LOTTE CHEMICAL TITAN HOLDING BERHAD
(222357-P)

Unaudited condensed consolidated interim financial statements

For second quarter ended 30 June 2017

222357-P

Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)

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The Board of Directors of Lotte Chemical Titan Holding Berhad ("LCT" or "the Company") is pleased to announce the following unaudited condensed consolidated financial statements of LCT and its subsidiaries ("the Group") for the quarter ended 30 June 2017, which should be read in conjunction with the accompanying explanatory notes on page 8 to 28.

Unaudited condensed consolidated statement of comprehensive income

	Note	Individual quarter ended 30 June 2017 RM'000	Individual quarter ended 30 June 2016 RM'000	Cumulative quarter ended 30 June 2017 RM'000	Cumulative quarter ended 30 June 2016 RM'000
Revenue		1,776,280	1,999,715	3,690,805	3,985,150
Cost of goods sold		(1,552,846)	(1,431,492)	(3,080,020)	(3,053,827)
Gross profit		223,434	568,223	610,785	931,323
Other income		5,251	3,324	11,700	6,201
Distribution expenses		(20,477)	(25,866)	(39,620)	(52,717)
Administrative expenses		(29,533)	(20,633)	(54,758)	(39,478)
Foreign exchange differences		12,276	(5,282)	16,451	17,488
Fair value changes on derivatives		(21,933)	1,213	16,920	249
Other expenses		(23,177)	(2,909)	(26,171)	(4,932)
Profit from operations		145,841	518,070	535,307	858,134
Finance income		1,250	1,833	4,849	3,657
Finance costs	B6	(3,669)	(3,646)	(7,885)	(7,563)
Net finance costs		(2,419)	(1,813)	(3,036)	(3,906)
Share of results of associates		(16,024)	(1,347)	(18,506)	(3,275)
Profit before tax	B5	127,398	514,910	513,765	850,953
Income tax	B7	(13,660)	(110,793)	(57,163)	(174,587)
Net profit for the period		113,738	404,117	456,602	676,366

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Unaudited condensed consolidated statement of comprehensive income (cont'd)

	Note	Individual quarter ended 30 June 2017 RM'000	Individual quarter ended 30 June 2016 RM'000	Cumulative quarter ended 30 June 2017 RM'000	Cumulative quarter ended 30 June 2016 RM'000
Other comprehensive income, net of tax					
Item that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit obligation		-	-	(17)	-
Item that may be reclassified subsequently to profit or loss:					
Foreign currency translation differences		(240,250)	131,135	(348,844)	(409,121)
		(240,250)	131,135	(348,861)	(409,121)
Total comprehensive (loss)/income for the period		(126,512)	535,252	107,741	267,245
Net profit for the period attributable to:					
Owner of the Company		113,616	404,032	455,770	676,204
Non-controlling interests		122	85	832	162
		113,738	404,117	456,602	676,366
Total comprehensive (loss)/income for the period attributable to:					
Owner of the Company		(132,333)	534,949	101,533	267,792
Non-controlling interests		5,821	303	6,208	(547)
		(126,512)	535,252	107,741	267,245
Basic and diluted earnings per ordinary share (sen)	B19	6.58	23.38	26.38	39.14

The unaudited condensed consolidated statement of other comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

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Unaudited condensed consolidated statement of financial position

	Note	As at 30 June 2017	As at 31 December 2016
		RM'000	RM'000
Assets			
Non-current assets			
Property, plant and equipment		4,832,179	4,378,823
Prepaid lease payments		49,959	36,278
Investments in associates		2,189,766	1,552,117
Deferred tax assets		103	160
Derivative financial instruments		27,136	11,369
		7,099,143	5,978,747
Current assets			
Inventories		1,197,029	1,147,072
Trade and other receivables		831,907	1,143,346
Tax recoverable		10,118	8,805
Prepayments		9,043	21,008
Derivative financial instruments		-	1,169
Cash and bank balances		306,550	1,040,344
		2,354,647	3,361,744
Total assets		9,453,790	9,340,491
Equity and liabilities			
Capital and reserves			
Share capital		2,046,813	1,727,792
Share premium		-	294,113
Other reserves		1,564,622	1,943,750
Retained earnings		4,317,496	3,981,743
Total equity attributable to owner of the Company		7,928,931	7,947,398
Non-controlling interests		28,230	22,022
		7,957,161	7,969,420

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Unaudited condensed consolidated statement of financial position (cont'd)

	Note	As at 30 June 2017 RM'000	As at 31 December 2016 RM'000
Non-current liabilities			
Provision		317,017	325,919
Deferred tax liabilities		388,370	364,440
Defined benefit obligation		15,837	14,967
		721,224	705,326
Current liabilities			
Loans and borrowings	B12	36,516	75,365
Trade and other payables		738,407	590,182
Other financial liabilities		190	198
Derivative financial instruments		292	-
		775,405	665,745
Total liabilities		1,496,629	1,371,071
Total equity and liabilities		9,453,790	9,340,491

The unaudited condensed consolidated statement of financial position should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

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Unaudited condensed consolidated statement of changes in equity

		<---- Attributable to owners of the Company ---->							
		<---- Non-distributable reserves ---->				Distributable			
	Note	Share capital RM'000	Share premium RM'000	Capital redemption reserves RM'000	Foreign currency translation reserve RM'000	Retained earnings RM'000	Total equity attributable to owners of the Company RM'000	Non-controlling interest RM'000	Total RM'000
Cumulative quarter ended 30 June 2016									
At 1 January 2016		1,727,792	294,113	24,908	1,514,639	2,660,402	6,221,854	10,790	6,232,644
Net profit for the period		-	-	-	-	676,204	676,204	162	676,366
Other comprehensive loss		-	-	-	(408,412)	-	(408,412)	(709)	(409,121)
Total comprehensive loss for the period		-	-	-	(408,412)	676,204	267,792	(547)	267,245
At 30 June 2016		1,727,792	294,113	24,908	1,106,227	3,336,606	6,489,646	10,243	6,499,889
Cumulative quarter ended 30 June 2017									
At 1 January 2017		1,727,792	294,113	24,908	1,918,842	3,981,743	7,947,398	22,022	7,969,420
Net profit for the period		-	-	-	-	455,770	455,770	832	456,602
Other comprehensive loss		-	-	-	(354,220)	(17)	(354,237)	5,376	(348,861)
Total comprehensive income for the period		-	-	-	(354,220)	455,753	101,533	6,208	107,741
Dividends	A7, B18	-	-	-	-	(120,000)	(120,000)	-	(120,000)
Transition to no par value regime*		319,021	(294,113)	(24,908)	-	-	-	-	-
At 30 June 2017		2,046,813	-	-	1,564,622	4,317,496	7,928,931	28,230	7,957,161

* Effective from 31 January 2017, the Companies Act 2016 ("the Act") abolished the concept of authorised share capital and par value of share capital. Consequently, the credit balances of the share premium and capital redemption reserves became a part of the Company's share capital pursuant to the transitional provision set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use these amounts for purposes as set out in Sections 618(3) and 618(4) of the Act. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

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Unaudited condensed consolidated statement of cash flows

	Cumulative quarter ended	
	30 June 2017 RM'000	30 June 2016 RM'000
Cash flows from operating activities		
Profit before tax	513,765	850,953
Adjustments for:-		
Depreciation of property, plant and equipment	213,015	205,950
Amortisation of prepaid land lease payments	1,401	1,076
Finance costs	7,885	7,563
Property, plant and equipment written off	20,269	1,874
Write-down/(Reversal of write-down) of inventories to net realisable value	10,843	(3,537)
Expenses recognised in respect of defined benefit plan	2,101	1,211
Inventories written off	296	10
Reversal of impairment loss on:		
- Trade receivables	-	(220)
- Other receivables	(18)	-
Share of results of associates	18,506	3,275
Bad debts recovered	-	(23)
Gain on disposal of property, plant and equipment	(12)	-
Finance income	(4,849)	(3,657)
Fair value changes in derivatives	(16,920)	(249)
Gain on partial settlement of derivative financial instruments	(1,540)	-
Unrealised gain on foreign exchange	(10,104)	(3,217)
Operating profit before working capital changes	754,638	1,061,009
Change in inventories	(111,395)	170,074
Change in trade and other receivables	119,484	85,746
Change in trade and other payables	201,944	(8,450)
Cash generated from operations	964,671	1,308,379
Payments under defined benefit plan	(684)	(159)
Finance costs paid	(2,189)	(6,411)
Income tax paid	(5,792)	(3,983)
Net cash generated from operating activities	956,006	1,297,826

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Unaudited condensed consolidated statement of cash flows (cont'd)

	Cumulative quarter ended	
	30 June 2017 RM'000	30 June 2016 RM'000
Cash flows from investing activities		
Finance income received	4,849	3,657
Proceeds from disposal of property, plant and equipment	12	-
Proceeds from partial settlement of derivative financial instruments	3,229	-
Acquisition of property, plant and equipment	(752,838)	(295,905)
Prepaid lease payments made	(16,082)	-
Investment in associate	(747,046)	(699,449)
Proceeds from disposal of shares in subsidiary	-	1
Net cash used in investing activities	(1,507,876)	(991,696)
Cash flows from financing activities		
Interest paid on long-term borrowings	(649)	(1,153)
Repayments of long-term borrowings	(36,908)	(34,716)
Dividend paid	(120,000)	-
Net cash used in financing activities	(157,557)	(35,869)
Net (decrease)/increase in cash and cash equivalents	(709,427)	270,261
Effect of exchange rate changes on the balance of cash held in foreign currencies	(24,367)	(98,077)
Cash and cash equivalents at beginning of period	1,040,344	1,511,001
Cash and cash equivalents at end of period	306,550	1,683,185

The unaudited condensed consolidated statement of cash flows should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

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Part A - Explanatory notes pursuant to MFRS 134

A1. Basis of preparation

The condensed financial statements are unaudited and have been prepared in accordance with IAS 34, MFRS 134 *Interim Financial Reporting* and paragraph 9.22 of Bursa Malaysia Securities Berhad's Main Market Listing Requirements. They should also be read in conjunction with the financial statements of the Group for the year ended 31 December 2016 and the accompanying notes attached to the unaudited condensed consolidated interim financial statements.

These unaudited condensed consolidated interim financial statements were approved by the Board of Directors on 31 July 2017.

A2. Significant accounting policies

The accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted for the audited consolidated financial statements of the Group for the financial year ended 31 December 2016, except for the adoption of the following amendments to MFRSs during the financial period:

Amendments to MFRS 107	Disclosure Initiative
Amendments to MFRS 112	Recognition of Deferred Tax for Unrealised Losses
Amendments to MFRS 12	Disclosure of Interests in Other Entities

The adoption of the above amendments had no significant impact on the interim financial statements of the Group.

A3. Seasonality or cyclicality of operations

The petrochemical industry and the operating margins in this industry have historically been cyclical. Changes in supply and demand, both domestically and internationally (including in Southeast Asia, China and other markets the Group sells to), and resulting utilisation rates are key factors that influence the cycle and profitability of the petrochemical industry.

Supply is affected by significant capacity additions in the market, and if such additions are not matched by corresponding growth in demand, average industry utilisation rates and margins will face downward pressures. Conversely, if capacity additions are not able to keep up with increased demand, average industry utilisation rates and margins face upward pressure. As a result, the petrochemical industry is cyclical and characterised by periods of tight supply, leading to high utilisation rates and margins, followed by periods of oversupply primarily resulting from significant capacity additions, leading to reduced utilisation rates and margins. The demand and supply balance may favour one position or the other for an extended period of time and may not rebalance quickly.

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Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A3. Seasonality or cyclicality of operations (cont'd)

As the petrochemical industry is cyclical, new investments usually occur at the same time, following periods of sustained higher profitability. Cyclical changes in supply and demand are usually closely linked to economic growth patterns, especially in China given its strong manufacturing base. Global supply is increasing, with renewed investments in the United States following increased shale gas availability, adding to the development of capacity in the Middle East and Asia, led by investments in China.

It is not possible to predict accurately the supply and demand balances, market conditions and other factors that may affect industry capacity utilisation rates and margins in the future.

We do not typically experience significant seasonality in our business operations.

A4. Exceptional items

There was no exceptional item during the period under review.

A5. Material changes in estimates

There were no material changes in estimates of the amounts reported in the most recent annual financial statements of the Group for the year ended 31 December 2016 that may have a material effect on the results of the period under review.

A6. Debt and equity securities

There were no material issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the period under review.

A7. Dividend paid

During the period under review, the Company paid a final single tier dividend in respect of the financial year ended 31 December 2016, of 6.95 sen per share on 1,727,792,000 ordinary shares, amounting to a dividend of RM120,000,000.

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Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A8. Operating segments

For management purposes, the Group is organised into business units based on its products and has 2 reportable segments, as follows:

(i) Olefins and derivative products - Manufacture and sale of olefins and derivative products

(ii) Polyolefin products - Manufacture and sale of polyolefin products

The following table provides an analysis of the Group's revenue and results by business segment:

	Olefins and derivative products RM'000	Polyolefin products RM'000	Eliminations and unallocated results RM'000	Total RM'000
For the period ended 30 June 2017				
Revenue				
External customers	713,983	2,976,822	-	3,690,805
Inter-segment	1,151,430	-	(1,151,430)	-
Total revenue	1,865,413	2,976,822	(1,151,430)	3,690,805
Expenses				
Depreciation of property, plant and equipment and amortisation of pre-paid lease payments	117,307	95,905	1,204	214,416
Property, plant and equipment written off	11,666	8,603	-	20,269
Write-down of inventories to net realisable value	10,218	625	-	10,843
Segment results	86,502	428,142	(879)	513,765

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Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A8. Operating segments (cont'd)

	Olefins and derivative products RM'000	Polyolefin products RM'000	Eliminations and unallocated results RM'000	Total RM'000
For the period ended 30 June 2016				
Revenue				
External customers	801,557	3,183,593	-	3,985,150
Inter-segment	1,284,111	-	(1,284,111)	-
Total revenue	2,085,668	3,183,593	(1,284,111)	3,985,150
Expenses/(income)				
Depreciation of property, plant and equipment and amortisation of pre-paid lease payments	118,711	88,315	-	207,026
Property, plant and equipment written off	756	1,118	-	1,874
Write-down of inventories to net realisable value	(2,095)	(1,442)	-	(3,537)
Segment results	165,307	690,785	(5,139)	850,953

Reconciliation of profit

	Cumulative quarter ended 30 June 2017 RM'000	Cumulative quarter ended 30 June 2016 RM'000
Segment profit of:		
- Olefins and derivative products	86,502	165,307
- Polyolefin products	428,142	690,785
Total segment profit	514,644	856,092
Fair value changes in derivatives	16,920	249
Inter-segment sales (elimination)	6,819	(3,303)
Share of results of associates	(18,506)	(3,275)
Other unallocated results	(6,112)	1,190
Profit before tax	513,765	850,953

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Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A9. Valuation of property, plant and equipment

There were no revaluations of property, plant and equipment for the period under review. As at 30 June 2017, all property, plant and equipment were stated at cost less accumulated depreciation.

A10. Material subsequent event

On 16 June 2017, the Company issued a prospectus in connection with the initial public offering (“IPO”) and the listing of shares (“The Listing“) of the Company on the Main Market of Bursa Malaysia Securities Berhad. The IPO and The Listing involved the issuance of 740,483,000 new ordinary shares (“IPO Shares”) in the Company at an issue price of RM8.00 and the listing of the Company's entire enlarged issued and paid-up share capital of RM7,970,677,683 comprising 2,468,274,500 ordinary shares on the Main Market of Bursa Malaysia Securities Berhad.

On 3 July 2017, Maybank Investment Bank Berhad, on behalf of the Board of Directors of LCT ("Board") announced the buy back offer by the Company in respect of IPO Shares subscribed by retail investors and non-cornerstone Bumiputera investors ("Affected Investors") ("Buy Back Offer"). It was also announced that the IPO Shares will be revised to 580,000,000 at an issue price of RM6.50, resulting in the listing of the Company's enlarged issued and paid-up share capital of RM5,816,813,683 comprising 2,307,791,500 ordinary shares on the Main Market of Bursa Malaysia Securities Berhad.("Enlarged Share Capital").

In aggregate, 59,200,900 IPO Shares subscribed by Affected Investors, representing 2.57% of Enlarged Share Capital and 10.21% of the IPO Shares will be affected if Affected Investors exercise the Buy Back Offer in full. Following the closing of the Buy Back Offer on 18 July 2017, the Company had received valid acceptance of the Buy Back Offer from 4,125 shareholders holding a total of 34,808,000 shares amounting to RM 226,252,000.

Based on the Record of Depositors as at 21 July 2017, the Company's public shareholding spread is approximately 24.0%, which does not comply with the public shareholding spread requirement pursuant to paragraph 8.02(1) of the Listing Requirements. The Company has submitted an application for an extension of time from Bursa Securities to rectify the shortfall in the public shareholding spread on 25 July 2017.

On 11 July 2017, the IPO and The Listing was completed.

Save as disclosed above, there were no other material events subsequent to the end of the current period.

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A11. Contingencies

There were no material contingent liabilities or contingent assets since the last consolidated statement of financial position as at 31 December 2016.

A12. Changes in composition of the Group

There was no material change in the composition of the Group during the period.

A13. Capital commitments

Capital expenditure as at the reporting date is as follows:

	As at 30.6.2017 RM'000	As at 31 December RM'000
Contracted but not provided for	670,813	672,414
Approved but not contracted for	456,731	1,101,938

A14. Fair value information

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximations of fair values.

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair values:

(i) Trade and other receivables
(ii) Loans and borrowings
(iii) Trade and other payables

The carrying amounts of these financial assets and liabilities are reasonable approximations of fair values due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A14. Fair value information (cont'd)

The carrying amounts of the current portion of loans and borrowings are reasonable approximations of fair values due to insignificant impact of discounting.

The fair values of loan and borrowings are estimated by discounting expected future cash flows at the market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the reporting date.

Derivatives

The fair value of the total return equity swap is calculated by reference to the quoted share price of the underlying asset.

Fair values of forward currency contracts are calculated by reference to forward rates quoted at the reporting date for contracts with similar maturity profiles.

Financial guarantees

The Company provides a financial guarantee to a bank for credit facilities granted to an associate. The fair value of the guarantee is not expected to be material due to the following reasons:

- The likelihood is remote that the guaranteed party will default within the guaranteed period; and

- The estimated loss exposure to the Company arising from the outstanding credit facility that is not recovered if the guaranteed party were to default is not expected to be significant as the guaranteed party has net assets in excess of the outstanding amount of credit facilities.

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Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A14. Fair value information (cont'd)

Fair value hierarchy

The following table is the fair value measurement hierarchy of the Group's assets and liabilities.

	Total RM'000	Quoted prices in active markets (Level 1) RM'000	Significant observable inputs (Level 2) RM'000	Significant unobservable inputs (Level 3) RM'000
At 30 June 2017				
Financial assets				
Derivatives				
- Total return equity swap	27,136	-	27,136	-
Financial liabilities				
Derivatives				
- Forward currency contracts	292	-	292	-

	Total RM'000	Quoted prices in active markets (Level 1) RM'000	Significant observable inputs (Level 2) RM'000	Significant unobservable inputs (Level 3) RM'000
At 31 December 2016				
Financial assets				
Derivatives				
- Total return equity swap	11,369	-	11,369	-
- Forward currency contracts	1,169	-	1,169	-
	12,538	-	12,538	-

There were no transfers between the various levels in the fair value hierarchy during the period.

A15. Related parties

For the purposes of these interim financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The significant related party transactions of the Group are as follows:

	Cumulative quarter ended	
	30 June 2017 RM'000	30 June 2016 RM'000
Ultimate holding company		
Sales of goods	27,014	33,922
Catalyst trial fee received/receivable	3,752	-
Management and consulting fees incurred	7,560	5,901
Purchase of materials	426	1,491
Commission expense	241	276
Royalty expense	170	424
Commission income	217	129
Capital expenditure incurred	5,985	1,520
IT support services fee paid/payable	94	26
Related companies		
Sales of goods	26,918	30,819
Capital expenditure incurred	329,630	195,129
IT support services fee paid/payable	921	610
Commission expense	929	1,566
Warehouse and logistics services incurred	491	498
Associate company		
Sales of goods	122,340	19,370
Sales of utilities	5,430	3,420
Income from shared services	258	444
Financial guarantee income	30	30
Lease rental income	1,072	989

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Part B - Other explanatory notes

B1. Review of group performance

(a) Performance of the current quarter against the corresponding quarter

	Individual quarter ended 30 June					
	2017	2016	2017	2016	2017	2016
	Group		Olefins and derivative products		Polyolefin products	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	1,776,280	1,999,715	281,521	395,406	1,494,759	1,604,309
Profit before tax	127,398	514,910	7,554	108,854	165,167	409,617
EBITDA*	259,009	618,043	75,824	172,718	217,883	454,657

* EBITDA refers to earnings before interest, taxation, depreciation and amortisation and is computed based on profit from operations plus depreciation of property, plant and equipment and amortisation of prepaid lease payments.

Group revenue decreased by 11.2% from RM1,999.7 million in corresponding quarter to RM1,776.3 million in current quarter. This was primarily a result of the decrease in the sales volume due to the decrease in production volume attributable to unplanned water interruption by Syarikat Air Johor (SAJ) in April 2017 and lower sales due to festive holiday in June 2017. Partially offsetting the effects of the decrease in sales volume on Group revenue was a 19.0% increase in average selling price.

The profit before tax decreased to RM127.4 million in second quarter (“Q2”) 2017 from RM514.9 million in Q2 2016. This is mainly due to increase in cost of goods sold by 8.5% arising from high inventory cost carried forward from turnaround activities in first quarter ("Q1") 2017 and also higher unit production cost due to water interruption in April 2017.

Other factors contributing to the decrease in profit before tax includes the fair value losses on derivatives of RM 21.9 million, property, plant and equipment written off of RM20.1 million and share of loss from associate of RM 16.0 million.

Part B - Other explanatory notes (cont'd)

B1. Review of group performance (cont'd)

(a) Performance of the current quarter against the corresponding quarter (cont'd)

Olefins and derivative products

The segment recorded a decrease in revenue of RM113.9 million from RM395.4 million in Q2 2016 to RM281.5 million in Q2 2017. This was primarily a result of the decrease in the sales volume of olefins and derivative products. The decrease was due to the lower production from the impact of water interruption by SAJ. The effect of the decrease in sales volume was partially offset by the increase in average selling price of 28.8% in Q2 2017 as compared to the corresponding quarter.

EBITDA decreased by RM96.9 million from RM172.7 million in Q2 2016 to RM75.8 million in Q2 2017. Profit before tax declined by RM101.3 million from RM108.9 million in Q2 2016 to RM7.6 million in Q2 2017. Decrease was due to higher production cost as a result of higher inventory cost carried forward from turnaround activities in Q1 and also higher unit production cost due to water interruption in April 2017.

Polyolefin products

The segment recorded a decrease in revenue of RM109.5 million from RM1,604.3 million in Q2 2016 to RM1,494.8 million in Q2 2017. This was primarily a result of the decrease in the segment's sales volume by 16.4% compared to corresponding quarter due to lower production rate attributable to SAJ water interruption incident and lower sales demand during festive season in June 2017.

EBITDA decreased by RM236.8 million from RM454.7 million in Q2 2016 to RM217.9 million in Q2 2017. Profit before tax decreased by RM244.4 million from RM409.6 million in Q2 2016 to RM165.2 million in Q2 2017. The decrease is mainly due to higher inventory cost carried forward from Q1 2017 turnaround activities and also water interruption incident in April 2017.

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Part B - Other explanatory notes (cont'd)

B1. Review of group performance (cont'd)

(b) Performance of the current period against the corresponding period

	Cumulative quarter ended 30 June					
	2017	2016	2017	2016	2017	2016
	Group		Olefins and derivative products		Polyolefin products	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	3,690,805	3,985,150	713,983	801,557	2,976,822	3,183,593
Profit before tax	513,765	850,953	86,502	165,307	428,142	690,785
EBITDA*	749,723	1,065,160	203,482	284,512	529,929	784,389

* EBITDA refers to earnings before interest, taxation, depreciation and amortisation and is computed based on profit from operations plus depreciation of property, plant and equipment and amortisation of prepaid lease payments.

Group revenue decreased by 7.4% from RM3,985.2 million in corresponding period to RM3,690.8 million in current period. This was primarily a result of the decrease in the sales volume due to the decrease in production volume attributable to routine turnaround carried out in February and March 2017 as well as the SAJ water interruption incident in April 2017. Lower sales demand due to festive season in June 2017 has also affected the revenue. Partially offsetting the effects of the decrease in sales volume on Group revenue was a 23.4% increase in average product selling price.

The current cumulative quarter profit before tax decreased to RM513.8 million in current period from RM851.0 million in the corresponding period. The decrease was due to the higher production cost as a result of turnaround activities in Q1 2017 as well as water interruption incident in April 2017.

Other factors contributing to the decrease in profit before tax includes the property, plant and equipment written off of RM20.3 million and share of loss from associate of RM 18.5 million.

Olefins and derivative products

The segment recorded a decrease in revenue of RM87.6 million in current period from RM801.6 million in corresponding period to RM714.0 million in 2017. This was primarily a result of the lower sales volume of olefins and derivatives products.

EBITDA is lowered by RM81.0 million from RM284.5 million in corresponding period to RM203.5 million in current period because of higher production cost as a result of turnaround activities in Q1 2017 as well as water interruption incident in April 2017.

B1. Review of group performance (cont'd)

(b) Performance of the current period against the corresponding period (cont'd)

Polyolefin products

The segment recorded a decrease in revenue of RM206.8 million from RM3,183.6 million in corresponding period to RM2,976.8 million in current period. This was primarily a result of the decrease in the segment's sales volume by 18.7% compared to corresponding period.

EBITDA decreased by RM254.5 million from RM784.4 million in corresponding period to RM529.9 million in current period and profit before tax decreased by RM262.7 million from RM690.8 million to RM428.1 million in current period respectively mainly because of higher production cost as a result of turnaround activities in Q1 2017 as well as water interruption incident in April 2017.

B2. Variation of results against the preceding quarter

	Individual quarter ended 30 June 2017 RM'000	Individual quarter ended 31 March 2017 RM'000
Revenue	1,776,280	1,914,525
Profit before tax	127,398	386,367
EBITDA	259,009	490,714

Revenue in current quarter decreased by RM138.2 million from RM1,914.5 million in Q1 2017 to RM1,776.3 million in Q2 2017 as sales volume dropped by 5.0% due to lower sales demand during festive season in June 2017. The decrease in current quarter revenue was also due to lower average product selling price, from RM4,958/MT in the preceding quarter to RM4,841/MT in the current quarter.

EBITDA decreased by RM231.7 million from RM490.7 million in Q1 2017 to RM259.0 million in Q2 2017 and profit before tax decreased by RM259.0 million from RM386.4 million to RM 127.4 million respectively as a result of the higher product cost due to high inventory cost carried forward from Q1 2017 turnaround activities and water interruption incident in April 2017.

Other factors contributing to the decrease in profit before tax includes the fair value losses on derivatives of RM 21.9 million, property, plant and equipment written off of RM20.1 million and share of loss from associate of RM 16.0 million.

Part B - Other explanatory notes (cont'd)

B3. Commentary on prospects

The results of our operations for the financial year ending 31 December 2017 are expected to be primarily influenced by the following factors:

(a) The demand and supply balance of petrochemical products in the market;
(b) Our ability to maximise production outputs; and
(c) Feedstock prices which is correlated to crude oil prices.

We anticipate that the petrochemicals market will continue to be resilient in the near term with demand growth for petrochemicals to outpace the rate of new supply additions in the region.

We expect our production output to normalise in second half 2017 although one of our crackers will have turnaround activities in July 2017.

Barring any unforeseen circumstances, our Board expects our performance for the financial year ending 31 December 2017 to be positive.

B4. Profit forecast or profit guarantee

Not applicable as there was no profit forecast or profit guarantee issued.

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B5. Profit before tax

Profit before tax is arrived at after charging/(crediting):

	Individual quarter ended		Cumulative quarter ended	
	30 June 2017 RM'000	30 June 2016 RM'000	30 June 2017 RM'000	30 June 2016 RM'000
Depreciation of property, plant and equipment	112,472	99,452	213,015	205,950
(Gain)/Loss on foreign exchange:				
- Realised	(7,459)	(6,388)	(6,347)	(14,271)
- Unrealised	(4,817)	11,670	(10,104)	(3,217)
Amortisation of prepaid lease payments	696	521	1,401	1,076
Inventories written off	222	10	296	10
Property, plant and equipment written off	20,135	1,118	20,269	1,874
Gain on disposal of property, plant and equipment	-	-	(12)	-
Gain on partial settlement of derivative financial instruments	(656)	-	(1,540)	-
Reversal of impairment loss on:				
- Trade receivables	-	(108)	-	(220)
- Other receivables	(8)	-	(18)	-
Write-down/(Reversal of write-down) of inventories to net realisable value	10,179	393	10,843	(3,537)
Bad debts recovered	-	-	-	(23)
Fair value changes in derivatives	21,933	(1,213)	(16,920)	(249)

B6. Finance costs

	Individual quarter ended		Cumulative quarter ended	
	30 June 2017 RM'000	30 June 2016 RM'000	30 June 2017 RM'000	30 June 2016 RM'000
Interest expense on:				
- Term loan	229	478	649	1,153
- Short term borrowings	126	2	433	23
	355	480	1,082	1,176
Bank charges	469	682	995	1,241
Letter of credit charges	279	363	640	855
Unwinding of discount on provision	2,500	2,054	5,042	4,164
Other finance costs	66	67	126	127
	3,669	3,646	7,885	7,563

Part B - Other explanatory notes (cont'd)

B7. Income tax

	Individual quarter ended		Cumulative quarter ended	
	30 June 2017 RM'000	30 June 2016 RM'000	30 June 2017 RM'000	30 June 2016 RM'000
Current tax expense				
Current year	7,502	2,320	16,537	4,234
Overprovision in prior year	-	(250)	-	(250)
	7,502	2,070	16,537	3,984
Deferred tax expenses				
Origination and reversal of temporary differences	6,158	107,685	34,863	167,498
Underprovision in prior year	-	1,038	5,763	3,105
	6,158	108,723	40,626	170,603
Total income tax recognised in profit or loss	13,660	110,793	57,163	174,587

The Group's effective tax rate of 11% for the period ended 30 June 2017 was significantly lower than the statutory tax rate of 24%. This was primarily due to the utilisation of estimated reinvestment allowances claimed in respect of capital expenditures incurred on a qualifying project and tax exempt income from a subsidiary that was granted the Principal Hub Incentive.

B8. Sales of unquoted investments/properties

There were no material disposals of unquoted investments or properties by the Group for the period under review.

B9. Quoted securities

There were no material dealings in quoted securities during the period under review.

Part B - Other explanatory notes (cont'd)

B10. Status of corporate proposals

Based on the IPO price of RM6.50 per share, the gross proceeds of RM3,770 million was raised from the Public Issue on 11 July 2017 in the Main Market of Bursa Malaysia Securities Berhad. The Company intends to utilise the proceeds in the following manner:

Details of use of proceeds	**Estimated timeframe for use from the date of Listing**	**Amount**	**Actual utilisation as at 30 June 2017**	**Percentage utilised**
		RM'000	**RM'000**	**%**
Funding of following projects:				
(i) Integrated Petrochemical Facility	Within 36 months	2,814,296	-	-
(ii) TE3 Project	Within 12 months	220,000	-	-
(iii) PP3 Project	Within 12 months	620,000	-	-
Estimated listing expenses	Within 6 months	115,704	-	-
Total gross proceeds		3,770,000	-	-

The utilisation of the proceeds as disclosed above should be read in conjunction with the prospectus of the Company dated 16 June 2017 ("Prospectus").

The status and progress of each of the projects as at 24 July 2017 are as follows:

(i) Integrated Petrochemical Facility
Currently conducting the Front End Engineering Design (FEED) study for the project to determine, among others, the conceptual design and a more detailed breakdown of the costs to be incurred and procurement of approvals and licences. The project is expected to be completed on schedule.

(ii) TE3 Project
The expected commercial operation of the project is in second half of 2017.

(iii) PP3 Project
The expected commercial operation of the project is in second half of 2018.

Please refer to Section 4.7.1 of the Prospectus for further details of the projects.

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Part B - Other explanatory notes (cont'd)

B11. Status of the certificate of function worthiness or Sertifikat Laik Fungsi involving properties of PT Lotte Chemical Titan Nusantara ("PT LCT Nusantara")

Under Law No. 28 of 2002 on building ("Law No. 28/2002"), a certificate of function worthiness or Sertifikat Laik Fungsi ("SLF") issued by the local government is required before a building can be used. The SLF serves as evidence that the building has been constructed in accordance with the permitted specification as provided in the building permit or Izin Mendirikan Bangunan ("IMB") and complies with the building safety standards. Regulation No. 5 of 2012 on Building which was subsequently issued by the Mayor of Cilegon on 27 February 2012 provides that any party who owns a building must first obtain an SLF. However, the implementation of such requirement was subject to specific regulations relating to the criteria and guidelines of issuing an SLF which was subsequently issued by the Mayor of Cilegon on 10 October 2016 as Regulation No. 44 of 2016. All the buildings owned by PT LCT Nusantara in Cilegon were erected before the coming into force of Law No. 28/2002 save for its coal boiler which was erected on part of the land held under HGB Certificate No.17/Rawa Arum before 10 October 2016. On 4 May 2017, PT LCT Nusantara had submitted the relevant application (together with supporting documents) to the public work department. As at 24 July 2017, PT LCT Nusantara was in the midst of completing the surveying process on the relevant properties in accordance with the administrative requirements and targets to submit the survey data to the public work department in August 2017. The assessment on the completeness of the administrative documents by the public work department is expected to commence thereafter. In this regard, the application process is still in progress and the Company will continue to disclose the status of the SLF application in the next quarterly report."
Please refer to Annexure B of the Prospectus for further details of the properties of PT LCT Nusantara.

B12. Borrowings

	As at 30 June 2017 RM'000	As at 31 December 2016 RM'000
Current		
Secured:		
USD denominated term loan	36,516	75,365

B13. Derivative financial instruments

The Group's derivative financial instruments are as disclosed in Note A14.

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Part B - Other explanatory notes (cont'd)

B14. Fair value changes of financial liabilities

Other than derivatives which are measured at fair value and are classified as liabilities only when they are at a loss position as at the end of the reporting period, the Group does not remeasure its financial liabilities at fair value after initial recognition.

B15. Supplementary financial information on the breakdown of realised and unrealised profits or losses

This information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirement, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

The balance of the Group's realised and unrealised retained earnings is as follows:

	As at 30 June 2017 RM'000	As at 31 December 2016 RM'000
Total retained earnings of the Company and its subsidiaries		
Realised	5,237,315	4,951,341
Unrealised	(354,505)	(382,321)
	4,882,810	4,569,020
Total share of retained losses from associates		
Realised	(29,312)	(10,806)
Total realised and unrealised	4,853,498	4,558,214
Less: Consolidation adjustments	(536,002)	(576,471)
Total retained earnings of the Group	4,317,496	3,981,743

Part B - Other explanatory notes (cont'd)

B16. Off balance sheet financial instruments

There were no off balance sheet financial instruments for the period ended 30 June 2017.

B17. Material litigation

As at the latest practicable date, there was no material litigation taken or threatened against the Company and its subsidiaries.

B18. Dividends

Other than disclosed in Note A7, no dividend has been paid or declared by the Company for the period ended 30 June 2016 and 30 June 2017.

B19. Earnings per share ("EPS")

Basic and diluted EPS are calculated by dividing net profit for the period attributable to the owner of the Company by the weighted average number of ordinary shares outstanding during the period. The Company did not issue any instruments that will give effect to dilutive potential ordinary shares.

The following table reflects the income and share data used in the basic and diluted EPS computations:

	Individual quarter ended		Cumulative quarter ended	
	30 June 2017 RM'000	30 June 2016 RM'000	30 June 2017 RM'000	30 June 2016 RM'000
Net profit attributable to the owner of the Company (RM'000)	113,616	404,032	455,770	676,204
Weighted average number of ordinary shares at the end of the period ('000)	1,727,792	1,727,792	1,727,792	1,727,792
Basic and diluted EPS (sen)	6.58	23.38	26.38	39.14

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Part B - Other explanatory notes (cont'd)

B20. Audit report of preceding annual financial statements

The auditors have expressed an unqualified opinion on the audited consolidated financial statements of the Group and the Company for the financial year ended 31 December 2016.