# The 52nd Annual Report

## (2017.1.1 ~ 2017.12.31)

PAN OCEAN

# Contents

## 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 |

| Business Divisions | | Major Cargoes | Areas Of Operation |
|---|---|---|---|
| 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, Southeast Asia |

[3] Domestic & Overseas Offices

| Offices | Address |
|---|---|
| Head Office | Tower8, 7, Jong-ro 5-gil, Jongno-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 |
| Dubai Office | 34TH Floor, Swiss Tower, Plot Y3,Jumeirah Lakes Towers, Dubai, PO Box 643718, Arab Emirates |

[4] Employees

(As of Dec. 31, 2017) (Unit: Persons)

| Employees | | | | Total |
|---|---|---|---|---|
| At Office | On-board | | Sub Total | |
| | Korean Crews | Foreign Crews | | |
| 358 | 658 | 1,038 | 1,696 | 2,054 |

[5] Issued Shares

1) Types & No. of issued shares

| Type of shares | No. of issued shares | Amount(KRW) | Proportion |
|---|---|---|---|
| Registered Common Shares | 534,537,812 | 534,537,812,000 | 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 |

| Date | Type | Change in No. shares | Change in amount(₩) | Capital after change | Remarks |
|---|---|---|---|---|---|
| 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 |
| 2017.01.01 | Common Shares | 3,937 | 3,937 | 534,396,771 | Debt-for-equity swap |
| 2017.04.01 | Common Shares | 85,803 | 85,803 | 534,482,574 | Debt-for-equity swap |
| 2017.10.01 | Common Shares | 55,238 | 55,238 | 534,537,812 | 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.<br>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<br>(Singapore) Boardroom Corporate & Advisory Service Pte. Ltd.(Singapore) |

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

[6] Corporate Bonds

(Unit : KRW mil.)

| Type | Issuance Date | Issuance Amount | Interest Rate | Outstanding Balance | Due Date | Guarantor |
|---|---|---|---|---|---|---|
| The 17th Guaranteed private placement bond | 2016.06.02 | 59,610[1)] | Libor(3M)+1.30% | 44,708[2)] | 2019.06.02 | KB Kookmin Bank |
| The 18th Unsecured private placement bond | 2017.11.13 | 15,000 | 3.20% | 15,000 | 2019.11.13 | - |

1) USD 50 Mil. was converted into Korea Won with the exchange rate of KRW 1,192.20 per dollar at issuance date.

2) USD 37.5 Mil. was converted into Korea Won with the exchange rate of KRW 1,192.20 per dollar at issuance date.

## 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.

After weak market conditions for past few years, fleet growth increased marginally in 2017. On the contrary, demand for commodities picked up supporting prices. The average Baltic Dry Index (BDI) was 1,145 points for the year, which rose significantly above 70% from 673 points in 2016. The BDI was only 685 at the lowest points early in the year and touched its highest level at 1,743 points before the end of the year.

As for the demand, China's iron ore imports amounted to 1,075 million tons in 2017, making the highest level on record, showing an annual increase of 5%. Through 2017, the demand for oil has increased as the global economy has improved and put upward pressure on oil prices. A rise in oil prices and better economic conditions resulted in an increased demand for coal, and the coal trade volume grew to 1,230 million tons. Global grain trade was also seen substantial rising. For this reason, the total dry bulk cargo trade growth has increased in 2017 to 4%, with the trade volume reaching 5,103 million tons.

On the supply side, newbuilding orders for dry bulk carrier declined in 2015 and 2016 due to the downturn in the shipping market. Because of this, the newbuilding deliveries reached 38.4 million DWT (deadweight tonnage), which dropped by 19% from 47.2 million DWT in 2016. As the market returned to healthy level in 2017, the scrapping volume of the bulkers dropped to 14.5 million DWT from 29.2 million DWT of the previous year. The fleet supply growth was 2.9%, which is an increase compared to 2.2% of 2016.

The GDP growth for all of 2017 was 3.6%, and the International Monetary Fund (IMF) has improved its growth forecasts for 2018 to 3.9% expecting the global economy to continue to recover. The growth of major world economies is expected to lead higher commodities demand with dry bulkers. However, newbuildings delivered in 2018 will be below 30million DWT as newbuilding orders have declined in 2016 and 2017. As such, the supply growth is expected to decrease. In 2018, the demand growth will outweigh fleet expansion like last year. Accordingly, earnings in the dry bulk market are expected to improve in 2018.

[2] Financial Results by operating segments

(Unit : KRW mil.)

| Segment | Sales | | | Note |
|---|---|---|---|---|
| | 52nd | 51st | 50th | |
| Shipping related | 2,033,539 | 1,638,768 | 1,760,574 | - |
| Others | 302,701 | 235,218 | 58,739 | Grain trading business and marine service, etc. |
| Total | 2,336,240 | 1,873,986 | 1,819,313 | - |

※ 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

| SIZE(DWT) | Unit | Delivery | Type |
|---|---|---|---|
| 62,000 | 5 | 2018~2020 | Bulker |
| 325,000 | 6 | 2019~2021 | Bulker |

2) Business Overview

(Unit : KRW mil.)

| **Type of Funding** | **Amount** | **Purpose** | **Remarks** |
|---|---|---|---|
| Ship Financing (4 Vessels) | 86,596 | Shipbuilding | In case of Foreign debt, it was converted into Korea Won with the exchange rate of KRW 1,071.40 per dollar at 31 Dec. 2017 |

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

[1] The status of Parent company

As of 31 December 2017

| | | | |
|---|---|---|---|
| Name of Parent company | JEIL HOLDINGS CO., LTD. | | |
| Address | 228, Gobong-ro, Iksan-si, Jeollabuk-do, Korea | | |
| Share Capital | KRW 7,071,800,000 | Major Business | Business consulting of subsidiary |
| Shareholding | 272,000,000 shares | Shareholding Ratio | 50.89% |
| Major trading with Parent Company | - | | |

[2] The status of subsidiary

As of 31 December 2017

| 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 |

| Status of Subsidiary | | | | Relation with Pan Ocean | | |
|---|---|---|---|---|---|---|
| Name | Address | Share Capital | Business | No of shareholding | Ratio | Reation |
| Pan Ocean Singapore Bulk Carrier Pte. Ltd. | 8 Shenton Way #40-03 AXA Tower Singapore | SGD 47,503,149.66 | Marine Transportation | 85,301,423 | 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 Kong) Co., Ltd. | 33rd Floor Cambridge House Taikoo Place 979, King's Road, Hong Kong | HKD 38,000,000 | Marine Transportation | 38,000,000 | 100% | Supporting sales and operation in Hong Kong |

※ In liquidation : STX Pan Ocean (Hong Kong) Co., Ltd.,

※ Complete liquidation : Sea best maritime Limited

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

As of 31 December 2017

| Executive director with a concurrent office | | Company to be served additionally | | |
|---|---|---|---|---|
| Name | Position | Name of the company | Position | Task |
| 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.<br>Pan Ocean Japan Corporation | Director | - |
| Chae Ho Seok | Senior Vice President | Pan Ocean Singapore Bulk Carrier Pte. Ltd. | Director | - |
| Ahn Sung Hwan | Senior Vice President | STX Pan Ocean (U.K.) Co., Ltd. | Director | - |
| Rah Byung Chul | Vice President | Pan Ocean Japan Corporation | Director | - |
| Bang Sang Doo | Vice President | Pan Ocean (China) Co., Ltd. | Director | - |

## 4. The financial status for the last 3 years

[1] Operating Result

52nd Period : From 1 January 2017 to 31 December 2017

51st Period : From 1 January 2016 to 31 December 2016

50th Period : From 1 January 2015 to 31 December 2015

Consolidated Statements of Comprehensive income (Unit : KRW mil.)

| Subject | 52nd | 51st | 50th |
|---|---|---|---|
| Sales | 2,336,240 | 1,873,986 | 1,819,313 |
| Operating profit(loss) | 195,023 | 167,901 | 229,370 |
| Profit(loss) | 141,275 | 97,089 | 45,547 |

Statements of Comprehensive income (Unit : KRW mil.)

| Subject | 52nd | 51st | 50th |
|---|---|---|---|
| Sales | 2,013,013 | 1,606,337 | 1,760,590 |
| Operating profit(loss) | 201,675 | 159,066 | 229,773 |
| Profit(loss) | 145,713 | 90,822 | 56,532 |

[2] Financial Status

52nd Period : end of the 2017

51st Period : end of the 2016

50th Period : end of the 2015

Consolidated Statements of Financial position (Unit : KRW mil.)

| Subject | 52nd | 51st | 50th |
|---|---|---|---|
| Assets | 3,894,361 | 4,330,646 | 4,314,284 |
| Liabilities | 1,484,609 | 1,764,786 | 1,882,845 |
| Equity | 2,409,752 | 2,565,860 | 2,431,439 |

Statements of Financial position (Unit : KRW mil.)

| Subject | 52nd | 51st | 50th |
|---|---|---|---|
| Assets | 3,820,957 | 4,259,612 | 4,228,195 |
| Liabilities | 1,447,741 | 1,738,876 | 1,829,818 |
| Equity | 2,373,216 | 2,520,736 | 2,398,377 |

## 5. The challenging task of the Company

Please find following company core assignments on 2018.

| Assignments | Action Plan |
|---|---|
| Preemptive Action for Market Fluctuations | ➢ Raise profitability from owned vessels and expand operating fleets by uplifting an accuracy of the prediction of shipping market in short/long term<br>➢ Expand business foundation by providing high quality service (strengthening ties with the core market shipowners and shippers) |

| Assignments | Action Plan |
|---|---|
| Accident Prevention | ➢ Enhance internal competence of shipping management through Safety Campaign and Safety Education<br>➢ Prevent similar types of accidents by sharing information and strengthening communication with vessels |
| Improving Management Efficiency | ➢ Reduce unnecessary expenditures by saving cost proactively<br>➢ Improve inefficient work processes and promote systematic cooperation between organizations |
| Reestablishment of Corporate Culture | ➢ Establish corporate culture of 'Passion and Creation of outcome' through proposing and sharing of clear vision<br>➢ Construct win-win relationship between management & employee / Expand way of boosting employee morale and labor welfare system |

## 6. The status of directors and auditors

As of 31 December 2017

| 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 2017

| Name | No. of Shareholding | Ratio(%) | Transaction with Pan Ocean |
|---|---|---|---|
| JEIL HOLDINGS CO., LTD. | 272,000,000 | 50.89% | Not Applicable |
| POSEIDON 2014 LLC | 40,800,000 | 7.63% | Not Applicable |
| National Pension Service | 31,037,307 | 5.81% | Not Applicable |
| KOREA POST SAVINGS | 5,582,771 | 1.04% | Not Applicable |
| ROSTRUM TRADE S.A. | 4,632,381 | 0.87% | Not Applicable |

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

As of 31 Dec. 2017

| 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. | 85,301,423 | 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 |
| 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 |
| Korea P&I Club | Pan Ocean Co., Ltd. | Not issued | 9.1% | P&I Insurance |
| Yegrina Co., Ltd. | Pan Ocean Co., Ltd. | 66,000 | 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 |

※ In liquidation : STX Pan Ocean (Hong Kong) Co., Ltd., Yegrina Co., Ltd

※ Complete liquidation : Sea best maritime Limited, MAF-Mirae asset Agri Energy Fund 4, Gulf Pacific Shipping Ltd.

## 9. The major creditors

As of 31 Dec. 2017

| Name of Creditor | Amount (million won) | No. of shareholding | Ratio(%) | Others |
|---|---|---|---|---|
| POS MARITIME RZ | 70,771 | - | - | - |
| POS MARITIME QZ | 67,093 | - | - | - |
| POS MARITIME PZ | 63,414 | - | - | - |
| POS MARITIME WZ | 49,588 | - | - | - |
| LTSF SPO 1 INC. | 47,012 | - | - | - |
| POS MARITIME UZ | 45,472 | - | - | - |
| POS MARITIME VZ | 45,240 | - | - | - |
| POS MARITIME RB | 39,918 | - | - | - |
| POS MARITIME SB | 39,918 | - | - | - |
| POS MARITIME UB | 34,687 | - | - | - |

※ In case of Foreign debt, it was converted into Korea Won with the exchange rate of KRW 1,071.40 per dollar at 31 Dec. 2017.

## 10. The important issue after the financial year

Pan Ocean Co., Ltd. ("the Company") has newly issued 2,132 shares (Issuing date: 1 January 2018) as paid-in capital increase (Dept into equity conversion) and in accordance, total number of issued stock has increased to 534,539,944 shares.

## 11. IPT

| Name of interested person | Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) | | | | Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000) | | | |
|---|---|---|---|---|---|---|---|---|
| | Twelve months Ended 31 Dec. 2017. | | Twelve months Ended 31 Dec. 2016. | | Twelve months Ended 31 Dec. 2017. | | Twelve months Ended 31 Dec. 2016. | |
| PanOcean(America), Inc. | 24,107 | 5) | - | | 22,725 | 1) | 13,008 | 1) |
| Sunjin Co., Ltd. | - | | - | | 3,428 | 2) | 2,642 | 2) |
| Farmsco | - | | - | | 6,268 | 2) | 6,704 | 2) |
| Jeil Feed Company, Ltd. | - | | 340 | 3) | 7,596 | 2) | 6,344 | 2) |
| Harim Co., Ltd. | - | | - | | 4,401 | 2) | 2,608 | 2) |
| Jeil Holdings Co., Ltd. | - | | 717 | 4) | - | | - | |
| Total | 24,107 | | 1,057 | | 44,419 | | 31,306 | |

1) Sales relating to voyage and Agent commission under shareholders' mandate pursuant to Rule 920

2) The group's effective interest of transaction relating to sales grain to interested person (Sunjin, Farmsco, Jeil Feed Company, Harim)

3) Deposit for lease of a building.

4) The value of the transaction is the interest payable on the bond to Jeil Holdings.
The group issued unsecured private placed bond to Jeil holdings KRW 157,950 million and repaid amounting KRW 117,950 million in 2015. and repaid the reamining balance amount to KRW 40,000 million in 2016.

5) Including provided performance guarantee and paid business commision for FY 2017

# 2017 Financial Statements

## (2017.1.1 ~ 2017.12.31)

PAN OCEAN

## Contents

1. **Pan Ocean Co., Ltd. and subsidiaries Consolidated Statements of Financial Position**

2. **Pan Ocean Co., Ltd. Separate Statements of Financial Position**

## Pan Ocean Co., Ltd. and Subsidiaries
### Consolidated Statements of Financial Position
### December 31, 2017 and 2016

| *(In thousands of US dollars)* | Notes | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 4,5,6,8 | $ 193,810 | $ 202,806 |
| Trade receivables | 4,5,6,7,9 | 94,095 | 77,122 |
| Other receivables | 4,5,6,7,10 | 26,568 | 20,013 |
| Derivative financial assets | 4,5,6,11 | 3,065 | 2,451 |
| Other financial assets | 4,5,6,12 | 33,794 | 6,615 |
| Inventories | 13 | 46,906 | 39,548 |
| Other assets | 14 | 174,102 | 125,855 |
| Assets held for sale | | - | - |
| | | 572,340 | 474,410 |
| **Non-current assets** | | | |
| Trade receivables | 4,5,6,7,9 | - | - |
| Other receivables | 4,5,6,7,10 | 19,118 | 19,580 |
| Other financial assets | 4,5,6,12 | 17,576 | 31,257 |
| Investments in associates and joint ventures | 15 | 2,003 | 1,654 |
| Vessels, property and equipment | 16 | 3,008,788 | 3,043,456 |
| Intangible assets | 17 | 8,975 | 8,493 |
| Deferred tax assets | 23 | 383 | 78 |
| Other assets | 14 | 5,651 | 4,560 |
| | | 3,062,494 | 3,109,078 |
| **Total assets** | | $ 3,634,834 | $ 3,583,488 |
| **Liabilities and Equity** | | | |
| **Current liabilities** | | | |
| Trade payables | 4,5,6 | $ 81,734 | $ 67,364 |
| Borrowings | 4,5,6,18 | 298,359 | 269,307 |
| Derivative financial liabilities | 4,5,6,11 | 468 | 525 |
| Other payables | 4,5,6,19 | 61,404 | 35,176 |
| Provisions | 20 | 2,545 | 572 |
| Income tax liabilities | 23 | 717 | 356 |
| Other liabilities | 21 | 63,873 | 60,217 |
| | | 509,100 | 433,517 |
| **Non-current liabilities** | | | |
| Borrowings | 4,5,6,18 | 842,320 | 988,707 |
| Derivative financial liabilities | 4,5,6,11 | 14 | 90 |
| Provisions | 20 | 29,881 | 31,993 |
| Retirement benefit obligations | 22 | 4,286 | 5,923 |
| Deferred tax liabilities | 23 | 11 | 22 |
| Other payables | 4,5,6,19 | 60 | 60 |
| | | 876,572 | 1,026,795 |
| **Total liabilities** | | 1,385,672 | 1,460,312 |
| **Equity** | | | |
| **Equity attributable to the owners of the Group** | | | |
| Share capital | 24 | 480,727 | 480,598 |
| Capital surplus | 24 | 651,920 | 651,355 |
| Other reserves | 25 | 1,055,891 | 1,056,192 |
| Accumulated deficit | 26 | 41,281 | (85,809) |
| | | 2,229,819 | 2,102,336 |
| **Non-controlling interests** | | 19,343 | 20,840 |
| **Total equity** | | 2,249,162 | 2,123,176 |
| **Total liabilities and equity** | | $ 3,634,834 | $ 3,583,488 |

The above consolidated statements of financial position should be read in conjunction with the accompanying notes.

## Pan Ocean Co., Ltd. and Subsidiaries
### Consolidated Statements of Comprehensive Income
### Years Ended December 31, 2017 and 2016

| *(In thousands of US dollars, except per share amount)* | **Notes** | **2017** | **2016** |
|---|---|---|---|
| **Sales** | 35 | $ 2,065,495 | $ 1,616,997 |
| **Cost of Sales** | 27 | (1,831,946) | (1,423,998) |
| **Gross profit** | | 233,549 | 192,999 |
| Selling and administrative cost | 27 | (61,127) | (48,219) |
| **Operating profit** | 35 | 172,422 | 144,780 |
| Finance income | 28 | 12,626 | 13,419 |
| Finance costs | 28 | (52,601) | (52,008) |
| Other non-operating expenses, net | 29 | (6,098) | (21,776) |
| Share of profit (loss) of associates and joint ventures | | 233 | 352 |
| **Profit before income tax** | | 126,582 | 84,767 |
| Income tax expense | 23 | 1,679 | 1,766 |
| **Profit from continuing operation** | | 124,903 | 83,001 |
| **Loss from discontinuing operation, net of tax** | | - | - |
| **Profit for the period** | | $ 124,903 | $ 83,001 |
| **Other comprehensive income (loss)** | | | |
| **Items that will be subsequently reclassified to profit or loss:** | | | |
| Changes in the fair value of available-for-sale financial assets | | 44 | (981) |
| Changes in the fair value of derivative financial assets | | (538) | 737 |
| Share of other comprehensive income of associates and joint ventures | | 117 | 337 |
| | | (377) | 93 |
| **Items that will not be reclassified to profit or loss:** | | | |
| Remeasurements of defined benefit liability | | 612 | 450 |
| Exchange differences | | 1,165 | 3,140 |
| **Total other comprehensive income for the period, net of tax** | | 1,400 | 3,683 |
| **Total comprehensive income for the period** | | $ 126,303 | $ 86,684 |
| **Profit (loss) attributable to:** | | | |
| Owners of the Group | | 126,478 | 83,682 |
| Non-controlling interests | | (1,575) | (681) |
| | | $ 124,903 | $ 83,001 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Group | | 127,800 | 87,390 |
| Non-controlling interests | | (1,497) | (706) |
| | | $ 126,303 | $ 86,684 |
| **Earnings per share** | 30 | | |
| Basic earnings per share | | $ 0.23 | $ 0.16 |
| Diluted earnings per share | | $ 0.23 | $ 0.16 |
| **Earnings per share - continuing operations** | | | |
| Basic earnings per share | | $ 0.23 | $ 0.16 |
| Diluted earnings per share | | $ 0.23 | $ 0.16 |

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

## Pan Ocean Co., Ltd. and Subsidiaries

**Consolidated Statements of Changes in Equity**

**Years Ended December 31, 2017 and 2016**

| *(In thousands of US dollars)* | Attributable to owners of the Group | | | | | |
|---|---|---|---|---|---|---|
| | **Share capital** | **Capital surplus** | **Other reserves** | **Accumulated deficit** | **Non- controlling interests** | **Total Equity** |
| **Balance at January 1, 2016** | $ 471,717 | $ 627,169 | $ 1,124,116 | $ (169,941) | $ 21,546 | $ 2,074,607 |
| **Total comprehensive income for the period** | | | | | | |
| Profit (loss) for the period | - | - | - | 83,682 | (681) | 83,001 |
| Items that will be subsequently reclassified to profit or loss: | | | | | | |
| Changes in the fair value of available-for-sale financial assets | - | - | (981) | - | - | (981) |
| Changes in the fair value of derivative financial assets and liabilities | - | - | 737 | - | - | 737 |
| Share of other comprehensive income of associates and joint ventures | - | - | 337 | - | - | 337 |
| Items that will not be reclassified to profit or loss: | | | | | | |
| Remeasurements of defined benefit liability | | | | 450 | | 450 |
| Exchange differences | - | - | 3,165 | - | (25) | 3,140 |
| Transactions with owners | | | | | | |
| Changes in equity due to debt-to-equity swap | 8,881 | 24,186 | (71,182) | - | - | (38,115) |
| **Balance at December 31, 2016** | $ 480,598 | $ 651,355 | $ 1,056,192 | $ (85,809) | $ 20,840 | $ 2,123,176 |
| **Balance at January 1, 2017** | $ 480,598 | $ 651,355 | $ 1,056,192 | $ (85,809) | $ 20,840 | $ 2,123,176 |
| **Total comprehensive income for the period** | | | | | | |
| Profit (loss) for the period | - | - | - | 126,478 | (1,575) | 124,903 |
| Items that will be subsequently reclassified to profit or loss: | | | | | | |
| Changes in the fair value of available-for-sale financial assets | - | - | 44 | - | - | 44 |
| Changes in the fair value of derivative financial assets and liabilities | - | - | (538) | - | - | (538) |
| Share of other comprehensive income of associates and joint ventures | - | - | 117 | - | - | 117 |
| Items that will not be reclassified to profit or loss: | | | | | | |
| Remeasurements of defined benefit liability | - | - | - | 612 | - | 612 |
| Exchange differences | - | - | 1,087 | - | 78 | 1,165 |
| Transactions with owners | | | | | | |
| Changes in equity due to debt-to-equity swap | 129 | 565 | (1,011) | - | - | (317) |
| **Balance at December 31, 2017** | $ 480,727 | $ 651,920 | $ 1,055,891 | $ 41,281 | $ 19,343 | $ 2,249,162 |

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

# Pan Ocean Co., Ltd. and Subsidiaries

## Consolidated Statements of Cash Flows

## Years Ended December 31, 2017 and 2016

| *(In thousands of US dollars)* | Notes | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | 33 | | |
| Cash generated from operations | | $ 277,472 | $ 259,268 |
| Interest paid | | (45,330) | (41,464) |
| Income tax paid | | (848) | (978) |
| **Net cash inflow (outflow) from operating activities** | | 231,294 | 216,826 |
| **Cash flows from investing activities** | | | |
| Acquisition of vessels, property and equipment | | (94,142) | (85,702) |
| Proceeds from sale of vessels, property and equipment | | 3 | 20,593 |
| Acquisition of intangible assets | | (1,352) | (1,989) |
| Proceeds from sale of intangible assets | | 523 | - |
| Acquisition of other financial assets | | (29,353) | (43,869) |
| Proceeds from sale of other financial assets | | 16,925 | 23,194 |
| Acquisition of investments in associates and joint ventures | | - | (42) |
| Proceeds from sale of subsidiaries share | | - | 2,694 |
| Dividends received | | 1,035 | 341 |
| Loans provided | | (51) | (5) |
| Loans collected | | 821 | 2,900 |
| Cash flow change due to change in consolidation scope | | - | - |
| Interest received | | 2,003 | 2,058 |
| **Net cash inflow (outflow) from investing activities** | | (103,588) | (79,827) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 136,463 | 143,235 |
| Repayments of borrowings | | (273,522) | (313,906) |
| Repayment of reorganization liabilities | | - | - |
| Issuance of shares | | 1,672 | - |
| Change of non-controlling interests | | - | - |
| **Net cash inflow (outflow) from financing activities** | | (135,387) | (170,671) |
| **Effect of exchange rate changes on cash and cash equivalents** | | (1,315) | (866) |
| **Net increase (decrease) in cash and cash equivalents** | | (7,681) | (33,672) |
| **Cash and cash equivalents at the beginning of year** | | 202,806 | 237,344 |
| **Cash and cash equivalents at the end of year** | | $ 193,810 | $ 202,806 |

The above consolidated statements of cash flow should be read in conjunction with the accompanying notes.

## 1. General Information

### 1.1 Parent Company

Pan Ocean Co., Ltd. (the Company) and its subsidiaries (collectively referred to as “the Group”) operate marine transportation (mainly bulk carrying) and other related services. The Company was established in Republic of Korea in May 1966. The Company listed its ordinary shares 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 at December 31, 2017, is US$ 480,727 thousand and the number of shares issued is 534,537,812. As at December 31, 2017, the detail of the shareholders structure is as follows:

| | Number of shares | Percentage of ownership (%) |
|---|---:|---:|
| Jeil Holdings Co., Ltd. | 272,000,000 | 50.89% |
| Poseidon 2014 LLC. | 40,800,000 | 7.63% |
| Other shareholders | 221,737,812 | 41.48% |
| | 534,537,812 | 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 financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in 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 has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017. The adoption of these amendments did not have any material impact on the financial statements.

- Amendments to Korean IFRS 1007 *Statement of Cash Flows*

Amendments to Korean IFRS 1007 *Statement of Cash flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows (Note XX).

- Amendments to Korean IFRS 1012 *Income Tax*

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

- Amendments to Korean IFRS 1112 *Disclosures of Interests in Other Entities*

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

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

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2017 and have not been early adopted by the Group are set out below.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or it held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109. The amendments clarify that an entity shall make this election separately for each associate of joint venture, at initial recognition of the associate or joint venture. The Group will apply these amendments retrospectively for annual periods beginning on or after January 1, 2018, and early adoption is permitted. The Group does not expect the amendments to have a significant impact on the financial statements.

- Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the financial statements.

- Enactments to Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. These enactments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the enactments to have a significant impact on the financial statements.

- Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Group will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 *Financial Instruments* requires three main areas including: (a) classification and measurement of financial assets on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets, (b) a new impairment model of financial instruments based on the expected credit losses, and (c) hedge accounting including expansion of the range of eligible hedging instruments and hedged items that qualify for hedge accounting or change of a method of hedge effectiveness assessment.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Group's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Group and macroeconomic variables.

The Group does not performed an impact assessment to identify potential financial effects of applying Korean IFRS 1109 and does not analyze an impact on the financial statements.

The general effects of applying Korean IFRS 1109 are explained as below.

*(a) Classification and Measurement of Financial Assets*

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Group's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

| ***Business model for the contractual cash flows characteristics*** | **Solely represent payments of principal and interest** | **All other** |
|---|---|---|
| *Hold the financial asset for the collection of the contractual cash flows* | Measured at amortized cost[1] | Recognized at fair value through profit or loss[2] |
| *Hold the financial asset for the collection of the contractual cash flows and sale* | Recognized at fair value through other comprehensive income [1] | |
| *Hold for sale* | Recognized at fair value through profit or loss | |

[1] A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

[2] Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

*(b) Classification and Measurement of Financial Liabilities*

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss.

*(c) Impairment: Financial Assets and Contract Assets*

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under Korean IFRS 1039. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Group will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

| Stage[1] | | Loss allowance |
|---|---|---|
| 1 | No significant increase in credit risk after initial recognition[2] | 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) |
| 2 | Significant increase in credit risk after initial recognition | Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument) |
| 3 | Credit-impaired | |

[1] A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to Korean IFRS 1115 *Revenue from Contracts with Customers*, considered to contain a significant financing component. Additionally, the Group can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

[2] If the financial instrument has low credit risk at the end of the reporting period, the Group may assume that the credit risk has not increased significantly since initial recognition.

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

*(d) Hedge Accounting*

Hedge accounting mechanics (fair value hedges, cash flow hedges and hedge of net investments in a foreign operations) required by Korean IFRS 1039 remains unchanged in Korean IFRS 1109, however, the new hedge accounting rules will align the accounting for hedging instruments more closely with the Group’s risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Korean IFRS 1109 allows more hedging instruments and hedged items to qualify for hedge accounting, and relaxes the hedge accounting requirement by removing two hedge effectiveness tests that are a prospective test to ensure that the hedging relationship is expected to be highly effective and a quantitative retrospective test (within range of 80-125%) to ensure that the hedging relationship has been highly effective throughout the reporting period.

With implementation of Korean IFRS 1109, volatility in profit or loss may be reduced as some items that were not eligible as hedged items or hedging instruments under Korean IFRS 1039 are now eligible under Korean IFRS 1109.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group will apply Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018. Earlier adoption is permitted under Korean IFRS. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers.*

Korean IFRS 1018 and other current revenue standard identify revenue as income that arises in the course of ordinary activities of an entity and provides guidance on a variety of different types of revenue, such as, sale of goods, rendering of services, interest, dividends, royalties and construction contracts. However, the new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customers can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

The Group plans to perform an impact assessment to identify potential financial effects on the financial statements of applying Korean IFRS 1115.

### 2.3 Consolidation

*(a) Subsidiaries*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest’s proportionate share of the acquired entity’s net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recoded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

*(b) Associates*

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is an objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss.

*(c) Joint arrangements*

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statement of financial position.

### 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 US dollar, which is the Parent Company's functional currency.

*(b) Transactions and balances*

The assets and liabilities of the Group of entities, whose functional currency is not the currency of a hyper-inflationary economy, presented in the statement of financial position (also the comparative statement) are translated at the closing rate at the end of the reporting period. The income and expenses for each statement of profit or loss (also the comparative statement) are translated using the exchange rates at the dates of the transactions, and all resulting exchange differences are recognized in other comprehensive income.

### 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.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. And, loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss within other income or other expenses. Gains or losses arising from changes in the available-for-sale financial assets are recognized in other comprehensive income, and amounts are reclassified to profit or loss when the associated assets are sold or impaired.

*(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 Group considers that there is objective evidence of impairment if significant financial difficulties of the debtor, or delinquency in interest or principal payments is indicated. Moreover, in the case of equity investments classified as available-for-sale, a significant decline in the fair value of the security below its cost or prolonged decline is also considered as 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 and other liabilities’ in the statement of financial position.

*(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 and 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 profit or loss within 'other non-operating income (expenses)' or 'finance income (costs)' according to the nature of transactions.

**2.7 Inventories**

Inventories mainly comprise fuel and spare parts. The quantity of inventories is counted at the end of every reporting period. The cost of inventories is based on the gross 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 amount 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 cost of sales 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 book 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 lives(Years) |
|---|---|
| Buildings and structures | 50 |
| Vessels | 17 ~ 25 |
| Vehicles | 5 |
| Others | 2.5 ~ 10 |

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

General and specific borrowing costs that are directly attributable to the acquisition, construction of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

### 2.11 Intangible Assets

Intangible assets are initially recognized at its historical cost, and carried at cost less accumulated amortization and accumulated impairment losses.

Software development costs that are directly attributable to internally generated by the Group are recognized when the criteria; such as, technically feasible, generate probable future economic benefits and other, are met. Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

| | Useful lives(Years) |
|---|---|
| Computer software development costs, etc. | 5 |

### 2.12 Impairment of Non-financial Assets

Goodwill or intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. 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*

The Group's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not a designated as hedging instruments and an embedded derivative that is separated are also classified 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 nor 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

According to the payment provision of the employees and directors' severance benefit, employees and directors are entitled to receive a lump-sum payment upon termination of their employment with the Group based on their length of service and rate of pay at the time of termination. The Group operates defined benefit plans for employees who works at sea and operates defined contribution plans for employees work at ground. In addition, the Group contributes a certain portion of severance benefits to the National Pension Service according to the National Pension Law.

*(a) Short-term employee benefits*
Liabilities for wages and salaries that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at undiscounted amount.

*(b) Post-employment benefits*
The Group operates both defined contribution and defined benefit pension plans.
A defined contribution plan is in which the Group pays a fixed amount of contributions to a separate fund and the contributions are recognized as an expense when employees has rendered services during the period.

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

**2.17 Revenue Recognition**

The Group recognizes revenue from time charters and voyage charters which consist of contracts of affreightment and freight contracts offered on the spot market. The terms of time charters are specific and there are no estimations involved in the revenue recognition. Under a voyage charter, the Group agrees to provide a vessel for the transport of specific goods between specific ports in return for the payment of an agreed upon freight per ton of cargo or, alternatively, for a specified total amount. Revenue from voyage charter is recognized on a percentage of completion method by measuring the revenues and associated voyage costs; such as, fuel and port charges, over the estimated duration of the voyage.

The management uses judgments to estimate the total number of days of a voyage of a vessel to compute the amount of revenue and expense to recognize for the voyage in progress at the end of each quarter using the percentage of completion method on a discharge-to-discharge basis. The management uses assumptions to estimate operating capability (speed and fuel consumption), voyage route and port based on historical data.

### 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 in which a significant portion of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases are charge to profit or loss on a straight-line basis over the period of lease.

Leases where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables.

### 2.19 Debt-to-equity Swap and Debt Restructuring

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

### 2.20 Operating Segments

Information of each operating segment is reported in a manner consistent with the internal business segment reporting provided to the chief operating decision-maker (Note 35). The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The Group has four operating segments consist of bulk carrier service, container service, tanker service and other shipping services as described in note 35. Each operating segment is a strategic business unit. The strategic business units offer different shipping services, and are managed separately because they require different technology and marketing strategies.

Operating segments reported to the Group's chief operating decision maker include items direct 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.

## 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) Revenue recognition*

The Group recognizes revenue in relation to the provision of marine transportation services on a progress basis. On the other hand, when applying the progress criteria, a procedure is required to estimate the number of days that have elapsed to date in proportion to the total number of days scheduled for operation provided by the Group.

*(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 23).

*(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 22).

## Pan Ocean Co., Ltd.
### Separate Statements of Financial Position
### December 31, 2017 and 2016

| *(in thousands of US dollars)* | Notes | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 4,5,6,8 | $ 138,390 | $ 160,991 |
| Trade receivables | 4,5,6,7,9 | 65,257 | 66,841 |
| Other receivables | 4,5,6,10 | 24,125 | 18,708 |
| Derivative financial assets | 4,5,6,11 | 2,772 | 1,649 |
| Other financial assets | 4,5,6,12 | 29,894 | 3,000 |
| Inventories | 13 | 46,906 | 39,548 |
| Other assets | 14 | 172,923 | 123,137 |
| Assets held for sale | | - | - |
| | | 480,267 | 413,874 |
| **Non-current assets** | | | |
| Trade receivables | 4,5,6,7,9 | - | - |
| Other receivables | 4,5,6,7,10 | 17,114 | 16,863 |
| Other financial assets | 4,5,6,12 | 17,576 | 27,979 |
| Investments in subsidiaries | 15 | 47,493 | 50,655 |
| Investments in associates and joint ventures | 15 | 1,252 | 1,252 |
| Vessels, property and equipment | 16 | 2,993,329 | 3,005,646 |
| Intangible assets | 17 | 4,449 | 3,916 |
| Other assets | 14 | 4,841 | 4,525 |
| | | 3,086,054 | 3,110,836 |
| **Total assets** | | $ 3,566,321 | $ 3,524,710 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade payables | 4,5,6 | $ 68,524 | $ 63,857 |
| Borrowings | 4,5,6,18 | 298,359 | 264,259 |
| Derivative financial liabilities | 4,5,6,11 | 132 | 21 |
| Other payables | 4,5,6,19 | 43,351 | 33,199 |
| Provisions | 20 | 2,545 | 3,008 |
| Other liabilities | 21 | 63,064 | 55,045 |
| | | 475,975 | 419,389 |
| **Non-current liabilities** | | | |
| Borrowings | 4,5,6,18 | 842,320 | 982,009 |
| Derivative financial liabilities | 4,5,6,11 | 14 | 90 |
| Provisions | 20 | 28,727 | 31,557 |
| Retirement benefit obligations | 22 | 4,225 | 5,826 |
| | | 875,286 | 1,019,482 |
| **Total liabilities** | | 4,225 | 1,438,871 |
| **Equity** | | | |
| Share capital | 24 | 480,727 | 480,598 |
| Capital surplus | 24 | 651,366 | 650,802 |
| Other reserves | 25 | 1,068,157 | 1,069,049 |
| Accumulated deficit | 26 | 14,810 | (114,610) |
| **Total equity** | | 2,215,060 | 2,085,839 |
| **Total liabilities and equity** | | $ 3,566,321 | $ 3,524,710 |

The above separate statements of financial position should be read in conjunction with the accompanying notes.

## Pan Ocean Co., Ltd.
### Separate Statements of Comprehensive Income
### Years Ended December 31, 2017 and 2016

| *(in thousands of US dollars, except per share data)* | Notes | 2017 | 2016 |
|---|---|---|---|
| **Sales** | 35 | $ 1,779,726 | $ 1,385,976 |
| **Cost of sales** | 27 | (1,570,085) | (1,215,704) |
| **Gross profit** | | 209,641 | 170,272 |
| Selling and administrative expenses | 27 | (31,338) | (32,699) |
| **Operating profit** | | 178,303 | 137,573 |
| Finance income | 28 | 11,045 | 13,793 |
| Finance costs | 28 | (50,300) | (51,066) |
| Other non-operating expenses, net | 29 | (9,693) | (21,752) |
| **Profit before income tax** | | 129,355 | 78,548 |
| Income tax expense | 23 | 528 | 421 |
| **Profit for the period** | | $ 128,827 | $ 78,127 |
| | | | |
| **Other comprehensive income** | | | |
| **Items that will be subsequently reclassified to profit or loss:** | | | |
| Changes in the fair value of available-for-sale financial assets, net of tax | | 44 | (981) |
| Changes in the fair value of derivative financial assets and liabilities, net of tax | | 75 | (40) |
| **Items that will not be reclassified to profit or loss:** | | | |
| Remeasurements of defined benefit liability | | 593 | 450 |
| | | 712 | (571) |
| **Total comprehensive income for the year** | | $ 129,539 | $ 77,556 |
| | | | |
| **Earnings per share** | 30 | | |
| Basic earnings per share | | $ 0.24 | $ 0.15 |
| Diluted earnings per share | | 0.24 | 0.15 |

The above separate statements of financial position should be read in conjunction with the accompanying notes.

# Pan Ocean Co., Ltd.
## Separate Statements of Changes in Equity
## Years Ended December 31, 2017 and 2016

| *(in thousands of US dollars)* | Share capital | Capital surplus | Other reserves | Accumulated deficit | Total Equity |
|---|---|---|---|---|---|
| **Balance at January 1, 2016** | $ 471,717 | $ 626,615 | $ 1,141,252 | $ (193,187) | $ 2,046,397 |
| **Total comprehensive income for the year** | | | | | |
| Profit for the period | - | - | - | 78,127 | 78,127 |
| Items that will be subsequently reclassified to profit or loss: | | | | | |
| Change in the fair value of available-for-sale financial assets | - | - | (981) | - | (981) |
| Change in the fair value of derivative financial assets and liabilities | - | - | (40) | - | (40) |
| Items that will not be reclassified to profit or loss: | | | | | |
| Remeasurements of defined benefit liability | - | - | - | 450 | 450 |
| Transactions with owners | | | | | |
| Changes in equity due to debt-to-equity swap | 8,881 | 24,187 | (71,182) | - | (38,114) |
| **Balance at December 31, 2016** | $ 480,598 | $ 650,802 | $ 1,069,049 | $ (114,610) | $ 2,085,839 |
| **Balance at January 1, 2017** | $ 480,598 | $ 650,802 | $ 1,069,049 | $ (114,610) | $ 2,085,839 |
| **Total comprehensive income for the year** | | | | | |
| Profit for the period | - | - | - | 128,827 | 128,827 |
| Items that will be subsequently reclassified to profit or loss: | | | | | |
| Change in the fair value of available-for-sale financial assets | - | - | 44 | - | 44 |
| Change in the fair value of derivative financial assets and liabilities | - | - | 75 | - | 75 |
| Items that will not be reclassified to profit or loss: | | | | | |
| Remeasurements of defined benefit liability | - | - | - | 593 | 593 |
| Transactions with owners | | | | | |
| Changes in equity due to debt-to-equity swap | 129 | 564 | (1,011) | - | (318) |
| **Balance at December 31, 2017** | $ 480,727 | $ 651,366 | $ 1,068,157 | $ 14,810 | $ 2,215,060 |

The above separate statements of changes in equity should be read in conjunction with the accompanying notes.

**Pan Ocean Co., Ltd.**

**Separate Statements of Cash Flows**

**Years Ended December 31, 2017 and 2016**

| *(in thousands of US dollars)* | Notes | | 2017 | | 2016 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from operating activities | 33 | $ | 262,607 | $ | 249,231 |
| Interest paid | | | (44,994) | | (41,199) |
| Income tax refund(paid) | | | 43 | | 62 |
| **Net cash inflow from operating activities** | | | 217,656 | | 208,094 |
| **Cash flows from investing activities** | | | | | |
| Acquisition of vessels, property and equipment | | | (93,640) | | (85,365) |
| Proceeds from sale of vessels, property and equipment | | | 3 | | 20,584 |
| Acquisition of intangible assets | | | (940) | | - |
| Proceeds from sale of intangible assets | | | 488 | | - |
| Acquisition of other financial assets | | | (29,089) | | (36,844) |
| Proceeds from sale of other financial assets | | | 13,620 | | 23,192 |
| Acquisition of investments in subsidiaries | | | - | | (1,672) |
| Proceeds from sale of investments in subsidiaries | | | - | | 2,649 |
| Acquisition of investments in associates and joint ventures | | | - | | (42) |
| Proceeds from sale of investments in associates and joint ventures | | | - | | - |
| Dividends received | | | 1,035 | | 2,776 |
| Loans provided | | | (32) | | (5) |
| Loans collected | | | 817 | | 2,896 |
| Interest received | | | 1,449 | | 1,220 |
| **Net cash outflow from investing activities** | | | (106,289) | | (70,611) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | | 136,463 | | 143,235 |
| Repayments of borrowings | | | (270,267) | | (310,160) |
| Repayment of reorganization liabilities | | | - | | - |
| Proceeds from capital increase | | | - | | - |
| **Net cash outflow from financing activities** | | | (133,804) | | (166,925) |
| **Net decrease in cash and cash equivalents** | | | (22,437) | | (29,442) |
| **Cash and cash equivalents at the beginning of the year** | | | 160,991 | | 190,619 |
| Effect of exchange rate changes on cash and cash equivalents | | | (164) | | (186) |
| **Cash and cash equivalents at the end of the year** | | $ | 138,390 | $ | 160,991 |

The above separate statements of cash flows should be read in conjunction with the accompanying notes.

## 1. General Information

### 1.1 The Company

Pan Ocean Co., Ltd. (the Company) operates marine transportation (mainly bulk carrying) and other related services. The Company was established in Republic of Korea in May 1966. The Company listed its ordinary shares 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 at December 31, 2017, is US$ 480,727 thousand and the number of shares issued is 534,537,812. As at December 31, 2017, the detail of the shareholders structure is as follows:

| | Number of shares | Percentage of ownership (%) |
|---|---|---|
| Jeil Holdings Co., Ltd. | 272,000,000 | 50.89% |
| Poseidon 2014 LLC. | 40,800,000 | 7.63% |
| Other shareholders | 221,737,812 | 41.48% |
| | 534,537,812 | 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 financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in 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 has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017. The adoption of these amendments did not have any material impact on the financial statements.

- Amendments to Korean IFRS 1007 *Statement of Cash Flows*

Amendments to Korean IFRS 1007 *Statement of Cash flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows (Note XX).

- Amendments to Korean IFRS 1012 *Income Tax*

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

- Amendments to Korean IFRS 1112 *Disclosures of Interests in Other Entities*

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

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

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2017 and have not been early adopted by the Company are set out below.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*
When an investment in an associate or a joint venture is held by, or it held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109. The amendments clarify

that an entity shall make this election separately for each associate of joint venture, at initial recognition of the associate or joint venture. The Company will apply these amendments retrospectively for annual periods beginning on or after January 1, 2018, and early adoption is permitted. The Company does not expect the amendments to have a significant impact on the financial statement.

- Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the financial statements.

- Enactments to Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. These enactments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the enactments to have a significant impact on the financial statements.

- Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Company will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 *Financial Instruments* requires three main areas including: (a) classification and measurement of financial assets on the basis of the entity’s business model for managing financial assets and the contractual cash flow characteristics of the financial assets, (b) a new impairment model of financial instruments based on the expected credit losses, and (c) hedge accounting including expansion of the range of eligible hedging instruments and hedged items that qualify for hedge accounting or change of a method of hedge effectiveness assessment.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Company's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Company and macroeconomic variables.

The Company does not performed an impact assessment to identify potential financial effects of applying Korean IFRS 1109 and does not analyze an impact on the financial statements.

The general effects of applying Korean IFRS 1109 are explained as below.

*(a) Classification and Measurement of Financial Assets*

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Company's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

| ***Business model for the contractual cash flows characteristics*** | **Solely represent payments of principal and interest** | **All other** |
|---|---|---|
| *Hold the financial asset for the collection of the contractual cash flows* | Measured at amortized cost[1] | Recognized at fair value through profit or loss[2] |
| *Hold the financial asset for the collection of the contractual cash flows and sale* | Recognized at fair value through other comprehensive income [1] | |
| *Hold for sale* | Recognized at fair value through profit or loss | |

[1] A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

[2] Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

*(b) Classification and Measurement of Financial Liabilities*

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss.

*(c) Impairment: Financial Assets and Contract Assets*

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under Korean IFRS 1039. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Company will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

| **Stage**[1] | | **Loss allowance** |
|---|---|---|
| 1 | No significant increase in credit risk after initial recognition[2] | 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) |
| 2 | Significant increase in credit risk after initial recognition | Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument) |
| 3 | Credit-impaired | |

[1] A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to Korean IFRS 1115 *Revenue from Contracts with Customers*, considered to contain a significant financing component. Additionally, the Company can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

[2] If the financial instrument has low credit risk at the end of the reporting period, the Company may assume that the credit risk has not increased significantly since initial recognition.

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

*(d) Hedge Accounting*

Hedge accounting mechanics (fair value hedges, cash flow hedges and hedge of net investments in a foreign operations) required by Korean IFRS 1039 remains unchanged in Korean IFRS 1109, however, the new hedge accounting rules will align the accounting for hedging instruments more closely with the Company's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Korean IFRS 1109 allows more hedging instruments and hedged items to qualify for hedge accounting, and relaxes the hedge accounting requirement by removing two hedge effectiveness tests that are a prospective test to ensure that the hedging relationship is expected to be highly effective and a quantitative retrospective test (within range of 80-125%) to ensure that the hedging relationship has been highly effective throughout the reporting period.

With implementation of Korean IFRS 1109, volatility in profit or loss may be reduced as some items that were not eligible as hedged items or hedging instruments under Korean IFRS 1039 are now eligible under Korean IFRS 1109.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Company will apply Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018. Earlier adoption is permitted under Korean IFRS. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers.*

Korean IFRS 1018 and other current revenue standard identify revenue as income that arises in the course of ordinary activities of an entity and provides guidance on a variety of different types of revenue, such as, sale of goods, rendering of services, interest, dividends, royalties and construction contracts. However, the new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customers can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

The Company plans to perform an impact assessment to identify potential financial effects on the financial statements of applying Korean IFRS 1115.

### 2.3 Subsidiaries and Shares in Investees accounted for using Equity Method

These separate financial statements are prepared and presented in accordance with Korean IFRS 1027 *Separate Financial Statements*. The Company applied the cost method to investments in subsidiaries and associates in accordance with Korean IFRS 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 US dollar, which is the Parent Company’s functional currency.

*(b) Transactions and balances*

If the functional currency is not the currency of a hyper inflationary economy, the assets and liabilities presented in the statement of financial position (also the comparative statement) are translated at the closing rate at the end of the reporting period. The income and expenses for each statement of profit or loss (also the comparative statement) are translated using the exchange rates at the dates of the transactions, and all resulting exchange differences are recognized in other comprehensive income.

### 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.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. And, loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss within other income or other expenses. Gains or losses arising from changes in the available-for-sale financial assets are recognized in other comprehensive income, and amounts are reclassified to profit or loss when the associated assets are sold or impaired.

*(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 Company considers that there is objective evidence of impairment if significant financial difficulties of the debtor, or delinquency in interest or principal payments is indicated. Moreover, in the case of equity investments classified as available-for-sale, a significant decline in the fair value of the security below its cost or prolonged decline is also considered as 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 and other liabilities’ in the statement of financial position.

*(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 and 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 profit or loss within 'other non-operating income (expenses)' or 'finance income (costs)' according to the nature of transactions.

### 2.7 Inventories

Inventories mainly comprise fuel and spare parts. The quantity of inventories is counted at the end of every reporting period. The cost of inventories is based on the gross 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 amount 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 cost of sales 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 lives(Years) |
|---|---|
| Buildings and structures | 50 |
| Vessels | 17 ~ 25 |
| Vehicles | 5 |
| Others | 2.5 ~ 10 |

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

General and specific borrowing costs that are directly attributable to the acquisition, construction of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

### 2.11 Intangible Assets

Intangible assets are initially recognized at its historical cost, and carried at cost less accumulated amortization and accumulated impairment losses.
Software development costs that are directly attributable to internally generated by the Company are recognized when the criteria; such as, technically feasible, generate probable future economic benefits and other, are met. Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Company amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

| | Useful lives(Years) |
|---|---|
| Computer software development costs, etc. | 5 |

### 2.12 Impairment of Non-financial Assets

Goodwill or intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. 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*

The Company's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not a designated as hedging instruments and an embedded derivative that is separated are also classified 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 Company 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 separate 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 nor 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 Company 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 Company 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 Company 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**

According to the payment provision of the employees and directors' severance benefit, employees and directors are entitled to receive a lump-sum payment upon termination of their employment with the Company based on their length of service and rate of pay at the time of termination. The Company operates defined benefit plans for employees who works at sea and operates defined contribution plans for employees work at ground. In addition, the Company contributes a certain portion of severance benefits to the National Pension Service according to the National Pension Law.

(*a) Short-term employee benefits*

Liabilities for wages and salaries that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at undiscounted amount.

*(b) Post-employment benefits*

The Company operates both defined contribution and defined benefit pension plans.
A defined contribution plan is in which the Company pays a fixed amount of contributions to a separate fund and the contributions are recognized as an expense when employees has rendered services during the period.

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee’s age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

**2.17 Revenue Recognition**

The Company recognizes revenue from time charters and voyage charters which consist of contracts of affreightment and freight contracts offered on the spot market. The terms of time charters are specific and there are no estimations involved in the revenue recognition. Under a voyage charter, the Company agrees to provide a vessel for the transport of specific goods between specific ports in return for the payment of an agreed upon freight per ton of cargo or, alternatively, for a specified total amount. Revenue from voyage charter is recognized on a percentage of completion method by measuring the revenues and associated voyage costs; such as, fuel and port charges, over the estimated duration of the voyage.

The management uses judgments to estimate the total number of days of a voyage of a vessel to compute the amount of revenue and expense to recognize for the voyage in progress at the end of each quarter using the percentage of completion method on a discharge-to-discharge basis. The management uses assumptions to estimate operating capability (speed and fuel consumption), voyage route and port based on historical data.

**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 in which a significant portion of the risks and rewards of ownership are not transferred to the Company are classified as operating leases. Payments made under operating leases are charge to profit or loss on a straight-line basis over the period of lease.

Leases where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease’s inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables.

### 2.19 Debt-to-equity Swap and Debt Restructuring

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

### 2.20 Operating Segments

Information of each operating segment is reported in a manner consistent with the internal business segment reporting provided to the chief operating decision-maker(Note 35). The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The Company has four operating segments consist of bulk carrier service, container service, tanker service and other shipping services as described in note 35. Each operating segment is a strategic business unit. The strategic business units offer different shipping services, and are managed separately because they require different technology and marketing strategies.

Operating segments reported to the Company’s chief operating decision maker include items direct 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.

## 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) Revenue recognition*

The Company recognizes revenue in relation to the provision of marine transportation services on a progress basis. On the other hand, when applying the progress criteria, a procedure is required to estimate the number of days that have elapsed to date in proportion to the total number of days scheduled for operation provided by the Company.

*(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 23).

*(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 22)