

LOTTE CHEMICAL TITAN HOLDING BERHAD
199101012045 (222357-P)

**Unaudited condensed consolidated
interim financial statements**

For the quarter and year-to-date ended 30 June 2023

**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 and year-to-date ended 30 June 2023

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 2023, which should be read in conjunction with the accompanying explanatory notes on page 8 to 26.

		Individual Quarter ended	Individual Quarter ended	Changes		Cumulative Quarters ended	Cumulative Quarters ended	Changes	
	Note	30.06.2023 RM'000	30.06.2022 RM'000	RM'000	%	30.06.2023 RM'000	30.06.2022 RM'000	RM'000	%
Revenue	A8	1,858,046	2,816,869	(958,823)	-34%	3,829,344	5,576,349	(1,747,005)	-31%
Cost of goods sold		(2,161,513)	(2,962,044)	800,531	27%	(4,315,077)	(5,631,090)	1,316,013	23%
Gross loss		(303,467)	(145,175)	(158,292)	-109%	(485,733)	(54,741)	(430,992)	-787%
Other income		6,569	7,783	(1,214)	-16%	8,826	12,716	(3,890)	-31%
Distribution expenses		(26,992)	(33,797)	6,805	20%	(55,591)	(70,851)	15,260	22%
Administrative expenses		(54,370)	(33,505)	(20,865)	-62%	(97,316)	(60,377)	(36,939)	-61%
Foreign exchange differences		(1,098)	4,795	(5,893)	-123%	(541)	5,925	(6,466)	-109%
Fair value changes on derivatives		61	167	(106)	-63%	6,599	547	6,052	0%
Other expenses		(4,767)	(830)	(3,937)	-474%	(6,079)	(3,908)	(2,171)	-56%
Loss from operations		(384,064)	(200,562)	(183,502)	-91%	(629,835)	(170,689)	(459,146)	-269%
Finance income		7,320	10,418	(3,098)	-30%	17,498	21,634	(4,136)	-19%
Finance costs	B6	(8,828)	(4,213)	(4,615)	-110%	(16,082)	(7,640)	(8,442)	-110%
Net finance (loss)/income		(1,508)	6,205	(7,713)	-124%	1,416	13,994	(12,578)	-90%
Share of results of associates		(4,873)	1,092	(5,965)	-546%	(48,414)	69,234	(117,648)	-170%
Loss before tax	B5	(390,445)	(193,265)	(197,180)	-102%	(676,833)	(87,461)	(589,372)	-674%
Income tax	B7	62,731	43,893	18,838	43%	117,563	41,009	76,554	187%
Net loss for the period		(327,714)	(149,372)	(178,342)	-119%	(559,270)	(46,452)	(512,818)	-1104%

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

	Individual Quarter ended 30.06.2023 RM'000	Individual Quarter ended 30.06.2022 RM'000	Cumulative Quarters ended 30.06.2023 RM'000	Cumulative Quarters ended 30.06.2022 RM'000
Other comprehensive income, net of tax				
Item that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences	908,083	563,359	897,512	644,124
Cash flow hedge	10,597	(34,026)	99,019	(32,691)
	<u>918,680</u>	<u>529,333</u>	<u>996,531</u>	<u>611,433</u>
Total comprehensive income for the period	<u>590,966</u>	<u>379,961</u>	<u>437,261</u>	<u>564,981</u>
Net loss for the period attributable to:				
Owners of the Company	(313,472)	(145,923)	(538,229)	(41,926)
Non-controlling interests	(14,242)	(3,449)	(21,041)	(4,526)
	<u>(327,714)</u>	<u>(149,372)</u>	<u>(559,270)</u>	<u>(46,452)</u>
Total comprehensive income for the period attributable to:				
Owners of the Company	391,551	335,143	204,353	513,100
Non-controlling interests	199,415	44,818	232,908	51,881
	<u>590,966</u>	<u>379,961</u>	<u>437,261</u>	<u>564,981</u>
Basic and diluted earnings per ordinary share (sen)	B22 <u>(13.76)</u>	<u>(6.41)</u>	<u>(23.63)</u>	<u>(1.84)</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 30.06.2023 RM'000	As at 31.12.2022 RM'000
Assets			
Non-current assets			
Property, plant and equipment	B13	12,894,140	9,598,844
Right-of-use assets		716,476	699,134
Investments in associates		2,615,484	2,514,119
Non-current tax assets		47,015	47,983
Non-current lease receivables		8,035	-
Deferred tax assets		17	14
		<u>16,281,167</u>	<u>12,860,094</u>
Current assets			
Inventories		1,540,267	1,461,912
Trade and other receivables	B14	1,096,702	919,586
Current tax assets		150,293	121,697
Prepayments		52,069	88,824
Derivative financial instruments		77	-
Other investments	B15	12,409	14,711
Cash and bank balances	B16	699,811	1,304,993
		<u>3,551,628</u>	<u>3,911,723</u>
Total assets		<u><u>19,832,795</u></u>	<u><u>16,771,817</u></u>
Equity and liabilities			
Capital and reserves			
Share capital		5,827,149	5,827,149
Other reserves		2,707,810	1,965,228
Retained earnings		3,653,545	4,191,774
Treasury shares, at cost		<u>(226,252)</u>	<u>(226,252)</u>
Total equity attributable to owners of the Company		11,962,252	11,757,899
Non-controlling interests		<u>3,594,822</u>	<u>2,765,746</u>
Total equity		<u><u>15,557,074</u></u>	<u><u>14,523,645</u></u>

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

	Note	As at 30.06.2023 RM'000	As at 31.12.2022 RM'000
Non-current liabilities			
Provision		520,086	362,431
Trade and other payables	B17	153,057	73,906
Deferred tax liabilities		360,111	464,742
Defined benefit obligation		22,407	18,314
Lease liabilities		20,047	24,595
Derivative financial instruments		15,193	114,212
Borrowings	B18	1,502,181	-
		<u>2,593,082</u>	<u>1,058,200</u>
Current liabilities			
Borrowings	B18	324,191	-
Trade and other payables		1,342,305	1,165,961
Current tax liabilities		6,129	6,374
Lease liabilities		10,014	11,031
Derivative financial instruments		-	6,606
		<u>1,682,639</u>	<u>1,189,972</u>
Total liabilities		<u>4,275,721</u>	<u>2,248,172</u>
Total equity and liabilities		<u>19,832,795</u>	<u>16,771,817</u>
Net assets per share attributable to ordinary equity holders of the parent (RM)		<u>5.25</u>	<u>5.16</u>

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

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Unaudited condensed consolidated statement of changes in equity

Note	Attributable to owners of the Company							Total equity attributable to owners of the Company	Non-controlling interest	Total
	Share capital	Treasury Shares	Equity transaction reserves	Foreign currency translation reserve	Hedging reserve	Retained earnings	Distributable			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2022	5,827,149	(226,252)	26,539	1,358,556	-	5,719,595	12,705,587	622,608	13,328,195	
Net loss for the period	-	-	-	-	-	(41,926)	(41,926)	(4,526)	(46,452)	
Other comprehensive income/(loss)	-	-	-	587,717	(32,691)	-	555,026	56,407	611,433	
Total comprehensive income for the period	-	-	-	587,717	(32,691)	(41,926)	513,100	51,881	564,981	
Proceeds from issuance of ordinary share by a subsidiary to Lotte Chemical Corporation, the ultimate holding company	-	-	-	-	-	-	-	1,208,911	1,208,911	
Dividends	-	-	-	-	-	(478,287)	(478,287)	-	(478,287)	
At 30 June 2022	5,827,149	(226,252)	26,539	1,946,273	(32,691)	5,199,382	12,740,400	1,883,400	14,623,800	
At 1 January 2023	5,827,149	(226,252)	26,539	1,996,937	(58,248)	4,191,774	11,757,899	2,765,746	14,523,645	
Net loss for the period	-	-	-	-	-	(538,229)	(538,229)	(21,041)	(559,270)	
Other comprehensive income	-	-	-	692,082	50,500	-	742,582	253,949	996,531	
Total comprehensive income/(loss) for the period	-	-	-	692,082	50,500	(538,229)	204,353	232,908	437,261	
Proceeds from issuance of ordinary share by a subsidiary to Lotte Chemical Corporation, the ultimate holding company	-	-	-	-	-	-	-	596,168	596,168	
At 30 June 2023	5,827,149	(226,252)	26,539	2,689,019	(7,748)	3,653,545	11,962,252	3,594,822	15,557,074	

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
For the quarter and year-to-date ended 30 June 2023**

Unaudited condensed consolidated statement of cash flows

	Cumulative Quarter ended 30.06.2023 RM'000	Cumulative Quarter ended 30.06.2022 RM'000
Cash flows from operating activities		
Loss before tax	(676,833)	(87,461)
Adjustments for:-		
Depreciation of property, plant and equipment and right-of-use assets	258,391	279,430
Finance costs	16,082	7,640
Property, plant and equipment written off	790	346
Reversal of write-down of inventories to net realisable value		
Write-down of inventories to net realisable value	28,305	79,129
Expenses recognised in respect of defined benefit plan	2,321	2,567
Inventories written off	8	163
Allowance on trade receivables	2,049	-
Share of results of associates	48,414	(69,234)
Gain on disposal of property, plant and equipment	(20)	(1)
Finance income	(17,498)	(21,634)
Fair value changes in derivatives	(6,599)	(547)
Unrealised (gain) / loss on foreign exchange	(12,381)	25,134
Operating (loss)/profit before working capital changes	(356,971)	215,532
Change in inventories	(19,427)	(411,143)
Change in trade and other receivables	(84,878)	(93,750)
Change in trade and other payables	(82,302)	599,314
Cash (used in)/generated from operations	(543,578)	309,953
Payments under defined benefit plan	(414)	(963)
Finance costs paid	(3,173)	(3,109)
Income tax paid	(10,082)	(92,237)
Net cash (used in)/generated from operating activities	(557,247)	213,644

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

	Cumulative Quarter ended 30.06.2023 RM'000	Cumulative Quarter ended 30.06.2022 RM'000
Cash flows from investing activities		
Finance income received	17,498	21,634
Proceeds from disposal of property, plant and equipment	20	16
Acquisition of property, plant and equipment	(2,458,297)	(2,368,324)
Payment for right-of-use asset	-	(15,217)
Fund withdrawal from other investment	2,302	1,823,766
Net cash used in investing activities	<u>(2,438,477)</u>	<u>(538,125)</u>
Cash flows from financing activities		
Interest paid on short-term borrowings	(5,598)	(19)
Payment of transaction costs in relation to term loan	(468,591)	-
Dividend paid	-	(478,287)
Proceeds from issuance of ordinary share by a subsidiary to Lotte Chemical Corporation, the ultimate holding company	596,168	1,208,911
Net proceeds from borrowings	2,221,810	-
Payment of lease liabilities	(6,009)	(5,572)
Net cash generated from financing activities	<u>2,337,780</u>	<u>725,033</u>
Net (decrease)/increase in cash and cash equivalents	(657,944)	400,552
Effect of exchange rate changes on the balance of cash held in foreign currencies	52,762	73,659
Cash and cash equivalents at beginning of period	1,304,993	1,842,009
Cash and cash equivalents at end of period (Note B16)	<u>699,811</u>	<u>2,316,220</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 2022 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 27 July 2023.

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 2022, except for the adoption of the following amendments to MFRSs during the financial period:

MFRS 17, Insurance Contracts

Amendments to MFRS 17, Insurance Contracts

- Initial application of MFRS 17 and MFRS 9 - Comparative Information

Amendments to MFRS 101, Presentation of Financial Statements

- Disclosures of Accounting Policies

Amendments to MFRS 108, Accounting Policies, Changes in Accounting Estimate and Errors - Definition of Accounting Estimates

Amendments to MFRS 112, Income Taxes

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- International Tax Reform – Pillar Two Model Rules

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 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 2023, based on an analysis performed by the management, the Group has revised the discount rate from 3.71% to 3.92% and the inflation rate from 3.0% to 4.0%. This change has resulted in a net increase by approximately RM 98,932 million in the provision for dismantling cost in Q2 2023.

A6. Debt and equity securities

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

A7. Dividend paid

No dividend was paid during the period under review.

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

A8. Revenue

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	Percentage %
For the financial period ended 30 June 2023				
Geographical markets				
Malaysia	140,973	1,124,537	1,265,510	33
Indonesia	24,998	1,313,258	1,338,256	35
China	72,485	124,343	196,828	5
Southeast Asia	245,464	332,944	578,408	15
Northeast Asia	158,589	69,477	228,066	6
Indian Sub-Continent	53,322	146,465	199,787	5
Others	-	22,489	22,489	1
Total revenue from contracts with customers	695,831	3,133,513	3,829,344	100
For the financial period ended 30 June 2022				
Geographical markets				
Malaysia	136,608	1,546,496	1,683,104	31
Indonesia	199,111	1,584,937	1,784,048	32
China	91,502	336,616	428,118	8
Southeast Asia	450,612	519,163	969,775	17
Northeast Asia	243,683	111,643	355,326	6
Indian Sub-Continent	121,228	179,716	300,944	5
Others	-	55,034	55,034	1
Total revenue from contracts with customers	1,242,744	4,333,605	5,576,349	100

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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 2023				
Revenue				
External customers	695,831	3,133,513	-	3,829,344
Inter-segment	2,059,603	-	(2,059,603)	-
Total revenue	2,755,434	3,133,513	(2,059,603)	3,829,344
Expenses				
Depreciation of property, plant and equipment and right-of-use assets	166,337	91,155	899	258,391
Property, plant and equipment written off	65	291	434	790
Write-down of inventories to net realisable value	21,689	6,616	-	28,305
Segment results	(155,721)	(428,058)	(93,055)	(676,833)

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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 2022				
Revenue				
External customers	1,242,744	4,333,605	-	5,576,349
Inter-segment	2,973,368	-	(2,973,368)	-
Total revenue	<u>4,216,112</u>	<u>4,333,605</u>	<u>(2,973,368)</u>	<u>5,576,349</u>
Expenses				
Depreciation of property, plant and equipment and right-of-use assets	186,380	92,390	660	279,430
Property, plant and equipment written off	169	176	2	346
Write-down of inventories to net realisable value	48,516	30,613	-	79,129
Segment results	<u>(78,252)</u>	<u>(117,497)</u>	<u>108,288</u>	<u>(87,461)</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 RM440,000 for the financial period ended 30 June 2023 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 RM368,000 for the financial period ended 30 June 2023 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 loss

	Cumulative Quarter ended 30.06.2023 RM'000	Cumulative Quarter ended 30.06.2022 RM'000
Segment loss of:		
- Olefins and derivative products	(155,721)	(78,252)
- Polyolefin products	(428,058)	(117,497)
Total segment loss	<u>(583,779)</u>	<u>(195,749)</u>
Inter-segment sales (elimination)	(626)	431
Share of results of associates	(48,414)	69,234
Finance income derived from IPO proceeds	440	10,455
Foreign exchange gain arise as a result of converting a portion of IPO proceed to USD	368	29,309
Other unallocated cost	(44,823)	(1,141)
Eliminations and unallocated results	(93,055)	108,288
Loss before tax	<u><u>(676,833)</u></u>	<u><u>(87,461)</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 30 June 2023, 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 financial period.

A12. Contingencies

There were no material contingent liabilities or contingent assets since the last consolidated statement of financial position as at 31 December 2022.

A13. Changes in composition of the Group

There were no material changes in the composition of the Group during the period except for the dissolution of the Company's indirect subsidiary, Titan trading Corp Limited on 28 March 2023, pursuant to Section 239 (4) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance of Hong Kong.

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

A14. Capital commitments

Capital expenditure as at the reporting date is as follows:

	As at 30.06.2023 RM'000	As at 31.12.2022 RM'000
Contracted but not provided for	<u>5,446,133</u>	<u>7,499,743</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 - Current
- (iii) Cash and bank balances
- (iv) Short term deposits with licensed financial institutions with maturity more than 3 months

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 at fair value through profit or loss

Fair values of forward exchange contract are calculated by reference to forward rates quoted at the reporting date for contracts with similar maturity profiles

Derivatives used for hedging

The Group has entered into a number of forward exchange contracts to hedge the cash flow risk in relation to the variations of cash flows arising from future forecasted transactions.

Fair values of forward exchange contracts are estimated by discounting future cash flows using valuation technique with market observable input.

As at 30 June 2023, the contract amount, fair value and maturity tenor of the forward exchange contracts are as follows:

	Contract Amount RM'000	Fair Value Liabilities RM'000
1 - 3 years	<u>1,989,604</u>	<u>15,193</u>

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

A15. Fair value information (cont'd)

Fund placement with licensed financial institutions

The fair value of the fund placements with licensed financial institutions is calculated by reference to the quoted net asset values of the fund.

Other payables - Non-current

The fair value of non-current other payables is measured based on discounted cash flow using the current market rate at the reporting date.

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
As at 30 June 2023				
Financial assets				
Fund placements with licensed financial institutions	12,409	-	12,409	-
Derivatives at fair value through profit or loss				
- Forward exchange contracts	<u>77</u>	<u>-</u>	<u>77</u>	<u>-</u>
Financial liabilities				
Other payables – Non-current	(153,057)	-	-	(153,057)
Derivatives used for hedging				
- Forward exchange contracts	<u>(15,193)</u>	<u>-</u>	<u>(15,193)</u>	<u>-</u>
As at 31 December 2022				
Financial assets				
Fund placements with licensed financial institutions	<u>14,711</u>	<u>-</u>	<u>14,711</u>	<u>-</u>
Financial liabilities				
Other payables – Non-current	(73,906)	-	-	(73,906)
Derivatives used for hedging				
- Forward exchange contracts	(114,212)	-	(114,212)	-
Derivatives at fair value through profit or loss				
- Forward exchange contracts	<u>(6,606)</u>	<u>-</u>	<u>(6,606)</u>	<u>-</u>

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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 Quarter ended 30.06.2023 RM'000	Cumulative Quarter ended 30.06.2022 RM'000
Ultimate holding company		
Sales of goods	6,168	2,842
Catalyst trial fee received/receivable	6,177	-
Management and consulting fees incurred	449	909
Reimbursement of payroll for secondment of expatriates	14,325	8,694
Purchase of materials	-	2,566
Commission expense	637	678
Royalty expense	14,363	22,677
Commission income	19	14
Capital expenditure incurred	14,118	16,692
IT support services fee paid/payable	224	219
Related companies		
Sales of goods	61,475	78,583
Sales of utilities	4,617	2,916
Capital expenditure incurred	1,908,907	748,904
IT support services fee paid/payable	1,782	1,838
Commission expense	258	471
Warehouse and logistics services incurred	13,318	12,275
Other administrative expenses	409	104
Office space sublease	80	78
Interest income	1,636	476
Lease rental income	1,072	988
Income from shared services	57	70
Service fee	336	-

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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							
	2023		2022		2023		2022	
	Group		Olefins and derivative products		Polyolefin products			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Revenue	1,858,046	2,816,869	337,055	670,457	1,520,991	2,146,412		
Loss before tax	(390,445)	(193,265)	(126,522)	(96,482)	(229,335)	(130,443)		
EBITDA*	<u>(261,805)</u>	<u>(57,141)</u>	<u>(50,015)</u>	<u>(830)</u>	<u>(179,802)</u>	<u>(82,083)</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 decreased by 34% or RM 958.9 million from RM 2,816.9 million in Q2 2022 to RM 1,858.0 million in Q2 2023, mainly due to weakening in selling price as well as decrease in sales volume amid regional demand affected by rising interest rate and price pressure from inflation that elevated the overall cost of living.

Average plant utilization rate was reduced to 66% compared to 81% in the corresponding quarter as part of the Group's business optimization measure to cater for the reduced demand.

The loss before tax for the Group increased from RM193.2 million in Q2 2022 to RM390.4 million in Q2 2023, mainly due to further decline in margin spread, higher electricity cost as a result of increase in Imbalance Cost Pass-Through ("ICPT") and higher administrative cost from LINE project.

As a result of the above, the net loss of the Group increased from RM149.4 million in Q2 2022 to RM327.7 million in Q2 2023.

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

Olefins and derivative products

Revenue decreased from RM 670.5 million in Q2 2022 to RM 337.1 million in Q2 2023. Decrease in revenue mainly due to lower selling price and sales volume in Q2 2023 compared to the corresponding quarter.

The segment recorded a loss before tax of RM 126.5 million mainly due to margin squeeze resulting from weaker selling prices.

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Part B - Other explanatory notes (cont'd)

B1. Review of group performance (con't)

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

Polyolefin products

Lower selling prices in Q2 2023 caused a decrease in revenue from RM 2,146.4 million in Q2 2022 to RM 1,521 million in Q2 2023.

The segment recorded a loss before tax of RM 229.3 million mainly due to margin squeeze.

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

	2023		2022		Cumulative quarters ended 30 June	
	Group		Olefins and derivative products		2023	2022
	RM'000	RM'000	RM'000	RM'000	Polyolefin products RM'000	RM'000
Revenue	3,829,344	5,576,349	695,831	1,242,744	3,133,513	4,333,605
(Loss)/Profit before tax	(676,833)	(87,461)	(155,721)	(78,252)	(428,058)	(117,497)
EBITDA*	<u>(371,444)</u>	<u>108,741</u>	<u>10,035</u>	<u>108,361</u>	<u>(329,933)</u>	<u>(25,951)</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 decreased by 31% or RM 1,747 million from RM 5,576.3 million in YTD June 2022 to RM 3,829.3 million in YTD June 2023, mainly due to weakening in selling price as well as decrease in sales volume amid limited regional buying interest resulting from inflation and rising interest rate.

As part of the business optimization measure, plant utilization rate recorded at 68%, down from 83% in the corresponding year.

The loss before tax for the Group has increased from RM87.5 million in YTD June 2022 to RM 676.8 million in YTD June 2023. The deterioration in the loss before tax is mainly caused by decline in margin spread, higher electricity cost, higher administrative cost from LINE project and share of losses from associate company, Lotte Chemical USA Corp. ("LC USA"). The share of profit of LC USA in 2022 was contributed from a one-off gain of RM45.7 million on disposal of equity interest in a joint venture operation after tax and higher margin spread.

As a result of the above, the Group recorded a loss after tax of RM 559.3 million compared to loss after tax of RM 46.5 million in the corresponding year.

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Part B - Other explanatory notes (cont'd)

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

Olefins and derivative products

Revenue decreased by 44% from RM 1,242.7 million in 2022 to RM 695.8 million in 2023. Decrease in revenue mainly due to lower sales volume and selling price.

The loss before tax for the segment increased from RM78.3 million in prior year to RM155.7 million. Loss before tax increased due to margin squeeze.

Polyolefin products

Revenue decreased by 28% from RM 4,333.6 million in 2022 to RM 3,133.5 million in 2023. Decrease in revenue mainly due to lower sales volume and selling price.

The loss before tax for the segment increased from RM 117.5 million in prior year to RM 428.1 million. Loss before tax increased due to margin squeeze.

B2. Variation of results against the preceding quarter

	Individual Quarter ended 30 June 2023 RM'000	Individual Quarter ended 31 March 2023 RM'000
Revenue	1,858,046	1,971,298
Loss before tax	(390,445)	(286,388)
EBITDA	<u>(261,805)</u>	<u>(109,639)</u>

The Group's revenue fell by 6% to RM 1,858.0 million from RM 1,971.3 million in the preceding quarter, mainly due to lower sales volume and lower selling price.

The plant utilisation rate was 66% in Q2 2023 as compared to 70% in the preceding quarter with ongoing business optimization plan in place.

The Group's loss before tax has increased by 36% to RM 390.4 million in Q2 2023, mainly due to the changes in the write down of inventories to net realizable value by RM129 million and increase in the administrative cost by RM12 million for LINE project. The loss before tax was partially offset by lower share of loss in associate by RM 39 million.

As a result of the above, the Group's loss after tax increased to RM 327.7 million compared to RM 231.6 million in the preceding quarter.

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Part B - Other explanatory notes (cont'd)

B3. Commentary on prospects

The results of our operations for the financial period ending 31 December 2023 are expected to be primarily influenced by the following factors:

- a) Volatility of crude oil prices that are highly correlated with our feedstock prices;
- b) The demand and supply balance of petrochemical products in the region;
- c) Our ability to optimise production outputs and economic efficiencies; and
- d) The global economic growth that is driven by consumption and population growth

Against the backdrop of the protracted Russian-Ukraine crisis and central banks' hawkish monetary policies to tame inflation pressures, the business environment is expected to remain challenging in the near future. Besides, new domestic and regional capacities that have gradually come onstream could pose downward pressure on petrochemical prices. On the other hand, in the recent report of the Organisation of Economic Cooperation and Development (OECD), the global GDP growth in 2023 is projected to be 2.7% and will gradually pick up through 2024 to 2.9% as inflation moderates and real incomes strengthen.

Amidst the current market uncertainties, the Company continues to monitor vigilantly the global economic conditions and the aggregate supply and consumption patterns that influence the prospect of the petrochemical industry. All things considered, the outlook of the petrochemical industry is expected to remain volatile. Notwithstanding the external circumstances, the Company will stay the course to optimise production outputs and economic efficiencies. The company will also continue to maintain the disciplined management of its costs and financial liquidity.

Barring unforeseen circumstances and taking into consideration plant utilisation rate and business optimisation, the operating rate guidance for FY2023 is 70% to 75%. This guidance may change from time to time.

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. Loss before tax

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

	Individual quarter		Cumulative quarters	
	ended 30 June		ended 30 June	
	2023	2022	2023	2022
	RM'000	RM'000	RM'000	RM'000
Depreciation of property, plant and equipment and right-of-use assets	122,259	143,421	258,391	279,430
(Gain)/Loss on foreign exchange:				
- Realised	5,682	(24,178)	12,922	(31,059)
- Unrealised	(4,584)	19,384	(12,381)	25,134
Inventories written off	4	152	8	163
Property, plant and equipment written off	168	303	790	346
Gain on disposal of property, plant and equipment	(20)	-	(20)	(1)
Allowance on trade receivables	-	-	2,049	-
Write-down of inventories to net realisable value	78,837	96,476	28,305	79,129
Bad debts recovered	(2)	(23)	(2)	(23)
Fair value changes on derivatives	(61)	(167)	(6,599)	(547)

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Part B - Other explanatory notes (cont'd)

B6. Finance costs

	Individual quarter ended 30 June		Cumulative quarters ended 30 June	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Interest expenses on short term borrowings	3,482	19	5,598	19
Interest expenses on lease liabilities	421	492	873	1,095
Bank charges	916	875	1,716	1,447
Letter of credit charges	299	269	584	567
Unwinding of discount on provision	3,710	2,558	7,311	4,512
	<u>8,828</u>	<u>4,213</u>	<u>16,082</u>	<u>7,640</u>

B7. Income tax

	Individual quarter ended 30 June		Cumulative quarters ended 30 June	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Current tax				
Current year	2,710	5,036	8,264	19,218
Overprovision in prior year	-	-	9	-
	<u>2,710</u>	<u>5,036</u>	<u>8,273</u>	<u>19,218</u>
Deferred tax				
Origination and reversal of temporary differences	(65,441)	(48,929)	(125,836)	(60,227)
	<u>(65,441)</u>	<u>(48,929)</u>	<u>(125,836)</u>	<u>(60,227)</u>
Total income tax recognised in profit or loss	<u>(62,731)</u>	<u>(43,893)</u>	<u>(117,563)</u>	<u>(41,009)</u>

By excluding the share of results of associates, the Group effective tax rate for the period ended 30 June 2023 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.

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

As at the date of this report,

- (i) The proceeds from the initial public offering of the Company on 11 July 2017 have been fully utilised.
- (ii) The company has commenced the construction of the LOTTE Chemical Indonesia New Ethylene (LINE) Project in Indonesia in January 2022, the construction is progressing smoothly. The LINE Project is on schedule and expected to be completed in 2025.

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. Property, plant and equipment

Included in construction-in-progress of RM8,541 million (2022: RM5,447 million) of which RM495 million (2022: RM639 million) relates to prepayment to related companies pursuant to the terms and conditions of the construction contracts. The prepayment is made after receipt of advance payment bonds and performance bond.

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Part B - Other explanatory notes (cont'd)

B14. Trade and other receivables

	As at 30 June 2023 RM'000	As at 31 December 2022 RM'000
Trade receivables		
Third parties	600,156	509,762
Amount due from ultimate holding company	-	2,131
Amounts due from related companies	53,999	89,244
Other receivables	451,502	324,857
	<u>1,105,657</u>	<u>925,994</u>
Less: Allowance for impairment	(8,955)	(6,408)
	<u>1,096,702</u>	<u>919,586</u>

The ageing analysis of the Group's trade receivables is as follows:

Neither past due nor impaired	523,428	475,996
1 to 30 days past due not impaired	46,750	47,247
31 to 90 days past due not impaired	161	977
More than 90 days past due not impaired	74,861	70,509
	<u>645,200</u>	<u>594,729</u>
Credit impaired	8,955	6,408
	<u>654,155</u>	<u>601,137</u>

With respect to the Group's trade receivables, there are no indications as of the reporting date that the trade receivable will not meet their payment obligations except for the following.

There was a fire incident occurred at the plant of the Group's related party, Lotte Ube Synthetic Rubber Sdn Bhd ("LUSR") at Tanjung Langsat on 24th February 2022. The management of LUSR has requested for deferment of outstanding balance of RM 74.9 million with late payment interest. The request from LUSR has been supported by LUSR's shareholders. The impairment assessment is an on going process and any update to the outcome of the impairment assessment will be reflected in the financial statement in accordance to MFRS.

B15. Other investments

	As at 30 June 2023 RM'000	As at 31 December 2022 RM'000
<u>Fund placements with licensed financial institutions</u>		
Unutilised proceeds from initial public offering and its related finance income	-	4
Proceeds from internally generated funds	12,409	14,707
Total other investments	<u>12,409</u>	<u>14,711</u>

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Part B - Other explanatory notes (cont'd)

B16. Cash and bank balances

	As at 30 June 2023 RM'000	As at 31 December 2022 RM'000
<u>Unutilised proceeds from initial public offering and its related finance income</u>		
Cash at banks	-	13,289
Short term deposits with licensed financial institutions	-	232,204
	-	245,493
<u>Others</u>		
Cash at banks and on hand	585,806	692,682
Short term deposits with licensed financial institutions	114,005	366,818
Cash and cash equivalents	699,811	1,304,993

B17. Trade and other payables

Included in trade and other payables are RM153,057,304 (2022: RM52,110,276) in relation to retention sum payable to related companies for the construction of plant.

B18. Borrowings

	<i>In denominated currency</i>		<i>In presentation currency</i>	
	As at 30 June 2023	As at 31 December 2022	As at 30 June 2023 RM'000	As at 31 December 2022 RM'000
<u>Current</u>				
US Dollar				
-Revolving credits - Unsecured	16,000	-	75,024	-
-Bankers' acceptances - Unsecured	28,000	-	131,292	-
-Bill discounting - Unsecured	4,239	-	19,875	-
Ringgit Malaysia				
-Bankers' acceptances - Unsecured	98,000	-	98,000	-
			324,191	-
<u>Non-current</u>				
US Dollar				
-Term loan - Secured	320,363	-	1,502,181	-
			1,826,372	-

The USD secured term loan is used to fund the development work of the LOTTE Chemical Indonesia New Ethylene Project ("LINE PROJECT").

Included in borrowings are transaction costs amounting to RM 468.6 million that are directly attributable to the term loan.

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Part B - Other explanatory notes (cont'd)

B19. Off balance sheet financial instruments

There were no off balance sheet financial instruments for the period ended 30 June 2023.

B20. 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 may give rise to a tax liability amounting to USD 8.5 million (equivalent to RM 37.55 million) to LCTIL. The hearing and case management took place on 21 June 2021, 6 September 2021, 18 November 2021, 21 December 2021, 17 March 2022, 1 June 2022 and 7 December 2022. The High Court has allowed the Inland Revenue Board's application to intervene in the Judicial Review proceedings on 16 February 2023. The High Court has fixed the leave hearing date on 20 Sept 2023. Interim stayed granted until the disposal of leave hearing as instructed by Court previously remains valid and effective.

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 period ended 30 June 2023.

B21. Dividends

No dividend has been paid or declared by the Company for the period ended 30 June 2023.

B22. Earnings per share ("EPS")

Basic and diluted EPS are calculated by dividing net 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	
	2023	2022	2023	2022
Net loss attributable to the owner of the Company (RM'000)	<u>(313,472)</u>	<u>(145,923)</u>	<u>(538,229)</u>	<u>(41,926)</u>
Weighted average number of ordinary shares at the end of the period ('000)	<u>2,277,557</u>	<u>2,277,557</u>	<u>2,277,557</u>	<u>2,277,557</u>
Basic and diluted earning per share (sen)	<u>(13.76)</u>	<u>(6.41)</u>	<u>(23.63)</u>	<u>(1.84)</u>

B23. 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 2022.