

TICKERS		MARKET CAPITALIZATION	ISSUED SHARES	SHARE PRICE				SHAREHOLDERS	
IDX	KRAS	(IDR million, as of 9/30/2018)	(million shares, as of 9/30/2018)	(closing, IDR/share)				Government	80%
Bloomberg	KRAS.IJ	8,821,957	19,346	1 January 2018	416	9 month high	550	Public	20%
Reuters	KRAS.JK			30 September 2018	400	9 month low	384		

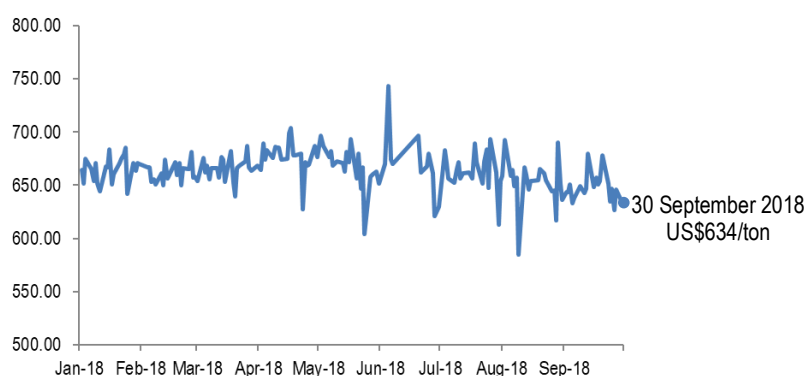
Improved Revenues on Higher Steel Sales and Prices

Jakarta, October 2018

Krakatau Steel Reports Nine Months Results

- **Krakatau Steel's net revenues grew 22.71% Year-on-Year (YoY) in January-September 2018 (M9 2018) on higher sales volume and average selling prices of main steel products**
- **Krakatau Steel's HRC selling price hovered around US\$585-740/ton levels in M9 2018 and peaked at US\$740/ton early in June 2018. The company's HRC selling price rose 5.76% YoY in M9 2018 to US\$634/ton as of September 30, 2018 from US\$599/ton at the end of M9 2017.**

KRAS Daily HRC Selling Price



Latest Updates:

- Krakatau Steel has completed 86.83% of physical construction of its Hot Strip Mill #2 (HSM#2) as of September 30, 2018. Upon completion of the mill construction in Q3 2019, the company's HRC production capacity will increase by 1.5 million tons/year to 3.9 million tons/year.
- With regard to the construction of the Jakarta-Cikampek II (Japek II) elevated toll road, the company has supplied 116,418 tons of steel products for the project.
- The company completed the heating up process of the hot blast stove of its blast furnace on October 16, 2018. Construction of the Blast Furnace complex has reached 99.56% as of September 30, 2018 and the plant is set for first blow in (FBI) in December 2018.
- The company signed a long-term supply agreement (LTSA) of Cold Rolled Coil (CRC) with PT Sunrise Steel, a loyal customer of the company, on October 3, 2018 at the Indonesia Business and Development (IBD) Expo in Surabaya. In addition, the company signed a memorandum of understanding (MoU) at the event with state-owned companies (SOEs) such as PT Barata Indonesia (Persero), PT Industri Kereta Api (Persero), PT Dok dan Perkapalan Surabaya (Persero) and PT Boma Bisma Indra (Persero) for the supply of steel products and related services.

Financial Results

Description (USD mn)	M9 2018	M9 2017	Change (%)	Ratio	M9 2018	M9 2017
Revenue	1,276.10	1,039.91	22.71	Gross Margin	8.95%	14.99%
Cost of Revenues	(1,161.92)	(883.99)	31.44	Operating Margin	-0.84%	2.23%
Gross Profit	114.18	155.92	(26.77)	EBITDA Margin	5.92%	13.45%
EBITDA ¹	75.59	139.90	(45.96)	Debt to Equity ³	1.18x	0.97x
Cash and Cash Equivalents ²	180.05	280.87	(35.90)	Debt to Assets ³	0.49x	0.44x
Total Assets ²	4,035.57	4,114.39	(1.92)			

¹ : EBITDA figures exclude share of loss in associates

² : Balance sheet items for M9 2017 are based on FY 2017 figures

³ : The debt component used in the calculation of Debt to Equity and Debt to Assets is total interest-bearing debt

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Company Performance Update:

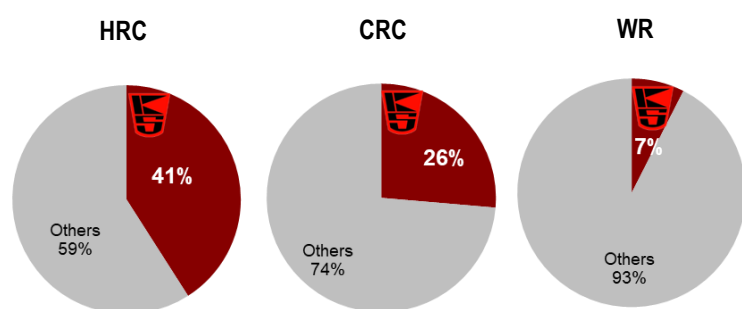
- Krakatau Steel posted 22.71% YoY increase in net revenues to US\$1,276.10 million in M9 2018 due to higher sales volume and average selling prices of main steel products. Sales volume of HRC and long products grew 26.60% YoY and 12.92% YoY to 913,619 tons and 216,738 tons, respectively, which contributed to a 14.24% YoY increase in total steel sales volume to 1,595,260 tons. In addition, higher average selling prices were seen across all steel products, including HRC (+11.85% YoY to US\$656/ton), CRC (+5.85% YoY to US\$710/ton), and long products (+22.10% YoY to US\$640/ton)
- Cost of revenues rose 31.44% YoY to US\$1,161.92 million owing to a 51.64% YoY increase in raw materials cost to US\$899.09 million from US\$592.92 million. The increase in raw materials cost was a result of higher average price of raw materials purchased by the company during the period. The higher cost of revenues, which exceeded the increase in net revenues, resulted in a 26.77% YoY decline in gross profit to US\$114.18 million.
- As a result of the decrease in gross profit, the company posted an operating loss of US\$10.70 million in M9 2018 from an operating profit of US\$23.19 million during the same period last year. The operating loss was also due to lower other operating income and higher operating expenses during the period.
- EBITDA decreased 45.96% YoY to US\$75.59 million from US\$139.90 million during the period, in line with the topline result.
- However, the company's bottom line result improved as its loss attributable to owners of parent entity (net loss) significantly dropped 50.19% YoY to US\$37.38 million from US\$75.05 million. The improvement in bottom line result was mainly attributable to a sharp decrease in share in loss of associates and joint venture to US\$8.22 million in M9 2018 from US\$37.55 million in M9 2017.

Marketing Results

Steel Sales (tons)	M9 2018	M9 2017	Change (%)
HRC	913,619	721,681	26.60
CRC	391,766	414,330	-5.45
Long Product	216,738	191,946	12.92
Pipes (spiral & ERW)	73,137	68,465	6.82
Total	1,595,260	1,396,422	14.24

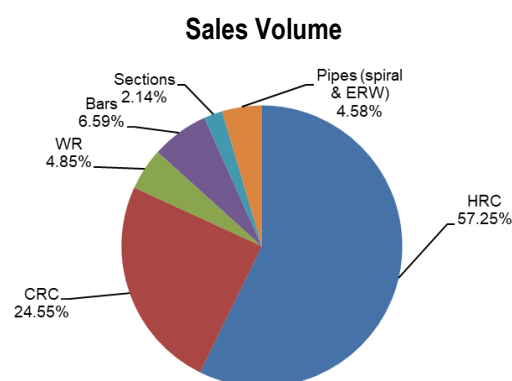
Average Selling Price USD/ton	M9 2018	M9 2017	Change (%)
HRC	656	586	11.85
CRC	710	671	5.85
Long Product	640	524	22.10
Pipes (spiral & ERW)	866	722	19.94

Source: Company data



Market Share H1 2018

Source: Company data



Market Analysis

- Tight regional supply and demand dynamics, and the continued benefit of reduced Chinese exports, should underpin global steel pricing in 2H, though downside pressures could win out in 2019. Any price gains, in our view, will be limited to the highs that each regional market reached in late 2017/early 2018. (*Bloomberg Intelligence, July 2018*)
- Chinese steel exports should stay subdued in 2019 for two reasons. The first is capacity cuts continuing beyond the 150 million metric tons goal laid out by Beijing in late 2015. While just 5 million tons remain to be cut next year, incremental cuts have been announced. China's blue-sky protection plan widened the scope of winter production curbs to 13 additional cities in three provinces and moved up the cut date to September from November. (*Bloomberg Intelligence, August 2018*)
- The backdrop for the global steel industry remains constructive throughout the rest of the year. Tight regional supply-and- demand dynamics, and the continued benefit of reduced Chinese exports, should underpin global steel pricing in 2H, though downside pressures could win out in 2019. (*Bloomberg Intelligence, October 2018*)
- Chinese domestic HRC price has been in a consolidation phase after peaking at US\$664 in February 2018, and a short-term downtrend has been seen May 2018. Meanwhile, Chinese apparent steel demand has increased 10.4% since the beginning of the year and a steady growth in demand was seen since April 2018. (*Bloomberg Data, October 2018*)
- Demand for HRC and CRC in Indonesia grew 11.34% YoY and 5.36% YoY to 2,479,619 tons and 1,099,035 tons, respectively, in H1 2018, while demand for WR decreased 18.39% YoY to 733,114 tons. Krakatau Steel managed to its HRC market share to 41% in H1 2018 from 36% in H1 2017, CRC to 26% from 25%, and WR to 7% from 4%, respectively. (*Company Data, June 2018*)