Management Discussion & Analysis – Nine Months 2017
PT Toba Bara Sejahtra Tbk and Subsidiaries

30th September 2017

SUMMARY

After touching the low of US$ 50 level, the reference Newcastle (NEWC) Index price rose 51.1% from US$ 56.4 in 9M16 to US$ 85.2 in 9M17 mainly on the back of China government's well enforced supply cut policy (from 330 production days to 276 days) implemented as of April 2016. As the supply cut created supply chain shock, the price soared to a high US$ 85 level by end of 2016 and the government intervened by relaxing mine production days towards the 330 days from previously 276 days. Nevertheless China has since remained committed to regulating such days within the 276-330 day band. This is aimed at establishing a more balanced domestic market by way of doing away with excess capacity, hence limiting coal price downside. In 1H17, China did not stockpile coal but focused on safety inspections and mine production quotas, while the nation's coal imports faced cumbersome restrictions from customs authority. On the other hand, major producers stopped selling on spot in order to meet contracts, resulting in domestic prices exceeding Rmb 600 level, breaching the target range of Rmb 500-570 QHD. While elsewhere in Indonesia and Australia, the two largest seaborne coal exporters, saw their production being affected by bad wet weather in 1Q17. Going into 2Q17, Indonesia production remained lackluster due to prolonged heavy rainfall and producers' conservative stance on production expansion.

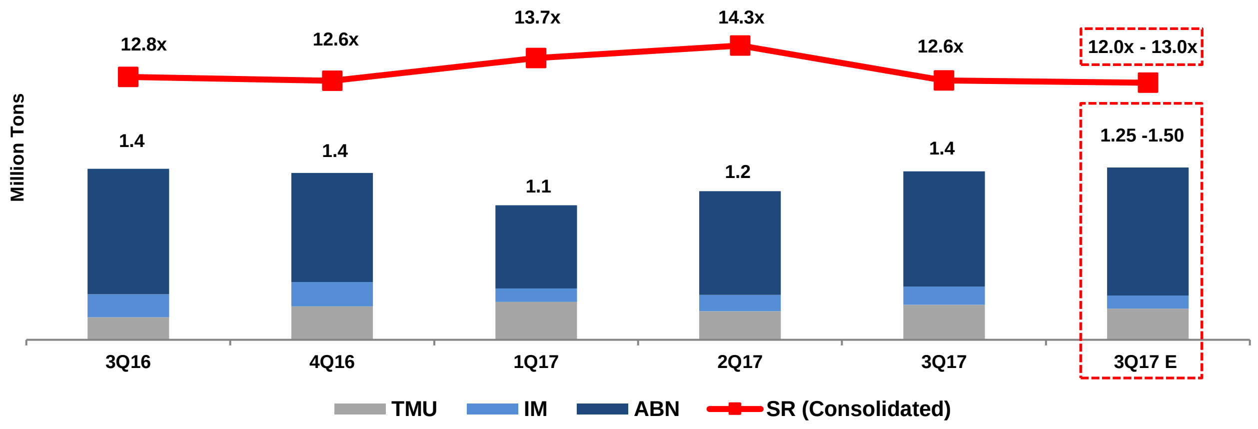
As a result of the above, the 9M17 period saw the global coal price hovering within favorable range of US$ 70 - 88 levels. The unfavorable weather conditions affecting China's hydro power plant performance of late should also strengthen Chinese coal-fired power plants' utilization rate and demand for more coal in the short-medium term, hence supporting coal price prospects.

Given the still positive coal price prospects over the short-medium term, PT Toba Bara Sejahtra Tbk (Company), has made further advances with its coal-fired power plant projects (CFPP) of 2x50 MW, Sulbagut-1 in North Gorontalo, Gorontalo Province (more discussion below).

Special Note: *The following discussion on the Company's performance is based on the Consolidated Financial Statements as per 30th September 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

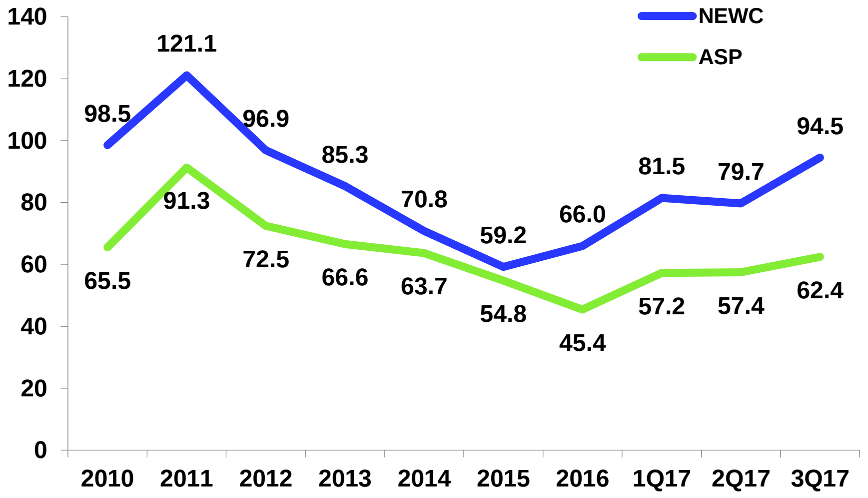
The Company's production volume of 1.4 million tons in 3Q17 was generated by all three subsidiaries of ABN, IM and TMU, contributing 0.93 million tons, 0.15 million tons, and 0.28 million tons respectively. ABN remained the largest contributor to the Company's overall production volume, accounting for 68.4% of total 3Q17 production followed by TMU and IM at 20.9% and 10.7% 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 1.4 million tons and SR of 12.6x came in within the quarterly production guidance of 1.25 -1.50 million tons and quarterly SR guidance of 12.0x -13.0x respectively. This was primarily due to some improvement in production activity despite relatively high rainfall particularly in August. Continued heavy rainfall since 1Q17 until 2Q17 has impacted the operational activity during the 1H17 period.

NEWC Index Price vs ASP (US$ per ton)



ASP rose by 32.1% y-o-y from US$ 44.8 per ton in 9M16 to US$ 59.2 per ton in 9M17, while NEWC Index price rose higher by 51.1% 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 9M17 compared to in 9M16 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		**9M16**	**9M17**	***Changes***
Operation				
Sales Volume	mn ton	4.3	3.5	*(18.6)%*
Production Volume	mn ton	4.2	3.7	*(11.9)%*
Stripping Ratio (SR)	x	13.0	13.5	*3.8 %*
FOB Cash Cost[a)]	US$/ton	34.9	39.3	*12.6 %*
NEWC Index Price	US$/ton	56.4	85.2	*51.1 %*
Average Selling Price (ASP)	US$/ton	44.8	59.2	*32.1 %*
Financial Performance				
Profit (Loss)		**9M16**	**9M17**	***Changes***
Sales	US$ mn	192.1	211.3	*10.0 %*
Cost of Goods Sold	US$ mn	155.3	148.0	*(4.7)%*
Gross Profit	US$ mn	36.8	63.2	*71.7 %*
Operating Profit	US$ mn	18.8	44.4	*136.2 %*
EBITDA[b)]	US$ mn	27.0	51.9	*92.2 %*
Profit for the Period	US$ mn	9.7	29.0	*199.0 %*
Profit for the Period after MI	US$ mn	1.7	15.9	*815.0 %*
EBITDA/ton	US$/ton	6.3	14.7	*133.3 %*
Operating Cash Flows	US$ mn	15.1	34.7	*129.8 %*
Capex	US$ mn	8.8	9.8	*11.4 %*
Balance Sheet		**Dec'16**	**Sep' 17**	***Changes***
Interest Bearing Debt	US$ mn	51.3	64.2	*25.1 %*
Cash and Cash Equivalents	US$ mn	37.6	42.6	*13.3 %*
Net Debt[c)]	US$ mn	13.7	21.6	*57.7 %*
Total Assets	US$ mn	261.6	297.1	*13.6 %*
Total Liabilities	US$ mn	113.8	135.5	*19.1 %*
Total Equity	US$ mn	147.7	161.6	*9.4 %*
Financial Ratios				
Gross Profit Margin	%	19.2%	29.9%	
EBITDA Margin	%	14.1%	24.6%	
Operating Profit Margin	%	9.8%	21.0%	

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

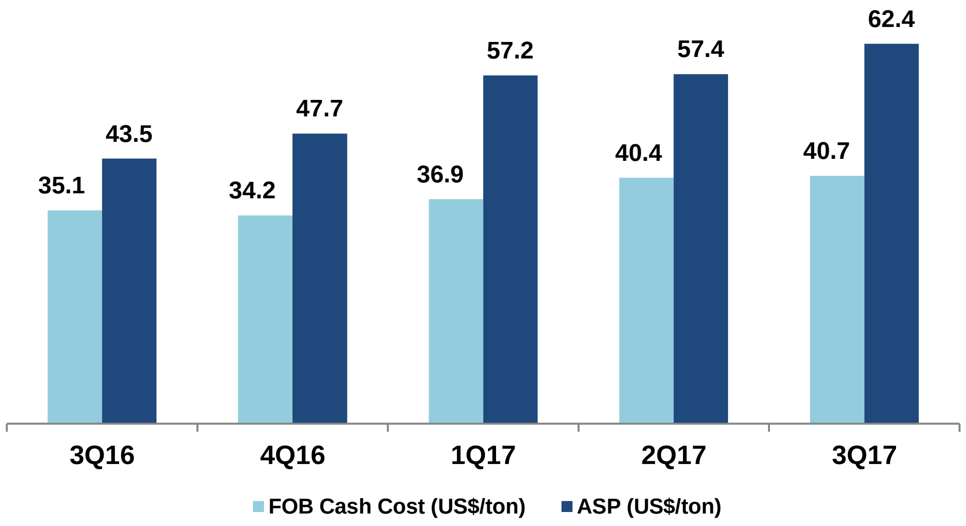
PROFIT (LOSS)

SALES
The Company recorded sales of US$ 211.3 million in 9M17, or 10.0% higher compared to that in 9M16 as a result of much higher ASP despite lower sales volume. Hence, the much higher ASP growth y-o-y compared to the slower reduction in sales volume directly boosted the much stronger financial margins over the period.

COST OF GOODS SOLD
Cost of goods sold slipped by 4.7% y-o-y, resulting mainly from lower production volume. The lower production volume in 9M17 compared to 9M16 was due to adverse weather condition from heavier than expected rainfall.

EBITDA
A 92.2% y-o-y increase in EBITDA to US$ 51.9 million in 9M17 from US$ 27.0 million in 9M16 significantly increased EBITDA margin from 14.1% to 24.6% 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
3Q16 – 3Q17



PROFIT FOR THE PERIOD
After taking into account finance cost of US$ 3.7 million and tax expense of US$ 13.1 million, the Company booked total profit for the period of US$ 29.0 million in 9M17, up 199.0% y-o-y from the previous year.

FINANCIAL RATIOS
Gross profit margin, EBITDA margin, and operating margin rose y-o-y from 19.2% in 9M16 to 29.9% in 9M17, from 14.1% in 9M16 to 24.6% in 9M17, and from 9.8% in 9M16 to 21.0% in 9M17 respectively. This was attributable to the higher ASP.

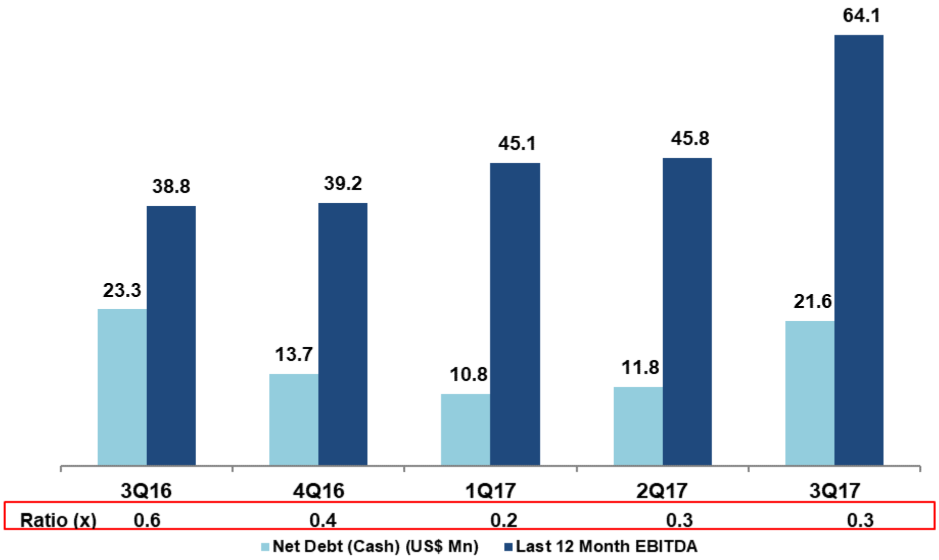
BALANCE SHEET

ASSETS
Total assets as at 30th September 2017 compared to 31st December 2016 rose by 13.6% to US$ 297.1 million.

LIABILITIES
Total liabilities as at 30th September 2017 increased 19.1% to US$ 135.5 million from US$ 113.8 million as at 31st December 2016, mainly due to 25.1% higher interest bearing debt position over the period. On 2nd May 2017, the Company secured loan facility of US$ 50 million from Bank Mandiri. Proceeds of this facility were used for repayment of syndicated bank loan, investment, and general corporate purposes. As at 30th September 2017, the nominal loan amounted to US$ 38.8 million as compared to previous amount of US$ 40.0 million as of May 2017, when the Company made its original drawdown. The other reason for the rise in the interest bearing debt was due to ABN's drawdown of loan from Citibank for its working capital and general corporate purposes.

Meanwhile, leverage metrics, such as Net Debt to EBITDA ratio, have constantly recorded stability from quarter to quarter since 3Q16 at below 0.6x.

Net Debt to EBITDA



EQUITY
Total equity as at 30th September 2017 increased by 9.4% to US$ 161.6 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 9M17 came in at US$ 34.7 million, 129.8% higher than US$ 15.1 million in 9M16. This was mainly due to rise in cash received from customers by 7.0%, while supported by decline in payment to suppliers by 6.4% over the period.

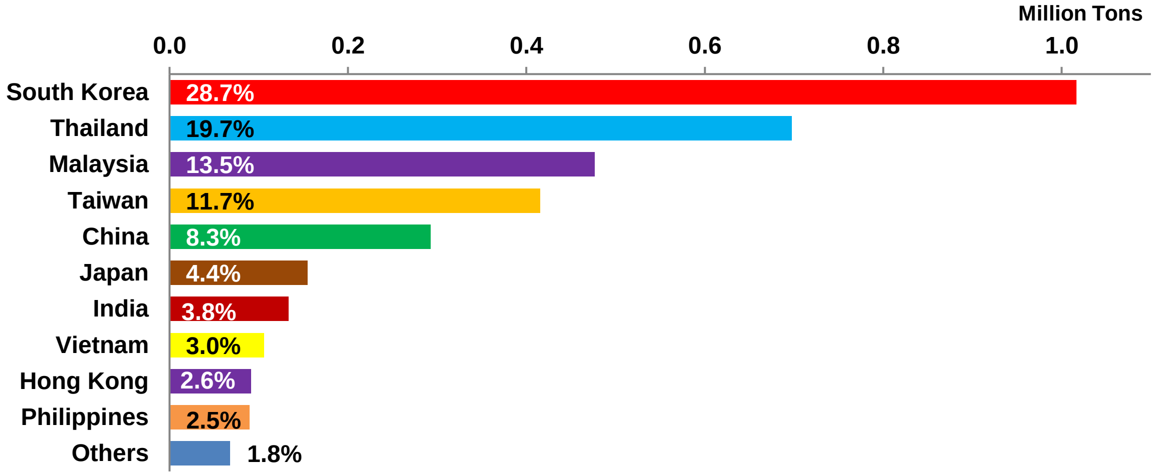
CASH FLOWS FROM INVESTING ACTIVITIES
Net cash flows from investing activities were realized at US$ 22.6 million in 9M17, an increase from US$ 8.0 million in 9M16 (9M16 consisted of CAPEX for mining-related and construction of palm oil mill). Hence, the US$ 9.8 million CAPEX was mainly realized for mining-related activity and to lesser extent, for the current power projects. Company guidance for its 2017 CAPEX is estimated at US$ 55 - 60 million, of which 75% - 80% will be allocated for the Sulbagut-1 coal-fired power project's initial Engineering, Procurement, Contracting (EPC) phase.

CASH FLOWS FROM FINANCING ACTIVITIES
Net cash flows from financing activities decreased from US$ 21.8 million in 9M16 to US$ 7.1 million in 9M17 mainly resulting from proceeds of Bank Mandiri's loans after full repayment of syndicated bank loan and payment of dividends to non-controlling shareholders of subsidiaries.

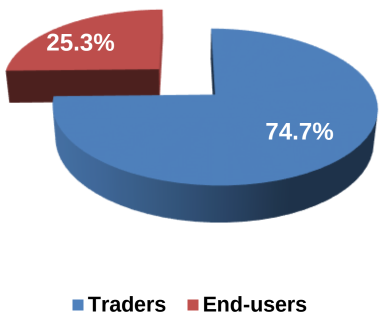
MARKETING

In 9M17, the company predominantly sold its coal to South Korea, Thailand, Malaysia, and Taiwan. As a percentage of total customer base, the compositions of end-users and traders in 9M17 were recorded at 25.3% and 74.7% respectively compared to 30.0% and 70.0% respectively in 9M16. From 9M15 to 9M17, sales constribution consistently derived from mainly 5600 GAR products. As of 9M17, a predominant mixture of mid-upper quality of 5600 - 5900 GAR still account for TOBA's largest product composition. Major international traders and notable end-users such as major regional power generation companies account for the Company's main dedicated customers. Meanwhile, around 40.7% of total sales volume by product was contributed by the 5600 GAR calorific value (CV), 12.3% by the higher 5800 GAR and 5900 GAR LS, and 44.4% by the lower 4800 - 5200 GAR coal qualities. As of 9M17, the Company has secured contracts accounting for almost 100% of its 2017 sales volume target predominantly at fixed price.

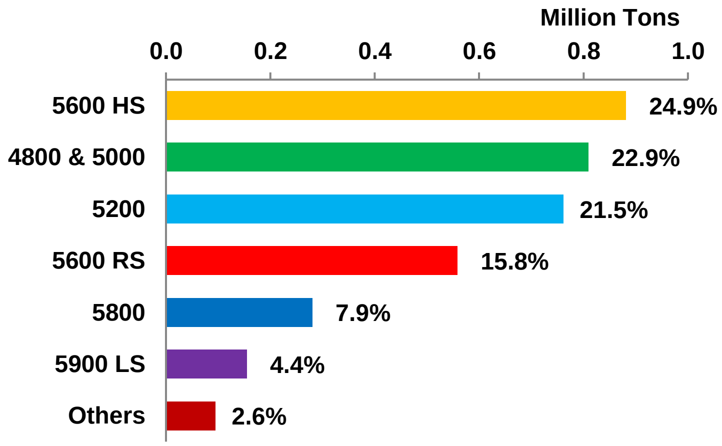
Sales Destinations by Country as per 9M17
Total Sales Volume : 3.5 Million Tons



Total Sales by Customer Type



Total Sales by Product



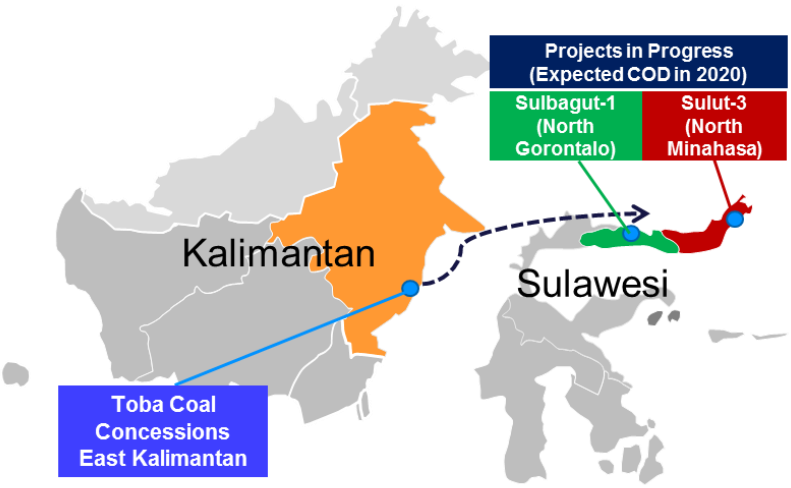
Note : High Sulphur (max 2.0%), Regular Sulphur (max 1.0%), Low Sulphur (max 0.6%)

POWER PLANT PROJECTS

PT Gorontalo Listrik Perdana (GLP)
GLP was established in February 2016 to develop a coal-fired power plant project (CFPP) with capacity of 2x50 megawatts (MW) (Sulbagut-1) located in the Gorontalo Province, Sulawesi. GLP is owned by a consortium led by the Company with 80% and Shanghai Electric Power Construction Co. Ltd (SEPC) with 20%. SEPC is the Engineering, Procurement, and Construction (EPC) contractor. The signing of the Power Purchase Agreement (PPA) with the State Utility Perusahaan Listrik Negara (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 has PPA term of 25 years and project value estimated at US$ 210 - US$ 220 million.

PT Toba Bara Energi (Toba Energi)
On 1st December 2016, Toba Energi was established to conduct investment in the power generation sector. Toba Energi is 99.6% owned by the Company and 0.4% by Toba Bumi Energi (TBE). Toba Energi, in turn, owns 90% of PT Minahasa Cahaya Lestari.

PT Minahasa Cahaya Lestari (MCL)
On 31st March 2017, MCL was established as an IPP under a consortium of the Company through Toba Energi (90%) and Sinohydro Corporation Limited (10%) to develop a 2x50 MW CFPP Sulut-3 project in North Minahasa Regency, North Sulawesi Province. On 7th April 2017, MCL signed a 25-year PPA with PLN with the condition of fulfilling certain requirement as per the PPA. The Sulut-3 project value is estimated at US$ 205 - US$ 215 million.



Note : Coal will be supplied from either East or South Kalimantan by way of PLN tender process

AWARDS AND ACCOLADES

The Company, through its three coal mining subsidiaries, received environmental awards by the Provincial Government of East Kalimantan on 13th June 2017 in Samarinda, following its participation in Provincial Government Program that assessed its performance rating based on environmental management (PROPER):

a. PT Adimitra Baratama Nusantara received Gold rating (GOLD PROPER);
b. PT Indomining received Green rating (GREEN PROPER); and
c. PT Trisensa Mineral Utama received Green rating (GREEN PROPER).

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 diversified energy company by 2020, whereby EBITDA contribution from the power business is expected to commence. Hence, more CAPEX realization for the power business relative to the mining business is to be expected 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 maintain its cash cost at stable level, since it has seen its overall cost come down 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$ 55 - 60 million, of which 75% - 80% will be allocated for the EPC phase of the Sulbagut-1 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.

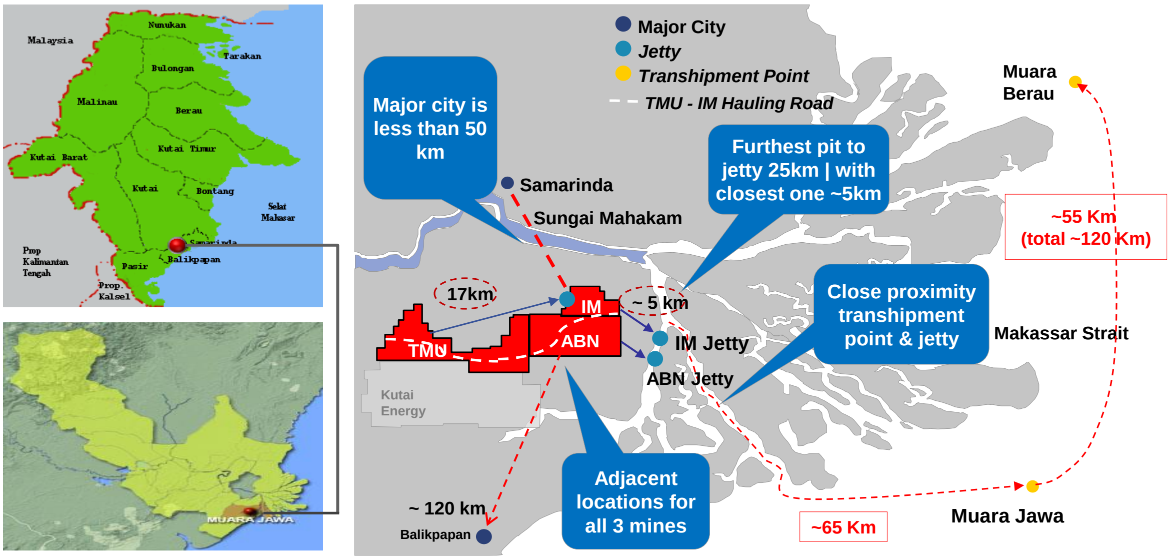
SUBSEQUENT EVENT

ABN and the Company established PT Adimitra Baratama Niaga ("Adimitra Niaga") with ownership of 99.9% and 0.1%, respectively based on the Deed of Establishment No. 167 dated 29th September, 2017 which was made before Hasbullah Abdul Rasyid, SH, M.Kn, a Notary in Jakarta. The Deed of Establishment was approved by the Minister of Laws and Human Rights of the Republic of Indonesia through letter No. AHU-0045242.AH.01.01 Tahun 2017 dated 11th October, 2017. The scope of its activity includes trading, mining and services, barging, industrial, and construction.

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) (indirectly 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 Tbk'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

Alvin Sunanda
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