Management Discussion & Analysis – Nine Months 2016
Toba Bara Sejahtra Tbk and Subsidiaries

September 2016

SUMMARY

The nine months 2016 (9M16) witnessed the reference Newcastle (NEWC) Index price bottoming out from the low of US$ 47.4 per ton in January (1Q16), finding strong support at US$ 50.0 per ton level, and recovering to US$ 53.9 per ton in June (2Q16). By 3Q16, the price rose further to US$ 67.3 per ton. The price recovery occurred on the back of several crucial global catalysts mainly from China's well-enforced supply cut regulation as well as gradual oil price rebound. China government's new mandatory regulation to cut its coal industry's supply by 16.0% over 2016 and reduction in operational days from previously 330 to 276 days yielded concrete results. This development triggered falling inventories among major coastal Independent Power Producers (IPP) to the lowest levels in the last three years, prompting escalation in seaborne coal imports. The low global coal price resulted in lower Indonesian exports as many inefficient mines ran loss-making operations, forcing meaningful production cuts. This could signal potential coal market recovery in the short term.

Also 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). In PT Perusahaan Listrik Negara (Persero)'s (PLN) recently published 10-year Electricity Supply Business Plan (RUPTL) 2016 - 2025, it aims to increase electrification ratio from 88.3% in 2015 to 99.7% in 2025, while power generation capacity is expected to rise by around 80.5 GW over the same period. IPP will account for a majority 57.0% of the additional power generation capacity with PLN taking up around 23.0% share and others 20.0%. Out of the 80.5 GW, CFPP will account for the largest share of 43.0%, with gas-fired and renewables contributing the balance of 29.0% and 28.0% respectively. 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 having participated in a series of PLN's open tenders through the IPP scheme over the last two years, on 14th July 2016, the Company secured a CFPP project from PLN with capacity of 2 x 50 megawatts (MW) (Sulbagut I) located in the Gorontalo Province, Sulawesi.

Against the backdrop of the above factors, the Company remains well positioned in maintaining its existing cost structure as FOB (Free on Board) cash cost declined by 20.1% y-o-y to US$ 34.9 per ton in 9M16, 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 1.25 - 1.50 million tons per quarter.

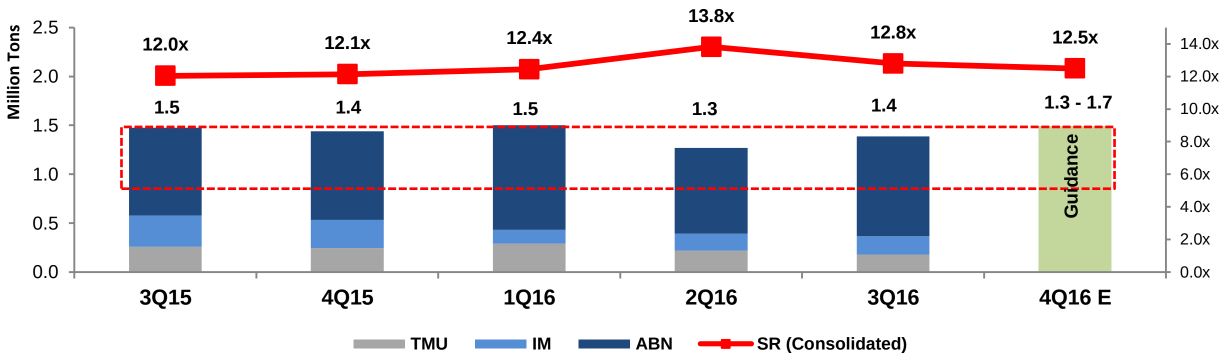
Strategically endowed with three concessions that are located adjacent to each other, the Company is expected to continually implement operational improvement and cost management initiatives through a combination of joint mine plan execution and infrastructure sharing over the upcoming years. The Company sold 4.3 million tons in 9M16, 10.4% lower than 4.8 million tons in 9M15, but still in line with the Company's 2016 quarterly guidance of 1.25 - 1.50 million tons.

As compared to 9M15, in 9M16 the Company registered stable margins such as gross profit margin, and EBITDA margin due to continuous operational improvements and cost management disciplines, as reflected by cost of goods sold decreasing 28.4% y-o-y, in tandem with sales reduction of 28.5% over the same period. Average selling price (ASP) contracted 19.9% y-o-y from US$ 55.9 per ton in 9M15 to US$ 44.8 per ton in 9M16, as compared to 8.1% decline in NEWC Index price over the same period.

Special Note: *The following discussion on the Company's performance is based on the Consolidated Financial Statements as per 30th September 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), and PT Trisensa Mineral Utama (TMU).*

PRODUCTION & OPERATION

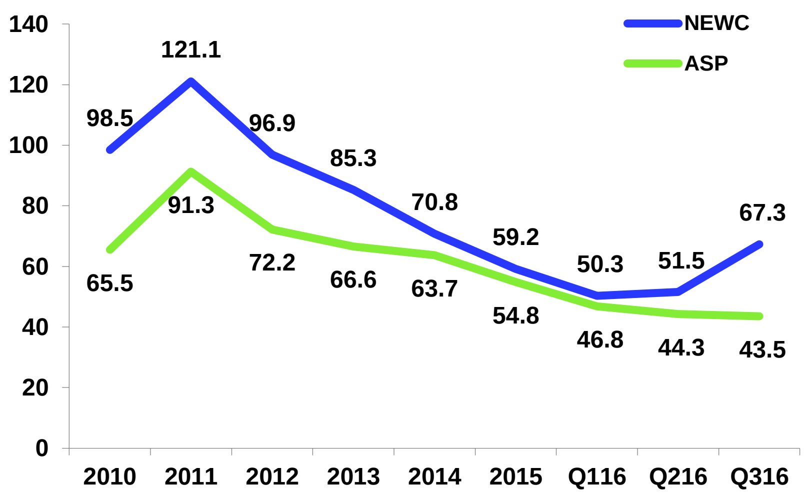
The Company's production volume of 1.4 million tons in 3Q16 was generated by all three subsidiaries of ABN, IM and TMU, contributing 1.0 million tons, 0.2 million tons, and 0.2 million tons respectively. ABN remained the largest contributor to the Company's overall production volume. Such production number came in line with the 2016 production guidance of between 1.25 - 1.50 million tons, enabling the Company to remain on track in achieving the full year production target of 5 - 6 million tons.



Production (million tons) and SR (x)

Stripping Ratio (SR) fell from 13.8x in 2Q16 to 12.8x in 3Q16 primarily due to normalization of ABN's mining activity after pre-stripping activity in opening a new pit. SR is expected to remain at a similar level in 4Q16.

NEWC Index Price vs ASP (US$ per ton)



ASP contracted by 19.9% y-o-y from US$ 55.9 per ton in 9M15 to US$ 44.8 per ton in9M16, which was higher than the decrease in NEWC Index price by 8.1% y-o-y over the same period. The widening in spread between ASP and NEWC Index was due to the Company's marketing initiative of securing sales volume contracts with customers in late part of 2015 and early part of 2016 at fixed price, while NEWC Index started to rise significantly in 3Q16.

Financial and Operational Highlights				
All figures are in million US$ unless otherwise stated		**9M15**	**9M16**	***Changes***
Operation				
Sales Volume	mn ton	4.8	4.3	*(10.4)%*
Production Volume	mn ton	4.5	4.2	*(6.7)%*
Stripping Ratio (SR)	x	12.3	13.0	*5.7 %*
FOB Cash Cost*	US$/ton	43.7	34.9	*(20.1)%*
NEWC Index Price	US$/ton	61.4	56.4	*(8.1)%*
Average Selling Price (ASP)	US$/ton	55.9	44.8	*(19.9)%*
Financial Performance				
Profit (Loss)		**9M15**	**9M16**	***Changes***
Sales	US$ mn	268.6	192.1	*(28.5)%*
Cost of Goods Sold	US$ mn	217.0	155.3	*(28.4)%*
Gross Profit	US$ mn	51.5	36.8	*(28.5)%*
Operating Profit	US$ mn	32.9	18.8	*(42.9)%*
EBITDA**	US$ mn	42.0	27.3	*(35.0)%*
Profit for the Period	US$ mn	20.3	9.7	*(52.2)%*
EBITDA/ton	US$/ton	8.8	6.4	*(27.3)%*
Operating Cash Flows	US$ mn	16.2	15.1	*(6.8)%*
Capex	US$ mn	9.3	8.8	*(5.4)%*
Balance Sheet		**Dec'15**	**Sep'16**	***Changes***
Interest Bearing Debt	US$ mn	64.0	54.4	*(15.0)%*
Cash and Cash Equivalents	US$ mn	45.5	31.1	*(31.6)%*
Net Debt***	US$ mn	18.5	23.3	*25.9 %*
Total Assets	US$ mn	282.4	261.8	*(7.3)%*
Total Liabilities	US$ mn	127.3	110.6	*(13.1)%*
Total Equity	US$ mn	155.1	151.2	*(2.5)%*
Financial Ratios				
Gross Profit Margin	%	19.2%	19.2%	
EBITDA Margin	%	15.6%	14.2%	
Operating Profit Margin	%	12.2%	9.8%	

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

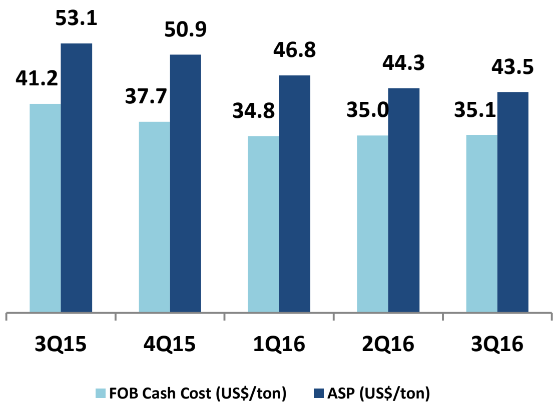
PROFIT (LOSS)

SALES
The Company recorded sales of US$ 192.1 million in 9M16, or 28.5% lower compared to that in 9M15 as a result of weaker NEWC index and sales volume. However, the Company was able to maintain stable gross profit margin and EBITDA margin.

COST OF GOODS SOLD
Cost of goods sold slipped by 28.4% y-o-y, resulting from combination of decreases in FOB cash cost by 20.1% and in production volume by 6.7%. Despite increase in SR in 9M16 compared to in 9M15, the Company demonstrated cost management initiatives and better execution of mine plan, which resulted in lower cash cost. One of the key cost management initiatives in 2Q16 was to engage a mining contractor at IM to PT Cipta Kridatama (CK), a subsidiary of PT ABM Investama Tbk, as CK would provide the newest equipment. In September 2016, TMU also engaged CK as its new contractor. To date, ABN, IM, and TMU each has engaged CK as its mining contractor, which is expected to improve overall operational efficiency through synergy among the three mines within the Toba Bara Group

EBITDA
Despite a 35.0% y-o-y drop in EBITDA in 9M16 from US$ 42.0 million in 9M15, the Company managed to maintain stable EBITDA margin at 14.2% over the period. This was attributable to its ability in achieving continuous cost efficiency program such as better execution in mine plan.

ASP vs FOB Cash Cost
3Q15 – 3Q16



PROFIT FOR THE PERIOD
After taking into account finance cost of US$ 3.1 million and tax expense of US$ 6.9 million, the Company booked total profit for the period of US$ 9.7 million in 9M16, down 52.2% y-o-y from the previous year.

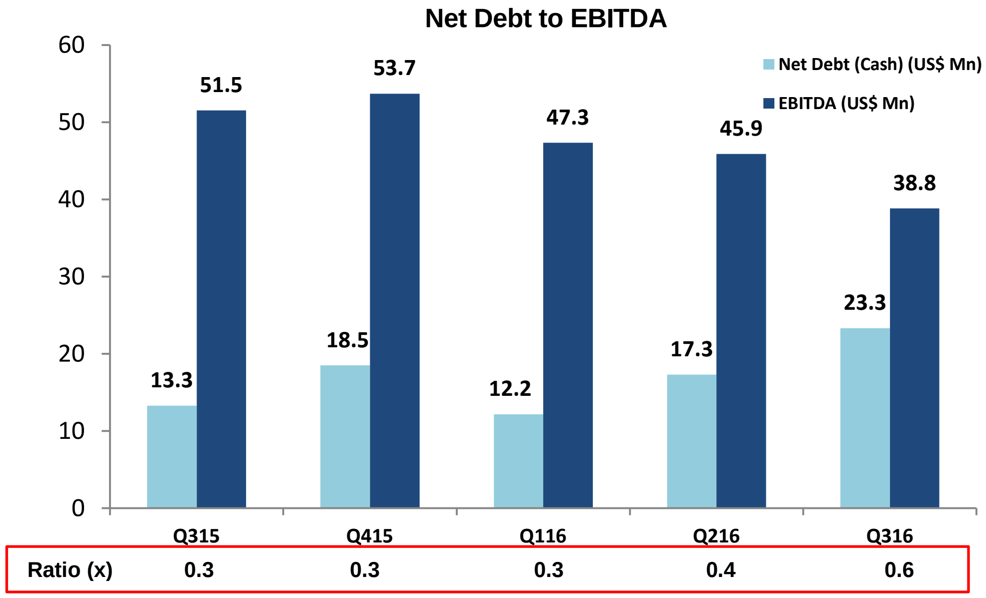
FINANCIAL RATIOS
The Company managed to demonstrate stable margins in 9M16. Gross profit margin remained stable y-o-y at 19.2% in 9M16, while EBITDA margin slipped slightly to 14.2% in 9M16 from 15.6% in 9M15. This was attributable to continuous cost management initiatives and better mine plan execution.

BALANCE SHEET

ASSETS
Total assets as at 30th September 2016 slipped 7.3% to US$ 261.8 million as compared to US$ 282.4 million as at 31st December 2015, mainly attributable to decrease in current assets such as 31.6% lower cash positions to US$ 31.1 million, 31.1% lower trade receivables to US$ 14.4 million, and 19.8% lower inventories to US$ 17.4 million over the period.

LIABILITIES
Total liabilities as at 30th September 2016 fell 13.1% to US$ 110.6 million from US$ 127.3 million as at 31st December 2015, mainly due to 22.6% lower trade payables, and lower interest bearing debt position after some repayment over the period. The 13.1% contraction in total liabilities was at faster rate than the decline in total assets of 7.3% 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 as at 30th September 2016 slipped by a mere 2.51% to US$ 151.2 million from US$ 155.1 million as at 31st December 2015, which was attributable to profit for the year having factored in the final dividend for 2015.

CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES
Net cash flows from operating activities in 9M16 came in at US$15.1 million, down 6.8% from US$ 16.2 million in 9M15. This resulted from lower decline in payments to suppliers of 27.8% relative to fall in cash received from customers of 24.4%.

CASH FLOWS FROM INVESTING ACTIVITIES
Net cash flows from investing activities came in at US$ 8.0 million in 9M16, an increase from US$ 7.4 million in 9M15. This was mainly due to CAPEX realized for mining-related activity, palm oil mill activity, land acquisition for Gorontalo power plant project, and other advances for assets acquisition. This year, the Company guidance for its CAPEX is estimated at US$ 5 - 8 million (not including power project activity).

CASH FLOWS FROM FINANCING ACTIVITIES
Net cash from financing activities increased from US$ 6.6 million in 9M15 to US$ 21.8 million mainly resulting from US$ 11.8 million of loan repayment to syndicated banks, and dividend distribution issued to the Company's shareholders and to the minority shareholders.

MARKETING

Marketing initiative is focused on efforts to diversify the export market destinations as well customer base. In 9M16, the company predominantly sold its coal to Asian markets such as South Korea, India, Taiwan, and Malaysia. As a percentage of total customer base, the composition of end-users in 9M16 stabilized at 29.7% level as compared to 34.4% in 9M15. Reputable international traders and end-users such as major regional power generation companies account for the Company's main dedicated customers. Meanwhile, around 54.4% of total sales volume by product was contributed by the 5600 GAR calorific value (CV), while it is positioned in the mid-upper level of coal quality in the market. To date, the Company has secured almost 100% of its 2016 total sales volume target, predominantly at fixed price.

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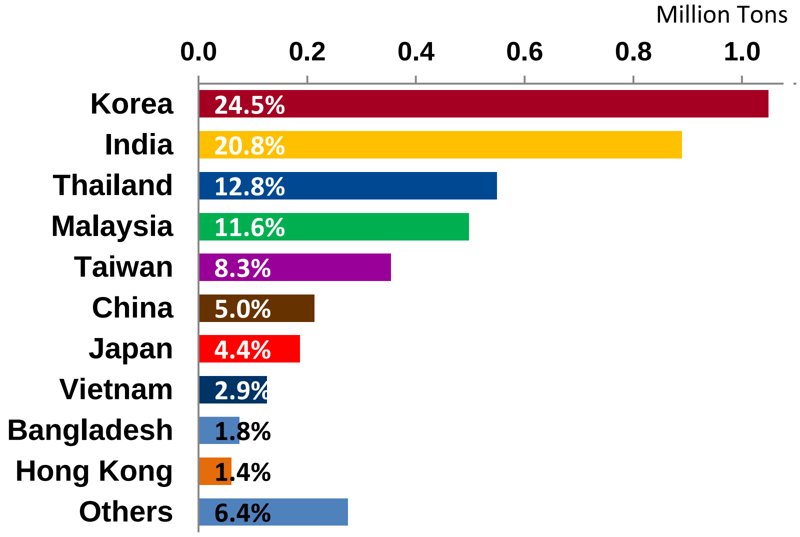
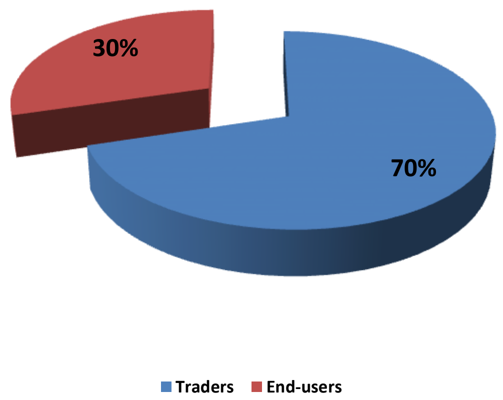
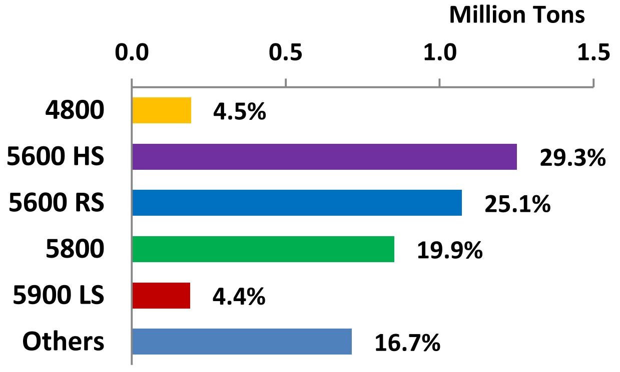
Sales Destinations by Country as per 9M 2016
Total Sales Volume : 4.3 Million Tons



Total Sales by Customer Type



Total Sales by Product

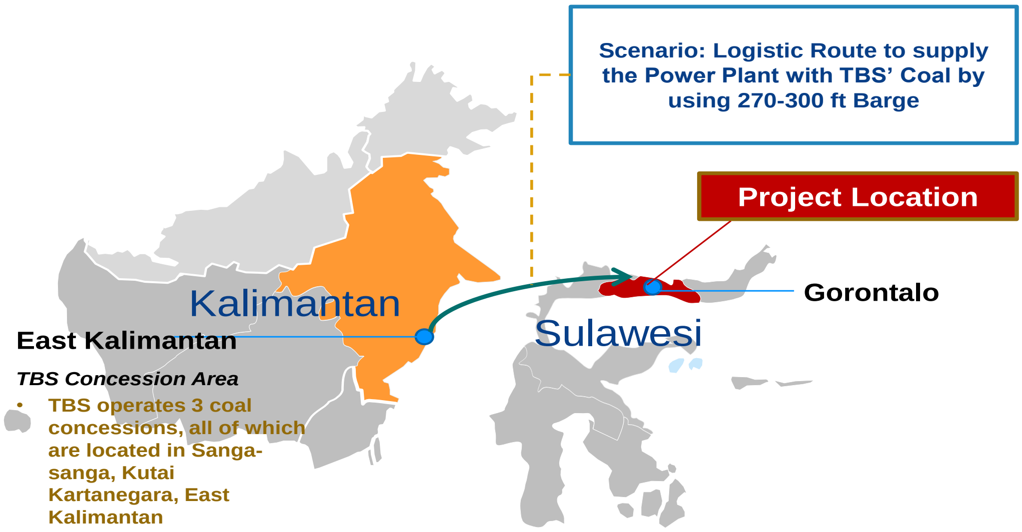


Note : High Sulphur (max 2.0%), Regular Sulphur (max 1.0%), Low Sulphur (max 0.6%)

POWER PLANT PROJECT

The Company, through its subsidiary PT Gorontalo Listrik Perdana (GLP), secured a coal-fired power plant project (CFPP) with capacity of 2 x 50 megawatts (MW) (Sulbagut I) 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 I 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 60% owned by the Company, with the remaining 20% each owned by the other consortium members of PT Toba Sejahtra and Shanghai Electric Power Construction Co. Ltd. After the PPA signing, GLP will undergo the process of meeting the Financing Date and Commercial Operation Date as per the Power Purchase Agreement (PPA).



Note : Coal supply will be subject to PLN approval via tender process

STRATEGY

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 - 6 million tons, with SR stabilizing at 12.5x – 13.5x level. Its core objective is to execute a disciplined mine plan that maximizes profitable production output without compromising reserves.
- **Cost Management Discipline**
  Post 17.6% and 20.1% y-o-y FOB cash cost reductions in 2015 and 9M16 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 for mining and plantation activities of US$ 5 - 8 million for 2016 to support its operational facilities and equipment and its plantation entity. PT Perkebunan Kaltim Utama I (PKU), a wholly-owned palm oil plantation subsidiary of the Company, currently runs a palm oil mill with capacity of 30 fresh fruit bunch (FFB) tons per hour. Meanwhile the initial power project preparation such as for land acquisition is currently underway (not included in the US$ 5 – 8 million CAPEX guidance).
- **Opportunities for Sustainable Growth**
  The Company aspires to become an integrated energy company in the long run through sustainable growth. To maximize existing assets and ensure future sustainable growth backed by more stable revenue stream, the Company is engaging in downstream integration in the power sector. Its ability to secure a PPA for the Gorontalo CFPP project demonstrates evidence that the Company is able to take advantage of this opportunity.

MISCELLANEOUS

- 1st April 2016: IM and PT Cipta Kridatama (subsidiary of PT ABM Investama Tbk) entered into a five-year mining contract

- 29th May 2016: ABN was awarded the PROPER Gold Mining Award for Environmental Management (2015 – 2016) from the Governor of East Kalimantan

- 29th May 2016: IM was awarded the PROPER Green Mining Award for Environmental Management (2015 – 2016) from the Governor of East Kalimantan

- 29th May 2016: TMU was awarded the PROPER Green Mining Award for Environmental Management (2015 – 2016) from the Governor of East Kalimantan

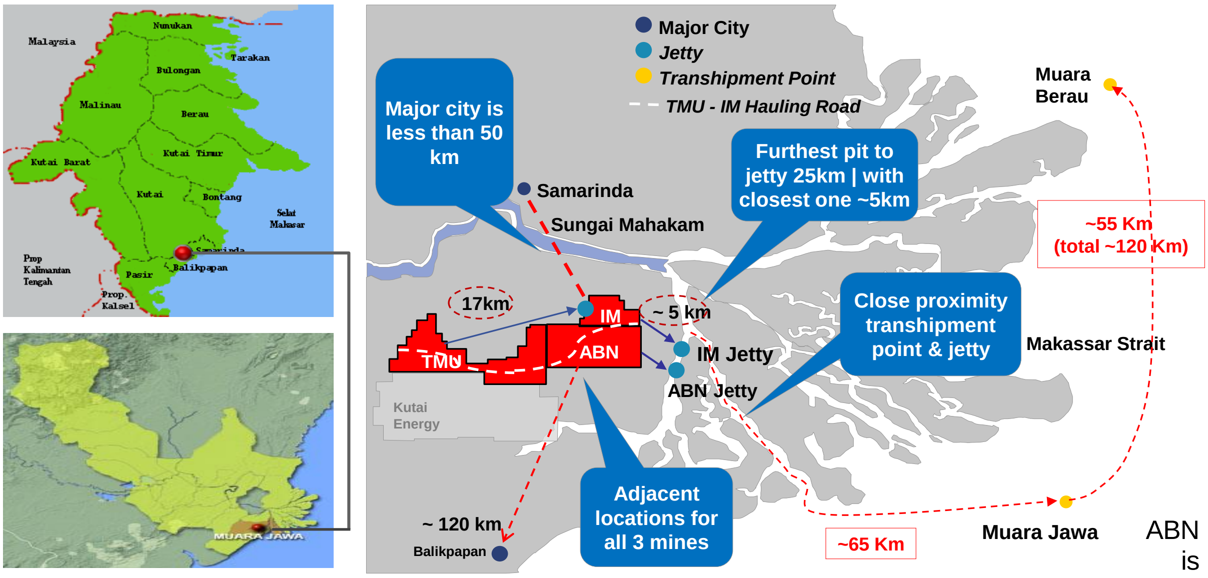
- 1st September 2016: TMU and PT Cipta Kridatama (subsidiary of PT ABM Investama Tbk) entered into a three-year mining contract

SNAPSHOT OF 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 five operating subsidiaries, three in coal mining namely PT Adimitra Baratama Nusantara (ABN), PT Indomining (IM), PT Trisensa Mineral Utama (TMU), one in oil palm plantation namely PT Perkebunan Kaltim Utama I (PKU), and one entity in power generation, PT Gorontalo Listrik Perdana (GLP). The Company’s ownerships in ABN, IM, TMU, PKU, and GLP are 51.00%, 99.99%, 99.99%, 90.00%, and 60.00% respectively. GLP was the latest entity addition to the Toba Bara Sejahtra Group of subsidiaries, having been established in February 2016.

Locations of PT Toba Bara Sejahtra's Concessions



ABN is located in Sangasanga District, Kutai Kartanegara Regency, 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 District, Kutai Kartanegara Regency, 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 District, Muara Jawa District and Sangasanga District, Kutai Kartanegara Regency, 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).

PKU holds a Palm Commodity Plantation Cultivation Business License covering HGU area totaling 8,633 hectares in Muara Jawa District, Sangasanga District, and Loa Janan District, Kutai Kartanegara Regency, East Kalimantan.

GLP's CFPP (IPP) project is located in the Gorontalo Province, Sulawesi.

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