$ 47.8 million as at 31st December 2014. Total assets moderated by 6.1% from US$ 300.7 million as at 31st December 2014 to US$ 282.4 million as at 31st December 2015, while total liabilities dropped much more by 19.8% from US$ 158.8 million to US$ 127.3 million over the same period. By end-December 2015, the Company increased its equity value to US$ 155.1 million from US$ 141.9 million at 31st December 2014 due to accumulated profit for the period.

Special Note: *The following discussion on the Company's performance is based on the Consolidated Financial Statements as per 31st December 2015 (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), dan PT Trisensa Mineral Utama (TMU).*

PRODUCTION & OPERATION

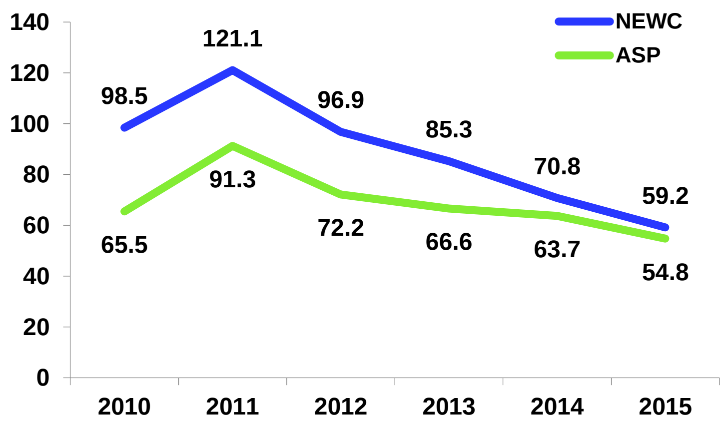
In 4Q15, the Company's production volume of 1.5 million tons came in line with its 2015 quarterly guidance of between 1.5 - 2.0 million tons. Such production volume resulted from operations of all three operating subsidiaries with the following respective contributions: ~1.0 million tons from ABN, ~0.3 million tons from IM, and ~0.2 million tons from TMU. To date, ABN remained as the main contributor to the Company's total production volume, while all three subsidiaries achieved their respective quarterly production volume targets consecutively over the last four quarters.

Production (million tons) and SR (x)



Y-o-y stripping ratio (SR) declined by 7.5% to 12.3x in 2015 from 13.3x in 2014 due to continued efforts in improving operational performance amidst the low coal price environment, while complying with disciplined mine plan execution.

NEWC Index Price vs ASP (US$ per ton)



ASP only contracted by 14.0% y-o-y from US$ 63.7 per ton in 2014 to US$ 54.8 per ton in 2015, which compared favorably with NEWC Index price that fell 16.4% y-o-y over the same period. To date, the ASP outperformance over the NEWC Index price has so far materialized for three consecutive years in 2013, 2014, and 2015. The Company capitalized on the market momentum during the latter parts of 2013, 2014, and 2015 by selling forward to its quality buyers the majority portion of its sales volume predominantly based on fixed pricing. This marketing initiative has enabled the Company to maximize its pricing strategy given the adverse coal market condition.

Financial and Operational Highlights				
All figures are in million US$ unless otherwise stated		**2014**	**2015**	***Changes***
Operation				
Sales Volume	mn ton	7.9	6.4	*(19.0)%*
Production Volume	mn ton	8.1	6.1	*(24.7)%*
Stripping Ratio (SR)	x	13.3	12.3	*(7.5)%*
FOB Cash Cost*	US$/ton	51.3	42.2	*(17.7)%*
NEWC Index Price	US$/ton	70.8	59.2	*(16.4)%*
Average Selling Price (ASP)	US$/ton	63.7	54.8	*(14.0)%*
Financial Performance				
Profit (Loss)		**2014**	**2015**	***Changes***
Sales	US$ mn	500.0	348.7	*(30.3)%*
Cost of Goods Sold	US$ mn	413.8	278.1	*(32.8)%*
Gross Profit	US$ mn	86.2	70.5	*(18.2)%*
Operating Profit	US$ mn	55.7	42.3	*(24.1)%*
EBITDA**	US$ mn	67.0	53.7	*(19.9)%*
Profit for the Period	US$ mn	35.5	25.7	*(27.6)%*
Total Comprehensive Income for the Period	US$ mn	31.7	29.8	*(6.0)%*
EBITDA/Ton	US$/ton	8.5	8.4	*(1.1)%*
Operating Cash Flows	US$ mn	18.9	19.7	*4.2%*
CAPEX	US$ mn	15.4	12.1	*(21.4)%*
Balance Sheet		**2014**	**2015**	***Changes***
Interest Bearing Debt	US$ mn	58.1	64.0	*10.2%*
Cash and Cash Equivalents	US$ mn	47.8	45.5	*(4.8)%*
Net Debt***	US$ mn	10.3	18.5	*79.6%*
Total Assets	US$ mn	300.7	282.4	*(6.1)%*
Total Liabilities	US$ mn	158.8	127.3	*(19.8)%*
Total Equity	US$ mn	141.9	155.1	*9.3%*
Financial Ratios				
Gross Profit Margin	%	17.2%	20.2%	
EBITDA Margin	%	13.4%	15.4%	
Operating Profit Margin	%	11.1%	12.1%	

Notes:
(*)FOB Cash Cost = COGS including royalty and selling expense – depreciation and amortization
(**)EBITDA = Gross profit – selling expenses – G&A + depreciation and amortization
(***)Net Debt = Interest bearing debt – cash and cash equivalents

PROFIT (LOSS)

SALES

The Company booked sales of US$ 348.7 million in 2015, 30.3% lower compared to 2014, as a result of lower sales volume and weaker NEWC Index price. However, margins such as gross profit margin, EBITDA margin, and operating profit margin improved over the same period due to continuous operational improvements and cost management disciplines.

COST OF GOODS SOLD

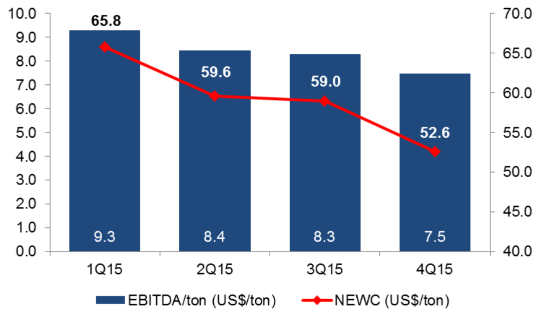
A 32.8% decrease in cost of goods sold from US$ 413.8 million in 2014 to US$ 278.1 million in 2015 resulted mainly from contraction in FOB cash cost, slipping by 17.7% y-o-y from US$ 51.3 per ton to US$ 42.2 per ton in 2015. This stemmed from a combination of cost management initiatives and better execution of mine plan. FOB cash cost is derived from cost of good sold plus marketing and selling expenses, while subtracting depreciation and amortization. Based on the mine plan, the 2015 production was set at 6.1 million tons or 24.7% lower compared to that in 2014.

EBITDA

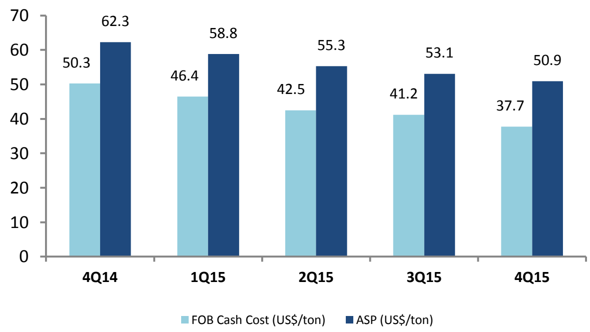
EBITDA margin increased from 13.4% in 2014 to 15.4% in 2015 and EBITDA per ton stabilized from US$ 8.5 to US$ 8.4 y-o-y despite a 19.9% contraction in EBITDA from US$ 67.0 million in 2014. This was attributable to predominantly better mine plan execution and cost management initiatives including lowering mining cost during a challenging period.

The first graph below depicts the EBITDA per ton evolution on quarter-on-quarter (q-o-q) basis from US$ 9.3 in 1Q15 to US$ 7.5 in 4Q15 and the NEWC Index price from US$ 65.8 per ton to US$ 52.6 per ton over the same period. From 1Q15 to 4Q15, the Company maintained stable quarterly EBITDA per ton of US$ 7- 8 and consistent cash margin during continued weaker coal price environment.

Quarterly EBITDA per ton vs NEWC Index
1Q15 – 4Q15



ASP vs FOB Cash Cost
4Q14 – 4Q15



PROFIT FOR THE PERIOD

After taking into account finance cost of US$ 4.6 million and tax expense of US$ 13.4 million, the Company booked total profit for the period (before minority interest) of US$ 25.7 million in 2015, down 27.6% y-o-y.

FINANCIAL RATIOS

Gross profit margin, EBITDA margin, and operating margin rose y-o-y from 2014 to 2015 as a result of better operational performance, discipline in implementing cost management initiatives, and successful marketing strategies.

BALANCE SHEET

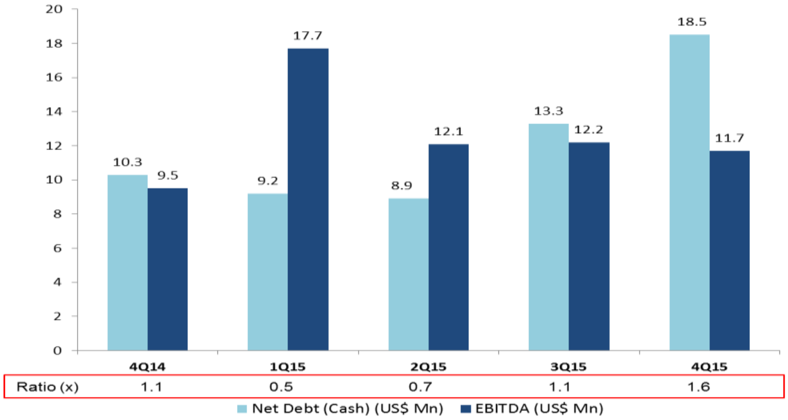
ASSETS

Total assets as at 31st December 2015 stood at US$ 282.4 million, a reduction of 6.1% from US$ 300.7 million as per 31st December 2014. Current assets contracted y-o-y due to US$ 20.3 million lower inventories, while offset by US$ 10.2 million higher receivables. Non-current assets slightly declined 1.7% y-o-y to US$ 185.9 million, which was mainly caused by US$ 4.3 million lower mine properties, while offset by US$ 3.5 million increase in advances for fixed asset purchase.

LIABILITIES

Total liabilities as at 31st December 2015 fell by 19.8% to US$ 127.3 million from US$ 158.8 million as per end of December 2014 and interest bearing debt increased by 10.2% to US$ 64.0 million from US$ 58.1 million over the same period. Meanwhile, leverage metrics, such as Net Debt to EBITDA ratio, have constantly recorded stability from quarter to quarter at below 2x.

Net Debt to EBITDA



EQUITY

Total equity value at the end of December 2015 increased by 9.3% to US$ 155.1 million from US$ 141.9 million as of 31st December 2014, which was attributable to additional profit for the period that was booked in the unappropriated retained earnings.

CAPITAL EXPENDITURE (CAPEX)

Until 31st December 2015, the Company realized total CAPEX of US$ 12.1 million, in line with its guidance of US$ 10 – 14 million.This was mainly allocated for land compensation, operational facilities and equipment, and palm oil mill in progress.

CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash from operating activities in 2015 stood at US$ 19.7 million, an increase from US$ 18.9 million in 2014. This slight 4.2% rise was mainly caused by lower payments to suppliers.

CASH FLOWS FROM INVESTING ACTIVITIES

Due to the Company's active investment activities in exploration, development, and fixed assets throughout 2013 and 2014, such capital cost requirements have subsided since. This was depicted by a 23.7% y-o-y decrease in the net cash used in investing activities from US$ (13.1) million in 2014 to US$ (10.0) million in 2015.

CASH FLOWS FROM FINANCING ACTIVITIES
Net cash used in financing activities in 2015 stood at US$ (11.9) million stemming mainly from dividend payments to shareholders and minority shareholders of subsidiaries.

MARKETING

Marketing initiative is focused on efforts to diversify the export market destinations as well customer base. In 2015, the company predominantly sold its coal to Asian markets such as South Korea, Taiwan, Malaysia, and India. As a percentage of total customer base, the composition of end-users increased from 3.6% in 2014 to 36.8% in 2015, while offset by composition decline in international traders from 96.3% to 63.2% over the same period. Reputable international traders and end-users such as major regional power generation companies account for the Companys's main dedicated customers.

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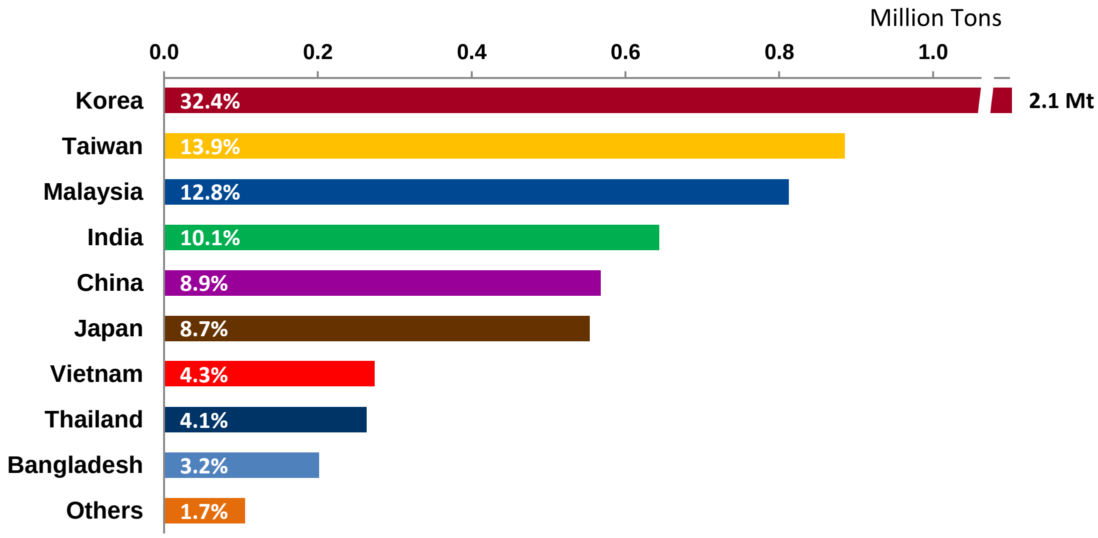
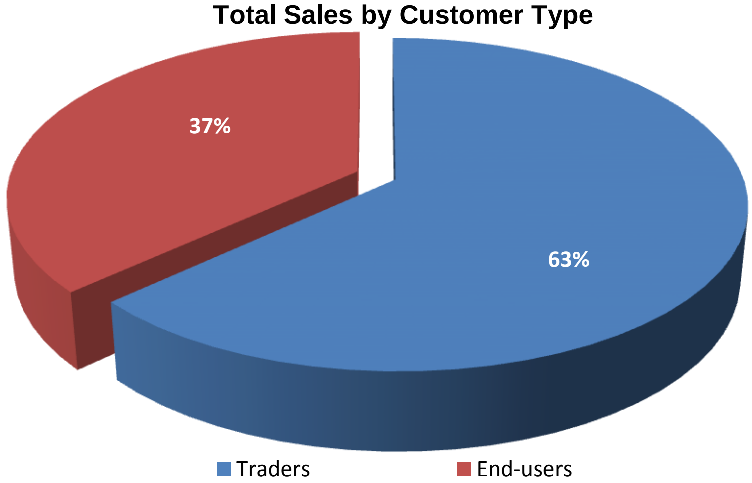
Sales Destinations by Country 2015
Total Sales Volume: 6.4 Million Tons



Total Sales by Customer Type



2016 STRATEGY

Given the continued adverse and more complex market dynamics, the Company is expected to focus its resources and efforts on strengthening resilience and identifying viable avenues to generate sustainable long term growth. For the past few years, the Company has been continuously improving cost efficiencies by running executable mine plans that meet the combined objective of achieving profitable targets and preserving reserves. In line with this objective, the Company focuses on its continuous strategy of improving operational, cost management, marketing capability.

- **Operational Improvement**
  The Company targets 2016 production volume of 5 - 7 million tons, with SR stabilizing at 11x - 12x level. Its core objective is to execute a disciplined mine plan that maximizes profitable production output without compromising reserves.
- **Cost Management Discipline**
  Post 17.7% y-o-y FOB cash cost reduction in 2015, the Company continues to undergo cost management initiatives through combination of joint mine plan execution and infrastructure sharing between ABN, IM, and TMU, and lowering costs throughout the value chain from mining to logistics costs.
- **Marketing Strategy**
  The Company plans to continue to build a well-diversified market destinations and customer base, securing good quality sales backed by quality buyers, and improving quality control on product delivery.
- **Capital Expenditure**
  The Company has allocated CAPEX of US$ 5 - 8 million for 2016 to support mainly its operational mining facilities and equipment and to lesser extent its plantation entity. PT Perkebunan Kaltim Utama I (PKU), a wholly-owned palm oil plantation subsidiary of the Company, is currently in final construction phase of palm oil mill with capacity of 30 fresh fruit bunch (FFB) tons per hour. The mill is expected to be completed by first semester 2016.
- **Opportunities for Sustainable Growth**
  As an effort to maximize existing assets and ensure future sustainable growth backed by more stable revenue stream, the Company is in the midst of exploring ways to undergo potential downstream integration in the energy-related sector.

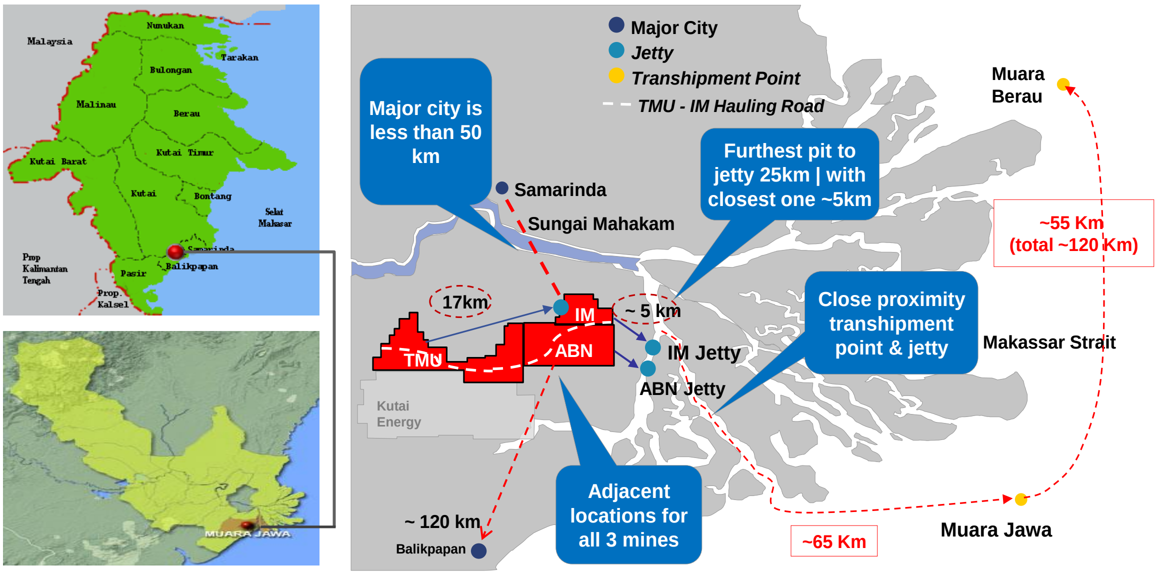
SNAPSHOT OF PT TOBA BARA SEJAHTRA TBK

PT Toba Bara Sejahtra Tbk (“The Company”) is one of the major competitive producers of thermal coal in Indonesia. The Company has grown into a major coal producer operating 3 (three) coal mine concessions in East Kalimantan. These adjacent coal mining concessions, which are held through various operating companies, all enjoy highly favorable mine locations, with close proximity to local river ports. The Company’s concession areas total approximately 7,087 hectares.

The Company currently has four operating subsidiaries, three in coal mining namely PT Adimitra Baratama Nusantara (ABN), PT Indomining (IM), PT Trisensa Mineral Utama (TMU) and one in palm oil namely PT Perkebunan Kaltim Utama I (PKU). The Company’s ownerships in ABN, IM, TMU and PKU are 51.00%, 99.99%, 99.99% and 90.00% respectively.

On 6th July, 2012, the Company listed its shares at the Indonesia Stock Exchange (IDX) under the ticker ‘TOBA’ and released as many as 210,681,000 shares or 10.5% of its paid up capital with an IPO proceed of IDR 400.3 billion.

Locations of Toba Bara's Concessions



ABN is located in Sangasanga, Kutai Kartanegara, East Kalimantan and is operated under the IUP-OP permit. It started operations in September 2008. ABN covers an area reaching 2,990 hectares and has estimated coal resources of around 156 million tons (Based on last JORC data of 2012).

IM is located in Sangasanga, Kutai Kartanegara, East Kalimantan and is operated under the IUP-OP permit. It started operations in August 2007. IM covers 683 hectares of land and has estimated coal resources of 37 million tons (Based on last JORC data of 2011).

Meanwhile, TMU is located in Loa Janan, Muara Jawa and Sangasanga, Kutai Kartanegara, East Kalimantan. With IUP-OP permit, TMU started operations in October 2011. TMU covers 3,414 hectares of land and has estimated coal resources of 43 million tons. Altogether, the total coal resources of the Company are estimated at 236 million tons (Based on last JORC data of 2011).

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