

TICKERS		MARKET CAPITALIZATION	ISSUED SHARES	SHARE PRICE			SHAREHOLDERS		
IDX	KRAS	(IDR million, as of 3/31/2019)	(million shares, as of 3/31/2019)	(closing, IDR/share)			Government	80%	
Bloomberg	KRAS.IJ	8,938,035	19,346	1 January 2019	402	3 month high	525	Public	20%
Reuters	KRAS.JK			31 March 2019	462	3 month low	402		

Business and Financial Transformation to Improve Performance

Jakarta, April 2019

Krakatau Steel Reports Three Months Results

- **Krakatau Steel's net revenues decreased 13.82% Year-on-Year (YoY) in January-March 2019 (Q1 2019) due to lower sales volume and average selling prices of main steel products.**
- **Krakatau Steel's HRC selling price reached the highest level at US\$755/ton in January and the lowest at US\$554/ton in March. However, HRC price trend was largely flat in Q1 2019, hovering around at US\$650 – US\$700 levels.**

KRAS Daily HRC Selling Price



Latest Updates:

- Krakatau Steel has completed 93.73% of physical construction of its Hot Strip Mill #2 (HSM#2) as of March 31, 2019. The mill, which has a production capacity of 1.5 million tons/year, is set to produce first coil of HRC upon completion of construction in Q2 2019.
- The company signed Business and Financial Transformation Agreement with state-owned banks (HIMBARA) on March 22, 2019. Under the agreement, the company is set to conduct a number of initiatives to improve its financial performance, mainly with regard to the ability to repay its debts to creditors. The initiatives include debt reprofiling, operational excellence program, restructuring of subsidiaries business portfolio, convertible bond issuance and rights issue. The company have obtained approval from shareholders for the initiatives on the Annual General Shareholders Meeting on April 26, 2019.

Financial Results

Description (USD mn)	Q1 2019	Q1 2018	Change (%)	Ratio	Q1 2019	Q1 2018
Revenue	419.0	486.2	-13.82	Gross Margin	2.80%	13.74%
Cost of Revenues	(407.2)	(419.4)	-2.90	EBITDA Margin	-4.15%	8.49%
Gross Profit	11.7	66.8	-82.41	Debt to Equity ³	0.99x	0.89x
EBITDA ¹	(17.4)	41.3	-	Debt to Assets ³	0.46x	0.43x
Cash and Cash Equivalents ²	72.1	173.3	-58.39			
Net cash provided by (used in) operating activities	20.3	(44.6)	-			
Total Assets ²	4,162.1	4,298.3	-3.17			

¹ : EBITDA figures exclude share of loss in associates

² : Balance sheet items for Q1 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@krakatasteel.com

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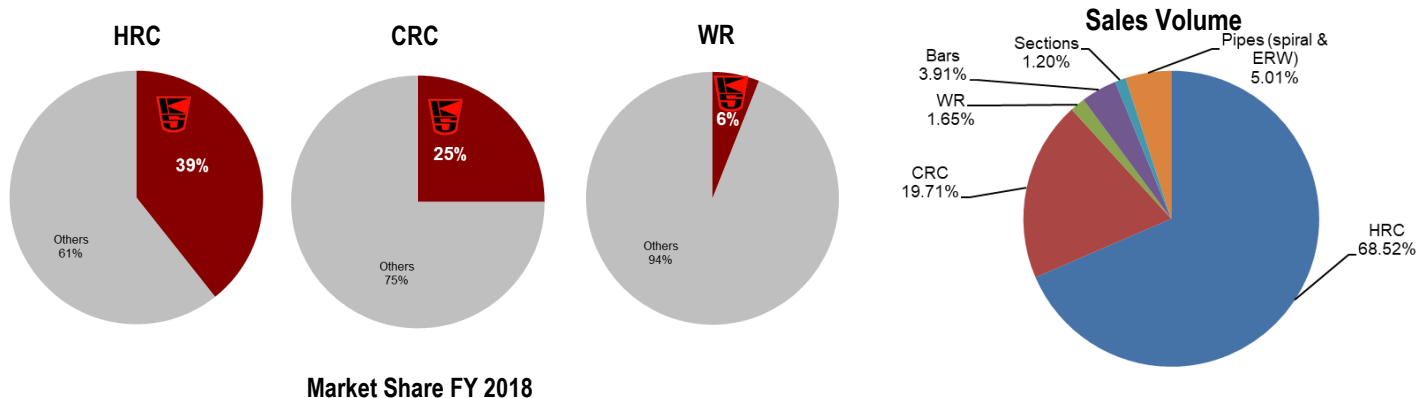
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Company Performance Update:

- Krakatau Steel posted a 13.82% YoY decrease in net revenues to US\$419.0 million in Q1 2019 due to lower sales volume and average selling prices of steel products. Total sales volume declined 12.85% YoY to 523,847 tons, including CRC (-35.67% YoY to 103,219 tons) and Wire Rod (-77.30% YoY to 8,644 tons). However, sales volume of HRC rose 9.15% YoY to 358,958 tons as the company opted to focus on increasing sales of HRC. Average selling prices of nearly all steel products decreased, including HRC (-2.24% YoY to US\$643/ton) and Wire Rod (-3.14% YoY to US\$612/ton), while average selling price of CRC grew 5.15% YoY to US\$739/ton.
- Cost of revenues was lower 2.90% YoY to US\$407.2 million due to a 51.82% YoY decrease in raw materials cost to US\$157.69 million from US\$327.30 million. The decrease in cost of revenues was lower than the decline in net revenues, which resulted in an 82.42% YoY drop in gross profit to US\$11.7 million.
- The lower gross profit resulted in an operating loss of US\$36.2 million in Q1 2019 from an operating profit of US\$21.2 million in Q1 2018. The operating loss was also due to higher operating expenses during the period.
- EBITDA dropped to -US\$17.4 million in Q1 2019 from US\$41.3 million in Q1 2018, and loss attributable to owners of parent entity (net loss) was higher at US\$62.3 million compared to a loss of US\$4.9 million during the same period last year, in line with the topline result.

Marketing Results

Steel Sales (tons)	Q1 2019	Q1 2018	Change (%)	Average Selling Price USD/ton	Q1 2019	Q1 2018	Change (%)
HRC	355,546	328,879	8.11	HRC	643	658	-2.24
CRC	103,219	160,449	-35.67	CRC	739	703	5.13
WR	8,644	38,081	-77.30	WR	612	632	-3.14
Bars	29,190	38,252	-23.69	Bars	616	613	0.61
Sections	6,289	9,981	-36.99	Sections	780	791	-1.31
Pipes (spiral & ERW)	26,226	25,421	3.17	Pipes (spiral & ERW)	867	881	-1.62
Total	529,114	601,063	-11.97				



Market Share FY 2018

Source: Company data

Market Analysis

- The HRB export price, while down from a peak of \$610 per tonne last summer, is nevertheless not far from the median-cost Chinese and non-Chinese mills' operating cost. Assuming this price is near the bottom, this is "good news" for steel mills since there's no hint of a pricing "death spiral" whereby the price drops to, or even below, the marginal cost of the median-cost mill. (*World Steel Dynamics Fast Track Analysis 169, Jan 2019*)
- For many steel mills, from a profit point of view, it's a "Good Times" environment because they are obtaining high HRB prices in their home markets. The favorable home market price reflects the fact that, as fall of 2016, the global steel industry entered an "Age of Protectionism."
- China's Q1 crude steel output up 10% from last year. China's output of crude steel and finished steel in the first quarter of 2019 both increased significantly year on year on good demand and healthy profits. The country produced a total of 231.07 million tonnes of crude steel over the first three months of 2019, up 9.9% from a year earlier, the National Bureau of Statistics (NBS) said on Wednesday April 17. Chinese mills produced 269.07 million tons of finished steel during the three months from January to March, up 10.8% year on year. (*Source: Metal Bulletin, April 2019*)
- Posco sees firmer Q2 steel demand from autos, shipbuilding. Citing data from the Korea Automobile Manufacturers Association, Q2 production is expected to reach 1.03 million cars, up from about 955,000 cars in Q1. Demand from the shipbuilding industry is due to rise too as new orders are expected to total 7.0 million gross tons, more than double the 3.1 million gross tons in Q1. Examining the South Korean steel supply and demand situation for Q2, Posco said nominal consumption will rise to 13.6 million mt in Q2, from 13.2 million mt in Q1. Steel exports will be stable at 7.7 million mt in Q2 versus Q1, with production at 19.0 million mt from 18.1 million mt in Q1, and imports will fall to 2.4 million mt in Q2 from 2.7 million mt in Q1. (*Source: S&P Global Platts, April 2019*)
- Japan's JISF predicts rise in steel output during FY 2019, domestic demand from the construction sector as well as the manufacturing sector such as the automotive sector is expected to stay firm. He said output decreased during fiscal 2018 due to natural disasters and facility problems faced by steel producers, and not due to stagnant demand from customers. (*Source: S&P Global Platts, April 2019*)
- From January until December 2018 steel demand in Indonesia continued to increase on the back of stronger demand from steel-related sectors. Automotive sector grew 7.99% with car production at 1,152,641 units (*Source: Gaikindo, January 2019*). the nation's GDP, grew 5.17% (year-to-year) 2018. (*Source: Laporan Nusantara, February 2019*)
- Indonesia's vehicle production totaled 94,716 units in February, down 6.0% from 100,799 units a year ago, latest data from the Association of Indonesia Automotive Industries, or Gaikindo. Indonesia's demand for automotive steel is expected to grow in 2019 amid market expectations of foreign investment in the domestic industry. In mid-February, Airlangga Hartarto, the minister of industry said several investors are committed to investing \$900 million in the automotive industry. Investors from Asia and Europe have expressed their commitment. One of the domestic suppliers that will benefit from the higher exports is PT JFE Steel, which runs a plant at Bekasi, West Java, with a production capacity of 400,000 mt/year of hot-dip galvanized sheet, primarily for automobiles. (*Source: S&P Global Platts, March 2019*)
- Indonesian steel imports and exports both rise. Indonesian steel exports by value reached \$5.75 billion in 2018, a sharp rise of 72% year-on-year. According to Badan Pusat Statistik (BPS) data, imports of HS 72 steel products had a value of \$10.24 billion in 2018, an increase of 28.3% from 2017. The increase in imports was due to the China-US trade war, as many steel products from China were looking for new export markets. This also impacted the Indonesian domestic market. domestic steel industry utilisation rate in Indonesia is around 50-60%. Although domestic demand and capacity are almost equal, some markets are dominated by low-priced imported products. (*Source: Kallanish, Jan 2019*)
- Indonesia market participants mentioned that on account of upcoming elections in April, the market was still slow domestically. (*Source: S&P Global Platts, March 2019*)