Management Discussion & Analysis First Quarter 2015
Toba Bara Sejahtra Tbk and Subsidiaries

March 2015

SUMMARY

The reference Newcastle (NEWC) Index price continued its downturn momentum as it fell 15.7% y-o-y from US$ 78.1/ton in 1Q14 to US$ 65.8/ton in 1Q15 on the back of renewed concerns over China's weaker-than-expected demand outlook and lack of supply discipline from the major producers. In particular over 1Q15, the NEWC Index price showed no rebound as it dropped below US$ 60.0/ton by the end of March 2015. Such recent price development reiterates market consensus' prediction that weak global coal prices are likely to remain protracted for much longer than anticipated. As an illustration, from 1Q14 to 1Q15, China's coal import declined by 41.5% to 49.1 million tons[1]. Furthermore, its demand growth for seaborne coal is expected to barely reach 1.0% per annum[2] over the medium term.

Given that the global coal market outlook is expected to remain subdued in the short-medium term, PT Toba Bara Sejahtra Tbk (The Company) remains well positioned in maintaining its costs structure relatively stable for the year post a series of cost efficiency initiatives conducted over the 2013 and 2014 periods. This enabled the Company to focus on profitable production output such that in 1Q14, the Company continued on the positive momentum of its improved operational performance initiated in 2013 by producing 1.9 million tons per quarter, while translating to quarterly EBITDA/ton of US$ 11.1/ton. However, as the recent adverse market development factored in renewed concerns of prolonged and potentially weaker coal price outlook, the Company cautiously aimed to achieve 2015 production volume target at the more conservative end of the target range of 6 - 8 million tons, while still ensuring certain level of margin per ton.

Having three concessions that are located adjacent to each other, the Company still has the ability to continually maximize cost efficiency initiatives through a combination of joint mine plan execution and infrastructure sharing over the upcoming years. Considering the much lower NEWC Index price in 1Q15 compared to 1Q14, in 1Q15, the Company managed to produce and sell 1.5 million tons and 1.9 million tons respectively, with sales volume comparable to that of 1Q14. The 1Q15 production and sales volumes also came in line with the Company's internal guidance. Given the production and sales volumes, the Company is expected to maintain its quarterly production and sales volume run rates for the year to be in line with the Company's 2015 annual guidance.

Despite a 15.7% y-o-y correction in the NEWC Index price in 1Q15, the Company posted a decline of only 6.5% in its average selling price (ASP) over the same period. As sales volume remained flat y-o-y, the Company booked a revenue of US$ 111.7 million in 1Q15, down 8.4% compared to 1Q14. FOB (Free on Board) cash cost slipped by 4.7% from US$ 48.9/ton in 1Q14 to US$ 46.6/ton in 1Q15 due to continuous efficiency efforts. While y-o-y operating profit dropped 10.2% to US$ 15.9 million in 1Q15, the Company's operating margin of 14.2% in 1Q15 only presented a slight 0.3% difference compared to 1Q14 operating margin of 14.5%.

Solid financial position reflected the Company's ability to maintain healthy cash flows as cash and cash equivalents increased slightly by 1.5% y-o-y to US$ 48.5 million in 1Q15. Total assets decreased by a slender 3.0% from US$ 300.6 million as at 31 December 2014 to US$ 291.7 million as at 31 March 2015, while total liabilities dropped much more by 6.1% from US$ 158.3 million to US$ 148.6 million over the same period. By the end of March 2015, the Company booked higher equity of US$ 143.1 million from US$ 142.4 million at 31 December 2014 due to higher income for the period.

Special Note: *The following discussion on the Company's performance is based on the Consolidated Financial Statements as per 31st March 2015 (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).*

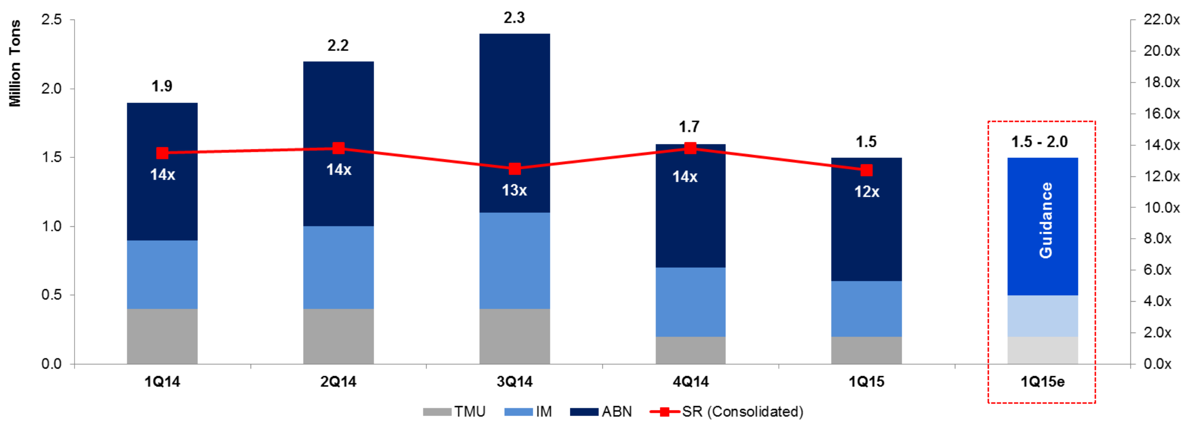
[1] *Source: Du, Juan. "China's Coal Imports Decline by 42 Percent during First Quarter." China Daily. http://usa.chinadaily.com.cn/epaper/2015-04/14/content_20432489.htm*

[2] *Source: Credit Suisse. "Commodities Forecasts."*

PRODUCTION & OPERATION

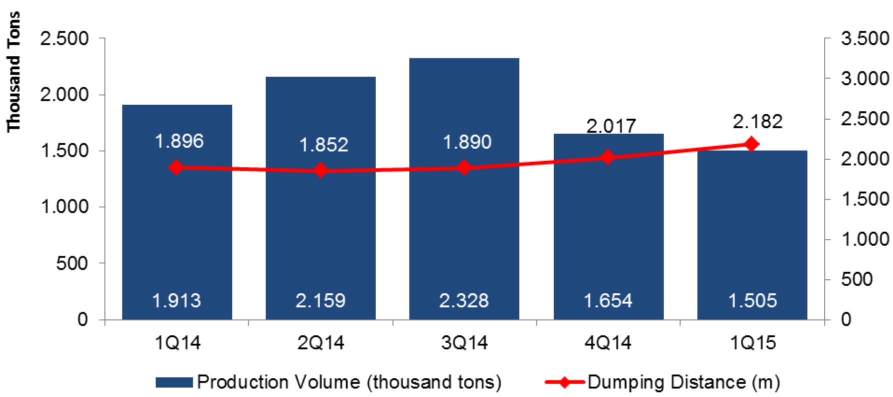
In 1Q15, the Company's production volume of 1.5 million tons came in line with its 2015 quarterly guidance of between 1.5 – 2.0 million tons. Such production volume resulted from operations of all three operating subsidiaries with the following respective contributions: ~0.9 million tons from ABN, ~0.4 million tons from IM, and ~0.2 million tons from TMU. ABN remained as the main contributor to the Company's total production volume, while all three subsidiaries achieved their respective 1Q15 production volume targets.

Production (million tons) and SR (x)



Stripping ratio (SR) declined 8.1% to 12.4x in 1Q15 from 13.5x in 1Q14, reflecting the Company's continued efforts in improving its operational performance amidst the low coal price environment. This was in line with its 2015 quarterly SR guidance of 11x – 12x. ABN lowered its SR from 14.1x in 1Q14 to 13.1x in 1Q15, IM from 13.7x to 12.0x, and TMU from 11.4x to 10.4x over the same period. In line with the strategy to continually lower overall costs towards maintaining certain profitability margin, the Company managed to reduce its SR and to sustain stable overburden dump (OB) distance, which, including fuel cost, typically account for 65%-70% of FOB cash cost.

Production (thousand tons) and Dump Distance (meters)



The Company's ASP only contracted by 6.5% from US$ 62.9/ton in 1Q14 to US$ 58.8/ton in 1Q15, which compared favorably with NEWC Index price that fell 15.7% over the same period. The ASP outperformance over the NEWC Index price has so far occurred for two consecutive years in 2013 and 2014. This was because the Company capitalized on the market momentum during the latter parts of 2013 and 2014 by selling forward to its quality buyers the majority portion of its sales volume predominantly based on fixed pricing. As of 1Q15, the Company has secured contracts accounting for around 70% of its 2015 sales volume target at fixed price. The terms of payment were relatively favorable such that the typical quality buyers were committed to prepay certain percentage of the contract values. 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		**1Q14**	**1Q15**	***Changes***	**4Q14**	**1Q15**	***Changes***
Operation							
Sales Volume	mn ton	1.9	1.9	*0.0%*	1.8	1.9	*5.6%*
Production Volume	mn ton	1.9	1.5	*(21.1)%*	1.7	1.5	*(11.8)%*
Stripping Ratio (SR)	x	13.5	12.4	*(8.1)%*	13.8	12.4	*(10.1)%*
FOB Cash Cost(1)	US$/ton	48.9	46.6	*(4.7)%*	50.3	46.6	*(7.4)%*
NEWC Index Price	US$/ton	78.1	65.8	*(15.7)%*	63.8	65.8	*3.1%*
Average Selling Price (ASP)	US$/ton	62.9	58.8	*(6.5)%*	62.3	58.8	*(5.6)%*
Financial Performance							
Profit (Loss)		**1Q14**	**1Q15**	***Changes***	**4Q14**	**1Q15**	***Changes***
Sales	US$ mn	122.0	111.7	*(8.4)%*	110.2	111.7	*1.4%*
Cost of Goods Sold	US$ mn	98.4	91.4	*(7.1)%*	90.5	91.4	*1.0%*
Gross Profit	US$ mn	23.6	20.3	*(14.0)%*	19.7	20.3	*3.0%*
Operating Profit	US$ mn	17.7	15.9	*(10.2)%*	8.2	15.9	*93.9%*
EBITDA(2)	US$ mn	21.1	17.7	*(16.1)%*	9.5	17.7	*86.3%*
Profit for the Period	US$ mn	12.8	10.5	*(18.0)%*	4.9	10.5	*114.3%*
EBITDA/ton	US$/ton	11.1	9.3	*(16.2)%*	5.4	9.3	*72.2%*
Capex	US$ mn	5.5	2.0	*(63.6)%*	1.9	2.0	*5.3%*
Balance Sheet		**4Q14**	**1Q15**	***Changes***	**4Q14**	**1Q15**	***Changes***
Interest Bearing Debt	US$ mn	58.1	57.7	*(0.7)%*	58.1	57.7	*(0.7)%*
Cash and Cash Equivalents	US$ mn	47.8	48.5	*1.5%*	47.8	48.5	*1.5%*
Net Debt(3)	US$ mn	10.3	9.2	*(10.7)%*	10.3	9.2	*(10.7)%*
Total Assets	US$ mn	300.6	291.7	*(3.0)%*	300.6	291.7	*(3.0)%*
Total Liabilities	US$ mn	158.3	148.6	*(6.1)%*	158.3	148.6	*(6.1)%*
Total Equity	US$ mn	142.4	143.1	*0.5%*	142.4	143.1	*0.5%*
Financial Ratios							
Gross Profit Margin	%	19.3%	18.2%		17.9%	18.2%	
EBITDA Margin	%	17.3%	15.8%		8.7%	15.8%	
Operating Profit Margin	%	14.5%	14.2%		7.4%	14.2%	

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

PROFIT (LOSS)

SALES

The 15.7% weaker y-o-y NEWC Index price only impacted the Company's overall ASP by 6.5% from US$ 62.9/ton in 1Q14 to US$ 58.8/ton in 1Q15. Albeit the Company booked stable sales volume of 1.9 million tons in 1Q14 as in 1Q15, sales declined by 8.4% y-o-y to US$ 111.7 million in 1Q15.

COST OF GOODS SOLD

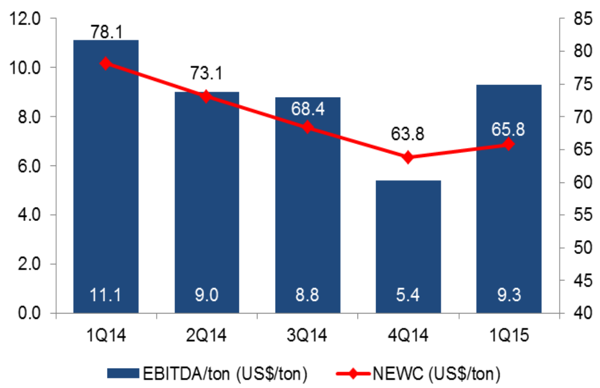
A 7.1% decrease in cost of goods sold from US$ 98.4 million in 1Q14 to US$ 91.4 million in 1Q15 stemmed from a reduction in FOB cash cost, slipping 4.7% y-o-y to US$ 46.6/ton in 1Q15. This resulted from cost efficiency initiatives, better execution of mine plan, and lower fuel costs.

EBITDA

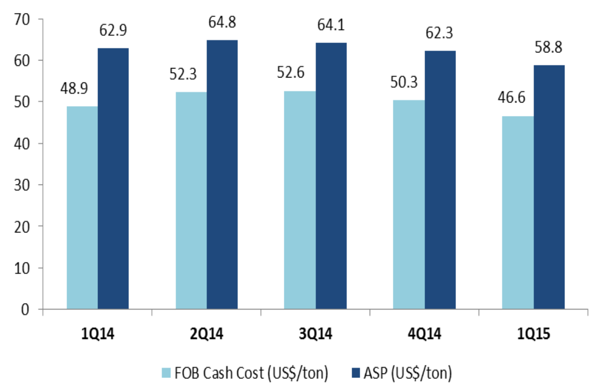
EBITDA/ton stabilized at US$ 9.3/ton in 1Q15 as a result of predominantly stable sales volume, better mine plan execution, and lower mining cost.

The first graph below depicts the EBITDA/ton evolution on q-o-q basis from US$ 11.1/ton in 1Q14 to US$ 9.3/ton in 1Q15 and the NEWC Index price from US$ 78.1/ton to US$ 65.8/ton over the same period. From 1Q14 to 1Q15, the Company successfully maintained solid EBITDA/ton and stable cash margin during continued weaker coal price environment.

Quarterly EBITDA/ton vs NEWC Index
1Q14 – 1Q15



ASP vs FOB Cash Cost
1Q14 – 1Q15



PROFIT FOR THE PERIOD

The Company booked total profit for the period (before minority interest) of US$ 10.5 million in 1Q15.

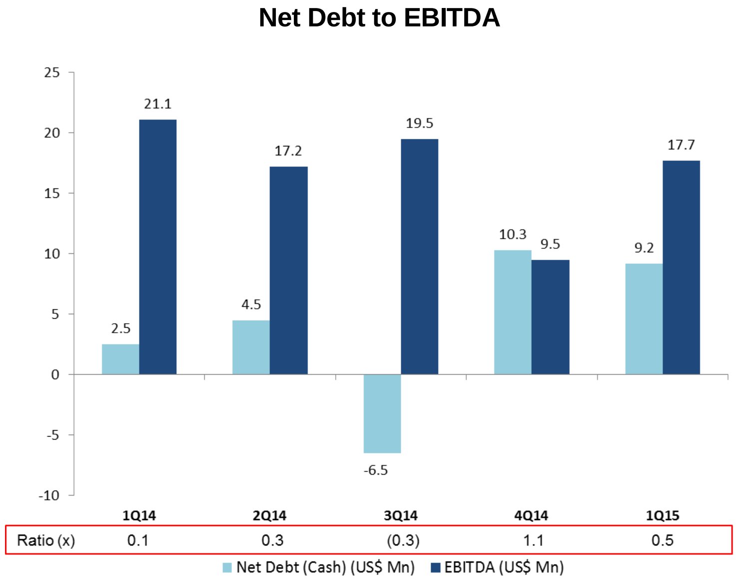
BALANCE SHEET

ASSETS

Total assets as at 31st March 2015 stood at US$ 291.7 million, decreasing by mere 3.0% from US$ 300.6 million as per 31st December 2014.

LIABILITIES

Total liabilities as at 31st March 2015 fell by 6.1% to US$ 148.6 million from US$ 158.3 million as per end-December 2014 and interest bearing debt decreased by 0.7% to US$ 57.7 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 way below 2x.



EQUITY

Total equity at the end of March 2015 slightly increased 0.5% to US$ 143.1 million from US$ 142.4 million as of 31st December 2014, and this was attributable to additional profit for the period.

CAPITAL EXPENDITURE (CAPEX)

Until 31st March 2014, the Company had realized total CAPEX of around US$ 2.0 million, which was mainly allocated for land compensation and operational facilities and equipment.

CASH FLOWS

The Company's abilitity to maintain its operational performance amidst the weak coal environment was reflected by a rise in cash and cash equivalents from US$ 47.8 million in 1Q14 to US$ 48.5 million in 1Q15.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash from operating activities in 1Q15 stood at US$ 7.9 million, a significant increase from 1Q14 negative cash flows of US$ (90,120). This resulted mainly from proportional difference between usage of cash received from customers and payments to suppliers in 1Q14 as compared to in 1Q15. In 1Q14, 86.0% of cash received from customers was used for payments to suppliers, while in 1Q15, a lower 79.2% of cash received was used for such payments.

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 requirement has subsided since. This was depicted by a 58.6% y-o-y decrease in the net cash used in investing activities in 1Q14 of US$ (5.5) million to US$ (2.3) million in 1Q15.

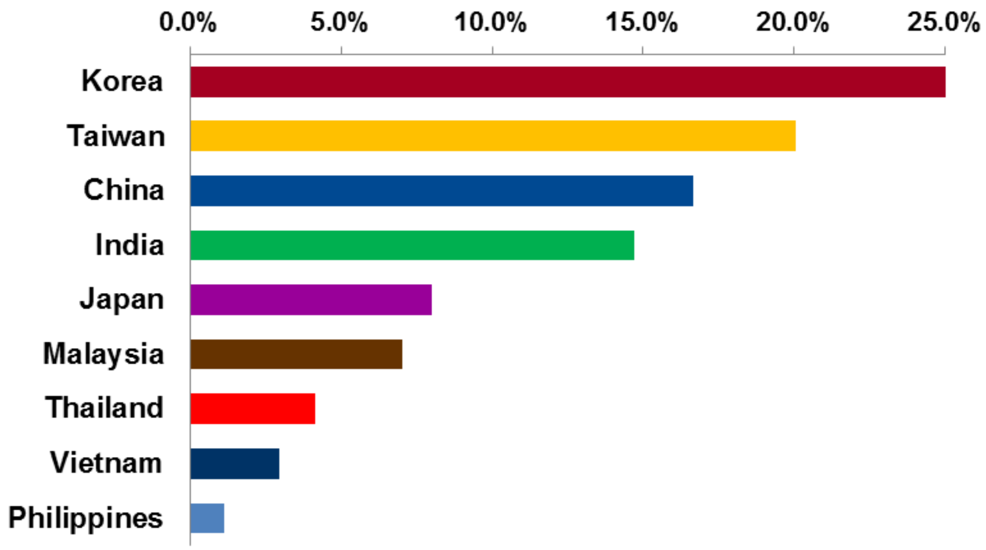
CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities in 1Q15 stood at US$ (4.7) million stemming from mainly dividend payments from subsidiary of US$ 4.4 million.

MARKETING

During 1Q15, the Company sold its coal mainly to Asian countries, such as Korea, Taiwan, China, and Taiwan. Some of the large reputable international traders and end-users such as power generation companies make up its main customers. In 2014, the Company successfully surpassed its 2013 marketing milestone by growing a more diversified and higher quality customer base through expanding export market coverage and maximizing its pricing strategy. Its in-house marketing team entered the Japanese market by tapping into high quality end users without incurring any significant marketing costs. To date, the Company has secured around 70% of its 2015 total sales volume target.

Sales Destinations by Country 1Q15
Total Sales Volume: 1.9 mt



2015 BRIEF OUTLOOK

Entering 2015, the global seaborne coal market is expected to remain under pressure from continued excess supply due to major producers' on-going output not being met by the predominantly lackluster Chinese import demands. Such weak import demands stem from China's weaker economic growth in an already oversupplied domestic market as well as its much improved access to renewable energy sources. Meanwhile, continued supply contributions from the major producers/exporters remain a major concern on the supply side. As such, global coal prices are expected to remain restrained over the short-medium term until the market finds ground to rebalance.

Given the above factors, through 2015, the Company is expected to focus its resources and efforts in maintaining business sustainability and resilience. 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 sustaining long term reserves. In line with this objective, the Company is expected to target production output of 6 - 8 million tons in 2015.

While on the marketing front, the Company plans to continue with its on-going combined strategy of building a well-diversified customer base (increasing more sales exposure to end user customers), securing good quality sales backed by quality buyers, engaging in favorable terms of payment, and improving quality control on product delivery.

After completing its 2013 program of undergoing infrastructure capacity upgrade from the then 13 million tpa (tons per annum) to become 16 million tpa, the Company plans to allocate CAPEX of US$ 10-14 million for 2015 to support its on-going sustainability strategy. The planned CAPEX is expected to mainly strengthen operational facilities and equipment (conveyor and heavy equipment) and partially, for land compensation. To date, the Company has realized total CAPEX of around US$ 2.0 million.

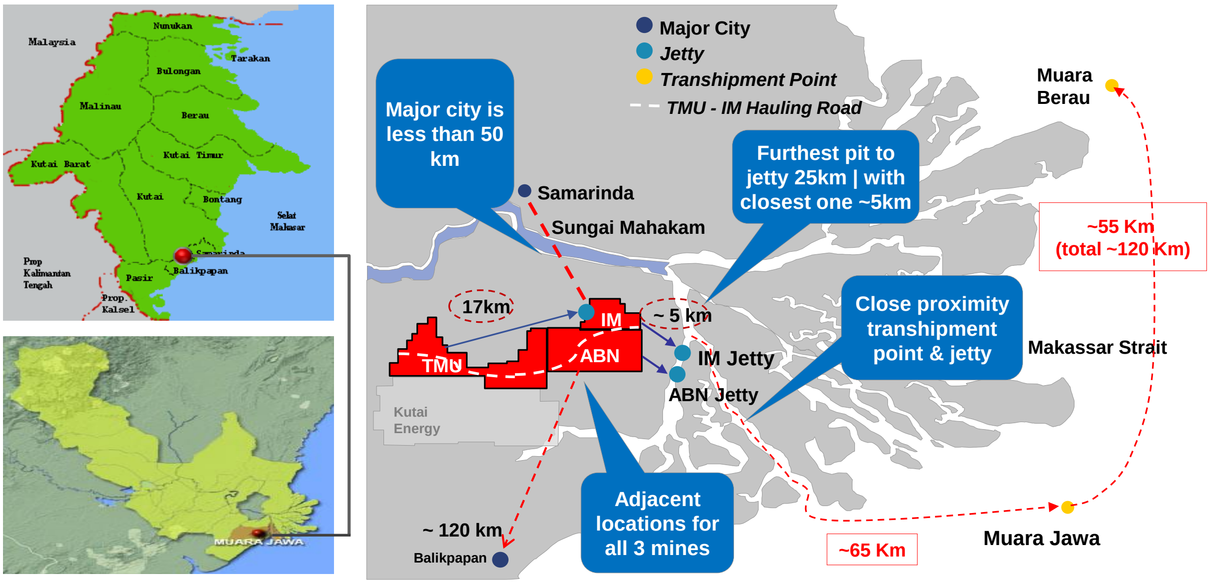
SNAPSHOT OF PT TOBA BARA SEJAHTRA TBK

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 Sanga-Sanga, Kutai Kartanegara, East Kalimantan and is operated under the IUPOP 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.

IM is located in Sanga-Sanga, Kutai Kartanegara, East Kalimantan and is operated under the IUPOP permit. It started operations in August 2007. IM covers 683 hectares of land and has estimated coal resources of 37 million tons.

Meanwhile, TMU is located in Loa Janan, Muara Jawa and Sanga-Sanga, Kutai Kartanegara, East Kalimantan. With IUPOP 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 currently estimated at 236 million tons.

For further information, please contact:
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