

LOTTE CHEMICAL TITAN HOLDING BERHAD
199101012045 (222357-P)

**Unaudited condensed consolidated
interim financial statements**

For the quarter and year-to-date ended 30 June 2021

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

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Lotte Chemical Titan Holding Berhad
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Unaudited condensed consolidated interim financial statements
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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 year-to-date ended 30 June 2021, which should be read in conjunction with the accompanying explanatory notes on page 8 to 28.

Unaudited condensed consolidated statement of comprehensive income

	Note	Individual	Individual	Changes		Cumulative	Cumulative	Changes	
		Quarter ended 30.06.2021 RM'000	Quarter ended 30.06.2020 RM'000	RM'000	%	Quarters ended 30.06.2021 RM'000	Quarters ended 30.06.2020 RM'000	RM'000	%
Revenue	A8	2,542,557	1,576,264	966,293	61%	4,909,650	3,038,098	1,871,552	62%
Cost of goods sold		(2,044,872)	(1,407,061)	(637,811)	45%	(3,868,605)	(3,067,389)	(801,216)	26%
Gross profit/(loss)		497,685	169,203	328,482	194%	1,041,045	(29,291)	1,070,336	3654%
Other income		4,763	6,063	(1,300)	-21%	10,080	13,767	(3,687)	-27%
Distribution expenses		(31,497)	(23,871)	(7,626)	32%	(65,153)	(42,198)	(22,955)	54%
Administrative expenses		(24,808)	(24,016)	(792)	3%	(49,178)	(47,895)	(1,283)	3%
Foreign exchange differences		1,304	(3,173)	4,477	-141%	23,022	58,259	(35,237)	-60%
Fair value changes on derivatives		-	(835)	835	-100%	-	2,805	(2,805)	-100%
Other expenses		(2,898)	(4,072)	1,174	-29%	(6,563)	(26,686)	20,123	-75%
Profit/(Loss) from operations		444,549	119,299	325,250	273%	953,253	(71,239)	1,024,492	1438%
Finance income		13,259	18,364	(5,105)	-28%	24,832	42,113	(17,281)	-41%
Finance costs	B6	(3,465)	(3,609)	144	-4%	(6,747)	(7,499)	752	-10%
Net finance income		9,794	14,755	(4,961)	-34%	18,085	34,614	(16,529)	-48%
Share of results of associates		34,227	(24,819)	59,046	-238%	84,340	(59,935)	144,275	241%
Profit/(Loss) before tax	B5	488,570	109,235	379,335	347%	1,055,678	(96,560)	1,152,238	1193%
Income tax	B7	(105,059)	(13,351)	(91,708)	687%	(230,891)	22,948	(253,839)	-1106%
Net profit/(loss) for the period		383,511	95,884	287,627	300%	824,787	(73,612)	898,399	1220%

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

	Individual Quarter ended Note 30.06.2021 RM'000	Individual Quarter ended 30.06.2020 RM'000	Cumulative Quarters ended 30.06.2021 RM'000	Cumulative Quarters ended 30.06.2020 RM'000
Other comprehensive income/(loss), net of tax				
Item that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences	(3,085)	(103,825)	314,338	431,843
	<u>(3,085)</u>	<u>(103,825)</u>	<u>314,338</u>	<u>431,843</u>
Total comprehensive income/(loss) for the period	<u>380,426</u>	<u>(7,941)</u>	<u>1,139,125</u>	<u>358,231</u>
Net profit/(loss) for the period attributable to:				
Owner of the Company	382,292	88,724	822,295	(81,339)
Non-controlling interests	1,219	7,160	2,492	7,727
	<u>383,511</u>	<u>95,884</u>	<u>824,787</u>	<u>(73,612)</u>
Total comprehensive income/(loss) for the period attributable to:				
Owner of the Company	379,050	(4,825)	1,120,753	338,096
Non-controlling interests	1,376	(3,116)	18,372	20,135
	<u>380,426</u>	<u>(7,941)</u>	<u>1,139,125</u>	<u>358,231</u>
Basic and diluted earnings/(loss) per ordinary share (sen)	B18 16.81	3.90	36.17	(3.58)

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

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Unaudited condensed consolidated statement of financial position

	Note	As at 30.06.2021 RM'000	As at 31.12.2020 RM'000
Assets			
Non-current assets			
Property, plant and equipment		5,084,186	5,067,755
Right-of-use assets		543,133	499,378
Prepayment for acquisition of land		-	19,248
Investments in associates		2,244,282	2,092,828
Deferred tax assets		16	-
		<u>7,871,617</u>	<u>7,679,209</u>
Current assets			
Inventories		1,525,344	1,294,003
Trade and other receivables		876,079	733,903
Current tax assets		5,214	8,271
Prepayments		16,517	34,831
Other investments	B13	3,309,740	2,889,690
Cash and bank balances	B14	<u>1,694,329</u>	<u>1,268,313</u>
		<u>7,427,223</u>	<u>6,229,011</u>
Total assets		<u><u>15,298,840</u></u>	<u><u>13,908,220</u></u>
Equity and liabilities			
Capital and reserves			
Share capital		5,827,149	5,816,813
Other reserves		1,343,028	1,044,570
Retained earnings		5,912,185	5,164,217
Treasury shares, at cost		<u>(226,252)</u>	<u>(226,252)</u>
Total equity attributable to owners of the Company		12,856,110	11,799,348
Non-controlling interests		<u>507,010</u>	<u>468,793</u>
		<u>13,363,120</u>	<u>12,268,141</u>

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

	Note	As at 30.06.2021 RM'000	As at 31.12.2020 RM'000
Non-current liabilities			
Provision		312,755	332,400
Deferred tax liabilities		654,476	431,139
Defined benefit obligation		20,960	19,307
Lease liabilities		33,265	37,774
		<u>1,021,456</u>	<u>820,620</u>
Current liabilities			
Trade and other payables		903,467	805,901
Current tax liabilities		-	1,303
Other financial liabilities		135	152
Lease liabilities		10,662	12,103
		<u>914,264</u>	<u>819,459</u>
Total liabilities		<u>1,935,720</u>	<u>1,640,079</u>
Total equity and liabilities		<u>15,298,840</u>	<u>13,908,220</u>
Net assets per share attributable to ordinary equity holders of the parent (RM)		<u>5.64</u>	<u>5.19</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 ----->							
	Share capital RM'000	Treasury Shares RM'000	Equity transaction reserves RM'000	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
Note								
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	-	-	-	-	(81,339)	(81,339)	7,727	(73,612)
Other comprehensive income	-	-	-	419,435	-	419,435	12,408	431,843
Total comprehensive income for the period	-	-	-	419,435	(81,339)	338,096	20,135	358,231
Proceeds from issuance of ordinary share by a subsidiary to Lotte Chemical Corporation, the ultimate holding company	-	-	-	-	-	-	137,896	137,896
Dividends	A7, B17	-	-	-	(159,109)	(159,109)	-	(159,109)
At 30 June 2020	5,816,813	(226,252)	26,539	1,592,121	4,931,406	12,140,627	475,615	12,616,242
At 1 January 2021	5,816,813	(226,252)	26,539	1,018,031	5,164,217	11,799,348	468,793	12,268,141
Net profit for the period	-	-	-	-	822,295	822,295	2,492	824,787
Other comprehensive income	-	-	-	298,458	-	298,458	15,880	314,338
Total comprehensive income for the period	-	-	-	298,458	822,295	1,120,753	18,372	1,139,125
Proceeds from issuance of ordinary share by a subsidiary to Lotte Chemical Corporation, the ultimate holding company	-	-	-	-	-	-	19,845	19,845
Share issued pursuant to Dividend Reinvestment Scheme	A6, A7	10,336	-	-	-	10,336	-	10,336
Dividends	A7, B17	-	-	-	(74,327)	(74,327)	-	(74,327)
At 30 June 2021	5,827,149	(226,252)	26,539	1,316,489	5,912,185	12,856,110	507,010	13,363,120

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

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Unaudited condensed consolidated statement of cash flows

	Cumulative Quarters ended 30.06.2021 RM'000	Cumulative Quarters ended 30.06.2020 RM'000
Cash flows from operating activities		
Profit/(Loss) before tax	1,055,678	(96,560)
Adjustments for:-		
Depreciation of property, plant and equipment and right-of-use assets	279,090	277,207
Finance costs	6,747	7,499
Property, plant and equipment written off	238	830
Write down/(Reversal of write-down) of inventories to net realisable value	776	(21,277)
Expenses recognised in respect of defined benefit plan	3,218	2,106
Inventories written off	1	34
Share of results of associates	(84,340)	59,935
Loss/(Gain) on disposal of property, plant and equipment	80	(3,421)
Finance income	(24,832)	(42,113)
Fair value changes in derivatives	-	(2,805)
Unrealised (gain)/loss on foreign exchange	(694)	14,273
Operating profit before working capital changes	1,235,962	195,708
Change in inventories	(191,788)	284,287
Change in trade and other receivables	(131,820)	120,504
Change in trade and other payables	122,665	(80,400)
Cash generated from operations	1,035,019	520,099
Payments under defined benefit plan	(1,634)	(361)
Finance costs paid	(3,437)	(2,180)
Income tax paid	(9,247)	(5,632)
Net cash generated from operating activities	1,020,701	511,926

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

	Cumulative Quarters ended 30.06.2021 RM'000	Cumulative Quarters ended 30.06.2020 RM'000
Cash flows from investing activities		
Finance income received	24,832	42,113
Proceeds from disposal of property, plant and equipment	18	3,421
Acquisition of property, plant and equipment	(179,164)	(597,500)
Payment for right-of-use asset	(22,798)	-
Prepayment for acquisition of land	-	(8)
Fund placement in other investment	(420,050)	(65,102)
Investment in associate	-	(13,074)
Net cash used in investing activities	<u>(597,162)</u>	<u>(630,150)</u>
Cash flows from financing activities		
Dividend paid	(63,991)	(159,109)
Proceeds from issuance of ordinary share by a subsidiary to Lotte Chemical Corporation, the ultimate holding company	19,845	137,896
Payment of lease liabilities	(6,298)	(11,044)
Net cash used in financing activities	<u>(50,444)</u>	<u>(32,257)</u>
Net increase/(decrease) in cash and cash equivalents	373,095	(150,481)
Effect of exchange rate changes on the balance of cash held in foreign currencies	52,921	30,044
Cash and cash equivalents at beginning of period	<u>1,268,313</u>	<u>999,769</u>
Cash and cash equivalents at end of period (Note B14)	<u><u>1,694,329</u></u>	<u><u>879,332</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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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 2020 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 28 July 2021.

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 2020, except for the adoption of the following amendments to MFRSs during the financial period:

Amendment to MFRS 16, Leases – Covid-19-Related Rent Concessions
Amendments to MFRS 9, Financial Instruments, MFRS 139, Financial Instruments: Recognition and Measurement, MFRS 7, Financial Instruments: Disclosures, MFRS 4, Insurance Contracts and MFRS 16, Leases – Interest Rate Benchmark Reform – Phase 2

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.

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

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

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

As the petrochemical industry is cyclical, new investments usually occur at the same time, following periods of sustained higher profitability. Cyclical changes in supply and demand are usually closely linked to economic growth patterns.

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 period 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 Q2 2021, based on an analysis performed by the management, the Group has revised the discount rate from 1.81% to 2.35%. This change has resulted in a decrease by approximately RM33,380,000 in the provision for dismantling cost.

A6. Debt and equity securities

During the 6 months financial period ended 30 June 2021, 4,573,040 new ordinary shares of LCT were issued in relation to the Dividend Reinvestment Scheme exercise undertaken by the Company. The said shares were listed and quoted on the Main Market of Bursa Malaysia Securities Bhd on 2 June 2021. There were no other material issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the period under review.

A7. Dividend paid

During the 6 months financial period ended 30 June 2021, the Company paid a final single tier dividend in respect of the financial year ended 31 December 2020, of 3.27 sen per share on 2,272,983,500 ordinary shares, amounting to a dividend of RM 74,326,559. Out of the total cash distribution, a total of RM 10.34 mil was converted into 4,573,040 new ordinary shares of the Company at the conversion price of RM2.26 per ordinary share under the Dividend Reinvestment Scheme.

During the 6 months financial period ended 30 June 2020, the Company paid a final single tier dividend in respect of the financial year ended 31 December 2019, of 7.0 sen per share on 2,272,983,500 ordinary shares, amounting to a dividend of RM 159,108,845.

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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 30 June 2021			
Geographical markets			
Malaysia	188,959	1,464,725	1,653,684
Indonesia	176,108	1,288,713	1,464,821
China (including Hong Kong)	128,505	261,520	390,025
Southeast Asia	220,378	493,036	713,414
Northeast Asia	145,576	114,738	260,314
Indian Sub-Continent	87,329	188,332	275,661
Others	-	151,731	151,731
	<u>946,855</u>	<u>3,962,795</u>	<u>4,909,650</u>
For the financial period ended 30 June 2020			
Geographical markets			
Malaysia	114,432	910,168	1,024,600
Indonesia	47,273	686,073	733,346
China (including Hong Kong)	119,614	490,956	610,570
Southeast Asia	137,097	289,782	426,879
Northeast Asia	82,651	70,591	153,242
Indian Sub-Continent	15,672	54,434	70,106
Others	-	19,355	19,355
	<u>516,739</u>	<u>2,521,359</u>	<u>3,038,098</u>

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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 30 June 2021				
Revenue				
External customers	946,855	3,962,795	-	4,909,650
Inter-segment	2,050,478	-	(2,050,478)	-
Total revenue	2,997,333	3,962,795	(2,050,478)	4,909,650
Expenses				
Depreciation of property, plant and equipment and right-of-use assets	187,143	91,331	616	279,090
Property, plant and equipment written off	198	40	-	238
Write-down of inventories to net realisable value	-	776	-	776
Segment results	106,891	802,855	145,932	1,055,678

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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 30 June 2020				
Revenue				
External customers	516,739	2,521,359	-	3,038,098
Inter-segment	1,430,413	-	(1,430,413)	-
Total revenue	1,947,152	2,521,359	(1,430,413)	3,038,098
Expenses				
Depreciation of property, plant and equipment and right-of-use assets	174,891	101,381	935	277,207
Property, plant and equipment written off	510	320	-	830
Reversal of write-down of inventories to net realisable value	(3,521)	(17,756)	-	(21,277)
Segment results	(100,904)	(25,124)	29,468	(96,560)

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 RM14.0 million for the financial period ended 30 June 2021 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 RM44.5 million for the financial period ended 30 June 2021 which are 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

	Cumulative Quarters ended 30.06.2021 RM'000	Cumulative Quarters ended 30.06.2020 RM'000
Segment profit/(loss) of:		
- Olefins and derivative products	106,891	(100,904)
- Polyolefin products	802,855	(25,124)
Total segment profit/(loss)	909,746	(126,028)
Inter-segment sales (elimination)	-	(1,134)
Share of results of associates	84,340	(59,935)
Finance income derived from IPO proceeds	13,953	29,607
Foreign exchange gain/(loss) arise as a result of converting a portion of IPO proceed to USD	44,511	70,458
Other unallocated cost/income	3,128	(9,528)
Eliminations and unallocated results	145,932	29,468
Profit/(Loss) before tax	1,055,678	(96,560)

A10. Valuation of property, plant and equipment

There were no revaluations of property, plant and equipment for the period under review. As at 30 June 2021, 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 2020.

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

A13. Changes in composition of the Group

Lotte Chemical USA Corporation (“LC USA”) has filed a Notice of Arbitration on the dispute with Eagle US 2 LLC (“Eagle US”) relating to the purchase price formula for transferring its equity interest in LACC LLC (“LACC”) to Eagle US. The hearing took place remotely, as scheduled, during the week of June 21, 2021 and is ongoing as at the date of this report.

There were no other material changes in the composition of the Group during the period.

A14. Capital commitments

Capital expenditure as at the reporting date is as follows:

	As at 30.06.2021 RM'000	As at 31.12.2020 RM'000
Contracted but not provided for	<u>628,862</u>	<u>342,826</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 re-priced 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 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
As at 30 June 2021				
Financial assets				
Fund placements with licensed financial institutions	1,581,869	-	1,581,869	-
As at 31 December 2020				
Financial assets				
Fund placements with licensed financial institutions	1,416,558	-	1,416,558	-

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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:

	Cumulative Quarters ended 30.06.2021 RM'000	Cumulative Quarters ended 30.06.2020 RM'000
Ultimate holding company		
Sales of goods	43,796	20,096
Catalyst trial fee received/receivable	-	6,016
Reimbursement of payroll for secondment of expatriates	5,263	5,454
Purchase of materials	-	600
Commission expense	790	849
Royalty expense	20,517	281
Commission income	12	22
Capital expenditure incurred	7,281	23,656
IT support services fee paid/payable	277	309
Related companies		
Sales of goods	58,654	34,719
Capital expenditure incurred	66,383	78,487
IT support services fee paid/payable	1,671	1,684
Commission expense	499	2,924
Warehouse and logistics services incurred	11,584	11,902
Other administrative expenses	9	45
Office Space Sublease	20	-
Associate company		
Sales of goods	107,491	56,774
Sales of utilities	6,045	5,320
Income from shared services	40	147
Financial guarantee income	45	43
Interest income	70	-
Lease rental income	1,439	1,405

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Part B - Other explanatory notes

B1. Review of group performance

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

	Individual quarter ended 30 June					
	2021	2020	2021		2021	2020
	Group		Olefins and derivative products		Polyolefin products	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	2,542,557	1,576,264	520,868	269,946	2,021,689	1,306,318
Profit before tax	488,570	109,235	63,543	29,940	384,737	102,736
EBITDA*	<u>584,995</u>	<u>261,827</u>	<u>156,697</u>	<u>119,494</u>	<u>429,757</u>	<u>155,837</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.

The Group's revenue increased by 61% (or RM 966.3 million) from RM 1,576.3 million to RM 2,542.6 million mainly due to the increase in average product selling price following the supply disruption due to plant outages in United States and South East Asia that has gradually normalised since early Q2 2021.

Average plant utilisation rate remained at 86% in both quarters.

The Group's profit before tax has improved by 347% from RM 109.2 million to RM 488.6 million. This is mainly due to the improved margin spread resulting from higher average product selling price. The gross profit margin has improved from 11% to 20%. This was further enhanced by the performance of an associated company, Lotte Chemical USA Corp. which resulted in a profit from share of results of associates of RM34.1 million compared to a loss of RM23.6 million in the corresponding quarter.

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Part B - Other explanatory notes (cont'd)

B1. Review of group performance (cont'd)

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

The improvement in Group's profit before tax was mainly offset by higher feedstock costs. The implementation of Full Movement Control Order in early June 2021 have reduced the sales volume by 4%.

Despite a marginally lower sales volume due to FMCO and higher feedstock cost, the net profit increase by four-fold from RM 95.9 million to RM 383.5 million due to increase in average selling price by 69%.

Olefins and derivative products

The segment recorded an increase in revenue from RM 269.9 million in Q2 2020 to RM 520.9 million in Q2 2021. This was due to the increase in average product selling price in Q2 2021 as compared to the corresponding quarter.

Profit increased by 112% from RM 29.9 million to RM 63.5 million mainly due to improved margin spread resulting from higher average product selling price.

Polyolefin products

The segment recorded an increase in revenue from RM 1,306.3 million in Q2 2020 to RM 2,021.7 million in Q2 2021. This was due to the increase in average product selling price.

Profitability improved by more than three-fold from RM 102.7 million to RM 384.7 million mainly due to improved margin spread resulting from higher average product selling price.

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Part B - Other explanatory notes (cont'd)

B1. Review of group performance (cont'd)

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

	Cumulative quarters ended 30 June					
	2021	2020	2021		2020	
	Group		Olefins and derivative		Polyolefin products	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	4,909,650	3,038,098	946,855	516,739	3,962,795	2,521,359
Profit/(Loss) before tax	1,055,678	(96,560)	106,891	(100,904)	802,855	(25,124)
EBITDA*	<u>1,232,343</u>	<u>205,968</u>	<u>294,004</u>	<u>73,450</u>	<u>891,642</u>	<u>76,159</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.

The Group's revenue increased by 62% (or RM 1,871.6 million) from RM 3,038.1 million to RM 4,909.7 million mainly due to the increase in average product selling price and sales quantity. The increase is in tandem with the supply disruption due to the plant outages in United States and South East Asia coupled with the turnaround activities in Middle East but has gradually normalised since early Q2 2021. The shortages of containers have further spurred the demand sentiment as buyers experienced longer delivery period for shipment to South East Asia in early 2021. However, the spike of regional COVID-19 cases and implementation of Full Movement Control Order have limited the upward trend of demand.

Overall plant utilisation increased from 76% to 87% due to the major statutory plant turnaround in 1H 2020.

Profit before tax improved significantly from loss before tax of RM 96.6 million to profit before tax of RM 1,055.7 million in 2021. The increase was mainly due to improved gross profit margin from -1% to 21%. This was further enhanced by the performance of an associated company, Lotte Chemical USA Corp. which share of results of associates of RM84.7 million compared to a loss of RM56.5 million in the corresponding period.

The increase in profit before tax was offset by lower foreign exchange differences and lower interest income.

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Part B - Other explanatory notes (cont'd)

B1. Review of group performance (cont'd)

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

As a result of the above, profit after tax improved significantly from loss after tax of RM 73.6 million to profit after tax of RM 824.8 million.

Olefins and derivative products

The segment recorded an increase in revenue from RM 516.7 million to RM 946.9 million. This was primarily due to the increase in average product selling price and sales volume in 2021 as compared to the corresponding period.

Profit before tax improved from loss before tax of RM 100.9 million to profit before tax of RM 106.9 million mainly due to improved margin spread.

Polyolefin products

The segment recorded an increase in revenue from RM 2,521.4 million to RM 3,962.8 million. This was primarily due to the increase in average product selling price and sales volume in 2021 as compared to the corresponding period.

Profit before tax improved significantly from loss before tax of RM 25.1 million to profit before tax of RM 802.9 million mainly due to improved margin spread.

B2. Variation of results against the preceding quarter

	Individual Quarter ended 30 June 2021 RM'000	Individual Quarter ended 31 March 2021 RM'000
Revenue	2,542,557	2,367,093
Profit before tax	488,570	567,108
EBITDA	<u>584,995</u>	<u>647,348</u>

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Part B - Other explanatory notes (cont'd)

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

The Group's revenue increased by RM 175.5 million or 7% from RM 2,367.1 million to RM 2,542.6 million mainly due to the higher average product selling price comparing to the corresponding period. The higher average product selling price was driven by supply disruption resulting from the plant outages in United States and South East Asia and has gradually normalised since early Q2 2021.

The plant was operating at 86% in Q2 2021 as compared to 88% in the preceding quarter.

The Group's profit before tax decreased by RM 78.5 million from RM 567.1 million to RM 488.6 million mainly due to lower gross profit margin from 23% to 20% arising from higher feedstock prices and cost of goods sold.

B3. Commentary on prospects

The results of our operations for the financial period ending 31 December 2021 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.

The World Bank in its recent economic outlook report has noted that the global economy is set to rebound strongly, growing by 5.6% in 2021 from a contraction of 3.5% in 2020 following the devastating pandemic impact in 2020. However, the recovery is on the back of highly unequal access to vaccine supplies as well as the uneven relaxation of pandemic-control measures in different countries. As such, the recovery prospect may likely to be concentrated in a few major economies with poorer emerging market and developing economies falling behind.

We are cautiously optimistic on the petrochemical market outlook with some balancing market factors weighing on the sector. Given the price correlation of our naphtha feedstock with crude oil, rising global crude oil price would be an area of concern should our product prices remain stable. In addition, there are some new additional capacity in the region expected to come online in the second half of the year, which may have some downward pressure on the product average selling prices.

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Part B - Other explanatory notes (cont'd)

B3. Commentary on prospects (cont'd)

The global crude oil price has been gradually trending upward since early 2021 on the back of positive pandemic recovery sentiment, averaging around USD 60/bbl. in 2021, to-date. A gradual firming in demand and continued production curbs among OPEC+ members supported the uptrend. However, the uncertainty regarding the evolution of the pandemic and its potential impact on future oil demand may limit the upward price momentum to a certain extent. As such, crude oil price is still expected to remain relatively stable with upside trend in line with the economic and demand recovery in 2021.

Nevertheless, there are some positive outlook to note for the petrochemical sector. As the sector moves in tandem with economic growth, the sector would likely be supported by the overall global economic recovery expected in the second half of the year. The positive outlook would be very much dependent on the progress of effective vaccination drive as well as the pace of economic reopening, globally and domestically. Major economies such as China and U.S have seen robust reopening and recovery pace this year. On the other hand, emergence of new infection waves across Asia would likely pose some downside risks to the full recovery extent in the region.

Amidst prevailing market uncertainties, the Company will continue to monitor closely on the pandemic development as the petrochemical market correlates with and is heavily dependent on the regional and global economic growth and aggregate consumption pattern. Notwithstanding the external circumstances, the Company will continue to maintain its strong financial resilience and optimize its operations to ride through the volatile business environment.

B4. Profit forecast or profit guarantee

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

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Part B - Other explanatory notes (cont'd)

B5. Profit/(Loss) before tax

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

	Individual quarter ended 30 June		Cumulative quarters ended 30 June	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Depreciation of property, plant and equipment and right-of-use assets	140,446	142,528	279,090	277,207
(Gain)/loss on foreign exchange:				
- Realised	(16,796)	(59,291)	(22,328)	(72,532)
- Unrealised	15,492	62,464	(694)	14,273
Inventories written off	1	16	1	34
Property, plant and equipment written off	17	601	238	830
Loss/(Gain) on disposal of property, plant and equipment	80	(33)	80	(3,421)
Write down/(Reversal of write-down) of inventories to net realisable value	776	(102,673)	776	(21,277)
Fair value changes in derivatives	-	835	-	(2,805)
	<u>3,465</u>	<u>3,609</u>	<u>6,747</u>	<u>7,499</u>

B6. Finance costs

	Individual quarter ended 30 June		Cumulative quarters ended 30 June	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Unwinding of lease liabilities	635	793	1,305	1,614
Bank charges	784	880	1,567	1,665
Letter of credit charges	251	244	565	502
Unwinding of discount on provision	1,795	1,692	3,310	3,705
Other finance costs	-	-	-	13
	<u>3,465</u>	<u>3,609</u>	<u>6,747</u>	<u>7,499</u>

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Part B - Other explanatory notes (cont'd)

B7. Income tax

	Individual quarter ended 30 June		Cumulative quarters ended 30 June	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Current tax				
Current year	<u>14,017</u>	<u>2,189</u>	<u>25,042</u>	<u>5,084</u>
Deferred tax				
Origination and reversal of temporary differences	<u>91,042</u>	<u>11,162</u>	<u>205,849</u>	<u>(28,032)</u>
Total income tax recognised in profit or loss	<u>105,059</u>	<u>13,351</u>	<u>230,891</u>	<u>(22,948)</u>

By excluding the share of results of associates, the Group effective tax rate for the period ended 30 June 2021 is 24%.

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.

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Part B - Other explanatory notes (cont'd)

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	Intended timeframe for utilisation	Proposed utilisation RM'000	Actual utilisation as at 30 June 2021 RM'000	Percentage utilised %
Funding of following projects:				
(i) LINE Project	By 2022	2,634,213	499,567	19%
(ii) TE3 Project	Fully utilised	220,000	220,000	100%
(iii) PP3 Project (Note 2)	Fully utilised	606,805	606,805	100%
Listing expenses (Note 3)	Fully utilised	82,730	82,730	100%
		<u>3,543,748</u>	<u>1,409,102</u>	<u>40%</u>

Note 1: The funding for LINE Project 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 LINE Project.

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 LINE Project.

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 30 June 2021, RM 10.7 million of the unutilised funds are temporarily reserved in Indonesia for subsequent payment to suppliers of LINE Project .

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Part B - Other explanatory notes (cont'd)

B10. Status of corporate proposals (cont'd)

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) LINE Project
In view of the aggravation of the global COVID-19 pandemic and volatilities in the global economy, there is uncertainty in the outlook for the petrochemical industry. The Company is monitoring the situation closely and will determine in due course the most suitable time for the commencement of construction of LINE Project.
- (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 investments

	As at 30 June 2021 RM'000	As at 30 December 2020 RM'000
<u>Fund placements with licensed financial institutions</u>		
Unutilised proceeds from initial public offering	968,956	959,814
Proceeds from internally generated funds	612,913	456,744
	<u>1,581,869</u>	<u>1,416,558</u>
<u>Short term deposits with licensed financial institutions with maturity more than 3 months</u>		
Unutilised proceeds from initial public offering	1,465,855	1,357,426
Proceeds from internally generated funds	262,016	115,706
	<u>1,727,871</u>	<u>1,473,132</u>
Total other investments	<u>3,309,740</u>	<u>2,889,690</u>

B14. Cash and bank balances

	As at 30 June 2021 RM'000	As at 30 December 2020 RM'000
<u>Unutilised proceeds from initial public offering</u>		
Cash at banks	4,859	5,189
Short term deposits with licensed financial institutions	5,805	105,152
	10,664	110,341
<u>Others</u>		
Cash at banks and on hand	1,634,614	1,097,393
Short term deposits with licensed financial institutions	49,051	60,579
Cash and cash equivalents	<u>1,694,329</u>	<u>1,268,313</u>

B15. Off balance sheet financial instruments

There were no off balance sheet financial instruments for the period ended 30 June 2021.

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Part B - Other explanatory notes (cont'd)

B16. Material litigation

Lotte Chemical Titan International Limited ("LCTIL"), an indirect subsidiary of the Company, which is under liquidation process has filed a Judicial Review Application to the High Court, to appeal against Minister of Finance Malaysia's decision on rejecting LCTIL's application for a determination of the term "chargeable profit" for a Labuan entity carrying on a Labuan non-trading activity under the Labuan Business Activity Tax Act 1990 ("Decision"). The said Decision would give rise to a tax liability amounting to USD 8.5 million (equivalent to RM 35 million) to LCTIL.

Upon consulting its tax consultant and solicitors, LCTIL is of the view that there are reasonable grounds to contest the Decision and LCTIL intends to take all steps necessary to contest the Decision.

The additional tax liability is not expected to have a material impact on the net assets or gearing of the Group for the financial year ending 31 December 2021.

B17. Dividends

Other than disclosed in Note A7, no dividend has been paid or declared by the Company and its subsidiaries for the period ended 30 June 2020 and 30 June 2021.

B18. Earnings per share ("EPS")

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

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

	Individual quarter ended 30 June		Cumulative quarters ended 30 June	
	2021	2020	2021	2020
Net profit/(loss) attributable to the owner of the Company (RM'000)	<u>382,292</u>	<u>88,724</u>	<u>822,295</u>	<u>(81,339)</u>
Weighted average number of ordinary shares at the end of the period ('000)	<u>2,274,441</u>	<u>2,272,984</u>	<u>2,273,716</u>	<u>2,272,984</u>
Basic and diluted earning/(loss) per share (sen)	<u>16.81</u>	<u>3.90</u>	<u>36.17</u>	<u>(3.58)</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 2020.