Management Discussion & Analysis – First Quarter 2017
PT Toba Bara Sejahtra Tbk and Subsidiaries

31st March 2017

SUMMARY

The reference Newcastle (NEWC) Index price rose 62.0% from US$ 50.3 in 1Q16 to US$ 81.5 in 1Q17 mainly on the back of China's well-enforced supply cut policy implemented since April 2016. Throughout the 1Q17 period, the global coal price hovered within favorable range of US$ 75 – US$ 85 levels, allowing for more stable coal market prospects for 2017.

On the domestic front, potential coal market recovery is likely to be complemented by the prospects of Indonesia Government's undertaking of 35 GW power program from 2014 - 2019, of which 20 GW will be contributed by coal-fired power plants (CFPP). Combined with the current coal-based installed capacity, total estimated CFPP capacity in 2019 will be 45 - 50 GW. On the back of the expected growth in power generation capacity with majority contributed by CFPP, domestic demand for coal is expected to grow by 9.0% - 10.0% p.a. (CAGR) from around 92 million tons in 2015 to 140 - 150 million tons in 2020. Assuming a constant domestic production of 350 - 400 million tons every year, growing domestic demand from power generation should lower coal export contribution, hence supporting the global coal market in the long run.

Given the coal industry's important role in the on-going 35 GW program as well as in future ones, PT Toba Bara Sejahtra Tbk (the "Company") identified an opportunity for both coal industry and power industry in creating synergistic value by expanding downstream to the power sector. After securing a power purchase agreement (PPA) from PLN on 14th July 2016 to develop a 2x50 megawatt (MW) CFPP (Sulbagut-1) in the Gorontalo Province, Sulawesi, the Company is striving to meet financial close by first semester 2017, after which the Engineering Procurement Contracting (EPC) phase is expected to commence.

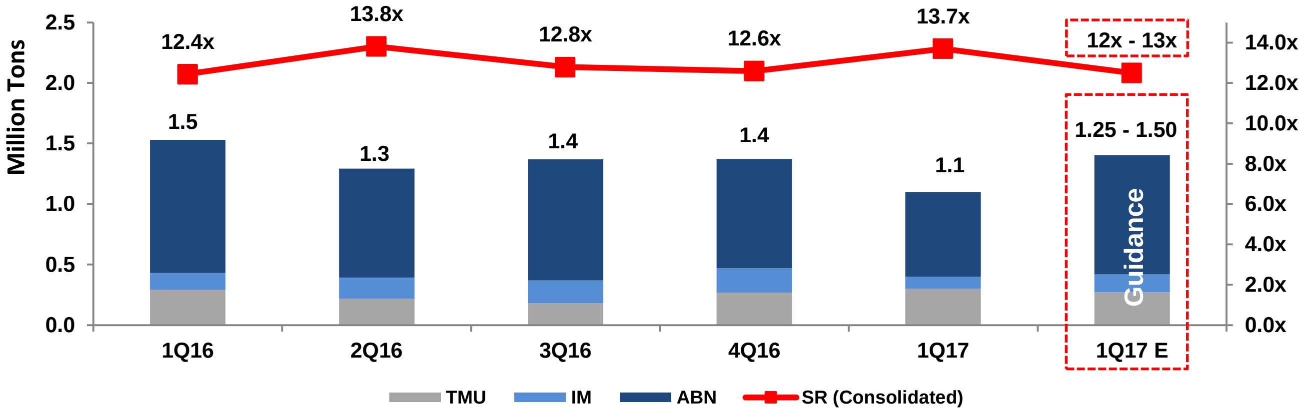
Against the backdrop of the above factors, the Company remains well positioned in maintaining its existing cost structure post a series of cost management initiatives implemented over the 2013 - 2016 periods. To date, the Company executes a mine plan that combines optimizing reserves preservation and profitable production output.

As compared to 1Q16, in 1Q17 the Company registered higher margins such as gross profit margin, EBITDA margin, and operating profit margin due to continuous operational and cost management disciplines backed by higher y-o-y ASP.

Special Note: *The following discussion on the Company's performance is based on the Consolidated Financial Statements as per 31st March 2017 (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), and PT Trisensa Mineral Utama (TMU).*

PRODUCTION & OPERATION

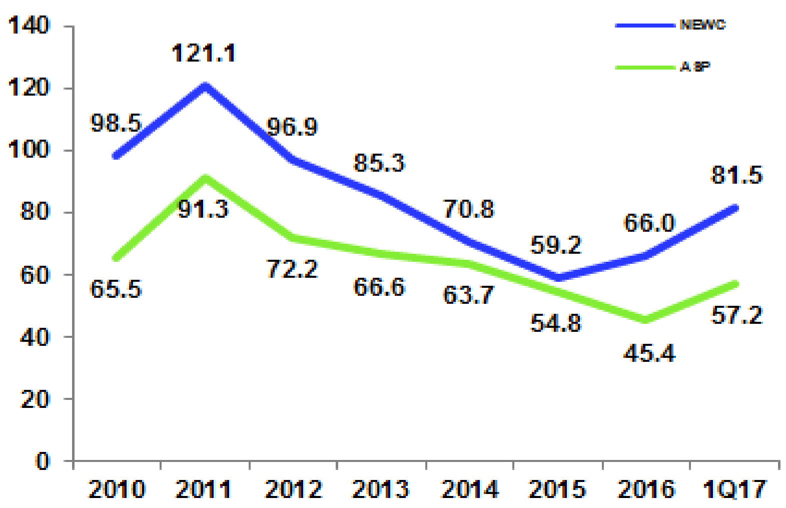
The Company's production volume of 1.1 million tons in 1Q17 was generated by all three subsidiaries of ABN, IM and TMU, contributing 0.7 million tons, 0.1 million tons, and 0.3 million tons respectively. ABN remained the largest contributor to the Company's overall production volume, accounting for 61.8% of total 1Q17 production followed by TMU and IM at 28.1% and 10.1% respectively. The Company's annual production guidance for 2017 is estimated at 5 - 6 million tons.



Production (million tons) and SR (x)

Such production number of 1.1 million tons came in below the quarterly production guidance of between 1.25 - 1.50 million tons and at higher than expected SR number. This was primarily due to the relatively strong seasonal wet weather conditions impacting the operational activity during the first quarter period.

NEWC Index Price vs ASP (US$ per ton)



ASP rose by 22.2% y-o-y from US$ 46.8 per ton in 1Q16 to US$ 57.2 per ton in 1Q17, while NEWC Index price rose higher by 62.0% 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 fetch relatively higher ASP in 1Q17 compared to in 1Q16 as the benchmark NEWC Index price rose significantly in second semester 2016 relative to the first semester 2016.

Financial and Operational Highlights				
All figures are in million US$ unless otherwise stated		**1Q16**	**1Q17**	***Changes***
Operation				
Sales Volume	mn ton	1.4	1.1	*(21.4)%*
Production Volume	mn ton	1.5	1.1	*(26.7)%*
Stripping Ratio (SR)	x	12.4	13.7	*10.5 %*
FOB Cash Cost[a]	US$/ton	34.8	36.9	*6.0%*
NEWC Index Price	US$/ton	50.3	81.5	*62.0 %*
Average Selling Price (ASP)	US$/ton	46.8	57.2	*22.2%*
Financial Performance				
Profit (Loss)		**1Q16**	**1Q17**	***Changes***
Sales	US$ mn	63.6	62.7	*(1.4)%*
Cost of Goods Sold	US$ mn	49.3	42.6	*(13.6)%*
Gross Profit	US$ mn	14.3	20.1	*40.6%*
Operating Profit	US$ mn	8.3	14.9	*79.5%*
EBITDA[b]	US$ mn	11.3	17.1	*51.3%*
Profit for the Period	US$ mn	5.2	10.2	*96.2%*
EBITDA/ton	US$/ton	8.3	15.7	*89.2%*
Operating Cash Flows	US$ mn	10.7	9.9	*(7.5) %*
CAPEX	US$ mn	3.4	1.8	*(47.1)%*
Balance Sheet		**31 Dec 2016**	**31 Mar 2017**	***Changes***
Interest Bearing Debt	US$ mn	51.3	47.9	*(6.6)%*
Cash and Cash Equivalents	US$ mn	37.6	37.1	*(1.4)%*
Net Debt[c]	US$ mn	13.7	10.8	*(21.1)%*
Total Assets	US$ mn	261.6	260.7	*(0.3)%*
Total Liabilities	US$ mn	113.8	105.8	*(7.1)%*
Total Equity	US$ mn	147.7	154.8	*4.8%*
Financial Ratios				
Gross Profit Margin	%	22.5%	32.1%	
EBITDA Margin	%	17.8%	27.3%	
Operating Profit Margin	%	13.1%	23.8%	

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

FINANCIAL

PROFIT (LOSS)

SALES

The Company recorded sales of US$ 62.7 million in 1Q17, or slightly lower by 1.4% compared to that in 1Q16 as a result of much stronger ASP despite lower sales volume. Such stronger ASP, in turn, directly boosted the much stronger financial margins over the period.

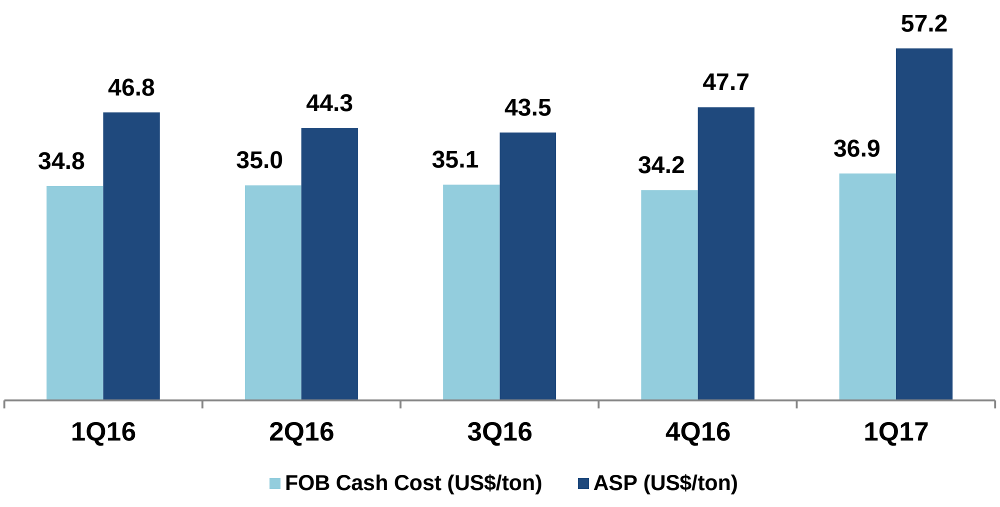
COST OF GOODS SOLD

Cost of goods sold slipped by 13.6% y-o-y, resulting from stable overall cost management as well as prudent execution of mine plan and lower production volume. The increase in SR in 1Q17 compared to in 1Q16 was attributable to higher than expected wet weather conditions, while resulted in the slightly higher FOB cash cost over the period.

EBITDA

A 51.3% y-o-y increase in EBITDA to US$ 17.1 million in 1Q17 from US$ 11.3 million in 1Q16 significantly improved EBITDA margin from 17.8% to 27.3% over the period. This mainly stemmed from the higher recorded ASP secured during the second semester 2016, which was commensurate to the higher international coal price over the period as compared to that in the first semester 2016.

ASP vs FOB Cash Cost
1Q16 – 1Q17



PROFIT FOR THE PERIOD

After taking into account finance cost of US$ 1.1 million and tax expense of US$ 4.2 million, the Company booked total profit for the period of US$ 10.2 million in 1Q17, up 96.2% y-o-y from the previous year.

FINANCIAL RATIOS

As the Company demonstrated stable margins in 2016, gross profit margin, EBITDA margin, and operating margin rose y-o-y from 22.5% in 1Q16 to 32.1% in 1Q17, from 17.8% in 1Q16 to 27.3% in 1Q17, and from 13.1% in 1Q16 to 23.8% in 1Q17 respectively. This was attributable due to combination of higher ASP and relatively well maintained cost management efforts as well as mine plan execution.

BALANCE SHEET

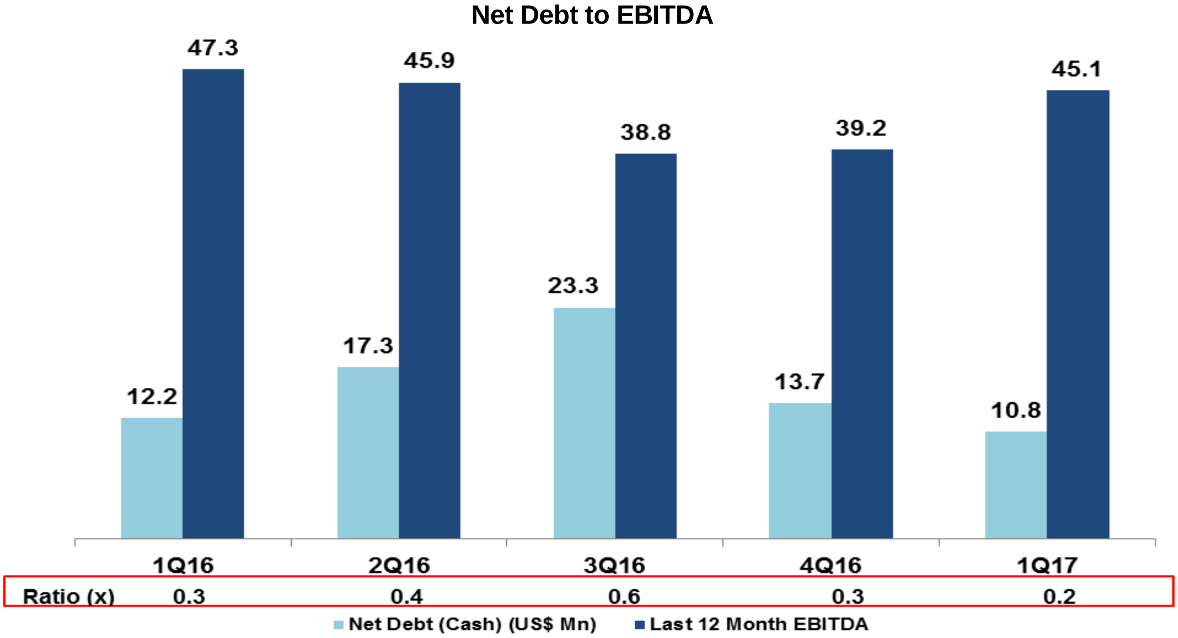
ASSETS

Total assets as at 31st March 2017 compared to 31st December 2016 remained stable, slipping by a mere 0.3% to US$ 260.7 million.

LIABILITIES

Total liabilities as at 31st March 2017 fell 7.1% to US$ 105.8 million from US$ 113.8 million as at 31st December 2016, mainly due to 6.6% lower interest bearing debt position after some repayment over the period. The 7.1% contraction in total liabilities was at much faster rate than the decline in total assets of 0.3% over the same period.

Meanwhile, leverage metrics, such as Net Debt to EBITDA ratio, have constantly recorded stability from quarter to quarter since 3Q16 at below 0.5x.



EQUITY

Total equity as at 31st March 2017 increased by 4.8% to US$ 154.8 million, from US$ 147.7 million as at 31st 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 1Q17 came in at US$ 9.9 million, 7.5% lower than US$ 10.7 million in 1Q16. This was mainly due to higher decline in cash received from customers relative to payments to suppliers over the period.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash flows from investing activities came in at US$ 1.7 million in 1Q17, a decline from US$ 3.4 million (mining-related and construction of palm oil mill) in 1Q16. Hence, the US$ 1.7 million CAPEX was mainly realized for mining-related activity. Company guidance for its 2017 CAPEX is estimated at US$ 60 - 65 million, most of which will be allocated for the Sulbagut-1 coal-fired power project's initial Engineering, Procurement, Contracting (EPC) phase. This is expected to commence in 2H17.

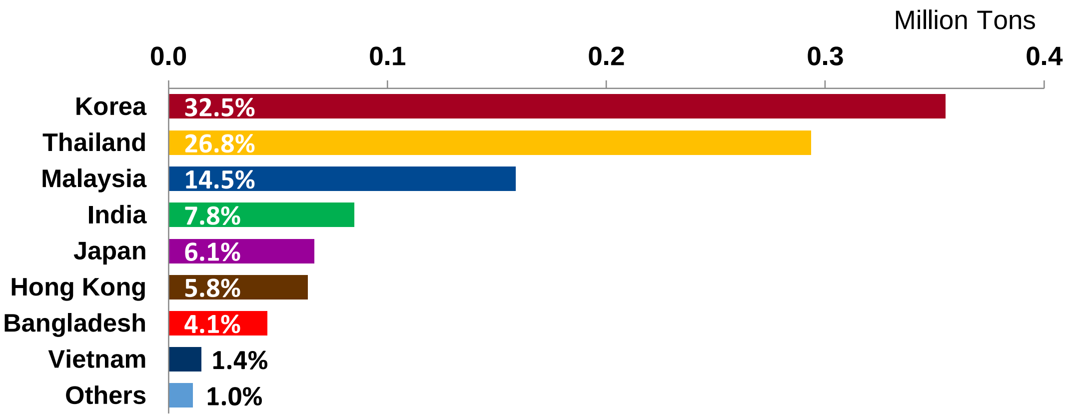
CASH FLOWS FROM FINANCING ACTIVITIES

Net cash from financing activities increased from US$ 4.0 million in 1Q16 to US$ 8.7 million in 1Q17 mainly resulting from US$ 4.9 million of payment of dividends to non-controlling shareholders of subsidiaries.

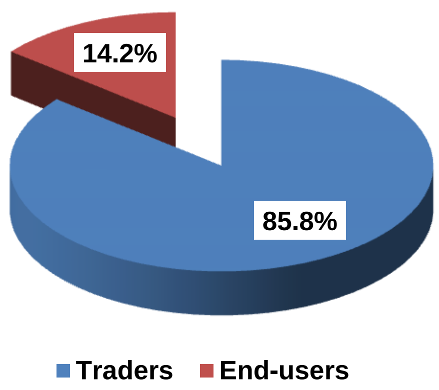
MARKETING

In 1Q16, the company predominantly sold its coal to South Korea, Thailand, Malaysia, and India. As a percentage of total customer base, the compositions of end-users and traders in 1Q16 were recorded at 14.2% and 85.8% respectively compared to 30.0% and 70.0% respectively in 1Q16. The lower percentage of end-users was because higher committed sales to end-users would be expected to be realized post 1Q17. Moreover, end-user composition for 2017 is also expected to surpass that of 2016. Major international traders and notable end-users such as major regional power generation companies account for the Company's main dedicated customers. Meanwhile, around 29.6% of total sales volume by product was contributed by the 5600 GAR calorific value (CV), 18.4% by the higher 5800 GAR and 5900 GAR LS, and 52.0% by the lower 4800 - 5200 GAR coal qualities.

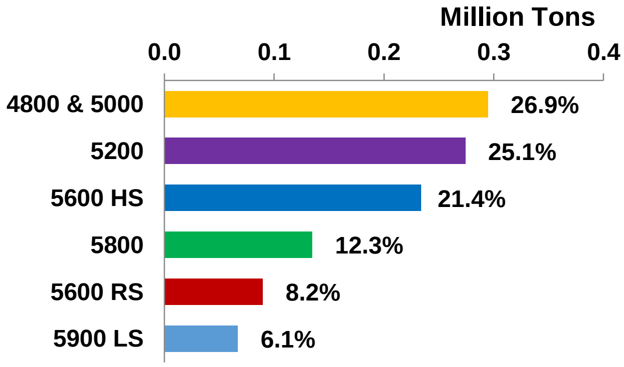
Sales Destinations by Country as per 1Q17
Total Sales Volume : 1.1 Million Tons



Total Sales by Customer Type



Total Sales by Product

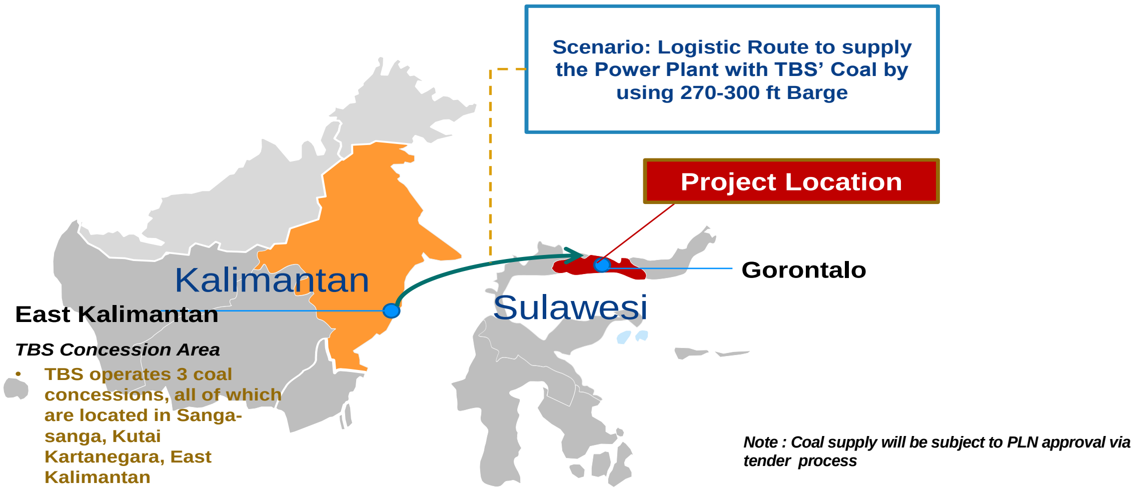


Note : High Sulphur (max 2.0%), Regular Sulphur (max 1.0%), Low Sulphur (max 0.6%)

POWER PLANT PROJECT

The Company, through its subsidiary PT Gorontalo Listrik Perdana (GLP), secured a coal-fired power plant project (CFPP) with capacity of 2x50 megawatts (MW) (Sulbagut-1) located in the Gorontalo Province, Sulawesi. The signing of the Power Purchase Agreement (PPA) with the State Utility PLN was held 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, with PPA term of 25 years and project value estimated at US$ 170 - US$ 220 million, will be developed by a consortium under GLP, which is 80% owned by the Company, with the remaining 20% each owned by the other consortium member Shanghai Electric Power Construction Co. Ltd. GLP will undergo the process of meeting the Financing Date (financial close), one year after PPA signing, and Commercial Operation Date as per PPA.



2017 STRATEGY

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. Going forward, the Company envisions becoming a well-diversified energy company by 2020, whereby EBITDA contributions from the power business is expected to account for at least half of the Company's total EBITDA. This will translate to more CAPEX realization for the power business as of 2017 onwards.

- **Mine Plan Execution and Cost Management Discipline**
  2017 production and SR are targeted at similar numbers as in 2016 of 5 - 6 million tons and 12x - 13x respectively. The Company will also maintain such cash cost level that has been achieved over the last few years through cost management initiatives.

- **Marketing Strategy**
  The Company plans to continue to build 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 2017 is estimated at US$ 60 - 65 million, of which 85% - 90% will be allocated for the EPC phase of the power project, with the balance for the mining business, i.e. land acquisition, and infrastructure/heavy equipment.

- **Sourcing of Other Power Projects**
  In translating the Company's vision, the Company will continuously seek for opportunities in sourcing new power projects, which include, among others, renewables. This will be done through participation in IPP tenders as well as through acquisition of existing power assets.

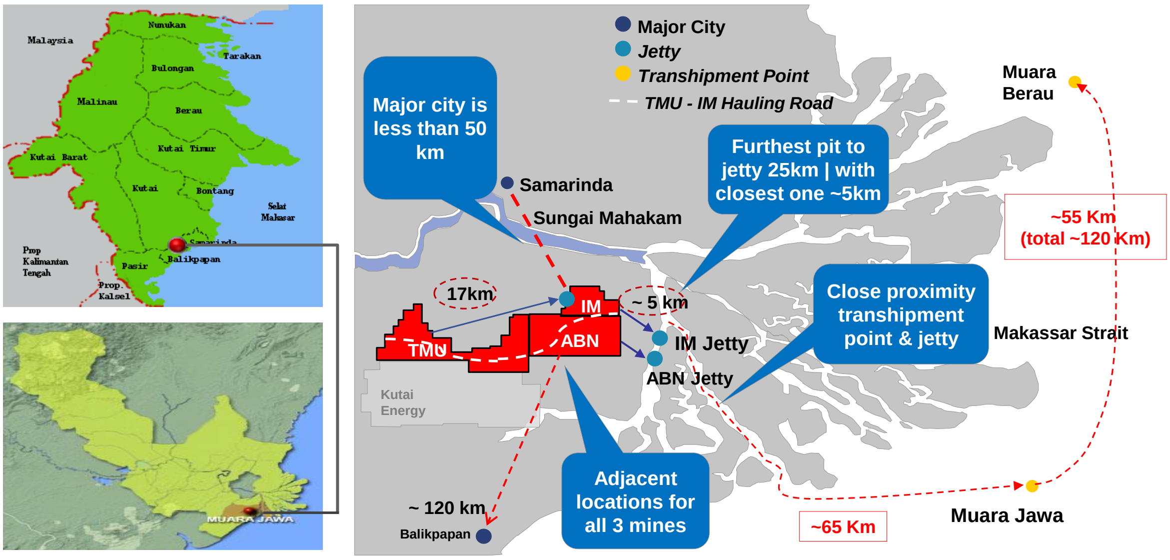
SUBSEQUENT EVENT

On 7 April 2017, PT Minahasa Cahaya Lestari (MCL), subsidiary established in 2017, signed a 25-year PPA with PLN to develop 2x50 MW CFPP (Sulut-3) located in North Minahasa Regency, North Sulawesi.

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) (indirect subsidiary 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 Sejahtra'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 resources of around 156 million tons (JORC data of 2012).
- IM started operations in August 2007 and covers 683 hectares of land. It has estimated coal resources of 37 million tons (JORC data of 2011).
- Meanwhile, TMU started operations in October 2011 and covers 3,414 hectares of land and has estimated coal resources of 43 million tons (JORC data of 2011).

Altogether, total Company's coal resources are estimated at 236 million tons (JORC data of 2011-2012).

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.

For further information, please contact:
PT Toba Bara Sejahtra Tbk

Pandu P. Syahrir
Corporate Secretary
(Sekretaris Perusahaan)
Email: corsec@tobabara.com

Iwan Sanyoto
Head of Investor Relations
(Kepala Hubungan Investor)
Email: iwan.sanyoto@tobabara.com

Novi Aruan
Corporate Secretary Division
(Divisi Sekretaris Perusahaan)
Email: novi.aruan@tobabara.com