

TICKERS		MARKET CAPITALIZATION	ISSUED SHARES	SHARE PRICE			SHAREHOLDERS		
IDX	KRAS	(IDR million, as of 6/30/2019)	(million shares, as of 6/30/2019)	(closing, IDR/share)			Government	80%	
Bloomberg	KRAS.IJ	8,086,794	19,346	1 January 2019	402	6 month high	525	Public	20%
Reuters	KRAS.JK			30 June 2019	418	6 month low	354		

Krakatau Steel Reports Six Months Results

Jakarta, July 2019

- **Net revenues decreased 17.82% Year-on-Year (YoY) on lower steel sales volume and average selling price, resulting in a 76.11% YoY decline in gross profit.**
- **Krakatau Steel's HRC selling price fluctuated between US\$714/ton (early April) and US\$531/ton (early June), with the price trend mostly flat at US\$600-US\$650 range. HRC selling price stood at US\$604/ton as of June 30, 2019, down 13.3% YoY from US\$697/ton a year earlier.**

KRAS Daily HRC Selling Price



Latest Updates:

- Krakatau Steel is set to carry on its corporate restructuring initiatives, which include debt reprofiling and business transformation program. The business transformation program will be conducted through:
 - Improvement of sales planning of the company's steel products
 - Improvement of energy consumption and production yield at Hot Strip Mill (HSM)
- Krakatau Steel signed a Memorandum of Understanding (MoU) with Cedex Steel & Metals Pty. Ltd. for the marketing of the company's steel products in Australia. Under the agreement, Cedex Steel will market 60,000 tons of Krakatau Steel's steel products per year, which include hot rolled coil, hot rolled sheet, hot rolled pickled oil and checkered plate for the next two years.
- Physical construction of Hot Strip Mill #2 (HSM#2) has reached 94.49% as of June 30, 2019. Upon completion of construction in Q2 2019, Krakatau Steel will have a total production capacity of HRC of 3.9 million tons per year.

Financial Results

Description (USD mn)	H1 2019	H1 2018	Change (%)	Ratio	H1 2019	H1 2018
Revenue	702.05	854.27	(17.82)	Gross Margin	3.42%	11.75%
Cost of Revenues	(678.07)	(753.88)	(10.06)	EBITDA Margin	-3.43%	5.58%
Gross Profit	23.98	100.39	(76.11)	Debt to Equity ³	1.22x	1.15x
EBITDA ¹	(24.10)	47.67	(150.56)	Debt to Assets ³	0.49x	0.48x
Cash and Cash Equivalents ²	172.45	173.29	(0.48)			
Net cash provided by (used in) operating activities	114.20	(194.28)	-			
Total Assets ²	4,270.83	4,298.32	(0.64)			

¹ : EBITDA figures exclude share of loss in associates

² : Balance sheet items for H1 2018 are based on FY 2018 figures

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

Investor Relations

Cilegon Office
Gedung Teknologi, Jl. Industri No. 5 P.O. Box 14
Cilegon, Banten 42435

Phone : (+62 254) 372301
Fax : (+62 254) 372303
Email : ir@krakatausteel.com

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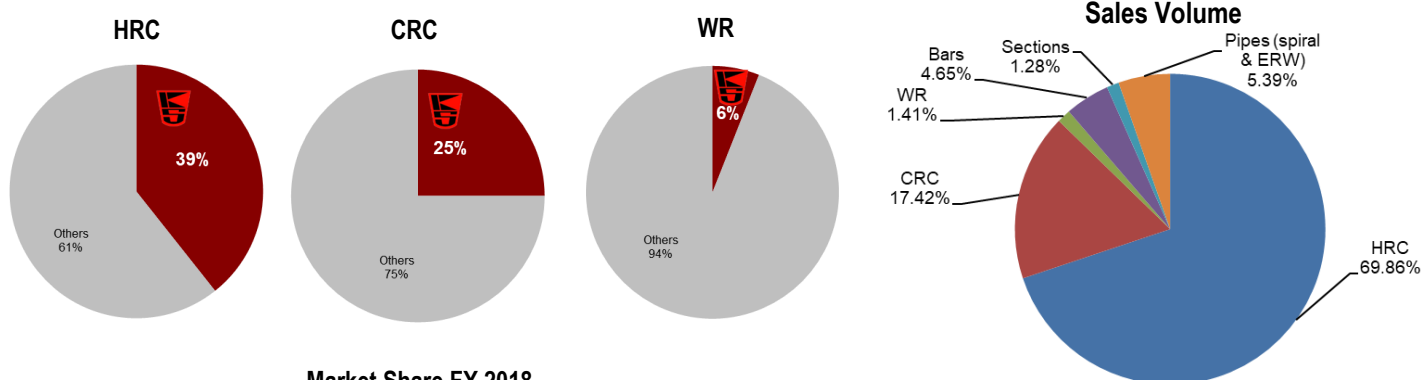
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Company Performance Update:

- Krakatau Steel recorded a 17.82% YoY decrease in net revenues to US\$702.1 million in H1 2019 due to lower sales volume and average selling prices of steel products. Total sales volume was 16.78% YoY lower at 870,995 tons, including CRC (-47.44% YoY to 151,690 tons) and Wire Rod (-77.62% YoY to 12,279 tons). However, sales volume of HRC rose 5.52% YoY to 608,493 tons as the company opted to focus on increasing sales of HRC. Average selling prices of nearly all steel products decreased, including HRC (-4.98% YoY to US\$627/ton) and Wire Rod (-5.05% YoY to US\$599/ton), while average selling price of CRC increased 2.86% YoY to US\$732/ton.
- Cost of revenues declined 10.06% YoY to US\$678.1 million due to a 51.10% YoY decrease in raw materials cost to US\$318.8 million from US\$651.9 million. The decrease in cost of revenues was lower than the decline in net revenues, which resulted in a 76.11% YoY drop in gross profit to US\$24.0 million.
- The lower gross profit resulted in an operating loss of US\$70.7 million in H1 2019 from an operating profit of US\$9.3 million in H1 2019. Higher operating expenses during the period also contributed to the operating loss.
- EBITDA declined to -US\$24.1 million in H1 2019 from US\$47.7 million in H1 2019, in line with the topline result.

Marketing Results

Steel Sales (tons)	H1 2019	H1 2018	Change (%)	Average Selling Price USD/ton	H1 2019	H1 2018	Change (%)
HRC	608,493	576,652	5.52	HRC	627	660	-4.98
CRC	151,690	288,608	-47.44	CRC	732	711	2.86
WR	12,279	54,858	-77.62	WR	599	631	-5.05
Bars	40,475	66,836	-39.44	Bars	586	609	-3.70
Sections	11,107	20,129	-44.82	Sections	760	788	-3.55
Pipes (spiral & ERW)	46,949	39,577	18.63	Pipes (spiral & ERW)	827	894	-7.58
Total	870,995	1,046,661	-16.78				



Market Share FY 2018

Source: Company data

Market Analysis

- The Current global “economic chill” is having strong negative impact on steel markets because buyers are holding back their orders due to worries about the consequences of the USA-Chinese trade war (although, the two sides “made peace” at the recent G20 meeting in Japan when they agreed to commence negotiating once again. (*World Steel Dynamics Inside Track #173, Jul 2019*)
- The global steel industry in May 2019 may have produced at about 95% of its effective (real) capacity. Looking ahead, assuming that the decline in global output in the months ahead is only moderate and that apparent steel demand turns up significantly by the fourth quarter, or, if not, in the first quarter of 2020, “pricing power” will shift from the buyers to the sellers. The mills will aggressively seek higher prices because:
 - a) a rising number of marginal facilities are started up.
 - b) New workers must be hired that can't be easily laid off.
 - c) Steelmakers raw material prices have risen. (*World Steel Dynamics Inside Track #173, Jul 2019*)
- ASEAN steel output rises sharply. ASEAN region crude steel production has grown by 60% or by over 11 million tons/year over the last three years, to 31 million tons in 2018. When several major projects come onstream, regional crude steel production may reach up to 50mt within the next two years. Bose identified Vietnam and Indonesia with respective additional capacities of 7.5m t/y and 3.5m t/y as the main growth areas. (*Kallanish, Apr 2019*)
- Finished steel demand in Indonesia surged 11% y-o-y in 2018. This was mainly due to a significant acceleration of long steel demand, at 26.5% y-o-y in 2018, due to expansion in construction activities, especially residential houses. Indonesia's construction industry is expected to grow by 7.1% in 2019 (SEAISI, April 2019).
- There have been many new steel mill competitors in recent years and now there are major expansion of large integrated steel plants in Vietnam and Indonesia. (*World Steel Dynamic Inside Track #173, Jul 2019*)
- According to wholesale data compiled by industry association Gaikindo in 2019 steel demand Indonesian new vehicle market continued to decline sharply in May 2019, by 16.3% to 84,146 units from 100,498 units a year earlier, this follows a weak first four months of the year, when sales fell by over 14% - reflecting sluggish economic growth in the country amid weakening investment and private consumption growth and declining exports. Uncertainty ahead of April's presidential and parliamentary elections also contributed to the recent market weakness. (*Just-Auto, July 2019*). In addition, Nation's GDP, grew 5.2% YoY in 2018 (www.worldbank.org).