Management Discussion & Analysis – Full Year 2016
Toba Bara Sejahtra Tbk and Subsidiaries

31st December 2016

SUMMARY

The full year 2016 witnessed the reference Newcastle (NEWC) Index price bottoming out from the low of US$ 47.4 per ton in January, recovering to US$ 53.9 per ton in June, and reaching a high of US$ 103.4 in November or US$ 94.7 in 4Q16. This price rally occurred on the back of several crucial global catalysts mainly from China's well-enforced supply cut policy and to less extent gradual oil price rebound. China government's new mandatory policy in April 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 sudden development triggered temporary supply squeeze such as falling inventories among major coastal Independent Power Producers (IPP) to the lowest levels in the last three years, prompting escalation in seaborne coal imports. Hence, the NEWC Index price for 2016 averaged US$ 66.0 per ton, up by 11.5% from 2015 average of US$ 59.2 per ton.

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 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-1) 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 18.2% y-o-y to US$ 34.5 per ton in 2016, 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, while producing a current run-rate of around 1.25 - 1.50 million tons per quarter.

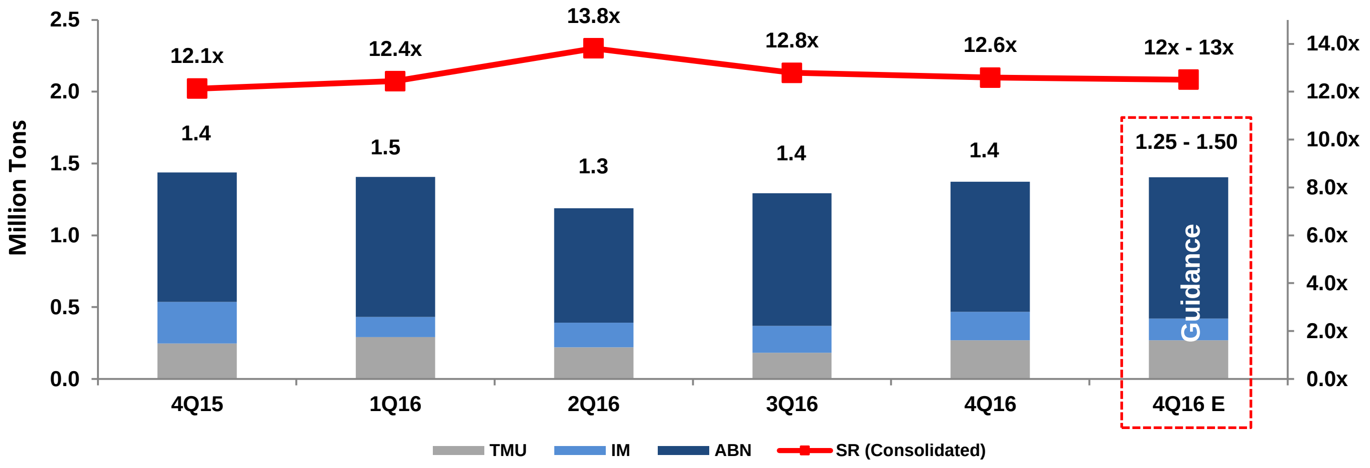
Strategically endowed with three concessions that are located adjacent to each other, the Company is expected to continually implement operational improvement and cost management initiatives through a combination of joint mine plan execution and infrastructure sharing over the upcoming years. The Company sold 5.7 million tons in 2016, 10.9% lower than 6.4 million tons in 2015, but still in line with the Company's 2016 quarterly guidance of 1.25 - 1.50 million tons.

As compared to 2015, in 2016 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 26.3% y-o-y, slightly higher than sales reduction of 25.9% over the same period. Average selling price (ASP) contracted 17.2% y-o-y from US$ 54.8 per ton in 2015 to US$ 45.4 per ton in 2016, as compared to 11.5% recovery 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 31st December 2016 (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).*

PRODUCTION & OPERATION

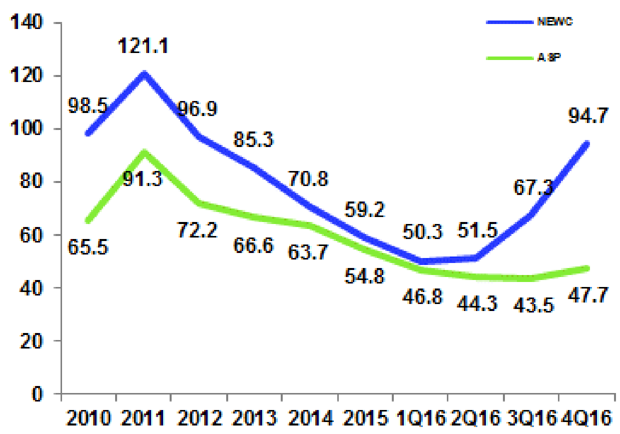
The Company's production volume of 1.4 million tons in 4Q16 was generated by all three subsidiaries of ABN, IM and TMU, contributing 0.9 million tons, 0.2 million tons, and 0.3 million tons respectively. ABN remained the largest contributor to the Company's overall production volume. Such production 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) slightly rose from 12.3x in 2015 to 12.9x in 2016 primarily due to normalization of ABN's mining activity after pre-stripping activity in opening a new pit. Nevertheless overall SR came in in line with the guidance of 12x - 13x.

NEWC Index Price vs ASP (US$ per ton)



ASP contracted by 17.2% y-o-y from US$ 54.8 per ton in 2015 to US$ 45.4 per ton in 2016, while NEWC Index price rose by 11.5% 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 2016 sales volume contracts with customers in late part of 2015 and early part of 2016 at predominantly fixed price, while NEWC Index only started to increase significantly in 3Q16 and 4Q16.

Financial and Operational Highlights				
All figures are in million US$ unless otherwise stated		**2015**	**2016**	***Changes***
Operation				
Sales Volume	mn ton	6.4	5.7	*(10.9)%*
Production Volume	mn ton	6.1	5.5	*(9.8)%*
Stripping Ratio (SR)	x	12.3	12.9	*4.9 %*
FOB Cash Cost[a]	US$/ton	42.2	34.5	*(18.2)%*
NEWC Index Price	US$/ton	59.2	66.0	*11.5 %*
Average Selling Price (ASP)	US$/ton	54.8	45.4	*(17.2)%*
Financial Performance				
Profit (Loss)		**2015**	**2016**	***Changes***
Sales	US$ mn	348.7	258.3	*(25.9)%*
Cost of Goods Sold	US$ mn	278.1	205.0	*(26.3)%*
Gross Profit	US$ mn	70.5	53.3	*(24.4)%*
Operating Profit	US$ mn	42.3	30.1	*(28.8)%*
EBITDA[b]	US$ mn	53.7	39.2	*(27.0)%*
Profit for the Period	US$ mn	25.7	14.6	*(43.2)%*
EBITDA/ton	US$/ton	8.5	7.1	*(16.5)%*
Operating Cash Flows[c]	US$ mn	19.7	28.3	*43.7 %*
CAPEX[c]	US$ mn	12.1	9.3	*(23.1)%*
Balance Sheet		**Dec'15**	**Dec'16**	***Changes***
Interest Bearing Debt	US$ mn	64.0	51.3	*(19.8)%*
Cash and Cash Equivalents	US$ mn	45.5	37.6	*(17.4)%*
Net Debt[d]	US$ mn	18.5	13.7	*(25.9)%*
Total Assets	US$ mn	282.4	261.6	*(7.4)%*
Total Liabilities	US$ mn	127.3	113.8	*(10.6)%*
Total Equity	US$ mn	155.1	147.7	*(4.8)%*
Financial Ratios				
Gross Profit Margin	%	20.2%	20.6%	
EBITDA Margin	%	15.4%	15.2%	
Operating Profit Margin	%	12.1%	11.7%	

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) *Adjusted with change in deferred stripping during the year*
(d)*Net Debt = Interest bearing debt – cash and cash equivalents*

FINANCIAL

PROFIT (LOSS)

SALES

The Company recorded sales of US$ 258.3 million in 2016, or 25.9% lower compared to that in 2015 as a result of weaker ASP and lower sales volume. However, the Company was able to maintain stable gross profit margin and EBITDA margin.

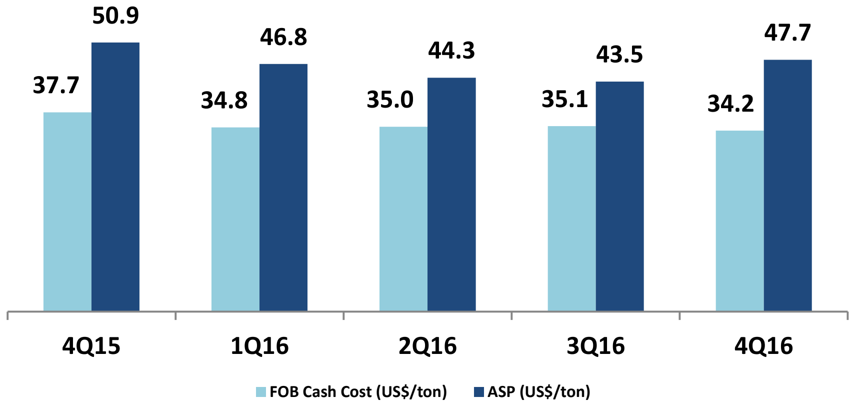
COST OF GOODS SOLD

Cost of goods sold slipped by 26.3% y-o-y, resulting from combination of declines in FOB cash cost by 18.2% and in production volume by 9.8%. Despite increase in SR in 2016 compared to in 2015, the Company demonstrated cost management initiatives and better execution of mine plan, which resulted in lower cash cost. One of the key operational initiatives undertaken in 2016 was the engaging of new mining contractor, PT Cipta Kridatama (CK) a subsidiary of PT ABM Investama Tbk at IM in April 2016, and at TMU in September 2016. As ABN has already engaged CK since 2Q15, 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 adjacent mines within the Toba Bara Group.

EBITDA

Despite a 27.0% y-o-y drop in EBITDA in 2016 from US$ 53.7 million in 2015, the Company managed to maintain stable EBITDA margin at 15% level over the period. This was attributable to its ability in achieving continuous cost efficiency program such as better execution in mine plan, hence resulting in lower FOB cash cost.

ASP vs FOB Cash Cost
4Q15 – 4Q16



PROFIT FOR THE PERIOD

After taking into account finance cost of US$ 5.4 million and tax expense of US$ 11.4 million, the Company booked total profit for the period of US$ 14.6 million in 2016, down 43.2% y-o-y from the previous year.

FINANCIAL RATIOS

The Company managed to demonstrate stable margins in 2016. Gross profit margin rose slightly y-o-y from 20.2% in 2015 to 20.6% in 2016, while EBITDA margin remained stable from 15.4% to 15.2% over the same period. This was attributable to continuous cost management initiatives and better mine plan execution.

BALANCE SHEET

ASSETS

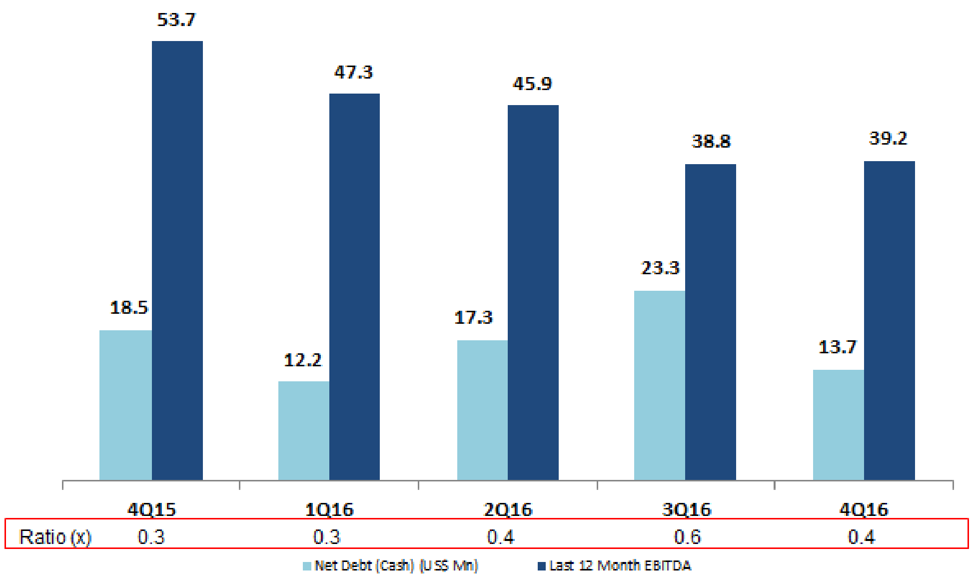
Total assets as at 31st December 2016 slipped 7.4% to US$ 261.6 million as compared to US$ 282.4 million as at 31st December 2015, mainly attributable to decrease in current assets such as 17.4% lower cash positions to US$ 37.6 million, 63.2% lower trade receivables to US$ 7.7 million, and 27.9% lower inventories to US$ 15.7 million over the period.

LIABILITIES

Total liabilities as at 31st December 2016 fell 10.6% to US$ 113.8 million from US$ 127.3 million as at 31st December 2015, mainly due to 33.0% lower trade payables, and lower interest bearing debt position after some repayment over the period. The 10.6% contraction in total liabilities was at faster rate than the decline in total assets of 7.4% over the same period.

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

Net Debt to EBITDA



EQUITY

Total equity as at 31st December 2016 slipped by a mere 4.8% to US$ 147.7 million from US$ 155.1 million as at 31st December 2015, which was attributable to profit for the year having factored in the dividend declared in 2016.

CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash flows from operating activities in 2016 came in at US$ 28.3 million, 43.7% higher than US$ 19.7 million in 2015. This resulted from higher decline in payments to suppliers of 25.1% relative to cash received from customers of 19.0% over the period.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash flows from investing activities came in at US$ 9.3 million in 2016, a decline from US$ 12.1 million in 2015. This was mainly due to lower CAPEX realized for mining-related activity and palm oil mill construction. 2016 Company guidance for its CAPEX was estimated at US$ 5 - 8 million (not including power project activity).

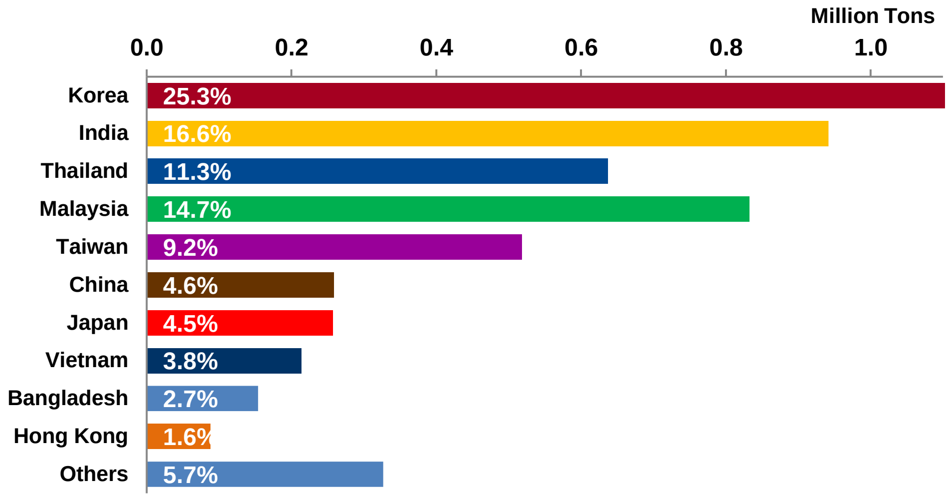
CASH FLOWS FROM FINANCING ACTIVITIES

Net cash from financing activities increased from US$ 11.9 million in 2015 to US$ 28 million mainly resulting from US$ 15.5 million of loan repayment to syndicated banks.

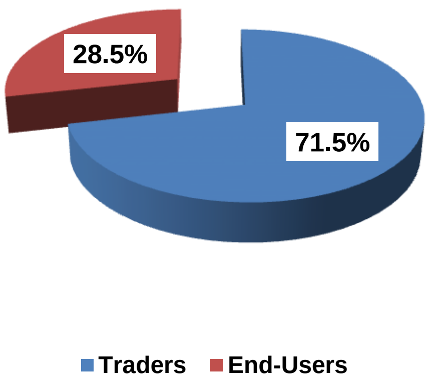
MARKETING

Marketing initiative is focused on efforts to diversify the export market destinations as well customer base. In 2016, the company predominantly sold its coal to South Korea, India, Thailand, and Malaysia. As a percentage of total customer base, the composition of end-users in 2016 stabilized at 28.5% level as compared to 34.4% in 2015. Reputable international traders and end-users such as major regional power generation companies account for the Company's main dedicated customers. Meanwhile, around 53.7% of total sales volume by product was contributed by the 5600 GAR calorific value (CV), which is positioned in the mid-upper level of coal quality in the market.

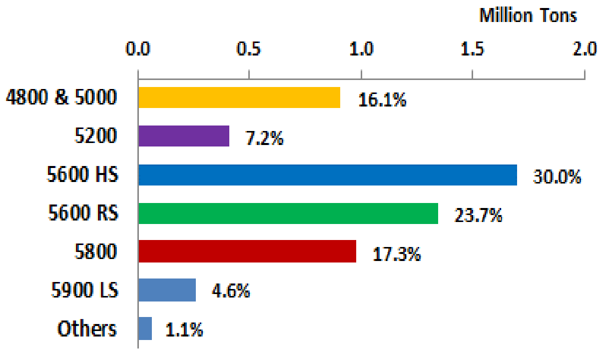
Sales Destinations by Country as per 2016
Total Sales Volume : 5.7 Million Tons



Total Sales by Customer Type



Total Sales by Product

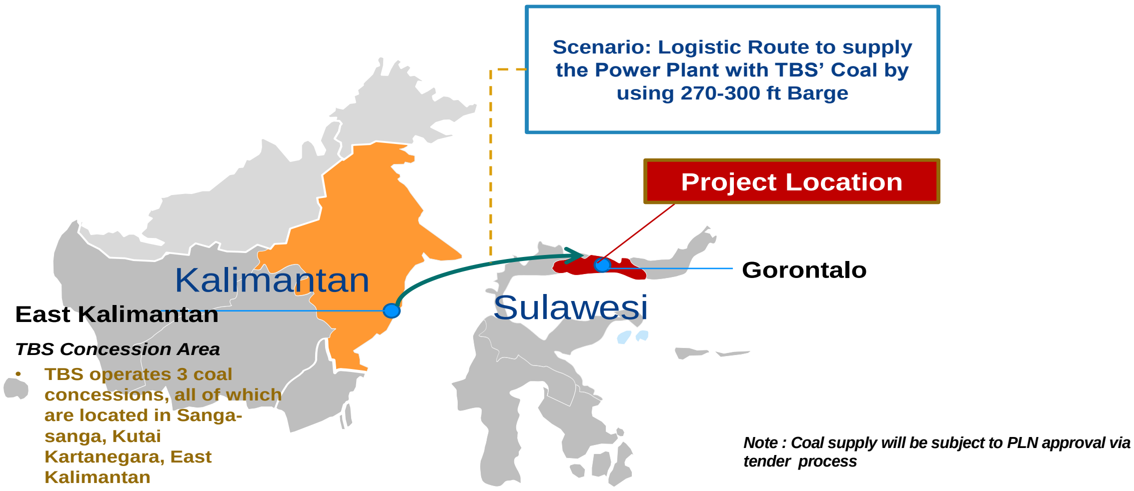


Note : High Sulphur (max 2.0%), Regular Sulphur (max 1.0%), Low Sulphur (max 0.6%)

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-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. 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).



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.

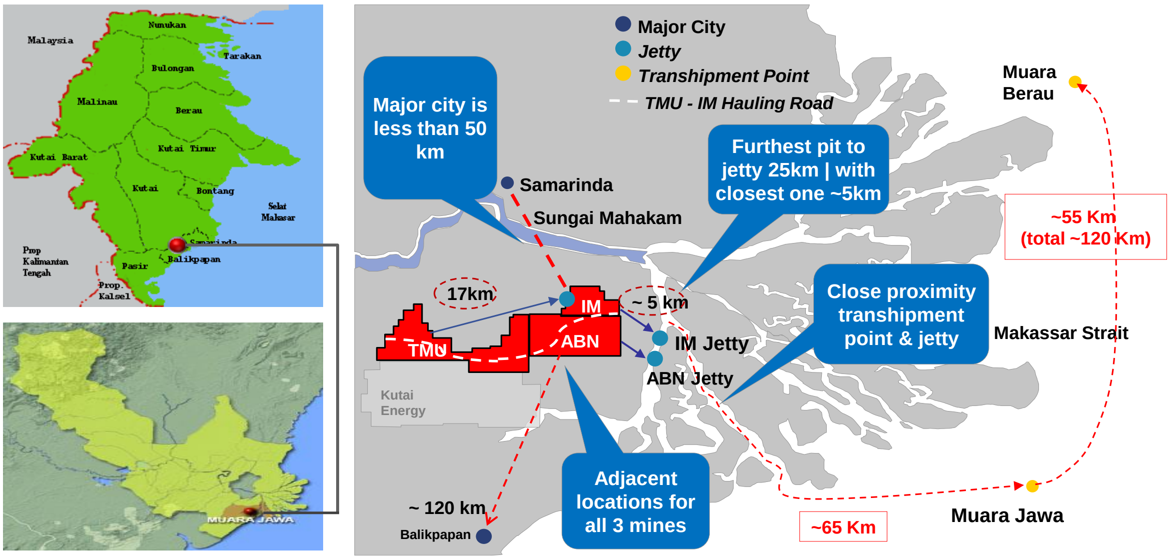
MISCELLANEOUS

- 1st April 2016: IM and CK 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 and TMU was awarded the PROPER Green Mining Award for Environmental Management (2015 - 2016) from the Governor of East Kalimantan
- 1st September 2016: TMU and CK entered into a three-year mining contract

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 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 80.00% 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.

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