Management Discussion & Analysis – First Quarter 2016
Toba Bara Sejahtra Tbk and Subsidiaries

March 2016

SUMMARY

Against the backdrop of Chinese demand weakness, constant development in renewables, and insufficient global supply cuts, the average Newcastle (NEWC) Index price fell 23.6% year on year (y-o-y) from US$ 65.8 per ton in 1Q15 to US$ 50.3 per ton in 1Q16. On quarter on quarter (q-o-q) basis, it only corrected by 4.4% from US$ 52.6 per ton as of 4Q15 to US$ 50.3 per ton as of 1Q16, while it improved 5.7% from US$ 50.6 per ton on 25th December 2015 to US$ 53.5 per ton on 25th March 2016. The recent quarterly price pick-up resulted from seasonal strength on the back of annual Japanese power plant contract negotiations, which ended in March of the year fetching typically premium price.

As the global coal price is expected to remain subdued over the short-medium term until the market finds ground to recover, 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 and by 25.3% y-o-y from 1Q15 to 1Q16, 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 around 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 1Q16 compared to 1Q15, the Company produced and sold 1.5 million tons and 1.4 million tons respectively, which came in line with the Company's 2016 internal quarterly guidance of 1.25 - 1.75 million tons.

In 1Q16, the Company registered improvement in margins such as gross profit margin, and EBITDA margin on the back of continuous operational improvements and cost management disciplines, as reflected by cost of goods sold decreasing 46.1% y-o-y from 1Q15 to 1Q16, higher than sales reduction of 43.1% over the same period. Meanwhile, FOB (Free on Board) cash cost also fell by 25.3% from US$ 46.6 per ton in 1Q15 to US$ 34.8 per ton in 1Q16 due to combination of better mine plan execution and lower mining costs. Average selling price (ASP) contracted 20.4% y-o-y from US$ 58.8 per ton in 1Q15 to US$ 46.8 per ton, or lower compared to 23.6% reduction 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.

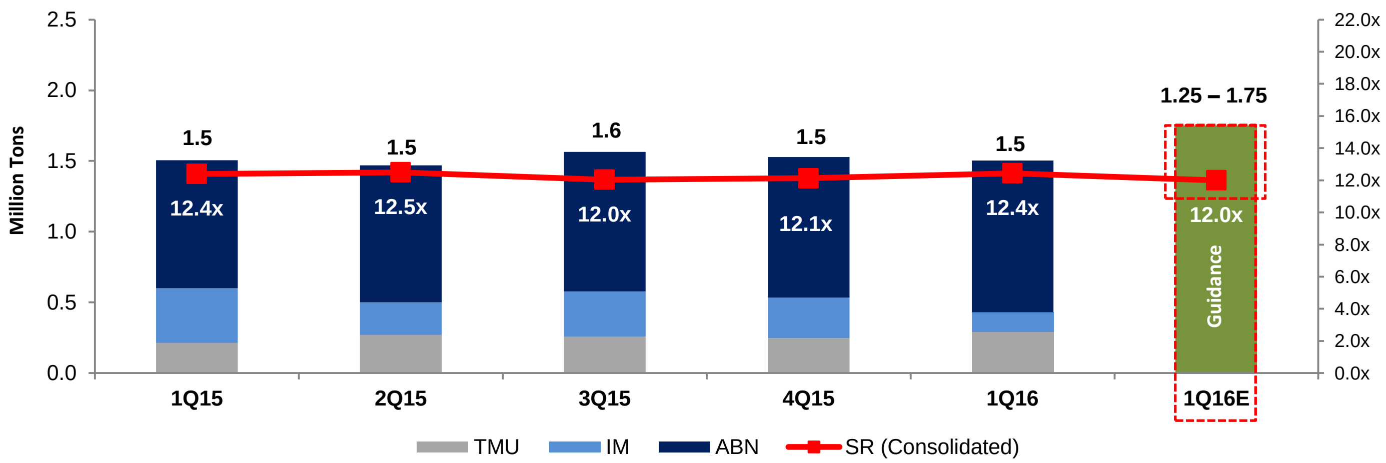
The Company has maintained stable financial position coupled with cash preservation as cash and cash equivalents increased to US$ 49.1 million as at 31st March 2016 from US$ 45.5 million as at 31st December 2015. Total assets remained stable at US$ 282.3 million as at 31st March 2016, as compared to US$ 282.4 million as at 31st December 2015, while total liabilities dropped by 4.0% from US$ 127.3 million to US$ 122.2 million over the same period. By end-March 2016, the Company increased its equity value to US$ 160.2 million from US$ 155.1 million at 31st December 2015 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 March 2016 (unaudited), 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

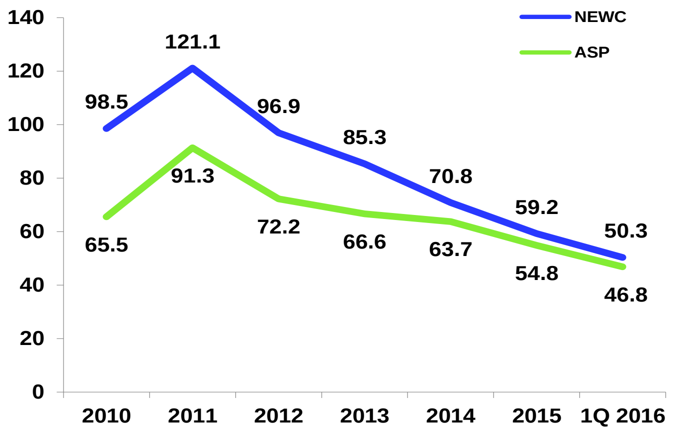
In 1Q16, the Company's production volume of 1.5 million tons came in line with its 2016 quarterly guidance of between 1.25 - 1.75 million tons. Such production volume resulted from operations of all three operating subsidiaries with the following respective contributions: ~1.1 million tons from ABN, ~0.1 million tons from IM, and ~0.3 million tons from TMU. To date, ABN remained as the main contributor to the Company's total production volume.

Production (million tons) and SR (x)



Stripping ratio (SR) in 1Q16 remained stable at 12.4x as compared to that in 1Q15 due to continued efforts in improving operational performance amidst the low coal price environment, while complying with disciplined mine plan execution. This was in line with its 2016 quarterly SR guidance of 11x - 12x.

NEWC Index Price vs ASP (US$ per ton)



ASP contracted by 20.4% y-o-y from US$ 58.8 per ton in 1Q15 to US$ 46.8 per ton in 1Q16, which compared favorably with NEWC Index price that fell higher by 23.6% 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 price. 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		**1Q15**	**1Q16**	***Changes***
Operation				
Sales Volume	mn ton	1.9	1.4	*(26.3)%*
Production Volume	mn ton	1.5	1.5	*0.0%*
Stripping Ratio (SR)	x	12.4	12.4	*0.0%*
FOB Cash Cost*	US$/ton	46.6	34.8	*(25.3)%*
NEWC Index Price	US$/ton	65.8	50.3	*(23.6)%*
Average Selling Price (ASP)	US$/ton	58.8	46.8	*(20.4)%*
Financial Performance				
Profit (Loss)		**1Q15**	**1Q16**	***Changes***
Sales	US$ mn	111.7	63.6	*(43.1)%*
Cost of Goods Sold	US$ mn	91.4	49.3	*(46.1)%*
Gross Profit	US$ mn	20.3	14.3	*(29.6)%*
Operating Profit	US$ mn	15.9	8.3	*(47.8)%*
EBITDA**	US$ mn	17.7	11.3	*(36.2)%*
Profit for the Period	US$ mn	10.5	5.2	*(50.5)%*
EBITDA/ton	US$/ton	9.3	8.3	*(10.8)%*
Operating Cash Flow	US$ mn	7.9	10.7	*35.4%*
CAPEX	US$ mn	2.3	3.4	*47.8%*
Balance Sheet		**Dec'15**	**Mar'16**	***Changes***
Interest Bearing Debt	US$ mn	64.0	61.3	*(4.2)%*
Cash and Cash Equivalents	US$ mn	45.5	49.1	*7.9%*
Net Debt***	US$ mn	18.5	12.2	*(34.1)%*
Total Assets	US$ mn	282.4	282.3	*0.0%*
Total Liabilities	US$ mn	127.3	122.2	*(4.0)%*
Total Equity	US$ mn	155.1	160.2	*3.3%*
Financial Ratios				
Gross Profit Margin	%	18.2%	22.5%	
EBITDA Margin	%	15.8%	17.8%	
Operating Profit Margin	%	14.2%	13.1%	

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

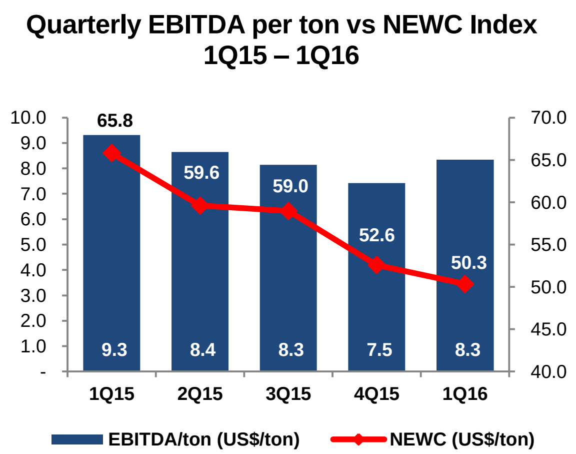
PROFIT (LOSS)

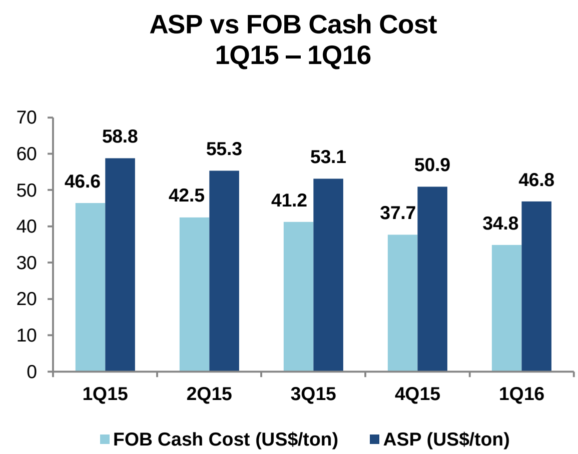
SALES
The Company booked sales of US$ 63.6 million in 1Q16, 43.1% lower compared to 1Q15, as a result of lower sales volume and weaker NEWC Index price. However, margins such as gross profit margin, and EBITDA margin improved over the same period due to continuous operational improvements and cost management disciplines.

COST OF GOODS SOLD
A 46.1% decrease in cost of goods sold from US$ 91.4 million in 1Q15 to US$ 49.3 million in 1Q16 resulted mainly from contraction in FOB cash cost, falling by 25.3% y-o-y from US$ 46.6 per ton to US$ 34.8 per ton in 1Q16. This stemmed from a combination of cost management initiatives, better execution of mine plan, and lower fuel cost. FOB cash cost is derived from cost of good sold plus marketing and selling expenses, while subtracting depreciation and amortization.

EBITDA
EBITDA margin increased from 15.8% in 1Q15 to 17.8% in 1Q16 and EBITDA per ton as of 1Q16 stabilized at US$ 8.3 in line with the Company's indicative EBITDA per ton guidance of US$ 7 - 8 per ton. 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$ 8.3 in 1Q16 and the NEWC Index price from US$ 65.8 per ton to US$ 50.3 per ton over the same period. From 1Q15 to 1Q16, the Company maintained stable quarterly EBITDA per ton of US$ 7- 8 and consistent cash margin during continued weaker coal price environment.





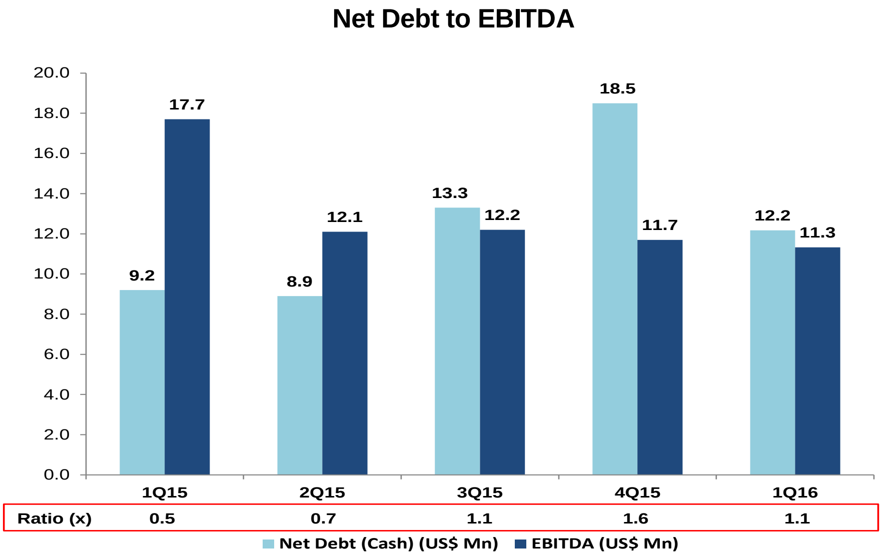
PROFIT FOR THE PERIOD
After taking into account finance cost of US$ 1.0 million and tax expense of US$ 2.5 million, the Company booked total profit for the period (before minority interest) of US$ 5.2 million in 1Q16, down 50.5% y-o-y.

FINANCIAL RATIOS
Gross profit margin and EBITDA margin rose y-o-y from 18.2% and from 15.8% in 1Q15 respectively to 22.5% and 17.8% in 1Q16 respectively as a result of better operational performance, discipline in implementing cost management initiatives, and successful marketing initiatives.

BALANCE SHEET

ASSETS
Total assets as at 31st March 2016 stabilized at US$ 282.3 million as compared to US$ 282.4 million as at 31st December 2015. Over a quarter period ending 31st March 2016, current assets remained flat with 40.2% reduction in receivables to US$ 12.5 million being offset by increases in cash and equivalents, inventories, and prepaid taxes. Non-current assets slightly rose 1.0% to US$ 187.3 million, which were mainly caused by US$ 2.6 million higher fixed assets, while offset by US$ 1.6 million lower mine properties.

LIABILITIES
Total liabilities as at 31st March 2016 fell slightly by 4.0% to US$ 122.2 million from US$ 127.3 million as at 31st December 2015 and interest bearing debt contracted by 4.2% to US$ 61.3 million from US$ 64.0 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.



EQUITY
Total equity value at 31st March 2016 increased by 3.3% to US$ 160.2 million from US$ 155.1 million as at 31st December 2015, which was attributable to additional profit for the period.

CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES
Net cash from operating activities in 1Q16 stood at US$ 10.7 million, an increase from US$ 7.9 million in 1Q15. This 35.4% rise was mainly caused by much higher fall in payments to suppliers of 36.4% relative to fall in cash received from customers of 27.8%.

CASH FLOWS FROM INVESTING ACTIVITIES
The US$ 3.4 million of CAPEX in 1Q16 as compared to US$ 2.3 million in 1Q15 was mainly allocated for mining operational facilities and equipment, and palm oil mill in progress. This year, the Company's guidance for its CAPEX is estimated at US$ 5 - 8 million.

CASH FLOWS FROM FINANCING ACTIVITIES
Net cash used in financing activities in 1Q16 stood at US$ (4.0) million, stemming mainly from repayment of bank loans.

MARKETING

Marketing initiative is focused on efforts to diversify the export market destinations as well customer base. In 1Q16, 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 in 1Q16 stabilized at 30.0% level as compared to 39.7% in 1Q15. Reputable international traders and end-users such as major regional power generation companies account for the Companys's main dedicated customers. Meanwhile, around 65.0% of total sales volume by product was contributed by the 5600 GAR calorific value, which is positioned in the mid-upper level of coal quality in the market. To date, the Company has secured around 60.0% of its 2016 total sales volume target, predominantly at fixed price.

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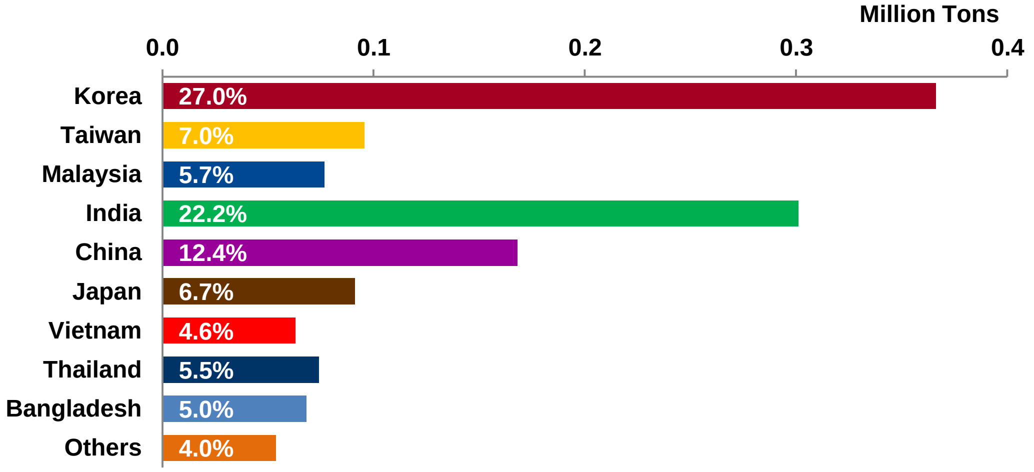
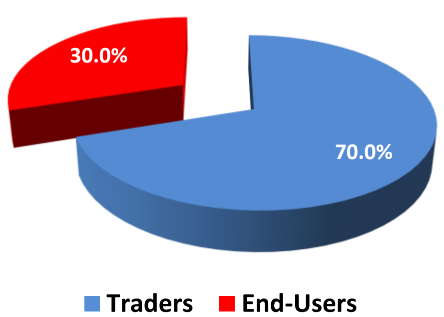
Sales Destinations by Country as per 1Q 2016

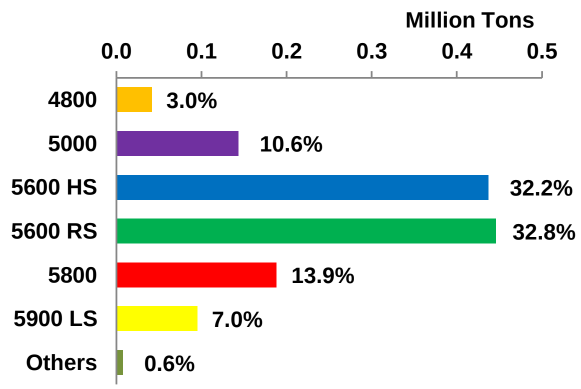
Total Sales Volume : ~1.4 Million Tons



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%)

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% and 25.3% y-o-y FOB cash cost reductions in 2015 and 1Q16 respectively, 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.

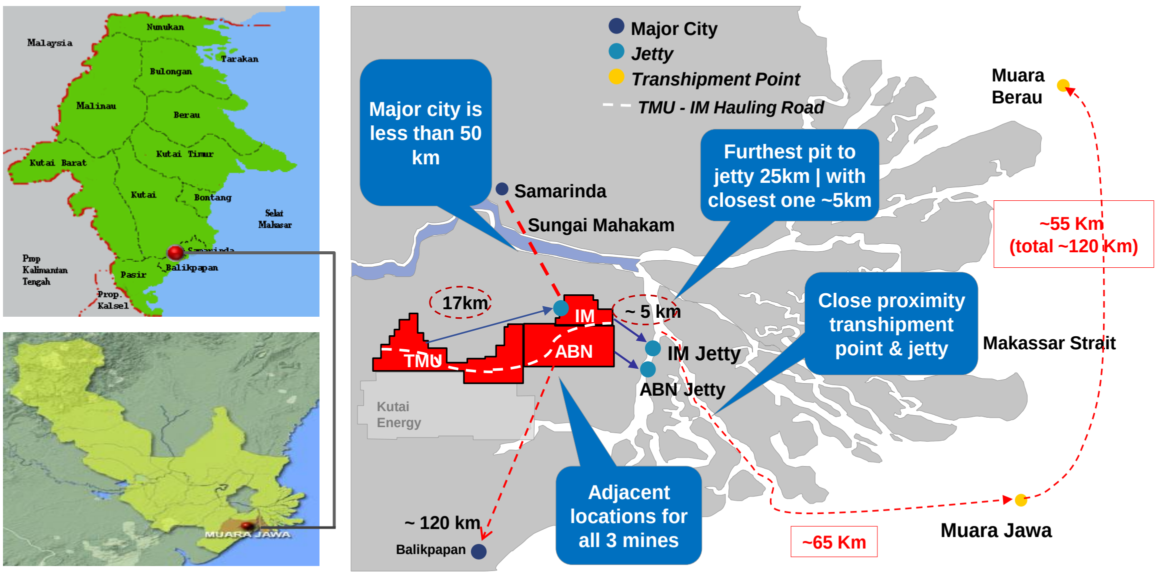
SNAPSHOT OF PT TOBA BARA SEJAHTRA TBK

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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