

LOTTE CHEMICAL TITAN HOLDING
BERHAD
199101012045(222357-P)

**Unaudited condensed consolidated
interim financial statements**
For first quarter ended 31 March 2020

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

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

**Unaudited condensed consolidated interim financial statements
For the quarter ended 31 March 2020**

The Board of Directors of Lotte Chemical Titan Holding Berhad ("LCT" or "the Company") is pleased to announce the following unaudited condensed consolidated financial statements of LCT and its subsidiaries ("the Group") for the quarter ended 31 March 2020, which should be read in conjunction with the accompanying explanatory notes on page 8 to 25.

Unaudited condensed consolidated statement of comprehensive income

	Note	Quarter ended 31.03.2020 RM'000	Quarter ended 31.03.2019 RM'000	Changes RM'000 %	
Revenue	A8	1,461,834	2,170,003	(708,169)	-33%
Cost of goods sold		(1,660,328)	(2,013,005)	352,677	-18%
Gross (loss)/ profit		(198,494)	156,998	(355,492)	-226%
Other income		7,704	5,149	2,555	50%
Distribution expenses		(18,327)	(33,560)	15,233	-45%
Administrative expenses		(23,879)	(26,724)	2,845	-11%
Foreign exchange differences		61,432	(18,713)	80,145	-428%
Fair value changes on derivatives		3,640	852	2,788	327%
Other expenses		(22,614)	(3,347)	(19,267)	576%
(Loss)/Profit from operations		(190,538)	80,655	(271,193)	-336%
Finance income		23,749	25,744	(1,995)	-8%
Finance costs	B6	(3,890)	(3,840)	(50)	1%
Net finance income		19,859	21,904	(2,045)	-9%
Share of results of associates		(35,116)	(13,429)	(21,687)	161%
(Loss)/Profit before tax	B5	(205,795)	89,130	(294,925)	-331%
Income tax	B7	36,299	(33,268)	69,567	-209%
Net (loss)/profit for the period		(169,496)	55,862	(225,358)	-403%

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

	Quarter ended Note 31.03.2020 RM'000	Quarter ended 31.03.2019 RM'000
Other comprehensive income/(loss), net of tax		
Item that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences	<u>639,401</u>	<u>(142,593)</u>
	<u>639,401</u>	<u>(142,593)</u>
Total comprehensive income/(loss) for the period	<u><u>469,905</u></u>	<u><u>(86,731)</u></u>
Net (loss)/profit for the period attributable to:		
Owner of the Company	(170,063)	55,831
Non-controlling interests	<u>567</u>	<u>31</u>
	<u><u>(169,496)</u></u>	<u><u>55,862</u></u>
Total comprehensive income/(loss) for the period attributable to:		
Owner of the Company	342,921	(85,543)
Non-controlling interests	<u>126,984</u>	<u>(1,188)</u>
	<u><u>469,905</u></u>	<u><u>(86,731)</u></u>
Basic and diluted (loss)/earnings per ordinary share (sen)	B18 <u><u>(7.48)</u></u>	<u><u>2.46</u></u>

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 31.03.2020 RM'000	As at 31.12.2019 RM'000
Assets			
Non-current assets			
Property, plant and equipment		5,648,995	4,909,584
Right-of-use assets		579,290	555,618
Prepayment for acquisition of land		20,699	19,574
Investments in associates		2,323,405	2,232,689
Deferred tax assets		20	-
		<u>8,572,409</u>	<u>7,717,465</u>
Current assets			
Inventories		1,104,854	1,324,854
Trade and other receivables		559,697	857,356
Tax recoverable		13,271	17,075
Prepayments		29,346	26,159
Derivative financial instruments		954	-
Other investments	B13	2,971,867	2,915,971
Cash and bank balances	B14	<u>1,061,353</u>	<u>999,769</u>
		<u>5,741,342</u>	<u>6,141,184</u>
Total assets		<u><u>14,313,751</u></u>	<u><u>13,858,649</u></u>
Equity and liabilities			
Capital and reserves			
Share capital		5,816,813	5,816,813
Other reserves		1,712,209	1,199,225
Retained earnings		4,842,682	5,171,854
Treasury shares, at cost		<u>(226,252)</u>	<u>(226,252)</u>
Total equity attributable to owner of the Company		12,145,452	11,961,640
Non-controlling interests		<u>444,568</u>	<u>317,584</u>
		<u>12,590,020</u>	<u>12,279,224</u>

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

	Note	As at 31.03.2020 RM'000	As at 31.12.2019 RM'000
Non-current liabilities			
Provision		462,301	323,650
Deferred tax liabilities		398,439	416,040
Defined benefit obligation		20,038	21,439
Lease liabilities		43,785	47,488
		<u>924,563</u>	<u>808,617</u>
Current liabilities			
Trade and other payables		625,647	752,527
Provision for taxation		2,182	3,175
Other financial liabilities		76	72
Lease liabilities		12,154	12,320
Dividend payable		159,109	-
Derivative financial instruments		-	2,714
		<u>799,168</u>	<u>770,808</u>
Total liabilities		<u>1,723,731</u>	<u>1,579,425</u>
Total equity and liabilities		<u>14,313,751</u>	<u>13,858,649</u>
Net assets per share attributable to ordinary equity holders of the parent (RM)		<u>5.34</u>	<u>5.26</u>

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

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Unaudited condensed consolidated statement of changes in equity

	<----- Attributable to owners of the Company ----->								
	Note	<----- Non-distributable reserves ----->			Foreign currency translation reserve RM'000	Distributable Retained earnings RM'000	Total equity attributable to owners of the Company RM'000	Non- controlling interest RM'000	Total RM'000
Share capital RM'000		Treasury Shares RM'000	Equity transaction reserves RM'000						
At 1 January 2019		5,816,813	(226,252)	-	1,271,639	5,118,749	11,980,949	22,985	12,003,934
Net profit for the period		-	-	-	-	55,831	55,831	31	55,862
Other comprehensive loss		-	-	-	(141,374)	-	(141,374)	(1,219)	(142,593)
Total comprehensive loss for the period		-	-	-	(141,374)	55,831	(85,543)	(1,188)	(86,731)
At 31 March 2019		5,816,813	(226,252)	-	1,130,265	5,174,580	11,895,406	21,797	11,917,203
At 1 January 2020		5,816,813	(226,252)	26,539	1,172,686	5,171,854	11,961,640	317,584	12,279,224
Net loss for the period		-	-	-	-	(170,063)	(170,063)	567	(169,496)
Other comprehensive income		-	-	-	512,984	-	512,984	126,417	639,401
Total comprehensive income for the period		-	-	-	512,984	(170,063)	342,921	126,984	469,905
Dividends payable	B17	-	-	-	-	(159,109)	(159,109)	-	(159,109)
At 31 March 2020		5,816,813	(226,252)	26,539	1,685,670	4,842,682	12,145,452	444,568	12,590,020

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 interim financial statements
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Unaudited condensed consolidated statement of cash flows

	Quarter ended 31.03.2020 RM'000	Quarter ended 31.03.2019 RM'000
Cash flows from operating activities		
(Loss)/Profit before tax	(205,795)	89,130
Adjustments for:-		
Depreciation of property, plant and equipment and right-of-use assets	134,679	156,278
Finance costs	3,890	3,840
Property, plant and equipment written off	229	365
Write down/(Reversal of write-down) of inventories to net realisable value	81,396	(37,812)
Expenses recognised in respect of defined benefit plan	878	885
Inventories written off	18	3
Allowance for impairment loss on trade receivables	-	596
Share of results of associates	35,116	13,429
Gain on disposal of property, plant and equipment	(3,388)	-
Finance income	(23,749)	(25,744)
Fair value changes in derivatives	(3,640)	(852)
Unrealised (gain)/loss on foreign exchange	(48,191)	15,507
Operating (loss)/profit before working capital changes	(28,557)	215,625
Change in inventories	205,761	182,778
Change in trade and other receivables	338,644	23,184
Change in trade and other payables	(244,956)	(154,665)
Cash generated from operations	270,892	266,922
Payments under defined benefit plan	-	(111)
Finance costs paid	(1,056)	(914)
Income tax refund/(paid)	773	(6,085)
Net cash generated from operating activities	270,609	259,812

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

	Quarter ended 31.03.2020 RM'000	Quarter ended 31.03.2019 RM'000
Cash flows from investing activities		
Finance income received	23,749	25,744
Proceeds from disposal of property, plant and equipment	3,388	-
Acquisition of property, plant and equipment	(390,864)	(133,254)
Prepayment for acquisition of land	(8)	-
Placement with licensed financial institutions	<u>(55,896)</u>	<u>(132,877)</u>
Net cash used in investing activities	<u>(419,631)</u>	<u>(240,387)</u>
Cash flows from financing activities		
Proceeds from issuance of ordinary share by a subsidiary to Lotte Chemical Corporation, the ultimate holding company	103,733	-
Payment of lease liabilities	<u>(4,570)</u>	<u>(3,415)</u>
Net cash generated from/(used in) financing activities	<u>99,163</u>	<u>(3,415)</u>
Net (decrease)/increase in cash and cash equivalents	(49,859)	16,010
Effect of exchange rate changes on the balance of cash held in foreign currencies	111,443	(24,516)
Cash and cash equivalents at beginning of period	<u>999,769</u>	<u>2,262,300</u>
Cash and cash equivalents at end of period (Note B14)	<u><u>1,061,353</u></u>	<u><u>2,253,794</u></u>

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

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**Unaudited condensed consolidated interim 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 2019 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 29 April 2020.

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 2019, except for the adoption of the following amendments to MFRSs during the financial year:

Amendments to MFRS 3	Definition of a Business
Amendments to MFRS 101 and MFRS 108	Definition of Material
Amendments to MFRS 9, MFRS 139 and MFRS 7	Disclosures –Interest Rate Benchmark Reform

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

A3. Seasonality or cyclicity of operations

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

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

A3. Seasonality or cyclical nature of operations (cont'd)

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.

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.

A4. Exceptional items

There was no exceptional item during the quarter 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 Q1 2020, based on an analysis performed by the management, the Group has revised the discount rate from 2.48% to 1.47%. This change has resulted in an increase by approximately RM118,065,000 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 quarter under review.

A7. Dividend paid

No dividend was paid during the quarter under review.

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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 period ended 31 March 2020			
Geographical markets			
Malaysia	77,544	503,137	580,681
Indonesia	-	425,663	425,663
China (including Hong Kong)	43,426	72,564	115,990
Southeast Asia	64,563	145,073	209,636
Northeast Asia	45,753	30,287	76,040
Indian Sub-Continent	15,508	31,936	47,444
Others	-	6,380	6,380
	<u>246,794</u>	<u>1,215,040</u>	<u>1,461,834</u>
Total revenue from contracts with customers			
For the financial period ended 31 March 2019			
Geographical markets			
Malaysia	136,970	675,639	812,609
Indonesia	35,971	528,439	564,410
China (including Hong Kong)	123,896	228,744	352,640
Southeast Asia	79,232	175,504	254,736
Northeast Asia	40,910	45,881	86,791
Indian Sub-Continent	18,559	58,091	76,650
Others	-	22,167	22,167
	<u>435,538</u>	<u>1,734,465</u>	<u>2,170,003</u>
Total revenue from contracts with customers			

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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 period ended 31 March 2020				
Revenue				
External customers	246,793	1,215,041	-	1,461,834
Inter-segment	775,416	-	(775,416)	-
Total revenue	1,022,209	1,215,041	(775,416)	1,461,834
Expenses				
Depreciation of property, plant and equipment and right-of-use assets	85,315	48,894	470	134,679
Property, plant and equipment written off	-	229	-	229
Write-down of inventories to net realisable value	59,912	21,484	-	81,396
Segment results	(130,844)	(127,860)	52,909	(205,795)

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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 period ended 31 March 2019				
Revenue				
External customers	435,538	1,734,465	-	2,170,003
Inter-segment	1,010,464	-	(1,010,464)	-
Total revenue	<u>1,446,002</u>	<u>1,734,465</u>	<u>(1,010,464)</u>	<u>2,170,003</u>
Expenses				
Depreciation of property, plant and equipment and right-of-use	99,963	54,518	1,797	156,278
Property, plant and equipment written off	-	365	-	365
Reversal of write-down of inventories to net realisable value	(26,015)	(11,797)	-	(37,812)
Segment results	<u>16,129</u>	<u>97,247</u>	<u>(24,246)</u>	<u>89,130</u>

Adjustments and eliminations

Finance income are allocated to individual segments other than finance income derived from the Company's proceeds from its initial public offering amounting to approximately RM15.9 million for the financial period ended 31 March 2020 which are managed on a group basis.

Foreign exchange gain/loss are allocated to individual segments other than foreign exchange gain arising from the conversion of the unutilised proceeds of the Company's initial public offering to USD amounting to approximately RM87.5 million for the financial period ended 31 March 2020 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

	Quarter ended 31.03.2020 RM'000	Quarter ended 31.03.2019 RM'000
Segment (loss)/profit of:		
- Olefins and derivative products	(130,844)	16,129
- Polyolefin products	(127,860)	97,247
Total segment (loss)/profit	<u>(258,704)</u>	<u>113,376</u>
Inter-segment sales (elimination)	(673)	(726)
Share of results of associates	(35,116)	(13,429)
Finance income derived from IPO proceeds	15,860	21,951
Foreign exchange gain/(loss) arise as a result of converting a portion of IPO proceed to USD	87,447	(27,468)
Other unallocated cost	(14,609)	(4,574)
Eliminations and unallocated results	52,909	(24,246)
(Loss)/Profit before tax	<u><u>(205,795)</u></u>	<u><u>89,130</u></u>

A10. Valuation of property, plant and equipment

There were no revaluations of property, plant and equipment for the period under review. As at 31 March 2020, 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 period.

A12. Contingencies

There were no material contingent liabilities or contingent assets since the last consolidated statement of financial position as at 31 December 2019.

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

A13. Changes in composition of the Group

There were no material changes in the composition of the Group during the period except for the on-going negotiation between the Group's associate company, Lotte Chemical USA Corporation ("LC USA") and Eagle US 2 LLC ("Eagle US") relating to the purchase price for transferring LC USA's equity interest in LACC LLC to Eagle US.

A14. Capital commitments

Capital expenditure as at the reporting date is as follows:

	As at 31.03.2020 RM'000	As at 31.12.2019 RM'000
Contracted but not provided for	<u>315,764</u>	<u>586,029</u>
Approved but not contracted for	<u>414,468</u>	<u>418,807</u>

A15. 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 repriced to market interest rates on or near the reporting date.

Derivatives

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)

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	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RM'000	RM'000	RM'000	RM'000
At 31 March 2020				
Financial assets				
Fund placements with licensed financial institutions	1,390,763	-	1,390,763	-
Derivatives				
- Forward currency contracts	954	-	954	-
	<u>1,391,717</u>	<u>-</u>	<u>1,391,717</u>	<u>-</u>
At 31 December 2019				
Financial assets				
Fund placements with licensed financial institutions	1,325,440	-	1,325,440	-
Financial liabilities				
Derivatives				
- Forward currency contracts	(2,714)	-	(2,714)	-

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

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.

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

	Quarter ended 31.03.2020 RM'000	Quarter ended 31.03.2019 RM'000
Ultimate holding company		
Sales of goods	7,826	14,660
Reimbursement of payroll for secondment of expatriates	3,032	4,526
Purchase of materials	600	4,190
Commission expense	270	413
Royalty expense	138	9,443
Commission income	16	46
Capital expenditure incurred	4,162	3,931
IT support services fee paid/payable	152	763
Related companies		
Sales of goods	15,156	28,539
Capital expenditure incurred	59,469	2,426
IT support services fee paid/payable	873	690
Commission expense	459	1,126
Warehouse and logistics services incurred	4,935	4,757
Other administrative expenses	26	20
Associate company		
Sales of goods	35,571	54,961
Sales of utilities	2,541	3,099
Income from shared services	102	63
Lease rental income	700	658

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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 March					
	2020	2019	Olefins and derivative products		2020	2019
	Group RM'000	RM'000	RM'000	RM'000	Polyolefin products RM'000	RM'000
Revenue	1,461,834	2,170,003	246,793	435,538	1,215,041	1,734,465
Profit/(Loss) before tax	(205,795)	89,130	(130,844)	16,129	(127,860)	97,247
EBITDA*	<u>(55,859)</u>	<u>236,933</u>	<u>(46,044)</u>	<u>115,774</u>	<u>(79,678)</u>	<u>152,355</u>

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

Group revenue decreased by 32.6% (or RM 708.2 million) from RM 2,170.0 million to RM 1,461.8 million owing to decrease in average product selling price and sales volume which was due to weakened demand followed by the different level of movement controls established locally and in Southeast Asia resulting from COVID-19 pandemic since late January 2020. The operation of some of the main customers were affected due to the distinctive measures were introduced in the regions to allow only essentials businesses to operate. Apart from the virus outbreak, reduction in production quantity resulting from the major statutory turnaround conducted has also attributed to the decrease in sales volume.

In March 2020, the plant conducted major statutory turnaround. The average plant utilisation rate was 66% in Q1 2020 compared to 87% in Q1 2019.

The main reason for the decrease in profit before tax from RM 89.1 million to loss before tax of RM 205.8 million is mainly due to margin squeeze resulting from the fall in product selling prices and higher feedstock costs, increase in write down of inventories to net realisable value to RM 81.4 million from reversal of write down of inventories to net realisable value of RM 37.8 million, withholding tax from disposal of Lotte Chemical Titan Nusantara's shares by Chemical Brothers Limited by RM 19.8m and share of associates losses by RM 21.7 million.

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Part B - Other explanatory notes (cont'd)

B1. Review of group performance (cont'd)

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

Other major factors offsetting the loss before tax includes lower distribution expense arising from decrease in royalty expense by RM 9.3 million, foreign exchange gain by RM 80.1 million and gain on fair value changes on derivatives by RM RM 2.8 million.

Profit after tax decreased from RM 55.9 million to loss after tax of RM 169.5 million mainly due to the higher write down of inventories to net realisable value.

Olefins and derivative products

The segment recorded a decrease in revenue from RM 435.5 million in Q1 2019 to RM 246.8 million in Q1 2020. This was due to the decrease in selling prices and sales volume in Q1 2020 as compared to the corresponding quarter.

Profit before tax decreased from RM 16.1 million to loss before tax of RM 130.8 million mainly due to margin squeeze resulting from fall in product selling prices, higher feedstock costs and write down of inventories to net realisable value.

Polyolefin products

The segment recorded a decrease in revenue from RM 1,734.5 million in Q1 2019 to RM 1,215.0 million in Q1 2020. This was due to the decrease in selling prices and sales volume in Q1 2020 as compared to the corresponding quarter.

Profit before tax decreased from RM 97.2 million to loss before tax of RM 127.9 million mainly due to margin squeeze resulting from the fall in product selling price, higher feedstock and write down of inventories to net realisable value.

B2. Variation of results against the preceding quarter

	Individual Quarter ended 31 March 2020 RM'000	Individual Quarter ended 31 December 2019 RM'000
Revenue	1,461,834	1,973,885
Profit before tax	(205,795)	142,364
EBITDA	<u>(55,859)</u>	<u>120,683</u>

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Part B - Other explanatory notes (cont'd)

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

Group revenue decreased by RM 512.1 million or 25.9% from RM 1,973.9 million to RM 1,461.8 million due to significant drop in sales volume in Q1 2020 compared to the preceding quarter and a slight decrease in average product selling prices.

The plant utilisation rate was 66% in Q1 2020 comparing to 86% in the preceding quarter attributable to major statutory turnaround in March 2020.

Profit before tax decreased from RM 142.4 million in Q4 2019 to loss before tax of RM 205.8 million in Q1 2020 mainly due to margin squeeze resulting from the fall in product selling price and higher feedstock costs, increase in write down of inventories to net realisable value by RM 66.7 million, withholding tax from disposal of Lotte Chemical Titan Nusantara's shares by Chemical Brothers Limited by RM 19.8m and decrease in share of result from associates due mainly to one-off gain on disposal of equity interest in LACC LLC to Eagle LLC of RM 139.5 million recorded in Q4 2019.

Other major factors offsetting the loss before tax includes lower distribution expense arising from decrease in royalty expense by RM 9.3 million and foreign exchange gain by RM 93.6 million.

B3. Commentary on prospects

The results of our operations for the financial year ending 31 December 2020 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;
- (c) Petrochemical product demand moves in tandem with overall global GDP growth, driven by consumption and population growth; and
- (d) Feedstock prices which is correlated to crude oil prices.

Amidst the intensifying spread of COVID-19 worldwide and with no effective vaccines been found to-date, the downside economic risks are now more prevalent due to heightened global concerns on the severity of impact of the pandemic to the global economy. This situation also applies to our Group as the petrochemical industry correlates with and heavily dependent on the overall consumption patterns which drive the global economic growth.

Additionally, we have also observed intense volatility in global crude oil prices following the price war between two major OPEC producers, namely Russia and Saudi Arabia. On average, benchmark Brent crude price saw steep decline from above USD 60 per barrel in January 2020 to about USD 30 per barrel as of March 2020, which resulted in enormous price fluctuation for our feedstock costs that correlate with the global crude oil price movement.

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Part B - Other explanatory notes (cont'd)

B3. Commentary on prospects (cont'd)

The overall situation is expected to remain fluid for now as nations worldwide are putting in place respective responses to contain the COVID-19 pandemic and introducing monetary as well as fiscal stimulus packages to support the economy and prevent a catastrophic recession.

Nonetheless, the Company is monitoring the market situation closely and will optimize its operations to adapt to the fast changing and volatile business environment.

B4. Profit forecast or profit guarantee

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

B5. (Loss)/Profit before tax

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

	Individual quarter	
	ended 31 March	
	2020	2019
	RM'000	RM'000
Depreciation of property, plant and equipment and right-of-use assets	134,679	156,278
(Gain)/Loss on foreign exchange:		
- Realised	(13,241)	3,206
- Unrealised	(48,191)	15,507
Inventories written off	18	3
Property, plant and equipment written off	229	365
Gain on disposal of property, plant and equipment	(3,388)	-
Allowance for impairment loss on trade receivables	-	596
Write down/(Reversal of write-down) of inventories to net realisable value	81,396	(37,812)
Fair value changes in derivatives	<u>(3,640)</u>	<u>(852)</u>

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Part B - Other explanatory notes (cont'd)

B6. Finance costs

	Individual quarter	
	ended 31 March	
	2020	2019
	RM'000	RM'000
Unwinding of lease liabilities	821	922
Bank charges	785	539
Letter of credit charges	258	302
Unwinding of discount on provision	2,013	2,013
Other finance costs	13	64
	<u>3,890</u>	<u>3,840</u>

B7. Income tax

	Individual quarter	
	ended 31 March	
	2020	2019
	RM'000	RM'000
Current tax		
Current year	<u>2,896</u>	<u>10,217</u>
Deferred tax		
Origination and reversal of temporary differences	<u>(39,195)</u>	<u>23,051</u>
Total income tax recognised in profit or loss	<u>(36,299)</u>	<u>33,268</u>

The Group effective tax rate of 17.6 % for the period ended 31 March 2020 is lower than the statutory tax rate of 24%. This is primarily due to decrease in our deferred tax assets as a result of the depreciation of Ringgit Malaysia ("RM") against US Dollar ("USD"). The decrease in our deferred tax assets arose mainly from the translation of the tax base of qualifying assets, unused tax losses and other allowances denominated in RM to the functional currency of USD.

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Part B - Other explanatory notes (cont'd)

B8. Sales of unquoted investments/properties

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

B9. Quoted securities

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

B10. Status of corporate proposals

Based on the IPO price of 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 March 2020 RM'000	Percentage utilised %
Funding of following projects:				
(i) Integrated Petrochemical Facility (Note 1)	Within 36 months (Note 4)	2,634,213	423,650	16%
(ii) TE3 Project	Within 12 months	220,000	220,000	100%
(iii) PP3 Project (Note 2)	Within 12 months	606,805	606,805	100%
Listing expenses (Note 3)	Within 6 months	82,730	82,730	100%
		3,543,748	1,333,185	38%

Note 1: The funding for Integrated Petrochemical Facility has been revised from RM 2,588,044,000 to RM 2,634,213,000 due to the excess fund from PP3 project and listing expenses.

Note 2: The PP3 project has been revised from RM 620,000,000 to RM 606,805,000. The excess fund of RM 13,195,000 from PP3 project would be invested in the Integrated Petrochemical Facility.

Note 3: 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.

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Part B - Other explanatory notes (cont'd)

B10. Status of corporate proposals (cont'd)

Note 4: The Company expected to fully utilised its initial public offering (IPO) proceeds allocated for the Integrated Petrochemical Facility by 2022.

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. As at 31 March 2020, RM 3.9 million of the unutilised funds are temporarily reserved in Indonesia for subsequent payment to suppliers of Integrated Petrochemical Facility.

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 ("IPF")
The overall project configuration has been finalized and announced, and work for land preparation in the project site is currently underway.

The original plan was to commence construction in late 2020 or early 2021 with a target for completion in 2023.

Nonetheless, in light of the significant impact from COVID-19 pandemic on the global economy and intense volatility in global crude oil prices, the Group is undertaking a strategic review on the project timing and its progress.

The Group shall provide further update when the market environment and outlook stabilize in the coming quarters.

- (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.

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Part B - Other explanatory notes (cont'd)

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.

B13. Other investments

	As at 31 March 2020 RM'000	As at 31 December 2019 RM'000
<u>Fund placements with licensed financial institutions</u>		
Unutilised proceeds from initial public offering	955,095	947,422
Proceeds from internally generated funds	435,668	378,018
	<u>1,390,763</u>	<u>1,325,440</u>
<u>Short term deposits with licensed financial institutions with maturity more than 3 months</u>		
Unutilised proceeds from initial public offering	1,414,584	1,393,573
Proceeds from internally generated funds	166,520	196,958
	<u>1,581,104</u>	<u>1,590,531</u>
Total other investments	<u>2,971,867</u>	<u>2,915,971</u>

B14. Cash and bank balances

	As at 31 March 2020 RM'000	As at 31 December 2019 RM'000
<u>Unutilised proceeds from initial public offering</u>		
Cash at banks	3,910	8,365
Short term deposits with licensed financial institutions	178,152	210,496
	182,062	218,861
<u>Others</u>		
Cash at banks and on hand	851,813	772,177
Short term deposits with licensed financial institutions	27,478	8,731
Cash and cash equivalents	<u>1,061,353</u>	<u>999,769</u>

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Part B - Other explanatory notes (cont'd)

B15. Off balance sheet financial instruments

There were no off balance sheet financial instruments for the period ended 31 March 2020.

B16. Material litigation

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

B17. Dividends

No dividend has been paid by the Company for the quarter ended 31 March 2020.

A first and final single tier dividend of 7.0 sen per share, amounting to RM 159,108,845 for the financial year ended 31 December 2019 (17.0 sen per share for financial year ended 31 December 2018) had been declared on 5 March 2020. The dividend will be paid on 2 June 2020.

B18. Earnings per share ("EPS")

Basic and diluted EPS are calculated by dividing net (loss)/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 March	
	2020	2019
Net (loss)/profit attributable to the owner of the Company (RM'000)	<u>(170,063)</u>	<u>55,831</u>
Weighted average number of ordinary shares at the end of the period ('000)	<u>2,272,984</u>	<u>2,272,984</u>
Basic and diluted (loss)/earning per share (sen)	<u>(7.48)</u>	<u>2.46</u>

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 2019.