

LOTTE CHEMICAL TITAN HOLDING BERHAD
(222357-P)

**Unaudited condensed consolidated
interim financial statements**

For third quarter ended 30 September 2017

222357-P

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

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Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)

Unaudited condensed consolidated interim financial statements
For the third quarter ended 30 September 2017

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 September 2017, which should be read in conjunction with the accompanying explanatory notes on page 8 to 29.

Unaudited condensed consolidated statement of comprehensive income

| | Individual quarter ended | | Changes | | Cumulative quarter ended | | Changes | |
|-----------------------------------|--------------------------|-------------------|-----------|--------|--------------------------|-------------------|-----------|-------|
| | 30 September 2017 | 30 September 2016 | | | 30 September 2017 | 30 September 2016 | | |
| Note | RM'000 | RM'000 | RM'000 | % | RM'000 | RM'000 | RM'000 | % |
| Revenue | 2,016,169 | 2,005,100 | 11,069 | 1% | 5,706,974 | 5,990,250 | (283,276) | -5% |
| Cost of goods sold | (1,711,925) | (1,509,547) | (202,378) | 13% | (4,791,945) | (4,563,374) | (228,571) | 5% |
| Gross profit | 304,244 | 495,553 | (191,309) | -39% | 915,029 | 1,426,876 | (511,847) | -36% |
| Other income | 6,267 | 3,448 | 2,819 | 82% | 17,967 | 9,649 | 8,318 | 86% |
| Distribution expenses | (25,647) | (25,210) | (437) | 2% | (65,267) | (77,927) | 12,660 | -16% |
| Administrative expenses (Note 1) | (22,087) | (18,475) | (3,612) | 20% | (67,298) | (57,953) | (9,345) | 16% |
| Foreign exchange differences | 11,213 | (6,723) | 17,936 | -267% | 27,664 | 10,765 | 16,899 | 157% |
| Fair value changes on derivatives | (8,300) | (6,510) | (1,790) | 27% | 8,620 | (6,261) | 14,881 | -238% |
| Other expenses (Note 1) | (25,718) | (3,001) | (22,717) | 757% | (61,436) | (7,933) | (53,503) | 674% |
| Profit from operations | 239,972 | 439,082 | (199,110) | -45% | 775,279 | 1,297,216 | (521,937) | -40% |
| Finance income | 27,475 | 2,045 | 25,430 | 1244% | 32,324 | 5,702 | 26,622 | 467% |
| Finance costs | (4,008) | (3,974) | (34) | 1% | (11,893) | (11,537) | (356) | 3% |
| Net finance costs | 23,467 | (1,929) | 25,396 | -1317% | 20,431 | (5,835) | 26,266 | -450% |
| Share of results of associates | (18,553) | (1,147) | (17,406) | 1518% | (37,059) | (4,422) | (32,637) | 738% |
| Profit before tax | 244,886 | 436,006 | (191,120) | -44% | 758,651 | 1,286,959 | (528,308) | -41% |
| Income tax | (14,750) | (87,412) | 72,662 | -83% | (71,913) | (261,999) | 190,086 | -73% |
| Net profit for the period | 230,136 | 348,594 | (118,458) | -34% | 686,738 | 1,024,960 | (338,222) | -33% |

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

| | Individual quarter ended | | Cumulative quarter ended | | |
|---|--------------------------|-------------------|--------------------------|-------------------|-------------------|
| | Note | 30 September 2017 | 30 September 2016 | 30 September 2017 | 30 September 2016 |
| | | RM'000 | RM'000 | RM'000 | 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 | | (133,498) | 216,840 | (482,342) | (192,281) |
| | | <u>(133,498)</u> | <u>216,840</u> | <u>(482,359)</u> | <u>(192,281)</u> |
| Total comprehensive income for the period | | <u>96,638</u> | <u>565,434</u> | <u>204,379</u> | <u>832,679</u> |
| Net profit/(loss) for the period attributable to: | | | | | |
| Owner of the Company | | 230,312 | 348,322 | 686,082 | 1,024,526 |
| Non-controlling interests | | (176) | 272 | 656 | 434 |
| | | <u>230,136</u> | <u>348,594</u> | <u>686,738</u> | <u>1,024,960</u> |
| Total comprehensive income/(loss) for the period attributable to: | | | | | |
| Owner of the Company | | 97,339 | 564,824 | 198,872 | 832,616 |
| Non-controlling interests | | (701) | 610 | 5,507 | 63 |
| | | <u>96,638</u> | <u>565,434</u> | <u>204,379</u> | <u>832,679</u> |
| Basic and diluted earnings per ordinary share (sen) | B19 | <u>10.42</u> | <u>20.16</u> | <u>36.29</u> | <u>59.30</u> |

Note 1: The Group's listing expenses were previously presented as administrative expenses in the statement of comprehensive income for the quarter ended 30 June 2017. However, management considers it to be more relevant if listing expenses are presented as other expenses.

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.

Lotte Chemical Titan Holding Berhad
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Unaudited condensed consolidated statement of financial position

| | Note | As at 30 September 2017 RM'000 | As at 31 December 2016 RM'000 |
|---|------|---|--|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 5,114,571 | 4,378,823 |
| Prepaid lease payments | | 54,173 | 36,278 |
| Investments in associates | | 2,136,786 | 1,552,117 |
| Deferred tax assets | | 39 | 160 |
| Derivative financial instruments | | - | 11,369 |
| | | <u>7,305,569</u> | <u>5,978,747</u> |
| Current assets | | | |
| Inventories | | 1,067,130 | 1,147,072 |
| Trade receivables | | 838,526 | 1,143,346 |
| Tax recoverable | | 8,298 | 8,805 |
| Prepayments | | 39,779 | 21,008 |
| Derivative financial instruments | | 14,639 | 1,169 |
| Cash and bank balances | | 3,609,465 | 1,040,344 |
| | | <u>5,577,837</u> | <u>3,361,744</u> |
| Total assets | | <u><u>12,883,406</u></u> | <u><u>9,340,491</u></u> |
| Equity and liabilities | | | |
| Capital and reserves | | | |
| Share capital | | 5,816,813 | 1,727,792 |
| Share premium | | - | 294,113 |
| Other reserves | | 1,431,649 | 1,943,750 |
| Retained earnings | | 4,479,124 | 3,981,743 |
| Treasury shares, at cost | | (226,252) | - |
| Total equity attributable to owner of the Company | | 11,501,334 | 7,947,398 |
| Non-controlling interests | | 27,529 | 22,022 |
| | | <u>11,528,863</u> | <u>7,969,420</u> |

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

| | Note | As at 30 September 2017 RM'000 | As at 31 December 2016 RM'000 |
|---|------|---|--|
| Non-current liabilities | | | |
| Provision | | 314,411 | 325,919 |
| Deferred tax liabilities | | 387,357 | 364,440 |
| Defined benefit obligation | | 16,057 | 14,967 |
| | | <u>717,825</u> | <u>705,326</u> |
| Current liabilities | | | |
| Loans and borrowings | B12 | - | 75,365 |
| Trade and other payables | | 633,210 | 590,182 |
| Provision for taxation | | 3,348 | - |
| Other financial liabilities | | 160 | 198 |
| Derivative financial instruments | | - | - |
| | | <u>636,718</u> | <u>665,745</u> |
| Total liabilities | | <u>1,354,543</u> | <u>1,371,071</u> |
| Total equity and liabilities | | <u>12,883,406</u> | <u>9,340,491</u> |
| Net assets per share attributable to ordinary equity holders of the parent (RM) | | <u>5.06</u> | <u>4.60</u> |

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

| Note | <----- Attributable to owners of the Company -----> | | | | | Distributable | Total equity attributable to owners of the Company | Non-controlling interest | Total | |
|---|---|---------------|-----------------|-----------------------------|--------------------------------------|---------------|--|--------------------------|-----------|-------------------|
| | Share capital | Share premium | Treasury Shares | Capital redemption reserves | Foreign currency translation reserve | | | | | Retained earnings |
| Cumulative quarter ended 30 September 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 | - | - | - | - | - | 1,024,526 | 1,024,526 | 434 | 1,024,960 | |
| Other comprehensive loss | - | - | - | - | (191,910) | - | (191,910) | (371) | (192,281) | |
| Total comprehensive (loss)/income for the period | - | - | - | - | (191,910) | 1,024,526 | 832,616 | 63 | 832,679 | |
| At 30 September 2016 | | | | | | | | | | |
| | 1,727,792 | 294,113 | - | 24,908 | 1,322,729 | 3,684,928 | 7,054,470 | 10,853 | 7,065,323 | |
| Cumulative quarter ended 30 September 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 | - | - | - | - | - | 686,082 | 686,082 | 656 | 686,738 | |
| Other comprehensive (loss)/income | - | - | - | - | (487,193) | (17) | (487,210) | 4,851 | (482,359) | |
| Total comprehensive (loss)/income for the period | - | - | - | - | (487,193) | 686,065 | 198,872 | 5,507 | 204,379 | |
| Issuance of ordinary shares | A6 | 3,770,000 | - | - | - | - | 3,770,000 | - | 3,770,000 | |
| Share issue expenses | | - | - | - | - | (68,684) | (68,684) | - | (68,684) | |
| Dividends | A7, B18 | - | - | - | - | (120,000) | (120,000) | - | (120,000) | |
| Purchase of treasury shares | A6 | - | - | (226,252) | - | - | (226,252) | - | (226,252) | |
| Transition to no par value regime* | | 319,021 | (294,113) | - | (24,908) | - | - | - | - | |
| At 30 September 2017 | | | | | | | | | | |
| | | 5,816,813 | - | (226,252) | - | 1,431,649 | 4,479,124 | 11,501,334 | 27,529 | 11,528,863 |

* 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.

Lotte Chemical Titan Holding Berhad
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Unaudited condensed consolidated interim financial statements
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Unaudited condensed consolidated statement of cash flows

| | Cumulative quarter ended | |
|--|---------------------------------|---------------------|
| | 30 September | 30 September |
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Cash flows from operating activities | | |
| Profit before tax | 758,651 | 1,286,959 |
| Adjustments for:- | | |
| Depreciation of property, plant and equipment | 322,842 | 302,331 |
| Amortisation of prepaid land lease payments | 2,079 | 1,601 |
| Finance costs | 11,893 | 11,537 |
| Property, plant and equipment written off | 38,665 | 3,110 |
| Reversal of write-down of inventories to net realisable value | - | (3,513) |
| Expenses recognised in respect of defined benefit plan | 2,956 | 1,932 |
| Inventories written off | 302 | 217 |
| (Reversal of impairment loss)/Impairment loss on: | | |
| - Trade receivables | - | (221) |
| - Other receivables | (27) | 67 |
| Share of results of associates | 37,059 | 4,422 |
| Bad debts recovered | (2) | (11) |
| Gain on disposal of property, plant and equipment | (56) | (11) |
| Finance income | (32,324) | (5,702) |
| Fair value changes in derivatives | (8,620) | 6,261 |
| Gain on partial settlement of derivative financial instruments | (2,927) | - |
| Listing expenses recognised as other expenses | 14,190 | - |
| Unrealised (gain)/loss on foreign exchange | (14,653) | 3,140 |
| Operating profit before working capital changes | 1,130,028 | 1,612,119 |
| Change in inventories | 14,020 | 180,356 |
| Change in trade and other receivables | 58,706 | (72,885) |
| Change in trade and other payables | 121,014 | (85,632) |
| Cash generated from operations | 1,323,768 | 1,633,958 |
| Payments under defined benefit plan | (853) | (357) |
| Finance costs paid | (3,513) | (3,671) |
| Income tax (paid)/refunded | (6,502) | 1,354 |
| Net cash generated from operating activities | 1,312,900 | 1,631,284 |

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

| | Cumulative quarter ended | 30 September | 30 September |
|--|---------------------------------|-------------------------|---------------------|
| | 2017 | 2016 | 2016 |
| | RM'000 | RM'000 | RM'000 |
| Cash flows from investing activities | | | |
| Finance income received | 32,324 | 5,702 | |
| Proceeds from disposal of property, plant and equipment | 24 | 11 | |
| Proceeds from partial settlement of derivative financial instruments | 8,259 | 14 | |
| Acquisition of property, plant and equipment | (1,244,320) | (602,622) | |
| Prepaid lease payments made | (21,834) | - | |
| Investment in associate | (747,046) | (1,388,683) | |
| Acquisition of long term financial instruments | - | (17,530) | |
| Proceeds from disposal of shares in subsidiary | - | 17,373 | |
| Net cash used in investing activities | <u>(1,972,593)</u> | <u>(1,985,735)</u> | |
| Cash flows from financing activities | | | |
| Interest paid on long-term borrowings | (893) | (1,638) | |
| Repayments of long-term borrowings | (73,335) | (68,158) | |
| Net proceeds from share issue | 3,770,000 | - | |
| Purchase of treasury shares | (226,252) | - | |
| Share issuance costs and listing expenses paid | (79,250) | - | |
| Dividend paid | (120,000) | - | |
| Net cash generated from/(used in) financing activities | <u>3,270,270</u> | <u>(69,796)</u> | |
| Net increase/(decrease) in cash and cash equivalents | 2,610,577 | (424,247) | |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | (41,456) | (61,173) | |
| Cash and cash equivalents at beginning of period | 1,040,344 | 1,511,001 | |
| Cash and cash equivalents at end of period | <u>3,609,465</u> | <u>1,025,581</u> | |

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 26 October 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 cyclicity 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 cyclicity 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

During the current interim period, the Company issued 580,000,000 new ordinary shares at the issue price of RM6.50 each through the completion of its Initial Public Offering ("IPO") on 11 July 2017. The new ordinary shares rank pari passu in all respects with existing ordinary shares of the Company.

The Company also repurchased 34,808,000 of its issued ordinary shares from the open market at an average price of RM6.50 per share during the current interim period. The total consideration paid for the purchases was RM226,252,000 and this was funded through the IPO proceeds. The shares repurchased are being held as treasury shares in accordance with Section 127 of the Companies Act 2016.

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

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

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.

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 September 2017 | | | | |
| Revenue | | | | |
| External customers | 1,025,357 | 4,681,617 | - | 5,706,974 |
| Inter-segment | <u>1,883,232</u> | <u>-</u> | <u>(1,883,232)</u> | <u>-</u> |
| Total revenue | <u>2,908,589</u> | <u>4,681,617</u> | <u>(1,883,232)</u> | <u>5,706,974</u> |
| Expenses | | | | |
| Depreciation of property, plant and equipment and amortisation of prepaid lease payments | 180,186 | 142,828 | 1,907 | 324,921 |
| Property, plant and equipment written off | 30,062 | 8,603 | - | 38,665 |
| Segment results | <u>132,362</u> | <u>630,943</u> | <u>(4,654)</u> | <u>758,651</u> |

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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 September 2016 | | | | |
| Revenue | | | | |
| External customers | 1,200,941 | 4,789,309 | - | 5,990,250 |
| Inter-segment | 1,992,550 | - | (1,992,550) | - |
| Total revenue | <u>3,193,491</u> | <u>4,789,309</u> | <u>(1,992,550)</u> | <u>5,990,250</u> |
| Expenses/(income) | | | | |
| Depreciation of property, plant and equipment and amortisation of prepaid lease payments | 173,448 | 130,484 | - | 303,932 |
| Property, plant and equipment written off | 773 | 2,337 | - | 3,110 |
| Reversal of write-down of inventories to net realisable value | (2,096) | (1,417) | - | (3,513) |
| Segment results | <u>226,011</u> | <u>1,070,685</u> | <u>(9,737)</u> | <u>1,286,959</u> |

Adjustments and eliminations

Finance income are allocated to individual segments other than finance income derived from the Company's proceeds from its initial public offering amounting to approximately RM26,518,000 for the financial period ended 30 September 2017 which are managed on a group basis.

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

A8. Operating segments (cont'd)

Reconciliation of profit

| | Cumulative quarter ended | |
|-----------------------------------|---------------------------------|-------------------------|
| | 30 September | 30 September |
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Segment profit of: | | |
| - Olefins and derivative products | 132,362 | 226,011 |
| - Polyolefin products | 630,943 | 1,070,685 |
| Total segment profit | <u>763,305</u> | <u>1,296,696</u> |
| Fair value changes in derivatives | 8,620 | (6,261) |
| Inter-segment sales (elimination) | 6,819 | - |
| Share of results of associates | (37,059) | (4,422) |
| Finance income | 26,518 | - |
| Other unallocated results | <u>(9,552)</u> | <u>946</u> |
| Profit before tax | <u><u>758,651</u></u> | <u><u>1,286,959</u></u> |

A9. Valuation of property, plant and equipment

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

A10. Material subsequent event

There were no material events subsequent to the end of the current period.

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.

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

A13. Capital commitments

Capital expenditure as at the reporting date is as follows:

| | As at 30 September RM'000 | As at 31 December RM'000 |
|---------------------------------|---------------------------------|--------------------------------|
| Contracted but not provided for | <u>444,137</u> | <u>672,414</u> |
| Approved but not contracted for | <u>206,215</u> | <u>1,101,938</u> |

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) 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.

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.

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

A14. Fair value information (cont'd)

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.

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 September 2017 | | | | |
| Financial assets | | | | |
| Derivatives | | | | |
| - Total return equity swap | 14,609 | - | 14,609 | - |
| - Forward currency contracts | 30 | - | 30 | - |
| | <u>14,639</u> | <u>-</u> | <u>14,639</u> | <u>-</u> |

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

A14. Fair value information (cont'd)

| | 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 | - |
| | <u>12,538</u> | <u>-</u> | <u>12,538</u> | <u>-</u> |

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.

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

A15. Related parties (cont'd)

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

| | Cumulative quarter ended | |
|---|---------------------------------|---------------------|
| | 30 September | 30 September |
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Ultimate holding company | | |
| Sales of goods | 42,707 | 53,083 |
| Catalyst trial fee received/receivable | 5,989 | - |
| Management and consulting fees incurred | 9,947 | 7,744 |
| Purchase of materials | 426 | 2,255 |
| Commission expense | 496 | 401 |
| Royalty expense | 252 | 617 |
| Commission income | 259 | 252 |
| Capital expenditure incurred | 7,440 | 5,142 |
| Expense from shared services | 435 | - |
| IT support services fee paid/payable | 105 | 45 |
| | <u> </u> | <u> </u> |
| Related companies | | |
| Sales of goods | 38,636 | 43,727 |
| Capital expenditure incurred | 622,535 | 427,804 |
| IT support services fee paid/payable | 1,905 | 1,988 |
| Commission expense | 1,472 | 2,134 |
| Warehouse and logistics services incurred | 551 | 853 |
| | <u> </u> | <u> </u> |
| Associate company | | |
| Sales of goods | 171,306 | 39,672 |
| Sales of utilities | 7,952 | 5,095 |
| Income from shared services | 309 | 505 |
| Financial guarantee income | 27 | 57 |
| Lease rental income | 1,609 | 1,501 |
| | <u> </u> | <u> </u> |

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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 September | | | | | |
|-------------------|---------------------------------------|----------------|---------------------------------|----------------|---------------------|----------------|
| | 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 | 2,016,169 | 2,005,100 | 311,374 | 399,384 | 1,704,795 | 1,605,716 |
| Profit before tax | 244,886 | 436,006 | 45,860 | 60,704 | 202,801 | 379,900 |
| EBITDA* | <u>350,477</u> | <u>535,988</u> | <u>109,522</u> | <u>114,452</u> | <u>253,200</u> | <u>424,000</u> |

* 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.

Overall market started off moderately in Q3 2017 after the Hari Raya holidays. Market demand rebounded by late July following the Chinese government's announcement to ban importation of plastic scrap by end of 2017. The capacities taken offline caused by Hurricane Harvey in United States had temporarily affected supply from United States, especially to Latin America. The market was briefly lifted up as concern on the supply disruption from US lingered. Meanwhile, supply from other regions was reportedly diverted to Latin America to fill the void.

Group plant utilization was lower at average 77% compared to average 92% in corresponding quarter. This was mainly due to statutory routine turnaround (every 5-6 years) for Cracker 1 plant in Malaysia and Indonesia polyethylene plants load was reduced during the quarter due to poor polyethylene economics as a result of tight ethylene supply and high cost.

Overall average production cost increased on higher feedstock cost.

Group revenue rose moderately by RM 11 million primarily due to increase in selling price.

Profit before tax decreased by RM 191.1 million or 43.8% mainly due to lower sales volume, higher unit production cost due to statutory routine plant turnaround for cracker 1 and overall lower profit margin spread.

Other factors mitigating the decrease in profit before tax includes interest income on IPO proceed of RM 26 million and increase in gain on foreign exchange by RM17.9 million which is offset by the increase in fixed asset written off by RM17.2 million and higher share of loss in associates by RM17.4 million.

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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 decrease in revenue of RM88 million from RM399.4 million in Q3 2016 to RM311.4 million in Q3 2017. This was primarily a result of the decrease in the sales volume of olefins and derivative products. The effect of the decrease in sales volume was partially offset by the increase in average selling price of 23.9% in Q3 2017 as compared to the corresponding quarter.

EBITDA decreased by RM4.9 million from RM114.5 million in Q3 2016 to RM109.5 million in Q3 2017. Profit before tax declined by RM14.8 million from RM60.7 million in Q3 2016 to RM45.9 million in Q3 2017. Decrease was due to higher unit production cost as a result of higher feedstock cost.

Polyolefin products

The segment recorded an increase in revenue of RM99.1 million from RM1,605.7 million in Q3 2016 to RM1,704.8 million in Q3 2017. This was primarily a result of the increase in the segment's selling price by 4.7% compared to corresponding quarter.

EBITDA decreased by RM170.8 million from RM424 million in Q3 2016 to RM253.2 million in Q3 2017. Profit before tax decreased by RM177.1 million from RM379.9 million in Q3 2016 to RM202.8 million in Q2 2017. It is mainly contributed by higher unit production cost as a result of higher feedstock price in Q3 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 September | | | | | |
|-------------------|---------------------------------------|-----------|---------------------------------|-----------|---------------------|-----------|
| | 2017 | | 2016 | | 2016 | |
| | Group | | Olefins and derivative products | | Polyolefin products | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 5,706,974 | 5,990,250 | 1,025,357 | 1,200,941 | 4,681,617 | 4,789,309 |
| Profit before tax | 758,651 | 1,286,959 | 132,362 | 226,011 | 630,943 | 1,070,685 |
| EBITDA* | 1,100,200 | 1,601,148 | 313,004 | 398,964 | 783,129 | 1,208,389 |

* 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.

Despite the challenges posed during the period, the Group was able to generate a sales revenue of RM5,707.0 million and cash generated from operating activities of RM1,312.9 million. The fundamentals of its business operations and the petrochemical business environment remains intact during the current period.

The group utilisation rate decreased from 92% to 69% mainly due to statutory routine turnaround activities and the water interruption incident at the Malaysia complex.

Average product selling price trended upwards in tandem with rising feedstock price.

Group revenue decreased by 5% from RM 5,990.2 million to RM 5,707.0 million primarily due to decreased in sales volume. This decrease is attributed by lower production volume due to statutory routine turnaround for Malaysia complex and lower Indonesia polyethylene plants load due to poor polyethylene economics as a result of tight ethylene supply and high cost. Partially offsetting the decrease in sales volume was a 19.9% increase in average product selling price.

The current cumulative quarter profit before tax decreased to RM 758.7 million from RM 1,287.0 million. The decrease was mainly due to higher production cost as a result of statutory routine turnaround activities for Malaysia complex as well as water interruption incident in April 2017 and overall lower profit margin spread.

Other factors affecting the profit before tax for the current cumulative period includes increase in share of loss in associates by RM32.6 million and higher fixed asset written off by RM35.6 million which were offset by IPO interest income of RM26 million.

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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 (cont'd)

Olefins and derivative products

The segment recorded a decrease in revenue of RM175.5 million in current period from RM1,200.9 million in corresponding period to RM1,025.4 million in 2017. This was primarily a result of the lower sales volume of olefins and derivatives products.

EBITDA is lowered by RM86 million from RM399 million in corresponding period to RM313 million in current period and profit before tax decreased by RM94 million from RM226 million to RM132 million in the current period respectively mainly because of higher average unit cost of products due to higher feedstock cost and turnaround activities as well as water interruption incident in April 2017.

Polyolefin products

The segment recorded a decrease in revenue of RM107.7 million from RM4,789.3 million in corresponding period to RM4,681.6 million in current period. This was primarily a result of the decrease in the segment's sales volume by 12.0% compared to corresponding period. It is partially offset by higher average selling price of 11.1% in 2017.

EBITDA decreased by RM425.3 million from RM1,208.4 million in corresponding period to RM783.1 million in current period and profit before tax decreased by RM439.7 million from RM1,070.7 million to RM630.9 million in current period respectively mainly because of higher average unit cost of products due to higher feedstock cost in 2017 comparing to corresponding period and turnaround activities as well as water interruption incident in April 2017.

B2. Variation of results against the preceding quarter

| | Individual quarter ended 30 September 2017 RM'000 | Individual quarter ended 30 June 2017 RM'000 |
|-------------------|--|---|
| Revenue | 2,016,169 | 1,776,280 |
| Profit before tax | 244,886 | 127,398 |
| EBITDA | <u>350,477</u> | <u>259,009</u> |

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Part B - Other explanatory notes (cont'd)

B2. Variation of results against the preceding quarter (cont'd)

Group revenue rose by RM 239.9 million or 13.5% to RM 2,016.2 million primarily due to increase in sales volume driven by higher production volume.

Profit before tax increased by RM 117.5 million or 92.2% due to improved sales volume and margin spread compared to Q2.

Overall average production cost decreased on lower feedstock cost and improved plant efficiency.

Plants utilization rates improved from average 71% to 77% from Q2 to Q3 due to stable plant operation compared to Q2 whereby plant operation was affected by water interruption.

Other factors contributing to higher profit before tax for the current quarter includes IPO interest income of RM26 million and lower Total Return Equity Swap ("TRES") fair value loss by RM13.6 million.

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 operational efficiency; 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.

In Q4 2017, we expect demand for polyolefin products to be stable with Latin America market continue to look out for supply outside of United States until supply from United States is stable post hurricane impact. While olefins and derivative are expected to be slightly bearish as supply improved on the completion of regional cracker planned turnaround.

We expect our production output in Q4 2017 to be higher compared to Q3 in view of no major planned plant shut down and the expected commissioning of our new TE3 plant in Q4 2017. Indonesia polyethylene plant load will remain low until polyethylene economics return.

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

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Part B - Other explanatory notes (cont'd)

B4. Profit forecast or profit guarantee

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

B5. Profit before tax

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

| | Individual quarter ended 30 September | | Cumulative quarter ended 30 September | |
|--|--|----------------|--|----------------|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Depreciation of property, plant and equipment | 109,827 | 96,381 | 322,842 | 302,331 |
| (Gain)/Loss on foreign exchange: | | | | |
| - Realised | (6,664) | 366 | (13,011) | (13,905) |
| - Unrealised | (4,549) | 6,357 | (14,653) | 3,140 |
| Amortisation of prepaid lease payments | 678 | 525 | 2,079 | 1,601 |
| Inventories written off | 6 | 207 | 302 | 217 |
| Property, plant and equipment written off | 18,396 | 1,236 | 38,665 | 3,110 |
| Gain on disposal of property, plant and equipment | (44) | (11) | (56) | (11) |
| Gain on partial settlement of derivative financial instruments | (1,387) | - | (2,927) | - |
| (Reversal of impairment loss)/Impairment loss on: | | | | |
| - Trade receivables | - | (1) | - | (221) |
| - Other receivables | (9) | 67 | (27) | 67 |
| (Reversal of write-down)/Write-down of inventories to net realisable value | (10,843) | 24 | - | (3,513) |
| Bad debts recovered | (2) | - | (2) | (11) |
| Fair value changes in derivatives | 8,300 | 6,510 | (8,620) | 6,261 |

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Part B - Other explanatory notes (cont'd)

B6. Finance costs

| | Individual quarter ended 30 September | | Cumulative quarter ended 30 September | |
|------------------------------------|--|--------------|--|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Interest expense on: | | | | |
| - Term loan | 244 | 485 | 893 | 1,638 |
| - Short term borrowings | 88 | 129 | 521 | 152 |
| | <u>332</u> | <u>614</u> | <u>1,414</u> | <u>1,790</u> |
| Bank charges | 844 | 802 | 1,839 | 2,043 |
| Letter of credit charges | 323 | 427 | 963 | 1,282 |
| Unwinding of discount on provision | 2,445 | 2,064 | 7,487 | 6,228 |
| Other finance costs | 64 | 67 | 190 | 194 |
| | <u>4,008</u> | <u>3,974</u> | <u>11,893</u> | <u>11,537</u> |

B7. Income tax

| | Individual quarter ended 30 September | | Cumulative quarter ended 30 September | |
|--|--|----------------|--|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Current tax expense | | | | |
| Current year | 9,503 | 1,645 | 26,040 | 5,879 |
| Overprovision in prior year | (32) | (5,606) | (32) | (5,856) |
| | <u>9,471</u> | <u>(3,961)</u> | <u>26,008</u> | <u>23</u> |
| Deferred tax expenses | | | | |
| Origination and reversal of temporary differences | 2,351 | 89,369 | 37,214 | 256,867 |
| Underprovision in prior year | 2,928 | 2,004 | 8,691 | 5,109 |
| | <u>5,279</u> | <u>91,373</u> | <u>45,905</u> | <u>261,976</u> |
| Total income tax recognised in profit or loss | <u>14,750</u> | <u>87,412</u> | <u>71,913</u> | <u>261,999</u> |

The Group's effective tax rate of 9.5% for the 9 months period ended 30 September 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.

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Part B - Other explanatory notes (cont'd)

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.

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. RM 226.3 million of the proceeds were utilised for purchase of treasury shares. The Company intends to utilise the remaining proceeds in the following manner:

| Details of use of proceeds | Estimated timeframe for use from the date of Listing | Amount RM'000 | Actual utilisation as at 30 September 2017 RM'000 | Percentage utilised % |
|---------------------------------------|---|--------------------------|--|--------------------------------------|
| Funding of following projects: | | | | |
| (i) Integrated Petrochemical Facility | Within 36 months | 2,588,044 | - | - |
| (ii) TE3 Project | Within 12 months | 220,000 | 220,000 | 100% |
| (iii) PP3 Project | Within 12 months | 620,000 | 85,000 | 14% |
| Estimated listing expenses | Within 6 months | 115,704 | 79,250 | 68% |
| | | <u>3,543,748</u> | <u>384,250</u> | <u>11%</u> |

The utilisation of the proceeds as disclosed above should be read in conjunction with the prospectus of the Company dated 16 June 2017 ("Prospectus"). In accordance to the Prospectus, the balance of the unutilised funds are kept as deposits, short-term money-market instruments or money-market unit trust funds in Malaysia.

The status and progress of each of the projects as at 19 October 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.

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Part B - Other explanatory notes (cont'd)

B10. Status of corporate proposals (cont'd)

- (ii) TE3 Project
The project have achieved 100% mechanical completion and expected for commercial operation in Q4 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.

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 19 October 2017, the building experts of Cilegon City are in the midst of conducting site examination and functional testing of the buildings. 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.

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Part B - Other explanatory notes (cont'd)

B12. Borrowings

| | As at 30 September 2017 RM'000 | As at 31 December 2016 RM'000 |
|---------------------------|---|--|
| Current | | |
| Secured: | | |
| USD denominated term loan | - | <u>75,365</u> |

USD denominated term loan of USD16,800,000 equivalent to RM75,365,000 was fully settled in September 2017.

B13. Derivative financial instruments

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

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.

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Part B - Other explanatory notes (cont'd)

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 September 2017 RM'000 | As at 31 December 2016 RM'000 |
|--|---|--|
| Total retained earnings of the Company and its subsidiaries | | |
| Realised | 5,422,876 | 4,951,341 |
| Unrealised | <u>(357,537)</u> | <u>(382,321)</u> |
| | <u>5,065,339</u> | <u>4,569,020</u> |
| Total share of retained losses from associates | | |
| Realised | <u>(47,865)</u> | <u>(10,806)</u> |
| Total realised and unrealised | 5,017,474 | 4,558,214 |
| Less: Consolidation adjustments | <u>(538,350)</u> | <u>(576,471)</u> |
| Total retained earnings of the Group | <u><u>4,479,124</u></u> | <u><u>3,981,743</u></u> |

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B16. Off balance sheet financial instruments

There were no off balance sheet financial instruments for the period ended 30 September 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 as disclosed in Note A7, no dividend has been paid or declared by the Company for the period ended 30 September 2016 and 30 September 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 30 September | | Cumulative quarter ended 30 September | |
|---|--|------------------|--|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net profit attributable to the owner of the Company (RM'000) | <u>230,312</u> | <u>348,322</u> | <u>686,082</u> | <u>1,024,526</u> |
| Weighted average number of ordinary shares at the end of the period ('000) | <u>2,210,446</u> | <u>1,727,792</u> | <u>1,890,444</u> | <u>1,727,792</u> |
| Basic and diluted EPS (sen) | <u>10.42</u> | <u>20.16</u> | <u>36.29</u> | <u>59.30</u> |

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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.