LOTTE CHEMICAL TITAN HOLDING BERHAD
(222357-P)

Unaudited condensed consolidated interim financial statements

For the quarter and financial year ended 31 December 2018

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 2018, which should be read in conjunction with the accompanying explanatory notes on page 8 to 32.

Unaudited condensed consolidated statement of comprehensive income

	Note	Individual Quarter ended 31.12.2018 RM'000	Individual Quarter ended 31.12.2017 RM'000	Changes RM'000	Changes %	Financial Year ended 31.12.2018 RM'000	Financial Year ended 31.12.2017 RM'000	Changes RM'000	Changes %
Revenue	A8	2,336,972	2,117,293	219,679	10%	9,244,709	7,824,267	1,420,442	18%
Cost of goods sold**		(2,306,831)	(1,711,555)	(595,276)	35%	(8,393,898)	(6,503,500)	(1,890,398)	29%
Gross profit		30,141	405,738	(375,597)	-93%	850,811	1,320,767	(469,956)	-36%
Other income		5,611	4,825	786	16%	53,060	22,792	30,268	133%
Distribution expenses**		(23,658)	(23,018)	(640)	3%	(76,640)	(88,285)	11,645	-13%
Administrative expenses		(29,194)	(30,962)	1,768	-6%	(103,347)	(98,260)	(5,087)	5%
Foreign exchange differences		(3,033)	7,374	(10,407)	-141%	58,149	35,038	23,111	66%
Fair value changes on derivatives		(1,122)	(3,897)	2,775	-71%	1,261	4,723	(3,462)	-73%
Other expenses		(4,668)	(4,050)	(618)	15%	(19,249)	(65,486)	46,237	-71%
(Loss)/Profit from operations		(25,923)	356,010	(381,933)	-107%	764,045	1,131,289	(367,244)	-32%
Finance income		25,349	27,951	(2,602)	-9%	100,054	60,275	39,779	66%
Finance costs	B6	(3,883)	(3,297)	(586)	18%	(15,252)	(15,190)	(62)	0%
Net finance income		21,466	24,654	(3,188)	-13%	84,802	45,085	39,717	88%
Share of results of associates		(18,977)	1,247	(20,224)	-1622%	3,575	(35,812)	39,387	-110%
(Loss)/Profit before tax	B5	(23,434)	381,911	(405,345)	-106%	852,422	1,140,562	(288,140)	-25%
Income tax	B7	34,665	(5,079)	39,744	-783%	(64,176)	(76,992)	12,816	-17%
Net profit for the period		11,231	376,832	(365,601)	-97%	788,246	1,063,570	(275,324)	-26%

** The Group's costs relating to the fulfilment of the delivery services were classified as distribution expenses in 2017. However, upon adoption of MFRS 15 using the modified retrospective method, these costs of RM8,698,000 and RM27,178,000 for the quarter and financial year ended 31 December 2018, have been reclassified as costs of goods sold effective January 2018.

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(cont'd)

	Note	Individual Quarter ended 31.12.2018 RM'000	Individual Quarter ended 31.12.2017 RM'000	Financial Year ended 31.12.2018 RM'000	Financial Year ended 31.12.2017 RM'000
Other comprehensive income, net of tax					
Item that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit obligation		2,105	(1,202)	2,105	(1,219)
Item that may be reclassified subsequently to profit or loss:					
Foreign currency translation differences		298	(346,119)	185,535	(828,461)
		2,403	(347,321)	187,640	(829,680)
Total comprehensive income for the period		13,634	29,511	975,886	233,890
Net profit for the period attributable to:					
Owner of the Company		10,126	378,153	786,234	1,064,235
Non-controlling interests		1,105	(1,321)	2,012	(665)
		11,231	376,832	788,246	1,063,570
Total comprehensive income for the period attributable to:					
Owner of the Company		12,530	32,070	973,181	230,942
Non-controlling interests		1,104	(2,559)	2,705	2,948
		13,634	29,511	975,886	233,890
Basic and diluted earnings per ordinary share (sen)	B18	0.45	16.64	34.59	53.56

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 31.12.2018 RM'000	As at 31.12.2017 RM'000
Assets			
Non-current assets			
Property, plant and equipment		5,360,287	5,339,448
Prepaid lease payments		62,467	52,454
Prepayment for acquisition of land		19,789	-
Investments in associates		2,101,300	2,054,139
Deferred tax assets		33	-
		7,543,876	7,446,041
Current assets			
Inventories		1,507,657	1,153,472
Trade and other receivables		1,006,663	927,743
Tax recoverable		25,307	14,347
Prepayments		24,348	21,758
Derivative financial instruments		-	9,231
Other investment	B13	1,167,085	1,251,298
Cash and bank balances	B14	2,245,028	2,374,176
		5,976,088	5,752,025
Total assets		13,519,964	13,198,066
Equity and liabilities			
Capital and reserves			
Share capital		5,816,813	5,816,813
Other reserves		1,271,610	1,086,768
Retained earnings		5,121,652	4,856,084
Treasury shares, at cost		(226,252)	(226,252)
Total equity attributable to owner of the Company		11,983,823	11,533,413
Non-controlling interests		22,985	24,970
		12,006,808	11,558,383

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

	Note	As at 31.12.2018 RM'000	As at 31.12.2017 RM'000
Non-current liabilities			
Provision		263,743	392,856
Deferred tax liabilities		397,252	367,581
Defined benefit obligation		17,236	17,989
		678,231	778,426
Current liabilities			
Trade and other payables		834,007	859,864
Provision for taxation		-	732
Other financial liabilities		91	154
Derivative financial instruments		827	507
		834,925	861,257
Total liabilities		1,513,156	1,639,683
Total equity and liabilities		13,519,964	13,198,066
Net assets per share attributable to ordinary equity holders of the parent (RM)		5.27	5.07

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	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
		<------------------------ Attributable to owners of the Company						----------------------->		
			<----------- Non-distributable reserves			------------>	Distributable			
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 income for the year		-	-	-	-	(832,074)	1,063,016	230,942	2,948	233,890
Issuance of ordinary shares		3,770,000	-	-	-	-	-	3,770,000	-	3,770,000
Share issue expenses		-	-	-	-	-	(68,675)	(68,675)	-	(68,675)
Dividends	A7	-	-	-	-	-	(120,000)	(120,000)	-	(120,000)
Purchase of treasury shares		-	-	(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
At 1 January 2018		5,816,813	-	(226,252)	-	1,086,768	4,856,084	11,533,413	24,970	11,558,383
Net profit for the year		-	-	-	-	-	786,234	786,234	2,012	788,246
Other comprehensive income/(loss)		-	-	-	-	184,842	2,105	186,947	693	187,640
Total comprehensive income for the year		-	-	-	-	184,842	788,339	973,181	2,705	975,886
Acquisition of non-controlling interests	A13	-	-	-	-	-	-	-	(4,690)	(4,690)
Bargain purchase on acquisition of non-controlling interests	A13	-	-	-	-	-	15	15	-	15
Dividends	A7, B17	-	-	-	-	-	(522,786)	(522,786)	-	(522,786)
At 31 December 2018		5,816,813	-	(226,252)	-	1,271,610	5,121,652	11,983,823	22,985	12,006,808

* 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 31.12.2018 RM'000	Financial Year ended 31.12.2017 RM'000
Cash flows from operating activities		
Profit before tax	852,422	1,140,562
Adjustments for:-		
Depreciation of property, plant and equipment	499,064	434,495
Amortisation of prepaid land lease payments	2,911	2,788
Finance costs	15,252	15,190
Property, plant and equipment written off	473	39,164
Write-down of inventories to net realisable value	45,698	488
Expenses recognised in respect of defined benefit plan	3,455	4,023
Inventories written off	642	393
Impairment loss/ (Reversal of impairment loss) on		
- Trade Receivables	33	-
- Other Receivables	(1)	(27)
Share of results of associates	(3,575)	35,812
Bad debts recovered	(5)	(2)
Loss on disposal of property, plant and equipment	185	336
Finance income	(100,054)	(60,275)
Fair value changes in derivatives	(1,261)	(4,723)
Loss/(Gain) on partial settlement of derivative financial instruments	4,033	(2,914)
Listing expenses recognised as other expenses	-	14,050
Unrealised gain on foreign exchange	(13,795)	(4,257)
Operating profit before working capital changes	1,305,477	1,615,103
Change in inventories	(370,816)	(121,940)
Change in trade and other receivables	(56,186)	(46,749)
Change in trade and other payables	39,179	318,141
Cash generated from operations	917,654	1,764,555
Payments under defined benefit plan	(630)	(862)
Finance costs paid	(3,858)	(4,410)
Income tax paid	(39,684)	(17,904)
Net cash generated from operating activities	873,482	1,741,379

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

	Financial Year ended 31.12.2018 RM'000	Financial Year ended 31.12.2017 RM'000
Cash flows from investing activities		
Finance income received	100,054	60,275
Acquisition of financial instruments	(5,725)	-
Proceeds from disposal of property, plant and equipment	187	68
Acquisition of property, plant and equipment	(662,051)	(1,470,993)
Prepaid lease payments	(11,591)	(22,957)
Prepayment for acquisition of land	(19,280)	-
Withdrawal/(Placement) of fund placements with licensed financial institutions	84,213	(1,251,298)
Proceeds from disposal of financial instruments	12,405	9,911
Investment in associate	-	(747,045)
Investment in subsidiary	(4,675)	-
Net cash used in investing activities	(506,463)	(3,422,039)
Cash flows from financing activities		
Interest paid on long-term borrowings	-	(893)
Repayments of long-term borrowings	-	(73,335)
Net proceeds from share issue	-	3,770,000
Purchase of treasury shares	-	(226,252)
Dividend paid	(522,786)	(120,000)
Share issuance costs and listing expenses paid	(179)	(82,725)
Net cash (used in)/generated from financing activities	(522,965)	3,266,795
Net (decrease)/increase in cash and cash equivalents	(155,946)	1,586,135
Effect of exchange rate changes on the balance of cash held in foreign currencies	26,798	(252,303)
Cash and cash equivalents at beginning of year	2,374,176	1,040,344
Cash and cash equivalents at end of year (Note B14)	2,245,028	2,374,176

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 2017 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 2019.

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 2017, except for the adoption of the following amendments to MFRSs during the financial year:

Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions
MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 140	Transfers of Investment Property
Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters (Annual Improvements 2014 - 2016 Cycle)
Amendments to MFRS 128	Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (Annual Improvements 2014 - 2016 Cycle)
IC Interpretation 22	Foreign Currency Transactions and Advance

The adoption of the above amendments had no significant impact to the financial statements of the Group other than the following:

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

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

A2. Significant accounting policies (cont'd)

MFRS 15 Revenue from Contracts with Customers (cont'd)

The core principle of MFRS 15 is that an entity should recognise revenue which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group adopted MFRS 15 using the modified retrospective method of adoption. The effect of adopting MFRS 15 is, as follow:

(i) Sale of goods

The Group contracts with its customers for sales of petrochemical products and polyolefin resins. The Group has concluded that revenue for sales of petrochemical products and polyolefin resins should be recognised at the point on time when the control of the asset is transferred to the customer, generally when risk and reward of the goods is transferred. Therefore, the adoption of MFRS 15 did not have any impact on the timing of revenue recognition for the sales of goods.

(ii) Rendering of services

The Group provides delivery services. These services are bundled together with the sale of goods to a customer. Previously, the Group accounts for the bundled sales as one deliverable and recognises revenue at a point in time. Upon the adoption of MFRS 15, the sale of goods and the rendering of delivery services are treated as separate deliverables of bundled sales. The considerations received or receivable are allocated between these deliverables based on relative stand-alone selling prices of each deliverable. The delivery services will be recognised over time and its stage of completion is measured using the actual time incurred to date compared to the estimated time needed to complete the delivery services.

As a result, costs relating to the fulfilment of the delivery services that were classified as distribution expenses in the comparative year has been reclassified as costs of goods sold under MFRS 15 in the current financial year. However, the identification of delivery services as a separate deliverables of bundled sales did not have any material impact on the amount and timing of revenue recognised and hence, there were no restatements made to the Group's opening retained earnings.

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

A2. Significant accounting policies (cont'd)

MFRS 15 Revenue from Contracts with Customers (cont'd)

(iii) Presentation and disclosure requirements

As required for the condensed interim financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relation between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to Note A8 for the disclosure on disaggregated revenue.

MFRS 9 Financial Instruments

MFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting.

The effect of adopting MFRS 9 is, as follows:

(i) Classification and measurement

Under MFRS 9, the Group's debt financial instruments are measured at amortised cost. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion"). The Group's debt financial instruments are classified as amortised costs as they are financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category comprises solely of the Group's *Trade and other receivables.*

The other financial assets of the Group comprise solely of the Group's investment in Total Return Equity Swap which is measured at fair value through profit and loss ("FVTPL") as this financial instrument fails the SPPI criterion.

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on financial assets comprised solely of payments of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

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

A2. Significant accounting policies (cont'd)

MFRS 9 Financial Instruments (cont'd)

(i) Classification and measurement (cont'd)

As the classification and measurement of the Group's financial assets under MFRS 9 is similar to the Group's previous classification and measurement under MFRS 139, there is no impact to the Group's statement of financial position and statement of other comprehensive income upon the adoption of MFRS 9.

(ii) Impairment

The adoption of MFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing MFRS 139's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

MFRS 9 requires the Group to record an allowance for ECLs for all financial assets not held at FVTPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

For *Trade and other receivables,* the Group applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset to be in default when contractual payment are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external indicates that the Group is unlikely to receive outstanding contractual amounts in full amount before taking into account any credit enhancements held by the Group.

Due to the strong creditworthiness of the Group's debtors, the adoption of the ECL requirements of MFRS 9 did not result in any increase in impairment allowance of the Group's financial assets.

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

A2. Significant accounting policies (cont'd)

MFRS 9 Financial Instruments (cont'd)

(iii) Hedge accounting

The Group does not apply hedge accounting and as such the hedging requirements of MFRS 9 did not have an impact on the Group's consolidated financial statements.

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.

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.

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

A4. Exceptional items

There was no exceptional item during the year under review.

A5. Material changes in estimates

The Group regularly reviews the significant assumptions used in measuring its provision for dismantling cost to ensure that the assumptions are in line with economic measurements. In Q4 2018, based on an analysis performed by the management, the Group has revised the discount rate from 2.92% to 3.05% and inflation rate from 2.5% to 1.5%. This change has resulted in a decrease by approximately RM148,291,000 in the provision for dismantling cost.

A6. Debt and equity securities

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

A7. Dividend paid

During the financial year ended 31 December 2018, the Company paid a final single tier dividend in respect of the financial year ended 31 December 2017, of 23.0 sen per share on 2,272,983,500 ordinary shares, amounting to a dividend of RM 522,786,205.

During the financial year ended 31 December 2017, the Company paid a final single tier dividend in respect of the financial year ended 31 December 2016, of 6.95 sen per share on 1,727,792,000 ordinary shares, amounting to a dividend of RM120,000,000.

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

A8. Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Olefins and derivative products RM'000	Polyolefin products RM'000	Total RM'000
For the financial year ended 31 December 2018			
Geographical markets			
Malaysia	600,903	2,904,641	3,505,544
Indonesia	287,869	2,336,397	2,624,266
China (including Hong Kong)	693,568	509,288	1,202,856
Southeast Asia	249,774	629,883	879,657
Northeast Asia	302,860	178,697	481,557
Indian Sub-Continent	130,006	193,194	323,200
Others	57,379	170,250	227,629
Total revenue from contracts with customers	2,322,359	6,922,350	9,244,709
For the financial year ended 31 December 2017			
Geographical markets			
Malaysia	548,128	2,769,691	3,317,819
Indonesia	158,324	2,134,425	2,292,749
China (including Hong Kong)	231,663	454,620	686,283
Southeast Asia	345,779	472,093	817,872
Northeast Asia	226,184	180,093	406,277
Indian Sub-Continent	18,193	190,930	209,123
Others	-	94,144	94,144
Total revenue from contracts with customers	1,528,271	6,295,996	7,824,267

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

A9. 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 2018				
Revenue				
External customers	2,322,359	6,922,350	-	9,244,709
Inter-segment	4,227,496	-	(4,227,496)	-
Total revenue	6,549,855	6,922,350	(4,227,496)	9,244,709
Expenses				
Depreciation of property, plant and equipment and amortisation of prepaid lease payments	327,546	170,181	4,248	501,975
Write-down of inventories to net realisable value	32,431	13,267	-	45,698
Segment results	81,761	622,033	148,628	852,422

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

A9. 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 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	29,970	9,194	-	39,164
Write-down of inventories to net realisable value	-	488	-	488
Segment results	232,104	912,856	(4,398)	1,140,562

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 RM86.6 million for the financial year ended 31 December 2018 which are managed on a group basis.

Foreign exchange gain/loss are allocated to individual segments other than foreign exchange gain/loss arising from the conversion of the unutilised proceeds of the Company's initial public offering to USD amounting to approximately RM78.7 million for the financial year ended 31 December 2018 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)

A9. Operating segments (cont'd)

Reconciliation of profit

	Financial Year ended 31.12.2018 RM'000	Financial Year ended 31.12.2017 RM'000
Segment profit of:		
- Olefins and derivative products	81,761	232,104
- Polyolefin products	622,033	912,856
Total segment profit	703,794	1,144,960
Fair value changes in derivatives	1,261	4,723
Inter-segment sales (elimination)	99	6,819
Share of results of associates	3,575	(35,812)
Finance income derived from IPO proceeds	86,595	52,602
Foreign exchange gain arise as a result of converting a portion of IPO proceed to USD	78,682	(17,313)
Listing expenses recognised as other expenses	-	(14,050)
Other unallocated cost	(21,584)	(1,367)
Profit before tax	852,422	1,140,562

A10. Valuation of property, plant and equipment

There were no revaluations of property, plant and equipment for the year under review. As at 31 December 2018, all property, plant and equipment were stated at cost less accumulated depreciation.

A11. Material subsequent event

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

A12. Contingencies

There were no material contingent liabilities or contingent assets since the last consolidated statement of financial position as at 31 December 2017.

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

A13. Changes in composition of the Group

On 20 September 2018, the Group's subsdiary company, Lotte Chemical Titan International Sdn Bhd ("LCTIS"), acquired an additional 2.1% equity interest in PT Lotte Chemical Titan Tbk from its non-controlling interests for a cash consideration of approximately RM4,675,000. On the date of the acquisition, the carrying value of the additional interest acquired was approximately RM4,690,000. The difference between the consideration and the book value of the interest acquired of RM15,000 is reflected in equity.

A14. Capital commitments

Capital expenditure as at the reporting date is as follows:

	As at 31.12.2018 RM'000	As at 31.12.2017 RM'000
Contracted but not provided for	228,507	185,643
Approved but not contracted for	195,581	116,945

A15. Fair value information

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

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.

<u>Derivatives</u>

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.

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

A15. 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 2018				
Financial liabilities				
Derivatives				
- Forward currency contracts	827	-	827	-

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

A15. 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 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	-

A16. 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)

A16. Related parties (cont'd)

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

	Financial Year ended 31.12.2018 RM'000	Financial Year ended 31.12.2017 RM'000
Ultimate holding company		
Sales of goods	48,149	70,368
Catalyst trial fee received/receivable	7,826	6,306
Management and consulting fees incurred	11,671	11,886
Purchase of materials	11,515	949
Commission expense	1,464	724
Royalty expense	418	303
Commission income	316	320
Capital expenditure incurred	17,017	10,769
IT support services fee paid/payable	692	132
Expenses paid on behalf	379	435
Related companies		
Sales of goods	68,047	53,797
Capital expenditure incurred	200,815	912,939
IT support services fee paid/payable	3,106	2,565
Commission expense	2,179	2,048
Warehouse and logistics services incurred	356	602
Advertising expenses	183	193
Other administrative expenses	642	98
Associate company		
Sales of goods	286,382	221,522
Sales of utilities	12,465	10,835
Income from shared services	213	357
Financial guarantee income	101	52
Lease rental income	2,549	2,212

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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					
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	Group		**Olefins and derivative products**		**Polyolefin products**	
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	2,336,972	2,117,293	478,588	502,914	1,858,384	1,614,379
(Loss)/Profit before tax	(23,434)	381,911	(123,178)	99,742	103,799	281,913
EBITDA*	111,721	468,372	(35,562)	167,387	152,888	328,893

* 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 increased by 10.4% (or RM 219.7 million) from RM 2,117.3 million to RM 2,337.0 million contributed by the increase in sales volume which was driven by improvement in production quantity as compared to Q4 2017.

Overall production quantity increased due to commissioning of new plants while average plant utilisation rate declined from 86% to 81% in Q4 2018. This was mainly due to standard regulatory inspection for a new facility and general plant maintenance.

The main reason for the loss before tax of RM 23.4 million in Q4 2018 compared with profit before tax of RM 381.9 million in Q4 2017 is due to margin squeeze resulting from high feedstock costs coupled with fall in product prices. In addition, there was a provision for write down of inventory cost to net realisable value of RM 45.8 million made in Q4 2018 as a result of lower product market price caused by additional petrochemical supply from other region as a consequence of the US-China trade war.

Other factors contributing to the loss before tax includes foreign exchange loss of RM 3.0 million, share of loss from associates of RM 19.0 million which is mainly due to loss on fair value changes in interest rate swap entered by Lotte Chemical USA Corporation.

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)

Profit after tax decreased by RM 365.6 million from RM 376.8 million to RM 11.2 million and this was mitigated by deferred tax income recognised in Q4 2018.

Olefins and derivative products

The segment recorded a decrease in revenue of RM 24.3 million from RM 502.9 million in Q4 2017 to RM 478.6 million in Q4 2018. This was primarily due to the decrease in selling price in Q4 2018 as compared to the corresponding quarter and partially offsetted by higher sales volume.

Profit before tax decreased by RM 222.9 million from profit before tax of RM 99.7 million in Q4 2017 to loss before tax of RM 123.2 million in Q4 2018 mainly due to margin squeeze resulting from higher feedstock costs and lower average selling price.

Polyolefin products

The segment recorded an increase in revenue of RM 244.0 million from RM 1,614.4 million in Q4 2017 to RM 1,858.4 million in Q4 2018. This was primarily due to an increase in sales volume in Q4 2018 as compared to the corresponding quarter due to new plant capacity and partially offsetted by decrease in average product selling price.

Profit before tax decreased by RM 178.1 million from RM 281.9 million in Q4 2017 to RM 103.8 million in Q4 2018 mainly due to margin squeeze resulting from higher feedstock costs.

Part B - Other explanatory notes

B1. Review of group performance (cont'd)

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

	Financial year ended 31 December					
	2018	2017	2018	2017	2018	2017
	Group		Olefins and derivative products		Polyolefin products	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	9,244,709	7,824,267	2,322,359	1,528,271	6,922,350	6,295,996
Profit before tax	852,422	1,140,562	81,761	232,104	622,033	912,856
EBITDA*	1,266,020	1,568,572	408,757	480,391	795,504	1,112,022

* 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 increased by 18.2% (or RM 1,420.4 million) from RM 7,824.3 million to RM 9,244.7 million contributed by the increase in sales volume as compared to corresponding year.

Average plant utilisation rate improved from 73% to 83% due to improved plant reliability and no major statutory turnaround. The plants were operating at a sufficient level to maintain profit maximization taking into consideration the need for general plant maintenance.

Profit before tax decreased by RM 288.2 million from RM 1,140.6 million to RM 852.4 million mainly due to margin squeeze. During the year, feedstock price increase in tandem with the rise in crude oil price. In addition, there was a provision for write down of inventory cost to net realisable value of RM 45.7 million made in Q4 2018 as a result of lower product market price caused by additional petrochemical supply from other region as a consequence of the US-China trade war. The impact of margin squeeze was partially mitigated by increase in foreign exchange gain of RM 23.1 million, insurance proceed receivable of RM 31.2 million for gas turbine claim, lower property, plant and equipment written off by RM 38.7 million as compared to 2017 and other non-operating income as described below.

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)

Foreign exchange gain of RM 58.1 million in 2018 includes foreign exchange gain of RM 78.7 million arising from revaluation of the Group's US Dollars ("USD") IPO funds against the Ringgit Malaysia ("RM") held for Indonesia project capital injection as a result of the strengthening of USD. The gain was partially mitigated by foreign exchange loss of RM 20.6 million from operation.

Increase in non-operating income includes RM 34.0 million interest income from IPO proceeds and the improvement in the share of result of associates mainly arise from gain on fair value changes in interest rate swap entered by Lotte Chemical USA Corporation.

Profit after tax decreased by RM 275.4 million from RM 1,063.6 million to RM 788.2 million in tandem with decrease in the Group's profit before tax and is partially offset by lower tax expense.

Olefins and derivative products

The segment recorded an increase in revenue of RM 794.1 million from RM 1,528.3 million in 2017 to RM 2,322.4 million in 2018. This was mainly contributed by the increase in sales volume as compared to the corresponding year due to stable production operation.

Profit before tax decreased by RM 150.3 million from RM 232.1 million in 2017 to RM 81.8 million in 2018 due to margin squeeze.

Polyolefin products

The segment recorded an increase in revenue of RM 626.4 million from RM 6,296.0 million in 2017 to RM 6,922.4 million in 2018. This was mainly attributed to the increase in the segment's sales volume compared to corresponding year due to stable production operation and the commissioning of PP3 plants.

Profit before tax decreased by RM 290.9 million from RM 912.9 million in 2017 to RM 622.0 million in 2018 mainly due to decrease in polyolefin product margin spread.

Part B - Other explanatory notes (cont'd)

B2. Variation of results against the preceding quarter

	Individual quarter ended 31 December 2018 RM'000	Individual quarter ended 30 September 2018 RM'000
Revenue	2,336,972	2,417,941
(Loss)/Profit before tax	(23,434)	217,204
EBITDA	111,721	320,893

Group revenue decreased by RM 80.9 million or 3.3% from RM 2,417.9 million to RM 2,337.0 million due to decrease in average product selling price in Q4 2018 compared to the preceding quarter.

The average group utilisation rate decreased from 87% to 81%. This was mainly due to standard regulatory inspection for a new facility and general plant maintenance.

Profit before tax decreased by RM 240.6 million or 110.8% from RM 217.2 million to loss before tax RM 23.4 million mainly due to margin squeeze resulting from high feedstock costs coupled with fall in product prices. In addition, there was a provision for write down of inventory cost to net realisable value of RM 45.8 million made in Q4 2018 as a result of lower product market price caused by additional petrochemical supply from other region as a consequence of the US-China trade war.

B3. Commentary on prospects

The results of our operations for the financial year ending 31 December 2019 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 provided demand and supply for Polyolefins are balanced.

Crude oil prices gained support from earlier slump, subsequent to the US-China agreement to halt imposing further trade tariffs, complemented with the announcement of production cuts by OPEC and Russia in December 2018 to offset US shale production. Moving ahead, volatility elements to remain pending development on the US-China trade negotiations and unresolved conflicts in the Middle East region.

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Part B - Other explanatory notes (cont'd)

B3. Commentary on prospects (cont'd)

Domestically, new additional capacities are expected to create short-term supply and demand imbalances. The additional supply is expected to be gradually absorbed by the high consumption growth in South East Asia (SEA) region.

Economic environment remain challenging with recent downgrade in IMF outlook for global economy in 2018 and persisting into 2019, citing impact from global trade tensions. Bracing for the global trade impact, emerging markets and SEA region will experience similar headwinds where economic activities are expected to slow down in 2019.

B4. Profit forecast or profit guarantee

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

B5. (Loss)/Profit before tax

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

	Individual quarter ended 31 December		Financial year ended 31 December	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Depreciation of property, plant and equipment	136,863	111,653	499,064	434,495
(Gain)/Loss on foreign exchange:				
- Realised	(28,346)	(17,770)	(44,354)	(30,781)
- Unrealised	31,379	10,396	(13,795)	(4,257)
Amortisation of prepaid lease payments	781	709	2,911	2,788
Inventories written off	526	91	642	393
Property, plant and equipment written off	-	499	473	39,164
(Gain)/Loss on disposal of property, plant and equipment	(12)	392	185	336
Loss/(Gain) on partial settlement of derivative financial instruments	-	13	4,033	(2,914)
Impairment loss/ (Reversal of impairment loss) on				
- Trade Receivables	-	-	33	-
- Other Receivables	-	-	(1)	(27)
Write-down of inventories to net realisable value	45,804	488	45,698	488
Bad debts recovered	(4)	-	(5)	(2)
Fair value changes in derivatives	1,122	3,897	(1,261)	(4,723)

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Part B - Other explanatory notes (cont'd)

B6. Finance costs

	Individual quarter ended 31 December		Financial year ended 31 December	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Interest expense on:				
- Term loan	-	-	-	893
- Short term borrowings	-	1	-	522
	-	1	-	1,415
Bank charges	539	528	2,400	2,367
Letter of credit charges	323	303	1,197	1,266
Unwinding of discount on provision	2,955	2,400	11,394	9,887
Other finance costs	66	65	261	255
	3,883	3,297	15,252	15,190

B7. Income tax

	Individual quarter ended 31 December		Financial year ended 31 December	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current tax				
Current year	9,566	9,308	48,275	35,348
Under/(over)provision in prior year	(261)	-	(219)	(32)
	9,305	9,308	48,056	35,316
Deferred tax				
Origination and reversal of temporary differences	(43,970)	(2,876)	38,462	34,338
(Over)/underprovision in prior year	-	(1,353)	(22,342)	7,338
	(43,970)	(4,229)	16,120	41,676
Total income tax recognised in profit or loss	(34,665)	5,079	64,176	76,992

The Group's effective tax rate of 7.5% for the year ended 31 December 2018 is 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 PP3 project and tax exempt income from a subsidiary that was granted Principal Hub Incentive.

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 year 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 RM 6.50 per share, gross proceeds of RM 3,770 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 status of utilisation of the remaining IPO proceeds are as follow:

Details of use of proceeds	Estimated timeframe for use from the date of Listing	Amount RM'000	Actual utilisation as at 31 December 2018 RM'000	Percentage utilised %
Funding of following projects:				
(i) Integrated Petrochemical Facility	Within 36 months	2,621,018	80,128	3%
(ii) TE3 Project	Within 12 months	220,000	220,000	100%
(iii) PP3 Project (Note 1)	Within 12 months	620,000	510,000	82%
Estimated listing expenses (Note 2)	Within 6 months	82,730	82,730	100%
		3,543,748	892,858	25%

Note 1: The PP3 project fund utilisation of RM 510,000,000 excludes RM 96,805,000 funded from our internally generated funds which will be reimbursed subsequently from the IPO proceeds. The percentage utilised would then increase to 98%.

Note 2: The listing expenses has been revised from RM 115,704,000 to RM 82,730,000. The excess fund of RM 32,974,000 from listing expenses would be invested in the Integrated Petrochemical Facility. Therefore, the funding for Integrated Petrochemical Facility has been revised from RM 2,588,044,000 to RM 2,621,018,000.

Part B - Other explanatory notes (cont'd)

B10. Status of corporate proposals (cont'd)

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.

The status and progress of each of the projects as at the reporting date are as follows:

(i) Integrated Petrochemical Facility
Successful ground-breaking ceremony held in Indonesia on 7th December 2018. Appropriate project structure is currently under review, while construction is scheduled to commence in 2019/2020.

(ii) TE3 Project
The project has started commercial operation since 16th December 2017.

(iii) PP3 Project
The project has started commercial operation since 1st September 2018.

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

B11. Derivative financial instruments

The Group's derivative financial instruments are as disclosed in Note A15.

B12. 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)

B13. Other investment

	As at 31 December 2018 RM'000	As at 31 December 2017 RM'000
Unutilised proceeds from initial public offering	1,029,131	1,251,298
Proceeds from internally generated funds	137,954	-
	1,167,085	1,251,298

Other investment comprise solely of fund placements with licensed financial institutions.

B14. Cash and bank balances

	As at 31 December 2018 RM'000	As at 31 December 2017 RM'000
Unutilised proceeds from initial public offering		
Cash at banks	34,913	15
Short term deposits with licensed financial institutions	1,777,204	1,715,482
	1,812,117	1,715,497
Others		
Cash at banks and on hand	432,911	658,679
	2,245,028	2,374,176

B15. Off balance sheet financial instruments

There were no off balance sheet financial instruments for the year ended 31 December 2018.

B16. Material litigation

There was no material litigation taken or threatened against the Company and its subsidiaries as at the reporting date.

Part B - Other explanatory notes (cont'd)

B17. Dividends

Other than as disclosed in Note A7, the Directors have recommended a first and final single tier dividend of 17.0 sen per share for the financial year ended 31 December 2018 (23.0 sen per share for financial year ended 31 December 2017) to shareholders subject to shareholders' approval at the forthcoming Annual General Meeting, payable on a date to be announced later.

B18. 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 31 December		Financial year ended 31 December	
	2018	**2017**	**2018**	**2017**
Net profit attributable to the owner of the Company (RM'000)	10,126	378,153	786,234	1,064,235
Weighted average number of ordinary shares at the end of the period ('000)	2,272,984	2,272,984	2,272,984	1,986,865
Basic and diluted EPS (sen)	0.45	16.64	34.59	53.56

B19. 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 2017.