LOTTE CHEMICAL TITAN HOLDING BERHAD
(222357-P)

Unaudited condensed consolidated interim financial statements

For fourth quarter and financial year ended 31 December 2017

222357-P

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(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 and financial year ended 31 December 2017, which should be read in conjunction with the accompanying explanatory notes on page 8 to 28.

Unaudited condensed consolidated statement of comprehensive income

		Individual quarter ended				Financial year ended			
	Note	31 December 2017 RM'000	31 December 2016 RM'000	Changes RM'000	%	31 December 2017 RM'000	31 December 2016 RM'000	Changes RM'000	%
Revenue		2,117,293	2,146,378	(29,085)	-1%	7,824,267	8,136,628	(312,361)	-4%
Cost of goods sold		(1,711,555)	(1,591,299)	(120,256)	8%	(6,503,500)	(6,154,673)	(348,827)	6%
Gross profit		405,738	555,079	(149,341)	-27%	1,320,767	1,981,955	(661,188)	-33%
Other income		4,825	3,793	1,032	27%	22,792	13,442	9,350	70%
Distribution expenses		(23,018)	(24,266)	1,248	-5%	(88,285)	(102,193)	13,908	-14%
Administrative expenses		(30,962)	(29,817)	(1,145)	4%	(98,260)	(87,770)	(10,490)	12%
Foreign exchange differences		7,374	(31,891)	39,265	-123%	35,038	(21,126)	56,164	-266%
Fair value changes on derivatives		(3,897)	843	(4,740)	-562%	4,723	(5,418)	10,141	-187%
Other expenses		(4,050)	(48,228)	44,178	-92%	(65,486)	(56,161)	(9,325)	17%
Profit from operations		356,010	425,513	(69,503)	-16%	1,131,289	1,722,729	(591,440)	-34%
Finance income		27,951	2,153	25,798	1198%	60,275	7,855	52,420	667%
Finance costs	B6	(3,297)	(3,539)	242	-7%	(15,190)	(15,076)	(114)	1%
Net finance costs		24,654	(1,386)	26,040	-1879%	45,085	(7,221)	52,306	-724%
Share of results of associates		1,247	(892)	2,139	-240%	(35,812)	(5,314)	(30,498)	574%
Profit before tax	B5	381,911	423,235	(41,324)	-10%	1,140,562	1,710,194	(569,632)	-33%
Income tax	B7	(5,079)	(132,115)	127,036	-96%	(76,992)	(394,114)	317,122	-80%
Net profit for the period		376,832	291,120	85,712	29%	1,063,570	1,316,080	(252,510)	-19%

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

	Note	Individual quarter ended 31 December 2017 RM'000	Individual quarter ended 31 December 2016 RM'000	Financial year ended 31 December 2017 RM'000	Financial year ended 31 December 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		(1,202)	(1,405)	(1,219)	(1,405)
Item that may be reclassified subsequently to profit or loss:					
Foreign currency translation differences		(346,119)	597,009	(828,461)	404,728
		(347,321)	595,604	(829,680)	403,323
Total comprehensive income for the period		29,511	886,724	233,890	1,719,403
Net profit/(loss) for the period attributable to:					
Owner of the Company		378,153	290,860	1,064,235	1,315,386
Non-controlling interests		(1,321)	260	(665)	694
		376,832	291,120	1,063,570	1,316,080
Total comprehensive income/(loss) for the period attributable to:					
Owner of the Company		32,070	885,568	230,942	1,718,184
Non-controlling interests		(2,559)	1,156	2,948	1,219
		29,511	886,724	233,890	1,719,403
Basic and diluted earnings per ordinary share (sen)	B19	16.64	16.83	53.56	76.13

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 31 December 2017 RM'000	As at 31 December 2016 RM'000
Assets			
Non-current assets			
Property, plant and equipment		5,339,448	4,378,823
Prepaid lease payments		52,454	36,278
Investments in associates		2,054,139	1,552,117
Deferred tax assets		-	160
Derivative financial instruments		-	11,369
		7,446,041	5,978,747
Current assets			
Inventories		1,153,472	1,147,072
Trade and other receivables		927,743	1,143,346
Tax recoverable		14,347	8,805
Prepayments		21,758	21,008
Derivative financial instruments		9,231	1,169
Cash and bank balances	B15	3,625,474	1,040,344
		5,752,025	3,361,744
Total assets		13,198,066	9,340,491
Equity and liabilities			
Capital and reserves			
Share capital		5,816,813	1,727,792
Share premium		-	294,113
Other reserves		1,086,768	1,943,750
Retained earnings		4,856,084	3,981,743
Treasury shares, at cost		(226,252)	-
Total equity attributable to owner of the Company		11,533,413	7,947,398
Non-controlling interests		24,970	22,022
		11,558,383	7,969,420

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

	Note	As at 31 December 2017 RM'000	As at 31 December 2016 RM'000
Non-current liabilities			
Provision		392,856	325,919
Deferred tax liabilities		367,581	364,440
Defined benefit obligation		17,989	14,967
		778,426	705,326
Current liabilities			
Loans and borrowings	B12	-	75,365
Trade and other payables		859,864	590,182
Provision for taxation		732	-
Other financial liabilities		154	198
Derivative financial instruments		507	-
		861,257	665,745
Total liabilities		1,639,683	1,371,071
Total equity and liabilities		13,198,066	9,340,491
Net assets per share attributable to ordinary equity holders of the parent (RM)		5.07	4.60

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	Treasury Shares 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
Financial year ended 31 December 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 year		-	-	-	-	-	1,315,386	1,315,386	694	1,316,080
Other comprehensive income/(loss)		-	-	-	-	404,203	(1,405)	402,798	525	403,323
Total comprehensive income for the year		-	-	-	-	404,203	1,313,981	1,718,184	1,219	1,719,403
Disposal of share in subsidiary without loss of control		-	-	-	-	-	7,360	7,360	10,013	17,373
At 31 December 2016		1,727,792	294,113	-	24,908	1,918,842	3,981,743	7,947,398	22,022	7,969,420
Financial year ended 31 December 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 year		-	-	-	-	-	1,064,235	1,064,235	(665)	1,063,570
Other comprehensive (loss)/income		-	-	-	-	(832,074)	(1,219)	(833,293)	3,613	(829,680)
Total comprehensive (loss)/income for the year		-	-	-	-	(832,074)	1,063,016	230,942	2,948	233,890
Issuance of ordinary shares	A6	3,770,000	-	-	-	-	-	3,770,000	-	3,770,000
Share issue expenses		-	-	-	-	-	(68,675)	(68,675)	-	(68,675)
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 31 December 2017		5,816,813	-	(226,252)	-	1,086,768	4,856,084	11,533,413	24,970	11,558,383

* 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

	Financial year ended	
	31 December 2017 RM'000	31 December 2016 RM'000
Cash flows from operating activities		
Profit before tax	1,140,562	1,710,194
Adjustments for:-		
Depreciation of property, plant and equipment	434,495	398,363
Amortisation of prepaid land lease payments	2,788	2,147
Finance costs	15,190	15,076
Property, plant and equipment written off	39,560	49,171
Write-down/(Reversal of write-down) of inventories to net realisable value	488	(3,630)
Expenses recognised in respect of defined benefit plan	4,023	2,662
Inventories written off	393	481
(Reversal of impairment loss)/Impairment loss on:		
- Trade receivables	-	(221)
- Other receivables	(27)	67
Share of results of associates	35,812	5,314
Bad debts recovered	(2)	(11)
Gain on disposal of property, plant and equipment	(60)	(11)
Finance income	(60,275)	(7,855)
Fair value changes in derivatives	(4,723)	5,418
Gain on partial settlement of derivative financial instruments	(2,914)	-
Listing expenses recognised as other expenses	14,050	-
Unrealised (gain)/loss on foreign exchange	(4,257)	26,528
Operating profit before working capital changes	1,615,103	2,203,693
Change in inventories	(121,940)	21,650
Change in trade and other receivables	(46,749)	(277,911)
Change in trade and other payables	318,421	41,247
Cash generated from operations	1,764,835	1,988,679
Payments under defined benefit plan	(862)	(403)
Finance costs paid	(4,690)	(4,738)
Income tax paid	(17,904)	(14,738)
Net cash generated from operating activities	1,741,379	1,968,800

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

		Financial year ended	
		31 December 2017 RM'000	31 December 2016 RM'000
Cash flows from investing activities			
Finance income received		60,275	7,855
Proceeds from disposal of property, plant and equipment		68	11
Proceeds from partial settlement of derivative financial instruments		9,911	14
Acquisition of property, plant and equipment		(1,470,993)	(1,001,013)
Prepaid lease payments made		(22,957)	-
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
Fund placement with licensed financial institutions		(1,251,298)	-
Net cash used in investing activities		(3,422,040)	(2,381,973)
Cash flows from financing activities			
Interest paid on long-term borrowings		(893)	(2,016)
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		(82,725)	-
Dividend paid		(120,000)	-
Net cash generated from/(used in) financing activities		3,266,795	(70,174)
Net increase/(decrease) in cash and cash equivalents		1,586,134	(483,347)
Effect of exchange rate changes on the balance of cash held in foreign currencies		(252,302)	12,690
Cash and cash equivalents at beginning of year		1,040,344	1,511,001
Cash and cash equivalents at end of year	Note B15	2,374,176	1,040,344

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 30 January 2018.

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 to the 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.

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 year 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 year under review.

A6. Debt and equity securities

During the current year, 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 year. 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 year under review.

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

A7. Dividend paid

During the year 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 financial year ended 31 December 2017				
Revenue				
External customers	1,528,271	6,295,996	-	7,824,267
Inter-segment	2,749,677	-	(2,749,677)	-
Total revenue	4,277,948	6,295,996	(2,749,677)	7,824,267
Expenses				
Depreciation of property, plant and equipment and amortisation of prepaid lease payments	248,400	186,287	2,596	437,283
Property, plant and equipment written off	30,366	9,194	-	39,560
Write-down of inventories to net realisable value	-	488	-	488
Segment results	232,104	912,856	(4,398)	1,140,562

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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 financial year ended 31 December 2016				
Revenue				
External customers	1,657,305	6,479,323	-	8,136,628
Inter-segment	2,717,302	-	(2,717,302)	-
Total revenue	4,374,607	6,479,323	(2,717,302)	8,136,628
Expenses/(income)				
Depreciation of property, plant and equipment and amortisation of prepaid lease payments	226,343	174,167	-	400,510
Property, plant and equipment written off	46,827	2,344	-	49,171
Reversal of write-down of inventories to net realisable value	(2,016)	(1,614)	-	(3,630)
Segment results	305,476	1,431,589	(26,871)	1,710,194

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 RM52,602,000 for the financial year ended 31 December 2017 which are managed on a group basis.

Fair value changes in derivatives are not allocated to individual segments as the underlying instruments are also 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

	Financial year ended	
	31 December 2017 RM'000	**31 December 2016 RM'000**
Segment profit of:		
- Olefins and derivative products	232,104	305,476
- Polyolefin products	912,856	1,431,589
Total segment profit	1,144,960	1,737,065
Fair value changes in derivatives	4,723	(5,418)
Inter-segment sales (elimination)	6,819	(6,819)
Share of results of associates	(35,812)	(5,314)
Finance income derived from IPO proceeds	52,602	-
Listing expenses recognised as other expenses	(14,050)	
Other unallocated cost	(18,680)	(9,320)
Profit before tax	1,140,562	1,710,194

A9. Valuation of property, plant and equipment

There were no revaluations of property, plant and equipment for the year under review. As at 31 December 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 year.

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 year.

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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 31 December 2017 RM'000	As at 31 December 2016 RM'000
Contracted but not provided for	185,643	672,414
Approved but not contracted for	116,945	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) 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 31 December 2017				
Financial assets				
Derivatives				
- Total return equity swap	9,225	-	9,225	-
- Forward currency contracts	6	-	6	-
	9,231	-	9,231	-
Financial liabilities				
Derivatives				
- Forward currency contracts	507	-	507	-

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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	-
	12,538	-	12,538	-

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

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:

	Financial year ended	
	31 December 2017 RM'000	**31 December 2016 RM'000**
Ultimate holding company		
Sales of goods	70,368	76,104
Catalyst trial fee received/receivable	6,306	5,608
Management and consulting fees incurred	11,886	10,164
Purchase of materials	949	4,911
Commission expense	724	534
Royalty expense	303	788
Commission income	320	362
Capital expenditure incurred	10,769	7,388
Expenses paid on behalf	48	48
IT support services fee paid/payable	132	60
Related companies		
Sales of goods	53,797	66,527
Capital expenditure incurred	912,939	677,062
IT support services fee paid/payable	2,565	2,393
Commission expense	2,048	2,976
Warehouse and logistics services incurred	602	1,336
Associate company		
Sales of goods	221,522	69,538
Sales of utilities	10,835	7,205
Income from shared services	357	572
Financial guarantee income	52	57
Lease rental income	2,212	2,037

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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 31 December					
	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	2,117,293	2,146,378	502,914	456,364	1,614,379	1,690,014
Profit before tax	381,911	423,235	99,742	79,465	281,913	360,904
EBITDA*	468,372	522,091	167,387	133,997	328,893	408,052

* 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 is comparable with the corresponding quarter with a decrease of 1.36% revenue (or RM29.1 million) from RM2,146.4 million to RM2,117.3 million primarily due to reduced plant load at Indonesia Polyethylene plant and decrease in sales volume of by-product.

However, this is partially mitigated by the increase in average product selling price. Firm demand from China, especially for HDPE, were observed due to tight availability as well as the impending importation ban of plastic scrap in Jan 2018.

Average plant utilisation was 86% compared to 90% in corresponding quarter. This is mainly due to Indonesia polyethylene plant load was reduced during the quarter due to poor polyethylene economics as a result of tight ethylene supply and high cost.

Profit after tax increased by RM 85.7 million from RM 291.1million to RM 376.8 million due to lower effective tax rate in 2017 attributed to the utilisation of current year tax incentives. Profit before tax decreased by RM 41.3 million because of margin squeeze mainly due to sharp increase in oil price and feedstock price from Q3 to Q4 2017, while product price have lagging effect to follow suit. The impact was partially offset by increase in non-operating income.

Increase in non-operating income includes RM26.1 million from interest income from IPO proceeds and RM39.3 million from foreign exchange gain. There were also lower fixed asset written off in Q4 2017 by RM45.2 million compared to the corresponding quarter.

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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 an increase in revenue of RM46.5 million from RM456.4 million in Q4 2016 to RM502.9 million in Q4 2017. This was primarily due to an increase of 19.9% in the average selling price in Q4 2017 as compared to the corresponding quarter. The effect of the increase in average selling price was partially offset by the decrease in the sales volume of by-products in this segment.

Profit before tax increased by RM20.2 million from RM79.5 million in Q4 2016 to RM99.7 million in Q4 2017.

Polyolefin products

The segment recorded a decrease in revenue of RM75.6 million from RM1,690.0 million in Q4 2016 to RM1,614.4 million in Q4 2017. This was primarily due to decrease in sales volume for Indonesia Polyethylene as a result of reduced load due to economic reason. The effect of the decrease in sales volume was partially offset by the increase in average selling price of 7.5% in Q4 2017 as compared to the corresponding quarter.

Profit before tax decreased by RM78.9 million from RM360.9 million in Q4 2016 to RM282.0 million in Q4 2017 mainly due to lower product margin spread.

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Part B - Other explanatory notes (cont'd)

B1. Review of group performance (cont'd)

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

	Financial year ended 31 December					
	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	7,824,267	8,136,628	1,528,271	1,657,305	6,295,996	6,479,323
Profit before tax	1,140,562	1,710,194	232,104	305,476	912,856	1,431,589
EBITDA*	1,568,572	2,123,239	480,391	532,961	1,112,022	1,616,441

* 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 year, the Group was able to generate a sales revenue of RM7,824.3 million and cash generated from operating activities of RM1,741.4 million. The fundamentals of its business operations and the petrochemical business environment remains intact during the current year.

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

The plant utilisation rate decreased from 91% to 73% mainly due to two statutory routine turnaround activities at the Malaysia complex and Indonesia polyethylene plant reduced load due to economic reason.

Group revenue decreased by 4% from RM8,136.6 million to RM7,824.3 million primarily due to decrease in sales volume. The decrease was attributed to the statutory routine turnaround at our Malaysia complex and lower Indonesia polyethylene plant load due to poor polyethylene economics as a result of tight ethylene supply and high cost resulting in lower production volume. Partially offsetting the decrease in sales volume was a 17.2% increase in average product selling price.

The current year profit before tax decreased by RM569.6 million from RM1,710.2 million to RM1,140.6 million while the current year profit after tax decreased by RM252.5 million from RM1,316.1 million to RM1,063.6 million. The decrease was mainly due to lower sales volume as a result of two statutory routine turnaround activities at our Malaysia complex resulting in lower utilisation rate and higher operating cost per ton. Margin spread was also lower in the current year.

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Part B - Other explanatory notes (cont'd)

B1. Review of group performance (cont'd)

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

Other factors affecting the profit before tax for the current year includes increase in share of loss in associates by RM30.5 million which was offset by IPO interest income of RM52.6 million and higher gain in foreign exchange by RM56.2 million.

Olefins and derivative products

The segment recorded a decrease in revenue of RM129.0 million in current year from RM1,657.3 million in 2016 to RM1,528.3 million in 2017. This is primarily due to lower sales volume and partially offset by higher average selling price.

Profit before tax decreased by RM73.4 million from RM305.5 million to RM232.1 million in the current year mainly because of lower sales volume due to turnaround activities at our Malaysia complex resulting in lower utilisation rate and higher operating cost per ton.

Polyolefin products

The segment recorded a marginal decrease in revenue of RM183.3 million from RM6,479.3 million in 2016 to RM6,296.0 million in 2017. This is primarily a result of the decrease in the segment's sales volume compared to 2016. It is partially offset by higher average selling price in 2017.

Profit before tax decreased by RM518.7 million from RM1,431.6 million to RM912.9 million in current year mainly because of lower sales volume due to turnaround activities at our Malaysia complex resulting in lower utilisation rate and higher operating cost per ton.

B2. Variation of results against the preceding quarter

	Individual quarter ended 31 December 2017 RM'000	Individual quarter ended 30 September 2017 RM'000
Revenue	2,117,293	2,016,169
Profit before tax	381,911	244,886
EBITDA	468,372	350,477

Part B - Other explanatory notes (cont'd)

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

Group revenue rose by RM 101.1 million or 5.0% to RM 2,117.3 million primarily due to increase in average selling price and sales volume compared to the preceding quarter.

Plants utilisation rates improved from average 77% to 86% from Q3 to Q4 due to higher plant operation compared to Q3 whereby plant operation was affected by statutory routine turnaround activity of Cracker 1 plant in Malaysia.

Profit before tax increased by RM 137.0 million or 56.0% due to improved sales volume and lower overall average production cost as a result of improved plant utilisation rate.

Other factors contributing to higher profit before tax for the current quarter includes higher share of gain in associates by RM19.8 million mainly due to gain on fair value changes of interest rate swap entered by LCUSA.

B3. Commentary on prospects

The results of our operations for the financial year ending 31 December 2018 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.
Historically, Polyolefin prices will move in tandem with feedstock prices on a lagging basis.

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.

The delivery of Polyolefin products in China and Malaysia is expected to be slightly reduced by the Lunar New Year festive holidays. However, the demand from other SEA countries is expected to remain stable. Olefins and Derivative is expected to be better in view of upcoming regional crackers turnaround from March 2018 and active restocking by China supported by higher derivative margins for Styrene Monomer and Ethylene Glycol.

We expect our production output in 2018 to be normalised in view of no major planned plant shut down.

Barring any unforeseen circumstances, our Board expects our performance for the financial year ending 31 December 2018 to remain 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 31 December		Financial year ended 31 December	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Depreciation of property, plant and equipment	111,653	96,032	434,495	398,363
(Gain)/Loss on foreign exchange:				
- Realised	(17,769)	8,503	(30,780)	(5,402)
- Unrealised	10,396	23,388	(4,257)	26,528
Amortisation of prepaid lease payments	709	546	2,788	2,147
Inventories written off	91	264	393	481
Property, plant and equipment written off	895	46,061	39,560	49,171
Gain on disposal of property, plant and equipment	(4)	-	(60)	(11)
Loss/(Gain) on partial settlement of derivative financial instruments	13	-	(2,914)	-
(Reversal of impairment loss)/Impairment loss on:				
- Trade receivables	-	-	-	(221)
- Other receivables	-	-	(27)	67
Write-down/(Reversal of write-down) of inventories to net realisable value	488	(117)	488	(3,630)
Bad debts recovered	-	-	(2)	(11)
Fair value loss/(gain) on derivatives	3,897	(843)	(4,723)	5,418

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B6. Finance costs

	Individual quarter ended 31 December		Financial year ended 31 December	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Interest expense on:				
- Term loan	-	378	893	2,016
- Short term borrowings	1	47	522	199
	1	425	1,415	2,215
Bank charges	528	554	2,367	2,597
Letter of credit charges	303	401	1,266	1,683
Unwinding of discount on provision	2,400	2,094	9,887	8,322
Other finance costs	65	65	255	259
	3,297	3,539	15,190	15,076

B7. Income tax

	Individual quarter ended 31 December		Financial year ended 31 December	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current tax expense				
Current year	9,308	6,623	35,348	12,502
Overprovision in prior year	-	12	(32)	(5,844)
	9,308	6,635	35,316	6,658
Deferred tax expenses				
Origination and reversal of temporary differences	(2,876)	123,349	34,338	380,216
Underprovision in prior year	(1,353)	2,131	7,338	7,240
	(4,229)	125,480	41,676	387,456
Total income tax recognised in profit or loss	5,079	132,115	76,992	394,114

The Group's effective tax rate of 6.8% for the year ended 31 December 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 year 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 31 December 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	305,000	49%
Estimated listing expenses	Within 6 months	115,704	82,551	71%
		3,543,748	607,551	17%

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 Company has placed the unutilised IPO proceeds with licensed bank and financial institution in Malaysia and has met the Shariah compliance ratio requirement.

Part B - Other explanatory notes (cont'd)

B10. Status of corporate proposals (cont'd)

The status and progress of each of the projects as at 23 January 2018 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 project has started commercial operation since 16th December 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. The Company successfully obtained the SLF from the local government on 27 December 2017.

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 31 December 2017 RM'000	As at 31 December 2016 RM'000
Current		
Secured:		
USD denominated term loan	-	75,365

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 year, the Group does not remeasure its financial liabilities at fair value after initial recognition.

B15. Cash and bank balances

	As at 31 December 2017 RM'000	As at 31 December 2016 RM'000
Cash and cash equivalents	2,374,176	1,040,344
Fund placement with licensed financial institutions	1,251,298	-
	3,625,474	1,040,344

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B16. Off balance sheet financial instruments

There were no off balance sheet financial instruments for the year ended 31 December 2017.

B17. Material litigation

There was no material litigation taken or threatened against the Company and its subsidiaries.

B18. Dividends

Other than as disclosed in Note A7, the Directors have recommended a first and final single tier dividend of 23.0 sen per share for the financial year ended 31 December 2017 (6.95 sen per share for financial year ended 31 December 2016) to shareholders subject to shareholders' approval at the forthcoming Annual General Meeting, payable on a date to be announced later.

B19. Earnings per share ("EPS")

Basic and diluted EPS are calculated by dividing net profit for the year 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 31 December		Financial year ended 31 December	
	2017	**2016**	**2017**	**2016**
Net profit attributable to the owner of the Company (RM'000)	378,153	290,860	1,064,235	1,315,386
Weighted average number of ordinary shares at the end of the period ('000)	2,272,984	1,727,792	1,986,865	1,727,792
Basic and diluted EPS (sen)	16.64	16.83	53.56	76.13

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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.