NEWSLETTER
H1 2017 Results

KRAKATAU STEEL

TICKERS		MARKET CAPITALIZATION	ISSUED SHARES	SHARE PRICE				SHAREHOLDERS	
IDX	KRAS	(IDR million, as of 6/30/2017)	(million shares, as of 6/30/2017)	(closing, IDR/share)				Government	80%
Bloomberg	KRAS.IJ	12,188,230	19,346	1 January 2017	775	6 month high	820	Public	20%
Reuters	KRAS.JK			30 June 2017	615	6 month low	500		

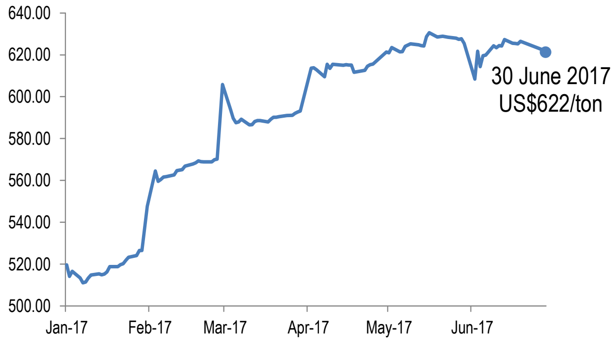
Improved Bottom Line & EBITDA Margin in H1 2017

Jakarta, August 2017

Krakatau Steel Reports First Half Results

- ***Krakatau Steel's EBITDA margin increased to 12.89% in H1 2017 from 12.57% in H1 2016 and bottom line results improved during the period due to lower amounts of interest payment, share in loss of associates and joint ventures, and forex loss.***
- ***Krakatau Steel has delivered 14,353 tons of steel products to its consortium partner for the Jakarta-Cikampek II (Japek II) elevated toll road project during May – July 2017 period.***
- ***The company's HRC selling price has rallied since January 2017 and peaked at US$629/ton in May despite corrections seen in March and April. The uptrend is predicted to remain intact in Q3 2017 and the company's performance is expected to improve on the increasing HRC selling price.***

KRAS HRC Selling Price



Latest Updates:

- Krakatau Steel has delivered 14,353 tons of steel products to its consortium partner for the construction of the Jakarta-Cikampek II (Japek II) elevated toll road during May – July 2017 period. The company is committed to delivering 200,000 tons of steel products for the project in 10 months.
- Physical construction of HSM#2 project has reached 26.18% as of 31 July 2017. Basic engineering of the mill has been completed and the company has proceeded with detailed engineering process for mechanical equipment, media systems and electrical starting in Q3 2017.
- Construction of Blast Furnace Complex is currently in progress, with the overall physical construction reaching 99.37% as of 31 July 2017. The company initiated first pushing of coke oven plant (COP) of the Blast Furnace Complex on 30 August 2017. COP uses coking coal to produce cokes with a production capacity of 550,000 tons/year. Cokes produced by COP will be used as source of energy for the production of hot metal at the Blast Furnace plant.
- PT Krakatau Industrial Estate Cilegon (KIEC) kicked off the construction of Trans Mart store in Cilegon as the company held a groundbreaking ceremony on 14 July 2017. The store, which will be operated by PT Trans Retail Indonesia (a business unit of CT Corp), will be built on a 2-hectare land leased by KIEC. The project reflects KIEC's bid to optimize its land bank for commercial purposes.
- PT Krakatau Osaka Steel (KOS) officially commenced the operation of its mill on 21 July 2017. Construction of the mill was completed in December 2016, with the first delivery of steel bars made on 31 January 2017. The joint venture plans to produce 200,000 tons of steel bars and sections, which account for 40% of installed capacity of 500,000 tons/year, and is set for full production next year.
- PT Krakatau Nippon Steel Sumikin (KNSS) has started commercial production on 24 July 2017. (http://www.nssmc.com/en/news/20170725_100.html). KNSS has a production capacity of 500,000 tons/year of galvanized/annealed cold rolled coil (CRC) for automotive sector.
- PT Krakatau Semen Indonesia (KSI) held a ceremony on 31 August 2017 to mark the first running of its slag grinding plant. KSI is a joint venture between Krakatau Steel and PT Semen Indonesia (Persero) Tbk, in which the steel producer owns 50% share. KSI owns a grinding plant with a production capacity of 750,000 tons/year of ground granulated blast furnace slag (GGBFS) which is used as an environmentally friendly material in cement production. The joint venture processes granulated slag (by-product of blast furnace) at its grinding plant a raw material in the production of GGBFS.

Investor Relations

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Financial Results

Description (USD mn)	H1 2017	H1 2016	Change (%)
Revenue	633.98	659.15	(3.82)
Cost of Revenues	(540.87)	(559.23)	3.28
Gross Profit	93.11	99.92	(6.81)
Operating Profit (loss)	4.45	26.69	(83.35)
EBITDA [1]	81.70	82.88	(1.43)
Profit (loss) Attributable to Owners of Parent Entity	(56.70)	(87.55)	35.23
Total Comprehensive Income Attributable to Owners of Parent Entity	43.56	32.96	32.15
Cash and Cash Equivalents [2]	283.87	264.95	7.14
Total Assets [2]	4,089.33	3,936.71	3.88

Ratio	H1 2017	H1 2016
Gross Margin	14.69%	15.16%
Operating Margin	0.70%	4.05%
EBITDA Margin	12.89%	12.57%
Debt to Equity [3]	1.00x	0.95x
Debt to Assets [3]	0.46x	0.44x

1 : EBITDA figures exclude share of loss in associates

2 : Balance sheet items for H1 2017 are based on FY 2016 figures

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

Company Performance Update:

- Krakatau Steel posted a 3.82% Year-on-Year (YoY) decline in net revenues to US$633.9 million in H1 2017, which was mainly due to lower steel sales volume. The company's total steel sales volume decreased 28.02% YoY to 841,101 tons mainly owing to declines in sales volume of HRC (-38.11% YoY to 392,025 tons), wire rod (-55.70% YoY to 35,102 tons), and steel bars (-35.46% YoY to 75,231 tons). The decline in HRC sales volume was caused by lower production of HRC as the company conducted an overhaul on its Hot Strip Mill (HSM) for a month starting on 21 May 2017 and by lower sales during Lebaran holidays late in June 2017. The overhaul was intended to maintain HSM's reliability.

- Cost of revenues decreased 3.28% YoY to US$540.87 million attributable to consistent cost saving effort and efficiency focus conducted by the company. The decline in cost of revenues offset the lower net revenues and resulted in positive gross profit of US$93.11 million (-6.81% YoY).

- The company managed to maintain positive operating profit of US$4.45 million in H1 2017. Operating expenses increased on higher general and administrative expenses. The higher general and administrative expenses were attributable to an increase in salaries, wages and employees benefits following the payment of holiday bonus (THR) to employees for Lebaran in Q2 2017.

- Despite the lower gross and operating profit, loss before tax expense significantly improved, which resulted in an increase in EBITDA margin to 12.89% from 12.57% in H1 2016.

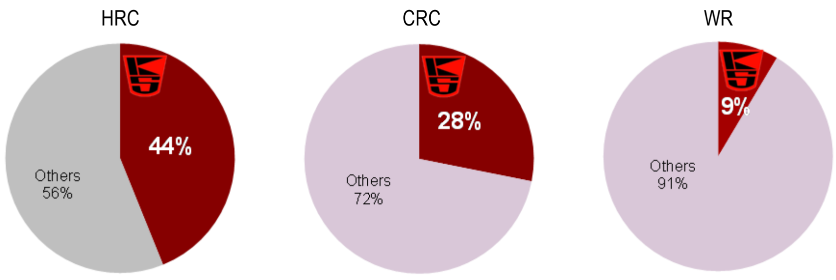
- The company's bottom line improved as it posted lower loss attributable to owners of parent entity (net loss) to US$56.70 million in H1 2017 from US$87.55 million during the same period last year. The bottom line improvement was largely due to a 36.01% YoY decrease in share in loss of associates and joint ventures to US$24.47 million, which was caused by a significant 46.55% YoY drop in the company's share in loss in PT Krakatau Posco (PTKP) to US$21.9 million. Lower amounts of interest payment (US$49.78 million from US$60.84 million in H1 2016) and forex loss (US$5.76 million from US$32.88 million in H1 2016) also contributed to the improved bottom line.

Marketing Results

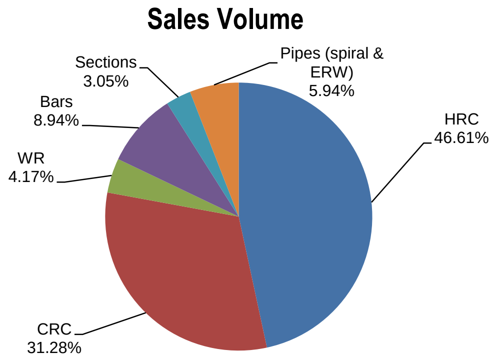
Steel Sales (tons)	H1 2017	H1 2016	Change (%)
HRC	392,025	633,465	-38.11
CRC	263,068	266,578	-1.32
WR	35,102	79,234	-55.70
Bars	75,231	116,566	-35.46
Sections	25,686	32,711	-21.48
Pipes (spiral & ERW)	49,989	39,994	24.99
Total	**841,101**	**1,168,549**	**-28.02**

Average Selling Price USD/ton	H1 2017	H1 2016	Change (%)
HRC	587	421	39.34
CRC	676	523	29.27
WR	519	391	32.77
Bars	487	423	15.17
Sections	608	516	17.71
Pipes (spiral & ERW)	726	731	-0.60

Source: Company data



Market Share FY 2016



Source: Company data

Market Analysis

- Steel consumption from China's infrastructure and property sectors is expected to increase in the following months, with demand from both sectors expected to peak in September – October 2017. Meanwhile, steelmakers in China have increased production to fill in supply gaps following the closure of a number of illegal mills. *(Bisnis Indonesia, 16 August 2017)*
- Steel demand in Indonesia continued to increase on the back of stronger demand from steel-related sectors. Automotive sector grew 6% with car production and sales standing at 524,000 and 467,000 units, respectively. In addition, construction sector, which contributed 10.25% to the nation's GDP, grew 6.26% in Q1 2017.
- Domestic steel prices in Indonesia fluctuated in line with fluctuations in global steel prices. Steel prices rally began in December 2016 and continued to February 2017. Prices corrected in March – April but the uptrend resumed late in June following rising steel prices in China.
- HRC and CRC imports increased 14% YoY and 31% YoY, respectively, in H1 2017 which was spurred by, among others, the flood of boron-added alloy steel into Indonesia. The government has issued Minister of Trade Regulation No. 82/M-DAG/PER/12/2016 in order to control imports of boron-added alloy steel. The regulation, which was an extension of the previous rule (Minister of Trade Regulation No. 28/M-DAG/PER/6/2014), imposes stricter restrictions on alloy steel imports.