The 51st Annual Report

(2016.1.1 ~ 2016.12.31)

PAN OCEAN

1. General Information of the Company

[1] Business Objectives

1. Marine transportation;
2. Trading business;
3. Multimodal logistics business;
4. Multimodal freight forwarding business;
5. Port operation business;
6. Port facilities maintenance business;
7. In-land transportation business;
8. In-land freight forwarding business;
9. Cargo terminal business;
10. Storage business;
11. Grain silo business;
12. Real estate business;
13. Provision of services in relation to transportation;
14. Telecommunication business;
15. Trade agency business;
16. Agricultural and marine products, livestock products wholesale and retail sales;
17. Operation of training institutes;
18. Investment and financing in the businesses set forth in Items (1) through (17); and
19. Any other businesses incidental to the businesses set forth in Items (1) through (18).

[2] Major Businesses

Business Divisions		Major Cargoes	Areas Of Operation
Dry Bulk Business	Breakbulk Liner Business	Steel Product, Wooden Product, Coal, Fertilizer	North America, South America, Europe, Middle East, East/Southwest Asia And Far East Russia
	Tramper Business	Grain, Lumber, Fertilizer, Coal, Mineral, Raw Sugar, Wood Pulp	All Routes
	Large Bulker Business	Iron Ore, Coal, Grain	U.S., Australia, South America, Asia, Middle East, Africa, Europe
Specialized Vessel Business	Tanker Business	Petroleum Product(CPP, DPP), Chemical Products, Oils & Fats	Asia, Pacific / Indian Ocean
	LNG Carrier Business	LNG	Middle East, Korea
	Heavy Lift Business	Machinery / Equipment, Tug Boat, Offshore Plant, Module	All Routes
Container Business		Container Cargo	Korea, China, Japan

[3] Domestic & Overseas Offices

Offices	Address
Head Office	98, Huam-ro, Jung-gu, Seoul, Korea
Busan	102, Jungang-daero, Jung-gu, Busan, Korea
Portland Office	2140 SW Jefferson Street, Suite 350, PORTLAND, OR, 97201, U.S.A.
Melbourne Office	Suite 408, 1 Queens Road Melbourne 3004 Vic, Australia

[4] Employees

(As of Dec. 31, 2016)
(Unit: Persons)

Employees				Total
At Office	On-board		Sub Total	
	Korean Crews	Foreign Crews		
381	640	886	1,526	1,907

[5] Issued Shares

1) Types & No. of issued shares

Type of shares	No. of issued shares	Amount(KRW)	Proportion
Registered Common Shares	534,392,834	534,392,834,000	100%

2) Change in capital

(Unit : shares, KRW '000)

Date	Type	Change in No. shares	Change in amount(₩)	Capital after change	Remarks
2005.07.14	Common Shares	200,000,000	20,000,000	171,548,205	Listing in SGX
2007.09.21	Common Shares	343,096,410	34,309,641	205,857,846	Listing in KRX
2008.12.12	Common Shares	-1,852,720,614	-	205,857,846	Share consolidation
2012.04.30	Common Shares	571	571	205,858,417	Bonds with Warrants
2013.11.29	Common Shares	-113,571,107	-113,571,107	92,287,310	Capital reduction
2013.12.13	Common Shares	1,116,879,112	1,116,879,112	1,209,166,422	Debt-for-equity swap
2013.12.27	Common Shares	-1,088,278,881	-1,088,278,881	120,887,541	Capital reduction
2014.04.01	Common Shares	28,384,096	28,384,096	149,271,637	Debt-for-equity swap
2014.07.01	Common Shares	14,142,399	14,142,399	163,414,036	Debt-for-equity swap
2014.10.01	Common Shares	51,124,464	51,124,464	214,538,500	Debt-for-equity swap
2015.01.01	Common Shares	13,264,541	13,264,541	227,803,041	Debt-for-equity swap
2015.04.01	Common Shares	757,844	757,844	228,560,885	Debt-for-equity swap
2015.06.19	Common Shares	-46,159,739	-46,159,739	182,401,146	Capital reduction
2015.06.20	Common Shares	340,000,000	340,000,000	522,401,146	Capital increase
2015.07.01	Common Shares	518,789	518,789	522,919,935	Debt-for-equity swap
2015.10.01	Common Shares	1,505,135	1,505,135	524,425,070	Debt-for-equity swap
2016.01.01	Common Shares	6,333,685	6,333,685	530,758,755	Debt-for-equity swap
2016.04.01	Common Shares	883,229	883,229	531,641,984	Debt-for-equity swap
2016.07.01	Common Shares	687,394	687,394	532,329,378	Debt-for-equity swap
2016.10.01	Common Shares	80,833	80,833	532,410,211	Debt-for-equity swap
2016.11.12	Common Shares	1,982,623	1,982,623	534,392,834	Debt-for-equity swap

3) Affairs related to shares

Time of Settlement of accounts	31 December
Ordinary general meetings of shareholders	within three (3) months after the end of each fiscal year
Suspension of Entry of Alteration in the Register of Shareholders and Record Date	① the period from January 1st to January 15th of every year. ② If necessary for convening an extraordinary general meeting of shareholders or for other purposes, the Company may by a resolution of Board of Directors suspend the entry in the Register of Shareholders of any alterations.
Method of public notices	Internet homepage (http://www.panocean.com)
Type of share certificate	Share certificates(8 types) for 1 / 5 / 10 / 50 / 100 / 500 / 1,000 / 10,000
Share registrar and share transfer agent	(Korea) Korea Securities Depository (Singapore) Boardroom Corporate & Advisory Service Pte. Ltd.(Singapore)

Venue for dealing with share affairs	(Korea) 23 4gil Yeouinaru-ro, Yeongdeungpo-gu Seoul, Korea (Singapore) 50 Raffles Place, Singapore Land Tower #32-01, Sinagpore

[6] Corporate Bonds

(Unit : KRW mil.)

Purpose	Issuance Date	Amount	Outstanding Balance	Due Date
Guaranteed private placement bond	June 02, 2016	60,425	60,425	June 02, 2019

※ In case of Foreign debt, it was converted into Korea Won with the exchange rate of KRW 1,208.50 per dollar at 31 Dec. 2016

2. The Business Review

[1] Market and Business Overview

Shipping business division consists of breakbulk liner service, tramper service, and long term contract service by operating dedicated vessels that transport specific cargoes for specific customers. Breakbulk liner service means the operation on a fixed schedule on designated routes. Thus, it needs several vessels on a timely basis since the operation has to follow the announced schedules. Therefore, settlement of breakbulk liner routes requires a huge amount of capital and freight rate is likely to be determined not in terms of changes in shipping industry but in terms of changes in competitive circumstances. The service also requires a relatively bigger fixed expenditure because periodic operations have to be offered regardless of quantity of cargoes.

On the other hand, tramper service offers transportation service beyond the ordinary routes and customers. It provides flexible services in terms of the needs of customers. It transports huge bulk cargoes such as raw materials and grain of which the freight rate is not relatively heavy. Transporting those kinds of cargoes requires irregular services in worldwide market and the routes even may have to be changed to meet customers' various needs. Therefore, the freight rates are determined in terms of demand and supply in a totally competitive market. Especially, since the supply of vessels in tramper service is inelastic compared to the change of worldwide transportation volume, it is impossible to see the perfect balance between demand and supply in the market. The tramper service market is based on a cycle of "rising freight rate → newbuildings → oversupply of vessels → falling freight rate → decreasing newbuildings and increasing scrapings → undersupply of vessels → rising freight rate."

Some bulk transportation are surely performed in a form of breakbulk liner service, however, most of those has more characteristics of tramper service.

To meet the needs of specific customers on certain cargoes such as fuel, LNG and cars, some contracts can be performed in long term forms with dedicated vessels on particular routes for certain time period. Besides those specialized cargoes, there are several transportation contracts of bulk cargoes with major steel mills and power plants such as POSCO and KEPCO that are also performed on longer term basis.

The average BDI for 2016 recorded 673, recording the lowest annual average BDI since 1999, due to low demand for raw material with structural changes in China. However, dry bulk market would revive as more bulkers are projected to be phased out by demolition this year.

47.2 Mil.DWT of bulker was delivered in 2016 despite many owners to cancel the orders or to defer delivery schedule. And 28.9 Mil. DWT of bulker was phased out by demolition thanks to more expensive regular maintenance and stricter environment regulations. As a consequence, the fleet growth has remained 2.3% growth in 2016(E) constantly. There is a hope that could set off over-supply pressure. Maritime financing environment is tight which hindered new orders, and given the current low level of vessel time chartering rate, aged vessel will be put more pressure on increment of overage scrapping.

In demand side, China's imports of iron ore in 2016 reached new annual high, and its growth rate has increased from 3% in 2015 to 7% in 2016. Global coal import has decreased slightly to 1.13 billion tones in 2016, reflecting falling oil price and unstable economy of the developing company. However, seaborne dry bulk trade will be revived since major countries are trying to boost their economy. According to IMF World Economic Outlook, world GDP growth forecast is to be accelerated to 3.4% in 2017 from 3.1% in 2016, and may to be further in 2018.

[2] Financial Results by operating segments

(Unit : KRW mil.)

Segment	Sales			Note
	51st	50th	49th	
Shipping related	1,714,049	1,760,574	1,577,162	
Others	159,937	58,739	68,409	Profit from Grain trading and Training center lease profit etc.
Total	1,873,986	1,819,313	1,645,571	

※ The above figure is the consolidated financial results including the Company and its subsidiary.

[3] Establishment and expansion of major facilities and financing status

1) Shipbuilding Investment

SHIP NAME	SIZE(DWT)	DELIVERY	TYPE
PAN DANGJIN	150,200	2017	Bulker

2) Business Overview

(Unit : KRW mil.)

Type of Funding	**Amount**	**Purpose**	**Remarks**

Ship Financing (5 Vessels)	168,060	Shipbuilding	In case of Foreign debt, it was converted into Korea Won with the exchange rate of KRW 1,208.50 per dollar at 31 Dec. 2016

3. Parent company, subsidiary company and business combination etc.

[1] The status of Parent company

As of 31 December 2016

Name of Parent company	JEIL HOLDINGS CO., LTD.		
Address	228, Gobong-ro, Iksan-si, Jeollabuk-do, Korea		
Share Capital	KRW 5,033,700,000	Major Business	Business consulting of subsidiary
Shareholding	272,000,000 shares	Shareholding Ratio	50.90%
Major trading with Parent Company	-		

[2] The status of subsidiary

As of 31 December 2016

Status of Subsidiary				Relation with Pan Ocean		
Name	Address	Share Capital	Business	No of shareholding	Ratio	Reation
POS SM Co., Ltd	102, Jungang-daero, Jung-gu, Busan, Korea	KRW 4,000,000,000	Marine Service	Not issued	100%	Operation of vessels
Pan Ocean (China) Co., Ltd.	Room 2004, ZhongRongHengRui Int. Plaza West Building, 560 ZhangYang Road, Pudong District, Shanghai, China	USD 15,000,000	Marine Transportation	Not issued	100%	Supporting sales and operation in China and Providing market information
Pan Ocean Japan Corporation	4th Floor, Nishi Shimbashi Home Bldg, 1-12-10 Nishi Shimbashi, Minato-ku, Tokyo, Japan, 105-0003	JPY 100,000,000	Marine Transportation	70,600	100%	Supporting sales and operation in Japan
Pan Ocean Singapore Bulk Carrier Pte. Ltd.	8 Shenton Way #40-03 AXA Tower Singapore	SGD 23,000,000	Marine Transportation	23,000,000	100%	Supporting sales and operation in Singapore
Pan Ocean Brasil Apoio Maritimo Ltda.	Alameda Joaquim Eugenio De Lima, 680, CJ 172, Jardim Paulista, Sao Paulo	USD 4,600,000	Marine Transportation	Not issued	100%	Supporting sales and operation in South America
Pan Ocean (America), Inc.	5th Floor, 55 Challenger BLVD. Ridgefield Park, NJ 07660, U.S.A.	USD 42,296,711	Marine Transportation	8,940	34%	Grain business in North America
STX Pan Ocean (U.K.) Co., Ltd.	8th Floor St Magnus, House 3 Lower Thames, Street London EC3R 6AHA, U.K.	GBP 10,300,000	Marine Transportation	10,300,000	100%	Supporting sales and operation in the Atlantic Ocean and dealing with Claims
STX Pan Ocean (Hong	33rd Floor Cambridge House Taikoo Place 979, King's Road,	HKD 38,000,000	Marine Transpo	38,000,000	100%	Supporting sales and operation in Hong

Status of Subsidiary				Relation with Pan Ocean		
Name	Address	Share Capital	Business	No of shareholding	Ratio	Reation
Kong) Co., Ltd.	Hong Kong		rtation			Kong
Sea best maritime Limited	Flat/RM 1808 18F Tower II Admiralty centre 18 Harcourt road admiralty, Hong Kong	USD 1,500,000	Marine Transportation	750,000	50%	Effective vessel operating through strategic alliance with J/V partner(Sea Trade)

※ In liquidation : STX Pan Ocean (Hong Kong) Co., Ltd., Sea best maritime Limited

[3] The status of concurrent position in parent and subsidiary companies

As of 31 December 2016

Executive director with a concurrent office		Company to be served additionally		
Name	Position	Name of the company	Position	Task
Kim Hong Kuk	CEO	JEIL HOLDINGS CO., LTD.	Director	CEO
Jung Kab Sun	Deputy President	POS SM Co., Ltd	Director	-
Kim Bo Yeon	Executive Vice President	POS SM Co., Ltd	Auditor	-
Ahn Joong Ho	Executive Vice President	Pan Ocean (China) Co., Ltd.	Director	-
Kim Hyuk Ki	Senior Vice President	Pan Ocean (America), Inc.	Director	-
Lee Sang Jae	Senior Vice President	Pan Ocean Japan Corporation STX Pan Ocean (U.K.) Co., Ltd. Sea best maritime Limited	Director	-
Chae Ho Seok	Senior Vice President	Pan Ocean Singapore Bulk Carrier Pte. Ltd.	Director	-
Rah Byung Chul	Vice President	Pan Ocean Japan Corporation	Director	-

4. The financial status for the last 3 years

[1] Operating Result

51st Period : From 1 January 2016 to 31 December 2016
50th Period : From 1 January 2015 to 31 December 2015
49th Period : From 1 January 2014 to 31 December 2014

Consolidated Statements of Comprehensive income

(Unit : KRW mil.)

Subject	51st	50th	49th
Sales	1,873,986	1,819,313	1,645,571
Operating profit(loss)	167,901	229,370	215,955
Profit(loss)	96,491	45,547	786,078

Statements of Comprehensive income

(Unit : KRW mil.)

Subject	51st	50th	49th
Sales	1,606,337	1,760,590	1,555,024
Operating profit(loss)	159,066	229,773	214,606
Profit(loss)	90,224	56,532	809,869

[2] Financial Status

51st Period : end of the 2016

50th Period : end of the 2015

49th Period : end of the 2014

Consolidated Statements of Financial position

(Unit : KRW mil.)

Subject	51st	50th	49th
Assets	4,331,156	4,314,284	4,557,930
Liabilities	1,765,919	1,882,845	3,135,349
Equity	2,565,237	2,431,439	1,422,581

Statements of Financial position

(Unit : KRW mil.)

Subject	51st	50th	49th
Assets	4,260,121	4,228,195	4,439,432
Liabilities	1,740,008	1,829,818	3,044,423
Equity	2,520,113	2,398,377	1,395,009

5. The challenging task of the Company

Please find following company core assignments on 2017.

Assignments	Action Plan
Maximize Profitability	➢ Strengthen business competitiveness through providing high quality operation to valuable key customers such as POSCO, VALE and so on ➢ Raise profitability from owned vessels and secure mid-term and short term chartered vessels by uplifting an accuracy of prediction for shipping market ➢ Systematize cost management and monitoring in order to reduce unnecessary expenditures
Develop Growth Momentum	➢ Secure stable profit base from long-term cargo contract related with low-cost long-term fleet ➢ Discover new growth momentum and business opportunity related shipping
Provide Reliable Operation	➢ Improve vessel maintenance through know-how for safety operation ➢ Prevent accident from preemptive previous case-analysis
Stabilize Organization	➢ Seek 4 Core Value including 'Professionalism&·Passion', 'Challenge · Innovation', 'Appreciation·Creativity', 'Principle·Trust' ➢ Construct win-win relationship between management & employee and organization culture for smooth communication

6. The status of directors and auditors

As of 31 December 2016

Position	Name	Duty	Permanent/ Nonpermanent	Note
CEO	Kim Hong Kuk	CEO, Chairman	Executive	-
CEO	Choo Sung Yob	CEO, President	Executive	-
Director	Cheon Se Gi	Head of Ethical Management Dept.	Executive	-
Director	Choi Seung Hwan	Independent Director	Non-Executive	Chairman of Audit Committee
Director	Chang Yoo Whan	Independent Director	Non-Executive	Member of Audit Committee
Director	Shin Jeong Shik	Independent Director	Non-Executive	Member of Audit Committee
Director	Christopher Anand Daniel	Independent Director	Non-Executive	-

7. The status of substantial shareholders

As of 31 December 2016

Name	No. of Shareholding	Ratio(%)	Transaction with Pan Ocean
JEIL HOLDINGS CO., LTD.	272,000,000	50.90%	Not Applicable
POSEIDON 2014 LLC	68,000,000	12.72%	Not Applicable
HANWHA SMALL-MID CAP FUND NO.2	9,933,912	1.86%	Not Applicable
ROSTRUM TRADE S.A.	4,712,381	0.88%	Not Applicable
KOREA POST SAVINGS	4,036,262	0.76%	Not Applicable

8. The status of the investment in other company by the Company or the Company's subsidiary

As of 31 Dec. 2016

Investee Company	Investor Company	Investment in Investee Company		Main Business
		No. of shareholding	Ratio	
POS SM Co., Ltd	Pan Ocean Co., Ltd.	Not issued	100%	Marine service
Pan Ocean (China) Co., Ltd.	Pan Ocean Co., Ltd.	Not issued	100%	Marine transportation
Pan Ocean Japan Corporation	Pan Ocean Co., Ltd.	70,600	100%	Marine transportation
Pan Ocean Singapore Bulk Carrier Pte. Ltd.	Pan Ocean Co., Ltd.	23,000,000	100%	Marine transportation
Pan Ocean Brasil Apoio Maritimo Ltda.	Pan Ocean Co., Ltd.	Not issued	100%	Marine transportation
Pan Ocean (America), Inc.	Pan Ocean Co., Ltd.	8,940	34%	Grain business in North America
STX Pan Ocean (U.K.) Co., Ltd.	Pan Ocean Co., Ltd.	10,300,000	100%	Marine transportation
STX Pan Ocean (Hong Kong) Co., Ltd.	Pan Ocean Co., Ltd.	38,000,000	100%	Marine transportation

Sea best maritime Limited	Pan Ocean Co., Ltd.	750,000	50%	Marine transportation
Busan Cross Dock Co., Ltd.	Pan Ocean Co., Ltd.	Not issued	20%	Logistics
Taeyoung Grain Terminal Co., Ltd.	Pan Ocean Co., Ltd.	Not issued	7%	Grain terminal management and operation
Korea LNG Trading Co.,Ltd.	Pan Ocean Co., Ltd.	Not issued	18%	LNG transportation
MAF-Mirae asset Agri Energy Fund 4	Pan Ocean Co., Ltd.	Not issued	25%	Venture Capital
Korea P&I Club	Pan Ocean Co., Ltd.	Not issued	8.3%	P&I Insurance
Yegrina Co., Ltd.	Pan Ocean Co., Ltd.	56,000	44.8%	Baking business
Pan Ocean - Sinotrans Logistics Co., Ltd.	Pan Ocean (China) Co., Ltd.	Not issued	60%	Forwarding
Pan Ocean International Logistics Co., Ltd.	Pan Ocean (China) Co., Ltd.	Not issued	100%	Forwarding
Wide Sea Logistics Co., Ltd.	Pan Ocean (China) Co., Ltd.	Not issued	75%	Container Yard business
	STX Pan Ocean (Hong Kong) Co., Ltd.	Not issued	25%	
Pan Logix Co., Ltd	Pan Ocean Japan Corporation	3,000	100%	Forwarding
Pan Ocean Container Japan Co.,Ltd	Pan Ocean Japan Corporation	1,000	100%	Shipping Agency
CSTX AGRICOLA PARTICIPACOES LTDA.	Pan Ocean Brasil Apoio Maritimo Ltda.	Not issued	50%	Grain Trading
World D&F Investment (UK) Co. Limited	STX Pan Ocean (U.K.) Co., Ltd.	1,000	100%	UK Tax lease
Gulf Pacific Shipping Ltd.	STX Pan Ocean (Hong Kong) Co., Ltd.	2,000,000	100%	Marine Transportation

※ In liquidation : STX Pan Ocean (Hong Kong) Co., Ltd., Sea best maritime Limited, Gulf Pacific Shipping Ltd.

※ Temporary shutdown : Yegrina Co., Ltd

9. The major creditors

As of 31 Dec. 2016

Name of Creditor	Amount (million won)	No. of shareholding	Ratio(%)	Others
POS MARITIME RZ	90,374	-	-	-
POS MARITIME QZ	86,225	-	-	-
POS MARITIME PZ	82,076	-	-	-
POS MARITIME WZ	62,680	-	-	-
POS MARITIME UZ	58,037	-	-	-
POS MARITIME VZ	57,775	-	-	-
LTSF SPO 1 INC.	54,185	-	-	-
POS MARITIME RB	48,944	-	-	-
POS MARITIME SB	48,944	-	-	-

※ In case of Foreign debt, it was converted into Korea Won with the exchange rate of KRW 1,208.50 per dollar at 31 Dec. 2016

10. The important issue after the financial year

Pan Ocean Co., Ltd. ("the Company") has newly issued 3,937shares(Issuing date: 1 January 2017) as paid-in capital increase(Dept into equity conversion) and in accordance, total number of issued stock has increased to 534,396,771 shares.

11. The important matter related to other operating

※ Not Applicable

2016 Financial Statement

(2016.1.1 ~ 2016.12.31)

PAN OCEAN

Contents

Pan Ocean Co., Ltd. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2016 and 2015

In thousands of US dollars	Note	2016	2015
Assets			
Cash and cash equivalents	$	202,806	237,344
Trade receivables		77,122	98,243
Other receivables		20,013	20,986
Derivative financial assets		2,451	32
Other financial assets		6,615	1,170
Inventories		39,548	34,164
Other assets		125,855	139,929
Assets held for sale		-	2,417
Total current assets		474,410	534,285
Trade receivables		-	71
Other receivables		19,580	12,655
Other financial assets		31,257	16,050
Investments in associates and joint ventures		1,654	1,333
Vessels, property and equipment		3,043,456	3,106,110
Intangible assets		8,493	7,261
Deferred tax assets		78	21
Other assets		4,561	3,344
Total non-current assets		3,109,079	3,146,845
Total assets	$	3,583,489	3,681,130

See accompanying notes to the consolidated financial statements.

Pan Ocean Co., Ltd. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2016 and 2015

In thousands of US dollars	Note	2016	2015
Liabilities			
Trade payables	5,12,13	$ 67,364	72,640
Borrowings	5,12,13,25	269,307	232,982
Derivative financial liabilities	5,11,12,13	525	1,772
Other payables	23	35,176	43,725
Provisions	29	572	1,837
Income tax liabilities		356	250
Other liabilities	24	60,217	72,600
Liabilities held for sale	12,13,40	-	-
Total current liabilities		433,517	425,806
Borrowings	5,12,13,25	988,707	1,063,847
Rehabilitation liabilities	5,12,13,26	-	-
Derivative financial liabilities	5,11,12,13	90	213
Provisions	29	31,993	107,071
Retirement benefit obligations	28	5,923	9,526
Other payables	23	82	60
Total non-current liabilities		1,026,795	1,180,717
Total liabilities		1,460,312	1,606,523
Equity			
Share capital	20	480,598	471,717
Share premium	20	651,356	627,169
Other reserves	21	1,056,192	1,124,116
Accumulated deficit	22	(85,809)	(169,941)
Equity attributable to owners of the Group		2,102,337	2,053,061
Non-controlling interests	39	20,840	21,546
Total equity		2,123,177	2,074,607
Total equity and liabilities		$ 3,583,489	3,681,130

See accompanying notes to the consolidated financial statements.

Pan Ocean Co., Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

In thousands of US dollars, except per share data	Note		2016	2015
Sales	7	$	1,616,997	1,605,284
Cost of sales	30		(1,423,998)	(1,357,471)
Gross profit			192,999	247,813
Selling and administrative expenses	30		(48,219)	(51,532)
Operating profit	7		144,780	196,281
Finance income	32		13,419	39,946
Finance costs	32		(52,008)	(104,667)
Gain(loss) related to investments in associates and joint ventures	10		352	(282)
Other non-operating income(loss), net	31		(21,776)	(95,202)
Profit before income tax			84,767	36,076
Income tax expense	27		1,766	728
Profit from continuing operation			83,001	35,348
Loss from discontinuing operation, net of tax			-	(1,254)
Profit for the year			83,001	34,094
Other comprehensive income (loss)				
Items that will be reclassified subsequently to profit or loss:				
Net change in unrealized fair value of available-for-sale financial assets, net of tax	32		(981)	762
Net change in unrealized fair value of derivative financial assets and liabilities, net of tax	32		737	(36)
Net change of OCI of equity accounted investees, net			337	308
Currency translation differences, net of tax	32		3,139	(7,811)
			3,232	(6,777)
Items that will not be reclassified to profit or loss:				
Remeasurements of defined benefit liability			450	(578)
Total other comprehensive income(loss) for the year, net of tax			3,682	(7,355)
Total comprehensive income for the year			86,683	26,739
Profit (loss) attributable to :				
Owners of the Group			83,682	34,085
Non-controlling interests			(681)	9
Profit for the year			83,001	34,094
Total comprehensive income (loss) attributable to :				
Owners of the Group			87,389	26,750
Non-controlling interests			(706)	(11)
Total comprehensive income for the year		$	86,683	26,739

Pan Ocean Co., Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income

In thousands of US dollars, except per share data	Note		2016	2015
Earnings per share				
- Basic	34	$	0.16	0.09
- Diluted	34	$	0.16	0.09
Earnings per share – continuing operations				
- Basic	34	$	0.16	0.09
- Diluted	34	$	0.16	0.09

See accompanying notes to the consolidated financial statements.

Pan Ocean Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Equity

In thousands of US dollars		Attributable to owners of the Group						Non-controlling interests	Total equity
		Share capital	Share premium	Treasury shares	Other reserves	Retained Earnings (accumulated deficit)	Total		
Balance at January 1, 2015	$	192,334	142,228	-	1,161,906	(203,448)	1,293,020	1,177	1,294,197
Total comprehensive income for the year									
Profit for the year		-	-	-	-	34,085	34,085	9	34,094
Other comprehensive income (loss)									
Net change in unrealized fair value of available-for-sale financial assets, net of tax		-	-	-	762	-	762	-	762
Net change in unrealized fair value of derivative assets and liabilities, net of tax		-	-	-	(36)	-	(36)	-	(36)
Net change of OCI of equity accounted investees, net		-	-	-	308	-	308	-	308
Currency translation differences, net of tax		-	-	-	(7,791)	-	(7,791)	(20)	(7,811)
Remeasurements of defined benefit liability		-	-	-	-	(578)	(578)	-	(578)
Total other comprehensive income (loss)		-	-	-	(6,757)	(578)	(7,335)	(20)	(7,355)
Total comprehensive income for the year		-	-	-	(6,757)	33,507	26,750	(11)	26,739
Transactions with owners of the Group recorded directly in equity									
Contributions by and distributions to owners of the Group									
Debt-equity swap		14,442	27,205	-	(72,426)	-	(30,779)	-	(30,779)
Capital increase by issuing new stock		306,334	457,572	-	-	-	763,906	-	763,906
Capital reduction without refund		(41,393)	-	-	41,393	-	-	-	-
Acquisition of non-controlling interest		-	164	-	-	-	164	20,380	20,544
Total transactions with owners of the Group recorded directly in equity		279,383	484,941	-	(31,033)	-	733,291	20,380	753,671
Balance at December 31, 2015	$	471,717	627,169	-	1,124,116	(169,941)	2,053,061	21,546	2,074,607

See accompanying notes to the consolidated financial statements.

Pan Ocean Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity

In thousands of US dollars		Attributable to owners of the Group						Non-controlling interests	Total equity
		Share capital	Share premium	Treasury shares	Other reserves	Retained Earnings (accumulated deficit)	Total		
Balance at January 1, 2016	$	471,717	627,169	-	1,124,116	(169,941)	2,053,061	21,546	2,074,607
Total comprehensive income for the year									
Profit for the year		-	-	-	-	83,682	83,682	(681)	83,001
Other comprehensive income (loss)									
Net change in unrealized fair value of available-for-sale financial assets, net of tax		-	-	-	(981)	-	(981)	-	(981)
Net change in unrealized fair value of derivative assets and liabilities, net of tax		-	-	-	737	-	737	-	737
Net change of OCI of equity accounted investees, net		-	-	-	337	-	337	-	337
Currency translation differences, net of tax		-	-	-	3,164	-	3,164	(25)	3,139
Remeasurements of defined benefit liability		-	-	-	-	450	450	-	450
Total other comprehensive income (loss)		-	-	-	3,257	450	3,707	(25)	3,682
Total comprehensive income for the year		-	-	-	3,257	84,132	87,389	(706)	86,683
Transactions with owners of the Group recorded directly in equity									
Contributions by and distributions to owners of the Group									
Debt-equity swap		8,881	24,187	-	(71,181)	-	(38,113)	-	(38,113)
Capital increase by issuing new stock									
Capital reduction without refund									
Acquisition of non-controlling interest									
Total transactions with owners of the Group recorded directly in equity		8,881	24,187	-	(71,181)	-	(38,113)	-	(38,113)
Balance at December 31, 2016	$	480,598	651,356	-	1,056,192	(85,809)	2,102,337	20,840	2,123,177

See accompanying notes to the consolidated financial statements.

Pan Ocean Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

In thousands of US dollars	Note		2016	2015
Cash flows from operating activities				
Cash generated from operating activities	37	$	258,860	322,184
Interest paid			(41,464)	(57,360)
Income tax refund (paid)			(570)	(1,328)
Net cash provided by operating activities			216,826	263,496
Cash flows from investing activities				
Acquisition of vessels, property and equipment			(85,702)	(48,379)
Acquisition of intangible assets			(1,989)	(850)
Proceeds from sale of vessels, property and equipment			20,593	57
Proceeds from sale of intangible assets			-	408
Acquisition of financial assets			(43,869)	(5,806)
Proceeds from sale of financial assets			23,194	9,719
Acquisition of subsidiaries share			-	-
Proceeds from sale of subsidiaries share			2,694	4,635
Acquisition of investments in associates			(42)	(40)
Proceeds from sale of investment in associates			-	-
Dividends received			341	1,140
Loans provided			(5)	(6)
Loans collected			2,900	224
Change of consolidated subsidiaries			-	(647)
Interest received			2,058	4,941
Net cash provided by (used in) investing activities			(79,827)	(34,604)
Cash flows from financing activities				
Proceeds from borrowings			143,235	176,310
Repayments of borrowings			(313,906)	(480,388)
Repayment of rehabilitation liabilities			-	(787,009)
Proceeds from capital increase			-	715,644
Change of non-controlling interests			-	20,997
Proceeds from sales of treasury shares			-	-
Dividends paid			-	-
Others, net			-	-
Net cash used in financing activities		$	(170,671)	(354,446)

Pan Ocean Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

			2016	2015
Net increase(decrease) in cash and cash equivalents		$	(33,672)	(125,554)
Cash and cash equivalents at beginning of the year			237,344	364,546
Effect of exchange rate fluctuations on cash held			(866)	(1,648)
Classification of non-current assets held for sale	40		-	-
Cash and cash equivalents at end of the year		$	202,806	237,344

See accompanying notes to the consolidated financial statements.

1. General Information

1.1 Parent Company

Pan Ocean Co., Ltd. (formerly, STX Pan Ocean Co., Ltd.) ("the Company") and its subsidiaries (together "the Group") operates marine transportation (mainly bulk carrying) and other related services. The Company was established in Korea in May, 1966. The Company became listed on the Singapore Exchange Securities Trading Limited ("SGX") in July 2005 and on the Korea Exchange ("KRX") in September 2007.

The address of its registered office is: Tower 8, 7, Jong-ro 5-gil, Jongno-gu, Seoul, Korea.

The paid-in capital amount as of December 31, 2016, is US$ 480,598 thousand and the number of shares issued is 534,392,834. As of December 31, 2016, the detail of the shareholders structure is as follows:

	Number of shares	Percentage of ownership (%)
Jeil Holdings Co., Ltd.	272,000,000	50.90%
Poseidon 2014. LLC.	68,000,000	12.72%
Other shareholders	194,392,834	36.38%
	534,392,834	100.00%

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The Group newly applied the following amended and enacted standards for the annual periods beginning January 1, 2016:

- *Disclosure Initiative* – Amendments to Korean IFRS 1001 *Presentation of Financial Statements* Korean IFRS 1001 *Presentation of Financial Statements* clarifies that materiality applies to the exclusion or inclusion or aggregation of the disclosures in the notes. And also, clarifies that the share of OCI arising from equity-accounted should be presented in total for items which will and will not be reclassified to profit or loss. Additional amendments are made in relation to a particular order of the notes and other.

- Clarification of Acceptable methods of Depreciation and Amortization – Amendments to Korean IFRS 1016 Property, Plant and Equipment, and Korean IFRS 1038 Intangible assets

Amendments to Korean IFRS 1016 *Property, Plant and Equipment* clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment. Korean IFRS 1038 *Intangible assets* now includes a rebuttable presumption that the amortization of intangible assets based on revenue is inappropriate. This presumption can be overcome if either; the intangible asset is expressed as a measure of revenue, or it can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

- Amendments made to Korean IFRS 1110 *Consolidated Financial Statements* clarify that the exception from preparing consolidated financial statement is also available to intermediate parent entities which are subsidiaries of investment entities. If an investment entity has a subsidiary that is an investment entity and whose activities are providing services that related to the investment entity's investment activities, the investment entity measures the subsidiary at fair value through profit or loss.

- *Investment entities: Applying the Consolidation Exception* – Amendments to Korean IFRS 1110 *Consolidated Financial Statements,* Korean IFRS 1028 *Investments in Associates and Joint Ventures,* and Korean IFRS 1112 *Disclosures of Interests in Other Entities*

- Amendments made to Korean IFRS 1110 *Consolidated Financial Statements* clarify that the exception from preparing consolidated financial statement is also available to intermediate parent entities which are subsidiaries of investment entities. If an investment entity has a subsidiary that is an investment entity and whose activities are providing services that related to the investment entity's investment activities, the investment entity measures the subsidiary at fair value through profit or loss.

- Amendments made to Korean IFRS 1028 *Investments in Associates and Joint Ventures* clarify that entities which are not investment entities but have an interest in an associate which is an investment entity have a policy choice when applying the equity method of accounting.

- Amendments made to Korean IFRS 1112 *Disclosures of Interests in Other Entities* clarify that an investment entity which does not prepare consolidated financial statements should present disclosures relating to investment entities required by Korean IFRS 1112.

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to Korean IFRS 1111 Joint Arrangements

Amendments to Korean IFRS 1111 *Joint Arrangements* clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. An investor requires to apply the principles of business combination accounting when the investor acquires an interest in a joint operation that constitutes a business.
- Annual Improvements to Korean IFRS 2012-2014 *Cycle*

Annual Improvements to Korean IFRS 2012-2014 *Cycle* consist of the following amendments. The application does not have a material impact on the consolidated financial statements.

- Korean IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operation* – clarifies when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not have to be accounted for as such.

- Korean IFRS 1107 *Financial Instruments: Disclosures* – clarifies the specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement', and also clarifies that the additional disclosures relating to the amendments in 2012 *'Offsetting of Financial Assets and Financial Liabilities'* only need to be included in interim reports if required by Korean IFRS 1034 *Interim Financial Reporting.*

- Korean IFRS 1019 *Employee Benefits* clarifies that when determining the discount rate for post-employment benefit obligations, it is the currency in which the liabilities are denominated that is important, and not the country where they arise.

- Korean IFRS 1034 *Interim Financial Reporting* clarifies what is meant by the reference in the standard to *'information disclosed elsewhere in the interim financial report'*; and also amended requirements for a cross-reference from the interim financial statements to the location of that information.

- Korean IFRS 1011 *Construction Contract*, Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 2115 *Arrangements for Property Construction*

These standards and interpretation clarify the accounting information disclosure requirement for construction contracts. The accounting estimates and potential risk information of the construction contracts should be disclosed in detail by either individual construction or operating segment.

(b) New and amended standards and interpretations not yet adopted by the Group

The Group has not applied the following new and revised K-IFRSs that have been issued but are not yet effective:

- Amendment of Standard 1007 'Cash Flow Statement'
Changes in liabilities resulting from financing activities are classified into cash flow and non-cash transactions. This amendment is effective for the fiscal year beginning on or after January 1, 2017, but may be applied early. The Group expects there will be no material impact on its financial statements due to the revision.

- Amendment of Standard 1012, Income Tax
We have made it clear that there is a temporary difference in unrealized losses when the fair value of the debt instrument measured at fair value is below the tax basis. This amendment will be effective for the first financial year beginning on or after January 1, 2017, but can be applied early. The Group expects there will be no material impact on its financial statements due to the revision.

- Amendment of Standard 1102 'Share-based Payment'
We clarified that the fair value measurement method of cash flow settlement type share-based payment transaction is the same as the equity settlement type share-based payment transaction when the classification is changed from cash settlement type to equity settlement type. The amendment is effective for the fiscal year beginning on or after January 1, 2018, but may be applied early. The Group expects there will be no material impact on its financial statements due to the revision.

- Standards No. 1109 'Financial instruments'
Financial Instruments No. 1109, issued on September 25, 2015, is effective for annual periods beginning on or after January 1, 2018, but may be early adopted. The Standard will be replaced with the current Korean IFRS 1039, Financial Instruments: Recognition and Measurement. The Group will apply Korean IFRS 1109 from the beginning of the fiscal year beginning on or after January 1, 2018.

The new K-IFRS 1109 is applied retroactively but there are some exemptions such as exemption of comparison information re-creation in the case of classification, measurement and damage of financial products. In the case of hedge accounting, Except for some exceptions, such as processing.

The main characteristics of K-IFRS 1109 are the business model for the management of financial assets and the classification and measurement of financial assets based on the contractual cash flow characteristics of financial assets, the impairment model of financial instruments based on expected credit losses, The items to be hedged that meet the conditions, the expansion of the hedging instrument, or the change of the hedging effectiveness evaluation method.

For the smooth introduction of K-IFRS 1109, it is generally necessary to prepare the financial impact analysis, accounting policies, accounting system, and system stabilization. The effect on the financial statements for the first-time adoption of the Standard may differ from the selection and judgment of accounting policies in accordance with the Standard, as well as the financial instruments and economic conditions of the Group during the period

The Group has not been able to undertake internal management process improvement or change the accounting system related to the reporting of financial instruments in relation to the adoption of K-IFRS No. 1109, and could not analyze the financial effect of this .

The general effects of the major items of the Standard on the Financial Statements are as follows.

① Classification and measurement of financial assets

In accordance with K-IFRS No. 1109, the Group classifies financial assets as financial assets in the following table based on the business model for the management of financial assets and the contractual cash flow characteristics of the financial assets, Fair value, and profit or loss - measured at fair value, and if the hybrid contract includes financial assets as the host contract, the financial assets are classified based on the entire composite contract without separating embedded derivatives.

Business model	Contractual cash flow characteristics	
	Principal and interest only	Otherwise
Purpose of receipt of contractual cash flows	Measurement of amortization cost 1)	Profit / Loss - Fair value measurement 2)
Purpose of collecting and selling contract cash flows	Other comprehensive income - fair value measurement 1)	
Selling purpose, other	Profit or loss - Fair value measurement	

1)To eliminate or reduce accounting discrepancies - Profit or loss - may be designated as fair value measurement items (not cancelable)

2) In the case of equity securities other than for trading purposes, other comprehensive income - may be designated as fair value measurement items (non-cancellable)

Under IFRS 1109, a financial asset is amortized or other comprehensive income - the requirement to classify a financial asset as a fair value measurement is more stringent than the requirements of current IFRS 1039, - The proportion of financial assets subject to fair value measurement may increase, which may increase the volatility of profit or loss.

② Classification and measurement of financial liabilities

In accordance with K-IFRS No. 1109, the change in the fair value of the financial liability designated as fair value through fair value measurement is recognized in other comprehensive income, not in profit or loss, The gain or loss does not recirculate to subsequent profit or loss. However, changes in fair value attributable to changes in credit risk of financial liabilities are recognized in other comprehensive income. When accounting inconsistencies arise or are increased, changes in fair value are recognized in profit or loss.

Gains and losses related to the valuation of financial liabilities may be reduced as some of the changes in the fair value of the financial liabilities designated as fair value measurement are presented in other comprehensive income in current FASB Statement No. 1039 .

③ Impairment: Financial assets and contract assets

Under current IFRS 1039, an impairment is recognized only when there is objective evidence of an impairment in accordance with an incurred loss model, but in the new IFRS 1109, amortization cost or other comprehensive income - at fair value The impairment is recognized in accordance with the expected credit loss impairment model for the debt instruments, lease receivables, contract assets, loan commitments and financial guarantee contracts that are measured.

In accordance with K-IFRS 1109, the allowance for loss is measured by the amount corresponding to the expected 12-month credit loss or the expected total credit loss, divided into three levels according to the degree of increase in credit risk after the first recognition of the financial asset The credit loss can be recognized early compared with the loss incurrence model of K-IFRS 1039.

<table>
<tr><td colspan="2">Classification 1)</td><td>Loss provision</td></tr>
<tr><td>Stage 1</td><td>If the credit risk did not increase significantly after initial recognition 2)</td><td>credit loss that is expected in 12 months: expected due to default event of financial instruments that can occur within 12 months after the end of the reporting period</td></tr>
<tr><td>Stage 2</td><td>If credit risk increases significantly after initial recognition</td><td rowspan="2">Total expected credit losses: Expected credit losses due to all default events that can occur during expected life</td></tr>
<tr><td>Stage 3</td><td>If credit is compromised</td></tr>
</table>

1) For trade receivables or contractual assets that are included in the scope of application of K-IFRS 1115 "Revenue from contracts with customers", the amount of loss If there is a significant financial component, the accounting policy may choose to measure the allowance for losses at the amount corresponding to the expected credit loss for the whole period. An accounting policy can also be used to measure the provision for losses with an amount equal to the expected credit loss for the entire period

2) If the credit risk is low at the end of the reporting period, the credit risk may not be considered to have increased significantly.

In accordance with K-IFRS 1109, a financial asset impaired at the initial recognition is accounted for as an allowance for the cumulative change in expected future credit losses after initial recognition.

④ Risk avoidance accounting

The new K-IFRS 1109 maintains the framework of hedge accounting (fair value hedge, cash flow hedge, hedge of net investment in foreign operations) as set out in current Korean IFRS 1039, And changed the risk-averse accounting requirements of rule-based IAS 1039 to a principle-centric approach that focuses on the Group's risk management activities. We have expanded the items to be hedged and the hedging instruments, and mitigated the requirements for hedge accounting, such as eliminating the conditions for evaluating the hedging effectiveness in practice and quantitative evaluation criteria (80 to 125%).

When applying hedge accounting under K-IFRS No. 1109, it is possible to apply hedge accounting to certain transactions that do not meet the requirements for hedge accounting under K-IFRS 1039, and the volatility of the profit or loss could be reduced.

- K-IFRS No. 1115, "Revenue from contracts with customers"

The new Standard for Revenue Recognition, which was enacted on November 6, 2015, is based on the current Korean IFRS 1018 Revenue, Construction Contract No. 1011, Interpretation No. 2031 on Revenue: Advertising Transactions, System, 2115 real estate construction agreement, asset transfer from customer No. 2118.

In accordance with K-IFRS No. 1018, we provide revenue recognition standards for different types of transactions such as sales of goods, provision of services, interest income, royalty income, dividend income, and construction contracts. (1) Identify the contract → Identify the obligation to perform → ③ Calculate the transaction price → ④ Assign the transaction price to the obligation to perform → ⑤ Recognize the revenue when the obligation to perform the obligation is recognized)
The Standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group expects there will be no material impact on its financial statements due to the revision.

2.3 Subsidiaries, associates and joint venture in the consolidated financial statements

These consolidated financial statements are prepared and presented in accordance with K-IFRS No. 1027, 'Consolidated Financial Statements'. The Group applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS No. 1027. Dividends from a subsidiaries or associates are recognized in profit or loss when the right to receive the dividend is established.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency'). The consolidated financial statements are presented in Korean won, which is the Parent Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

2.5 Financial Assets

(a) Classification and measurement

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on trade date.

For hybrid (combined) instruments, the Group is unable to measure an embedded derivative consolidatedly from its host contract and therefore, the entire hybrid (combined) contract is classified as at fair value through profit or loss. The financial assets designated at fair value through profit or loss by the Group are foreign convertible bonds and securitized derivatives.

At initial recognition, financial assets are measured at fair value plus, and in the case of financial assets not carried at fair value through profit or loss, transaction costs. The transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

(b) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment of loans and receivables is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Group writes off financial assets when the assets are determined to be no longer recoverable.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments over XX months; or the disappearance of an active market for that financial asset because of financial difficulties. A decline in the fair value of an available-for-sale equity instrument by more than XX% from its cost or a prolonged decline below its cost for more than XX months is also an objective evidence of impairment.

(c) Derecognition

If the Group transfers a financial asset and the transfer does not result in derecognition because the Group has retained substantially of all risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'borrowings' in the statement of financial position (Note 8).

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets an*d settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.6 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the statement of income within 'other non-operating income (expenses)' or 'finance income (expenses)' according to the nature of transactions.

2.7 Inventories

Inventories mainly comprise fuel and spare parts. The quantity of inventories is checked in the end of every reporting period. The cost of inventories is based on the weighted average cost formula, and includes expenditures for acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

The book value of inventories is recognized as cost of goods sold when profits are recognized with the consumption of inventories. Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

2.8 Non-current Assets (or Disposal Group) Held-for-sale

Non-current assets (or disposal group) are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell.

2.9 Vessels, property and equipment

Vessels, property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

	Useful life
Buildings	50 years
Structures	50
Machinery	5
Tools and equipment	2.5 ~ 10
Supplies	5
Others	3 - 5

The depreciation method, residual values and useful lives of vessels, property and equipment are reviewed at each financial year-end and, if appropriate, accounted for as changes in accounting estimates.

2.10 Borrowing Costs

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

2.11 Intangible Assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill and club membership is calculated on a straight-line basis over the estimated useful lives (5 years) of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized. The club memberships are tested for impairment annually and carried at cost less accumulated impairment loss.

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

2.12 Impairment of Non-financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Financial Liabilities

(a) Classification and measurement

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.
Preferred shares that require mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares calculated using the effective interest method are recognized in the statement of income as 'finance costs', together with interest expenses recognized on other financial liabilities.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

2.14 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

2.15. Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Group recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, The Group recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

2.16 Employee benefits, continued

(1) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(2) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(3) Retirement benefits: defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated consolidatedly for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailments is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

2.17 Revenue Recognition

Revenue comprises the fair value for revenue earned from voyage and time charter, net of value-added tax, rebates and discounts and after eliminating transactions within the Group.

Revenue from voyage charter is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. Fuel cost, port charge, cargo expense, and other relevant voyage cost are recognized according to equivalent standards. Periodic charted vessel revenue is recognized equally during the term of contracts. Losses from voyages are recognized as expenses in the periods in which they are able to be estimated and classified as current liabilities.

2.18 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases where all the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases and recognized as lease assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments on the opening date of the lease period.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

2.19 Debt-equity swap and adjustment for receivables and payables

In case of issuing shares for repaying debts of the Group (debt-equity swap), the difference between the book value of debts and the fair value of the securities is recorded as gain or loss from debt adjustment. In case the Group agreed with creditors to be converted into capital, but not implemented immediately, the Group accounted for the adjusted debts as other capital and the difference between the book value of adjusted debts and the fair value of the debt-equity swapped shares is recorded as gain or loss from debt adjustment.

2.20 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets primarily the Group's headquarters, head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The Group has four operating segments which consist of bulk carrier service, container service, tanker service and other shipping service, as described in note 8.

2.21 Financial Statement Approval

The financial statements of the Group were approved by the Board on February 7, 2017 and may be amended and approved at the Annual General Meeting of Shareholders

3. Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

(b) Income taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 25).

If certain portion of the taxable income is not used for investments, increase in wages, or dividends in accordance with the *Tax System For Recirculation of Corporate Income*, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

(c) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 5).

(d) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 24).

Pan Ocean Co., Ltd.

Separate Statements of Financial Position

As of December 31, 2016 and 2015

In thousands of US dollars	Note		2016	2015
Assets				
Cash and cash equivalents	5,17	$	160,991	190,619
Trade receivables	5,12,13,15		66,841	81,826
Other receivables	5,12,13,16		18,708	18,905
Derivative financial assets	5,11,12,13		1,649	32
Other financial assets	5,12,13,14		3,000	1,070
Inventories	19		39,548	34,162
Other assets	18		123,138	128,414
Assets held for sale	39		0	2,649
Total current assets			413,875	457,677
Trade receivables	5,12,13,15		0	71
Other receivables	5,12,13,16		16,863	10,571
Other financial assets	5,12,13,14		27,979	16,050
Investments in subsidiaries	10		50,655	48,983
Investments in associates and joint ventures	10		1,252	1,498
Vessels, property and equipment	6,8		3,005,646	3,065,422
Intangible assets	9		3,916	4,059
Other assets	18		4,525	3,344
Total non-current assets			3,110,836	3,149,998
Total assets		$	3,524,711	3,607,675

See accompanying notes to the separate financial statements.

Pan Ocean Co., Ltd.

Separate Statements of Financial Position

As of December 31, 2016 and 2015

In thousands of US dollars	Note		2016	2015
Liabilities				
Trade payables	5,12,13	$	63,857	56,941
Borrowings	5,12,13,25		264,259	225,217
Derivative financial liabilities	5,11,12,13		21	1,714
Other payables	5,12,13,23		33,199	40,946
Provisions	29		3,008	1,837
Other liabilities	24		55,045	64,012
Total current liabilities			419,389	390,667
Borrowings	5,12,13,25		982,009	1,053,801
Rehabilitation liabilities	5,12,13,26		-	-
Derivative financial liabilities	5,11,12,13		90	213
Provisions	29		31,557	107,071
Retirement benefit obligations	28		5,826	9,526
Other payables	5,12,13,23		-	-
Total non-current liabilities			1,019,482	1,170,611
Total liabilities		$	1,438,871	1,561,278
Equity				
Share capital	20		480,598	471,717
Share premium	20		650,802	626,615
Other reserves	21		1,069,050	1,141,252
Accumulated deficit	22		(114,610)	(193,187)
Total equity			2,085,840	2,046,397
Total equity and liabilities		$	3,524,711	3,607,675

See accompanying notes to the separate financial statements.

Pan Ocean Co., Ltd.

Separate Statements of Comprehensive Income

For the years ended December 31, 2016and 2015

In thousands of US dollars, except per share data	Note	2016	2015
Sales	7	$ 1,385,976	1,553,377
Cost of sales	30	(1,215,704)	(1,319,125)
Gross profit		170,272	234,252
Selling and Administrative expenses		(32,699)	(37,615)
Operating profit	7	137,573	196,637
Finance income	32	13,793	8,835
Finance costs	32	(51,066)	(67,509)
Net foreign exchange gain (loss) on financial instruments net	33	-	(1,822)
Other non-operating income(loss), net	31	(21,752)	(92,337)
Profit before income tax		78,548	43,804
Income tax benefit(expense)	27	421	-
Profit for the year		78,127	43,804
Other comprehensive income (loss)			
Items that will be reclassified subsequently to profit or loss:			
Net change in unrealized fair value of available-for-sale financial assets, net of tax		(981)	762
Net change in unrealized fair value of derivative financial assets and liabilities, net of tax		(40)	171
		(1,021)	933
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability		450	(578)
Total other comprehensive income (loss) for the year, net of tax		(571)	355
Total comprehensive income for the year		$ 77,556	44,159
Earnings per share	34		
- Basic		$ 0.15	0.11
- Diluted		$ 0.15	0.11

See accompanying notes to the separate financial statements.

Pan Ocean Co., Ltd.

Separate Statements of Changes in Equity

In thousands of US dollars		Share capital	Share premium	Treasury shares	Other reserves	Retained earnings (accumulated deficit)	Total equity
Balance as of January 1, 2015	$	192,334	141,839	-	1,171,353	(236,413)	1,269,113
Total comprehensive income for the year							
Profit for the year		-	-	-	-	43,804	43,804
Other comprehensive income (loss)							
Net change in unrealized fair value of available-for-sale financial assets, net of tax		-	-	-	762	-	762
Net change in unrealized fair value of derivative assets and liabilities, net of tax		-	-	-	171	-	171
Remeasurements of defined benefit liability		-	-	-	-	(578)	(578)
Total other comprehensive income		-	-	-	933	(578)	355
Total comprehensive income for the year		-	-	-	933	43,226	44,159
Transactions with owners of the Company, recorded directly in equity							
Contributions by and distributions to owners of the Company							
Capital increase by issuing new stock		306,334	457,572	-	-	-	763,906
Capital reduction without refund		(41,393)	-	-	41,393	-	-
Debt-equity swap		14,442	27,204	-	(72,427)	-	(30,781)
Total contributions by and distributions to owners		279,383	484,776	-	(31,034)	-	733,125
Balance as of December 31, 2015	$	471,717	626,615	-	1,141,252	(193,187)	2,046,397

See accompanying notes to the separate financial statements.

Pan Ocean Co., Ltd.

Separate Statements of Changes in Equity

In thousands of US dollars		Share capital	Share premium	Treasury shares	Other reserves	Retained earnings (accumulated deficit)	Total equity
Balance as of January 1, 2016	**$**	**471,717**	**626,615**	**-**	**1,141,252**	**(193,187)**	**2,046,397**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	78,127	78,127
Other comprehensive income (loss)							
Net change in unrealized fair value of available-for-sale financial assets, net of tax		-	-	-	(981)	-	(981)
Net change in unrealized fair value of derivative assets and liabilities, net of tax		-	-	-	(40)	-	(40)
Remeasurements of defined benefit liability		-	-	-	-	450	450
Total other comprehensive income		**-**	**-**	**-**	**(1,021)**	**450**	**(571)**
Total comprehensive income for the year		**-**	**-**	**-**	**(1,021)**	**78,577**	**77,556**
Transactions with owners of the Company, recorded directly in equity							
Contributions by and distributions to owners of the Company							
Capital increase by issuing new stock							
Capital reduction without refund							
Debt-equity swap		8,881	24,187	-	(71,181)	-	(38,113)
Total contributions by and distributions to owners		**8,881**	**24,187**	**-**	**(71,181)**	**-**	**(38,113)**
Balance as of December 31, 2016	**$**	**480,598**	**650,802**	**-**	**1,069,050**	**(114,610)**	**2,085,840**

See accompanying notes to the separate financial statements.

Pan Ocean Co., Ltd.
Separate Statements of Cash Flows

For the years ended December 31, 2016and 2015

In thousands of US dollars	Note	2016	2015
Cash flows from operating activities			
Cash generated from operating activities	37	$ 249,388	326,047
Interest paid		(41,199)	(56,881)
Income tax paid		62	(928)
Net cash provided by operating activities		208,251	268,238
Cash flows from investing activities			
Acquisition of vessels, property and equipment		(85,365)	(47,664)
Acquisition of intangible assets		-	-
Proceeds from sale of vessels, property and equipment		20,592	20
Proceeds from sale of intangible assets		-	408
Acquisition of financial assets		(36,844)	(4,194)
Proceeds from sale of financial assets		23,192	9,172
Acquisition of subsidiaries		(1,672)	(7,696)
Acquisition of investments in associates and joint ventures		(42)	(40)
Proceeds from sale of investments in associates and joint ventures		2,649	4,635
Dividends received		2,776	4,629
Loans Provided		(5)	
Loans collected		2,896	218
Interest received		1,220	4,260
Net cash provided by (used in) investing activities		(70,603)	(36,252)
Cash flows from financing activities			
Proceeds from borrowings		143,235	176,310
Repayments of borrowings		(310,160)	(477,040)
Repayment of rehabilitation liabilities		-	(787,009)
Repayment of other liabilities		-	-
Proceeds from capital increase		-	715,644
Net cash used in financing activities		(166,925)	(372,095)
Net increase(decrease) in cash and cash equivalents		(29,277)	(140,109)
Cash and cash equivalents at beginning of the year		190,619	330,866
Effect of exchange rate fluctuations on cash held		(186)	(138)
Cash and cash equivalents at end of the year		$ 161,156	190,619

Pan Ocean Co., Ltd.

Separate Statements of Cash Flows

See accompanying notes to the separate financial statement

1. General Information

1.1 The Company

Pan Ocean Co., Ltd. (formerly, STX Pan Ocean Co., Ltd.) ("the Company") operates marine transportation (mainly bulk carrying) and other related services. The Company was established in Korea in May, 1966. The Company became listed on the Singapore Exchange Securities Trading Limited ("SGX") in July 2005 and on the Korea Exchange ("KRX") in September 2007.

The address of its registered office is: Tower 8, 7, Jong-ro 5-gil, Jongno-gu, Seoul, Korea.

The paid-in capital amount as of December 31, 2016, is US$ 480,598 thousand and the number of shares issued is 534,392,834. As of December 31, 2016, the detail of the shareholders structure is as follows:

	Number of shares	Percentage of ownership (%)
Jeil Holdings Co., Ltd.	272,000,000	50.90%
Poseidon 2014. LLC.	68,000,000	12.72%
Other shareholders	194,392,834	36.38%
	534,392,834	100.00%

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying separate financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, financial performance or cash flows, is not presented in the accompanying separate financial statements.

The separate financial statements of the Company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The preparation of the separate financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Company

The Company newly applied the following amended and enacted standards for the annual periods beginning January 1, 2016:

- *Disclosure Initiative* – Amendments to Korean IFRS 1001 *Presentation of Financial Statements* Korean IFRS 1001 *Presentation of Financial Statements* clarifies that materiality applies to the exclusion or inclusion or aggregation of the disclosures in the notes. And also, clarifies that the share of OCI arising from equity-accounted should be presented in total for items which will and will not be reclassified to profit or loss. Additional amendments are made in relation to a particular order of the notes and other.

- Clarification of Acceptable methods of Depreciation and Amortization – Amendments to Korean IFRS 1016 Property, Plant and Equipment, and Korean IFRS 1038 Intangible assets

Amendments to Korean IFRS 1016 *Property, Plant and Equipment* clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment. Korean IFRS 1038 *Intangible assets* now includes a rebuttable presumption that the amortization of intangible assets based on revenue is inappropriate. This presumption can be overcome if either; the intangible asset is expressed as a measure of revenue, or it can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

- Amendments made to Korean IFRS 1110 *Consolidated Financial Statements* clarify that the exception from preparing consolidated financial statement is also available to intermediate parent entities which are subsidiaries of investment entities. If an investment entity has a subsidiary that is an investment entity and whose activities are providing services that related to the investment entity's investment activities, the investment entity measures the subsidiary at fair value through profit or loss.

- *Investment entities: Applying the Consolidation Exception* – Amendments to Korean IFRS 1110 *Consolidated Financial Statements,* Korean IFRS 1028 *Investments in Associates and Joint Ventures,* and Korean IFRS 1112 *Disclosures of Interests in Other Entities*

- Amendments made to Korean IFRS 1110 *Consolidated Financial Statements* clarify that the exception from preparing consolidated financial statement is also available to intermediate parent entities which are subsidiaries of investment entities. If an investment entity has a subsidiary that is an investment entity and whose activities are providing services that related to the investment entity's investment activities, the investment entity measures the subsidiary at fair value through profit or loss.

- Amendments made to Korean IFRS 1028 *Investments in Associates and Joint Ventures* clarify that entities which are not investment entities but have an interest in an associate which is an investment entity have a policy choice when applying the equity method of accounting.

- Amendments made to Korean IFRS 1112 *Disclosures of Interests in Other Entities* clarify that an investment entity which does not prepare consolidated financial statements should present disclosures relating to investment entities required by Korean IFRS 1112.

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to Korean IFRS 1111 Joint Arrangements

Amendments to Korean IFRS 1111 *Joint Arrangements* clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. An investor requires to apply the principles of business combination accounting when the investor acquires an interest in a joint operation that constitutes a business.
- Annual Improvements to Korean IFRS 2012-2014 *Cycle*

Annual Improvements to Korean IFRS 2012-2014 *Cycle* consist of the following amendments. The application does not have a material impact on the consolidated financial statements.

- Korean IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operation* – clarifies when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not have to be accounted for as such.

- Korean IFRS 1107 *Financial Instruments: Disclosures* – clarifies the specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement', and also clarifies that the additional disclosures relating to the amendments in 2012 *'Offsetting of Financial Assets and Financial Liabilities'* only need to be included in interim reports if required by Korean IFRS 1034 *Interim Financial Reporting*.

- Korean IFRS 1019 *Employee Benefits* clarifies that when determining the discount rate for post-employment benefit obligations, it is the currency in which the liabilities are denominated that is important, and not the country where they arise.

- Korean IFRS 1034 *Interim Financial Reporting* clarifies what is meant by the reference in the standard to *'information disclosed elsewhere in the interim financial report'*; and also amended requirements for a cross-reference from the interim financial statements to the location of that information.

- Korean IFRS 1011 *Construction Contract*, Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 2115 *Arrangements for Property Construction*

These standards and interpretation clarify the accounting information disclosure requirement for construction contracts. The accounting estimates and potential risk information of the construction contracts should be disclosed in detail by either individual construction or operating segment.

(b) New and amended standards and interpretations not yet adopted by the Company

The Company has not applied the following new and revised K-IFRSs that have been issued but are not yet effective:

- Amendment of Standard 1007 'Cash Flow Statement'
Changes in liabilities resulting from financing activities are classified into cash flow and non-cash transactions. This amendment is effective for the fiscal year beginning on or after January 1, 2017, but may be applied early. The Company expects there will be no material impact on its financial statements due to the revision.

- Amendment of Standard 1012, Income Tax
We have made it clear that there is a temporary difference in unrealized losses when the fair value of the debt instrument measured at fair value is below the tax basis. This amendment will be effective for the first financial year beginning on or after January 1, 2017, but can be applied early. The Company expects there will be no material impact on its financial statements due to the revision.

- Amendment of Standard 1102 'Share-based Payment'
We clarified that the fair value measurement method of cash flow settlement type share-based payment transaction is the same as the equity settlement type share-based payment transaction when the classification is changed from cash settlement type to equity settlement type. The amendment is effective for the fiscal year beginning on or after January 1, 2018, but may be applied early. The Company expects there will be no material impact on its financial statements due to the revision.

- Standards No. 1109 'Financial instruments'
Financial Instruments No. 1109, issued on September 25, 2015, is effective for annual periods beginning on or after January 1, 2018, but may be early adopted. The Standard will be replaced with the current Korean IFRS 1039, Financial Instruments: Recognition and Measurement. The Company will apply Korean IFRS 1109 from the beginning of the fiscal year beginning on or after January 1, 2018.

The new K-IFRS 1109 is applied retroactively but there are some exemptions such as exemption of comparison information re-creation in the case of classification, measurement and damage of financial products. In the case of hedge accounting, Except for some exceptions, such as processing.

The main characteristics of K-IFRS 1109 are the business model for the management of financial assets and the classification and measurement of financial assets based on the contractual cash flow characteristics of financial assets, the impairment model of financial instruments based on expected credit losses, The items to be hedged that meet the conditions, the expansion of the hedging instrument, or the change of the hedging effectiveness evaluation method.

For the smooth introduction of K-IFRS 1109, it is generally necessary to prepare the financial impact analysis, accounting policies, accounting system, and system stabilization. The effect on the financial statements for the first-time adoption of the Standard may differ from the selection and judgment of accounting policies in accordance with the Standard, as well as the financial instruments and economic conditions of the Company during the period

The Company has not been able to undertake internal management process improvement or change the accounting system related to the reporting of financial instruments in relation to the adoption of K-IFRS No. 1109, and could not analyze the financial effect of this .

The general effects of the major items of the Standard on the Financial Statements are as follows.

① Classification and measurement of financial assets

In accordance with K-IFRS No. 1109, the Company classifies financial assets as financial assets in the following table based on the business model for the management of financial assets and the contractual cash flow characteristics of the financial assets, Fair value, and profit or loss - measured at fair value, and if the hybrid contract includes financial assets as the host contract, the financial assets are classified based on the entire composite contract without separating embedded derivatives.

Business model	Contractual cash flow characteristics	
	Principal and interest only	Otherwise
Purpose of receipt of contractual cash flows	Measurement of amortization cost 1)	Profit / Loss - Fair value measurement 2)
Purpose of collecting and selling contract cash flows	Other comprehensive income - fair value measurement 1)	
Selling purpose, other	Profit or loss - Fair value measurement	

1)To eliminate or reduce accounting discrepancies - Profit or loss - may be designated as fair value measurement items (not cancelable)

2) In the case of equity securities other than for trading purposes, other comprehensive income - may be designated as fair value measurement items (non-cancellable)

Under IFRS 1109, a financial asset is amortized or other comprehensive income - the requirement to classify a financial asset as a fair value measurement is more stringent than the requirements of current IFRS 1039, - The proportion of financial assets subject to fair value measurement may increase, which may increase the volatility of profit or loss.

② Classification and measurement of financial liabilities

In accordance with K-IFRS No. 1109, the change in the fair value of the financial liability designated as fair value through fair value measurement is recognized in other comprehensive income, not in profit or loss, The gain or loss does not recirculate to subsequent profit or loss. However, changes in fair value attributable to changes in credit risk of financial liabilities are recognized in other comprehensive income. When accounting inconsistencies arise or are increased, changes in fair value are recognized in profit or loss.

Gains and losses related to the valuation of financial liabilities may be reduced as some of the changes in the fair value of the financial liabilities designated as fair value measurement are presented in other comprehensive income in current FASB Statement No. 1039 .

③ Impairment: Financial assets and contract assets

Under current IFRS 1039, an impairment is recognized only when there is objective evidence of an impairment in accordance with an incurred loss model, but in the new IFRS 1109, amortization cost or other comprehensive income - at fair value The impairment is recognized in accordance with the expected credit loss impairment model for the debt instruments, lease receivables, contract assets, loan commitments and financial guarantee contracts that are measured.

In accordance with K-IFRS 1109, the allowance for loss is measured by the amount corresponding to the expected 12-month credit loss or the expected total credit loss, divided into three levels according to the degree of increase in credit risk after the first recognition of the financial asset The credit loss can be recognized early compared with the loss incurrence model of K-IFRS 1039.

Classification 1)		Loss provision
Stage 1	If the credit risk did not increase significantly after initial recognition 2)	credit loss that is expected in 12 months: expected due to default event of financial instruments that can occur within 12 months after the end of the reporting period
Stage 2	If credit risk increases significantly after initial recognition	Total expected credit losses: Expected credit losses due to all default events that can occur during expected life
Stage 3	If credit is compromised	

1) For trade receivables or contractual assets that are included in the scope of application of K-IFRS 1115 "Revenue from contracts with customers", the amount of loss If there is a significant financial component, the accounting policy may choose to measure the allowance for losses at the amount corresponding to the expected credit loss for the whole period. An accounting policy can also be used to measure the provision for losses with an amount equal to the expected credit loss for the entire period

2) If the credit risk is low at the end of the reporting period, the credit risk may not be considered to have increased significantly.

In accordance with K-IFRS 1109, a financial asset impaired at the initial recognition is accounted for as an allowance for the cumulative change in expected future credit losses after initial recognition.

④ Risk avoidance accounting

The new K-IFRS 1109 maintains the framework of hedge accounting (fair value hedge, cash flow hedge, hedge of net investment in foreign operations) as set out in current Korean IFRS 1039, And changed the risk-averse accounting requirements of rule-based IAS 1039 to a principle-centric approach that focuses on the company's risk management activities. We have expanded the items to be hedged and the hedging instruments, and mitigated the requirements for hedge accounting, such as eliminating the conditions for evaluating the hedging effectiveness in practice and quantitative evaluation criteria (80 to 125%).

When applying hedge accounting under K-IFRS No. 1109, it is possible to apply hedge accounting to certain transactions that do not meet the requirements for hedge accounting under K-IFRS 1039, and the volatility of the profit or loss could be reduced.

- K-IFRS No. 1115, "Revenue from contracts with customers"

The new Standard for Revenue Recognition, which was enacted on November 6, 2015, is based on the current Korean IFRS 1018 Revenue, Construction Contract No. 1011, Interpretation No. 2031 on Revenue: Advertising Transactions, System, 2115 real estate construction agreement, asset transfer from customer No. 2118.

In accordance with K-IFRS No. 1018, we provide revenue recognition standards for different types of transactions such as sales of goods, provision of services, interest income, royalty income, dividend income, and construction contracts. (1) Identify the contract → Identify the obligation to perform → ③ Calculate the transaction price → ④ Assign the transaction price to the obligation to perform → ⑤ Recognize the revenue when the obligation to perform the obligation is recognized) The Standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company expects there will be no material impact on its financial statements due to the revision.

2.3 Subsidiaries, associates and joint venture in the separate financial statements

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027, 'Separate Financial Statements'. The Company applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS No. 1027. Dividends from a subsidiaries or associates are recognized in profit or loss when the right to receive the dividend is established.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency'). The separate financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

2.5 Financial Assets

(a) Classification and measurement

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on trade date.

For hybrid (combined) instruments, the Company is unable to measure an embedded derivative separately from its host contract and therefore, the entire hybrid (combined) contract is classified as at fair value through profit or loss. The financial assets designated at fair value through profit or loss by the Company are foreign convertible bonds and securitized derivatives.

At initial recognition, financial assets are measured at fair value plus, and in the case of financial assets not carried at fair value through profit or loss, transaction costs. The transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

(b) Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment of loans and receivables is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Company writes off financial assets when the assets are determined to be no longer recoverable.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments over XX months; or the disappearance of an active market for that financial asset because of financial difficulties. A decline in the fair value of an available-for-sale equity instrument by more than XX% from its cost or a prolonged decline below its cost for more than XX months is also an objective evidence of impairment.

(c) Derecognition

If the Company transfers a financial asset and the transfer does not result in derecognition because the Company has retained substantially of all risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'borrowings' in the statement of financial position (Note 8).

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the separate statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets an*d settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.6 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the statement of income within 'other non-operating income (expenses)' or 'finance income (expenses)' according to the nature of transactions.

2.7 Inventories

Inventories mainly comprise fuel and spare parts. The quantity of inventories is checked in the end of every reporting period. The cost of inventories is based on the weighted average cost formula, and includes expenditures for acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

The book value of inventories is recognized as cost of goods sold when profits are recognized with the consumption of inventories. Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

2.8 Non-current Assets (or Disposal Group) Held-for-sale

Non-current assets (or disposal group) are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell.

2.9 Vessels, property and equipment

Vessels, property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

	Useful life
Buildings	50 years
Structures	50
Machinery	5
Tools and equipment	2.5 ~ 10
Supplies	5
Others	3 - 5

The depreciation method, residual values and useful lives of vessels, property and equipment are reviewed at each financial year-end and, if appropriate, accounted for as changes in accounting estimates.

2.10 Borrowing Costs

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

2.11 Intangible Assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill and club membership is calculated on a straight-line basis over the estimated useful lives (5 years) of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized. The club memberships are tested for impairment annually and carried at cost less accumulated impairment loss.

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

2.12 Impairment of Non-financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Financial Liabilities

(a) Classification and measurement

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.
Preferred shares that require mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares calculated using the effective interest method are recognized in the statement of income as 'finance costs', together with interest expenses recognized on other financial liabilities.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

2.14 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

2.15. Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Group recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, The Group recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

2.16 Employee benefits, continued

(1) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(2) Retirement benefits: defined contribution plans

When an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(3) Retirement benefits: defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailments is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

2.17 Revenue Recognition

Revenue comprises the fair value for revenue earned from voyage and time charter, net of value-added tax, rebates and discounts and after eliminating transactions within the Company.

Revenue from voyage charter is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. Fuel cost, port charge, cargo expense, and other relevant voyage cost are recognized according to equivalent standards. Periodic charted vessel revenue is recognized equally during the term of contracts. Losses from voyages are recognized as expenses in the periods in which they are able to be estimated and classified as current liabilities.

2.18 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases where all the risks and rewards of ownership are not transferred to the Company are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases and recognized as lease assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments on the opening date of the lease period.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

2.19 Debt-equity swap and adjustment for receivables and payables

In case of issuing shares for repaying debts of the Company (debt-equity swap), the difference between the book value of debts and the fair value of the securities is recorded as gain or loss from debt adjustment. In case the Company agreed with creditors to be converted into capital, but not implemented immediately, the Company accounted for the adjusted debts as other capital and the difference between the book value of adjusted debts and the fair value of the debt-equity swapped shares is recorded as gain or loss from debt adjustment.

2.20 Operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Company's chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets primarily the Company's headquarters, head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The Company has four operating segments which consist of bulk carrier service, container service, tanker service and other shipping service, as described in note 8.

2.21 Financial Statement Approval

The financial statements of the Company were approved by the Board on February 7, 2017 and may be amended and approved at the Annual General Meeting of Shareholders

3. Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

(b) Income taxes

The Company is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 25).

If certain portion of the taxable income is not used for investments, increase in wages, or dividends in accordance with the *Tax System For Recirculation of Corporate Income*, the Company is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. As the Company's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

(c) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 5).

(d) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 24).