

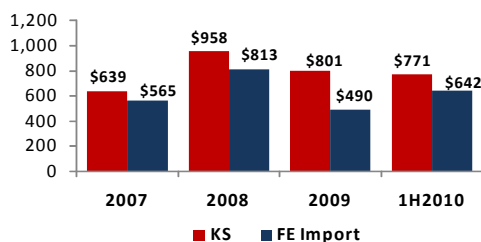
Company Highlights

Main Business : Iron and Steel Production
 Listing Date : 10 November 2010
 Offer Shares : Rp. 850
 Shares : 16,090,500,000
 Public Float : 3,155,000,000

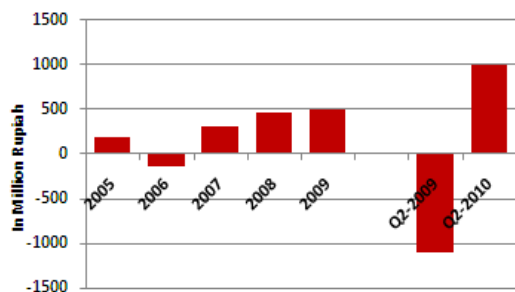
Market Share in Indonesia (2009)

	KRAS	Others	Total Demand
HRC	65%	35%	2.3m tons
CRC	33%	67%	1.4m tons
Wire Rod	32%	68%	0.8m tons

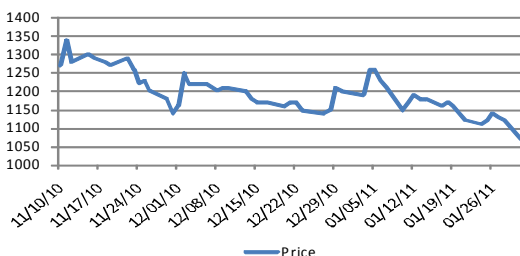
HRC DOMESTIC SELLING PRICE vs IMPORT



NET INCOME



STOCK PERFORMANCE



- PT Krakatau Steel (Persero) was established on August 31, 1970 regarding to Indonesian Government Regulation No. 35 in the year 1970 about equity establishment. These days, the state owned company grown to be the largest steel producer in Indonesia with total rolling capacity of 2.75 million tons per year. Krakatau Steel was brought to public on November 10, 2010 to optimize its high-quality services and strong competitiveness product.
- As a follow up to the Memorandum of Agreement (MoA) for the establishment of a joint venture between KS and and Pohang Iron and Steel Corporation Korea (POSCO), on August 4, 2010, a joint venture company under the name of PT KRAKATAU POSCO is settled with percentage of ownership at the first stage shall be 30% for KS and 70% for POSCO plus KS has the right to increase its ownership interest in the joint venture up to 45. The project will be constructed in two phases with the production capacity of 6 million metric tons steel slab in aggregate and total investment of US\$ 6 billion. The first phase with production capacity of 3 million metric tons of steel per year is expected to be completed in 2013 with estimation cost of US\$2,660 million. The project is expected to be funded by contributions of capital by POSCO and KS of approximately US\$931 Million and by external financing of approximately US\$1,729 million. Next, the initial equity contribution for the Phase I Facilities is estimated to be US\$279.3 million, a portion of which will be in the form of the 388 hectares of land for uses as the site for the joint venture integrated steel mill in Cilegon.
- Excluding duties and freight, Krakatau Steel HRC domestic selling price peaked on 2008 with US\$958 and declined a year after to US\$801. Yet, it has the highest margin of 311 US\$/ton in 2009 less to Far East import HRC (US\$490). The breakdown on that year imports by region consisting Japan (31%), South Korea (19%) and Taiwan (12%). The margin decreased in 1H2010 (129 US\$/ton) where Krakatau Steel dropped to US\$771 since the increasing of raw material price results to an indication of consequences to smaller margins while Far East import enhanced selling price of US\$642. However, availability of better margin for 2010 onwards has been predicted based on the growth of production. It is also estimated that steel prices will increase as from the increased demand and world economic recovery.
- In producing Hot Rolled Coil (HRC) for domestic Indonesian market, Krakatau Steel lead with 2 mt/y, nearly trice larger from Gunung Raja Paksi, which was 0.70 mt/y. For CRC, Krakatau Steel strongly placed at the first position with 0.85mtpy, slightly twice greater from its competitor, PT Essar Indonesia (0.4mt/y), followed by Little Giant Steel with 0.23mt/y. As for Wire Rod producer, KS was at the second rank with 0.45 mt/y came right after Ispat Indo for 0.70mt/y.
- Based on company's production capacity and Market share of HRC, CHC, and Wire Rod, KS stated as the leader and largest producer steel products across domestic Indonesian market. More, KS strategically located for integrated production facilities. The significant advantages over domestic and import competition equipped by transportation cost savings, plant and supply chain efficiency and faster customer responsiveness. High proportion of direct sales, low customer concentration and diverse end-markets formed the company with strong and diversified customer based.
- The economic fluctuation may result into a threat for the company since its business performance highly influenced by the economic growth regarding to production of basic material in providing basic needs of downstream industries, especially infrastructure, property, automotive, and various machinery and equipment. More, Company relies on domestic steel consumers for a substantial portion of revenue. The rise and fall of the rupiah exchange rate against foreign currencies also become one of the vital risks as rupiah depression will greatly affect the cost structure, given the sizable dependence on imported basic materials.
- Based on valuation and contemplating of company's performance, we value the stock price at the end of 2011 around Rp 1,977.19 using discounted earning method. (see calculation on the next page at table-2)

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Financial Highlights and Valuation

BALANCE SHEET

	Years ended December,31					Periods ended June, 30	
	2009	2008	2007	2006	2005	2010	2009
Cash and cash equivalents	1,760.0	1,100.5	636.6	851.8	442.4	1,518.9	1,100.2
Short-term investments	142.6	5.3	44.9	21.9	19.9	2.0	6.1
Total assets	12,795.8	15,374.4	11,117.0	10,247.6	10,720.5	13,343.7	11,538.2
Total debt	5,000.3	7,653.2	3,918.7	3,376.8	3,561.5	4,226.2	5,176.5
Total liabilities	6,949.0	9,897.3	6,028.0	5,466.7	5,698.4	6,636.4	7,310.9

Table-1

INCOME STATEMENT PROFORMA

	2007	2008	2009	Jun-10	2010F	2011
Net Revenue	14,836.0	20,631.4	16,913.5	9,000.2	16,671.6	20,171.7
H R C	5,623.7	8,819.2	7,300.5	4,285.6	7,470.66	8,382.08
C R C	3,785.7	4,875.6	3,679.1	2,081.0	4,032.38	4,524.33
Wire Rods	1,798.4	1,982.0	1,553.0	780.0	1,671.36	1,875.26
Sections	647.0	550.0	340.0	309.7	635.13	712.62
Bars	746.3	1,258.3	862.1	539.9	1,004.81	1,127.40
Pipes	315.1	540.4	859.3	285.0	812.25	1,000.00
Tinplates	1,021.4	1,465.9	1,070.5	0.0		1,000.00
Billets	67.0	43.2	2.4	0.0		
Others	101.9	0.0	35.2	21.1	45.00	50.00
Total	14,106.5	19,534.6	15,702.1	8,302.3	15,671.6	18,671.7
Other Services	729.5	1,096.8	1,211.4	697.9	1,000.0	1,500.0
Cost of Revenues	13,063.4	17,915.4	15,728.1	7,105.6	15,658.18	16,293.1
Gross profit/(loss)	1,772.6	2,716.1	1,185.4	1,894.6	1,013.41	3,878.55
Total operating expenses	979.9	1,355.7	1,159.4	678.7	1,217.37	1,278.24
Income/(loss) from operations	792.7	1,360.4	25.9	1,215.8	(203.96)	2,600.31
Other income (charges), net	(295.4)	(619.6)	442.7	127.3	500.00	550.00
Income/(loss) before tax expenses/(benefit)	497.4	740.8	468.7	1,343.2	296.04	3,150.31
Tax expenses/(benefit), net	180.8	277.2	(27.5)	346.3	82.89	882.09
Income/(loss) before minority interest in net (income)/loss of subsidiaries	316.5	463.6	496.2	996.9	1,050.00	1,200.00
Minority interest in net (income)/loss of subsidiaries	(3.1)	(4.0)	(1.5)	0.9	(2.00)	(3.00)
Net income/(loss)	313.4	459.6	494.7	997.8	1,261.15	3,465.22
Total Share (1000000)					11,173.96	15,932.7
EPS					112.87	217.49
Price					850	1977.19
PER					7.35	3.91

Table-2

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