The 53rd Annual Report

(2018.1.1 ~ 2018.12.31)

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

<table>
<tr><th colspan="2">Business Divisions</th><th>Major Cargoes</th><th>Areas Of Operation</th></tr>
<tr><td rowspan="3">Dry Bulk Business</td><td>Breakbulk Liner Business</td><td>Steel Product, Wooden Product, Coal</td><td>North America, South America, Europe, Middle East, East/Southwest Asia And Far East Russia</td></tr>
<tr><td>Tramper Business</td><td>Grain, Lumber, Fertilizer, Coal, Mineral, Raw Sugar, Wood Pulp</td><td>All Routes</td></tr>
<tr><td>Large Bulker Business</td><td>Iron Ore, Coal, Grain</td><td>U.S., Australia, South America, Asia, Middle East, Africa, Europe</td></tr>
<tr><td rowspan="3">Specialized Vessel Business</td><td>Tanker Business</td><td>Petroleum Product(CPP, DPP), Chemical Products, Oils & Fats</td><td>Asia, Pacific / Indian Ocean</td></tr>
<tr><td>LNG Carrier Business</td><td>LNG</td><td>Australia, Korea</td></tr>
<tr><td>Heavy Lift Business</td><td>Machinery / Equipment, Tug Boat, Offshore Plant, Module</td><td>All Routes</td></tr>
<tr><td colspan="2">Container Business</td><td>Container Cargo</td><td>Korea, China, Japan, Southeast Asia</td></tr>
</table>

[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, 2018) (Unit: Persons)

Employees				Total
At Office	On-board		Sub Total	
	Korean Crews	Foreign Crews		
369	710	1,033	1,743	2,112

[5] Issued Shares

1) Types & No. of issued shares

Type of shares	No. of issued shares	Amount(KRW)	Proportion	Remarks
Common Shares	534,569,207	534,569,207,000	100%	Registered

2) Change in capital

(Unit : shares, KRW '000)

Date	Type	Change in No. shares	Change in amount(₩)	Capital after change	Remarks
2005.07.14	Common Shares	200,000,000	20,000,000	171,548,205	Listing in SGX
2007.09.21	Common Shares	343,096,410	34,309,641	205,857,846	Listing in KRX
2008.12.12	Common Shares	-1,852,720,614	-	205,857,846	Share consolidation
2012.04.30	Common Shares	571	571	205,858,417	Bonds with Warrants
2013.11.29	Common Shares	-113,571,107	-113,571,107	92,287,310	Capital reduction
2013.12.13	Common Shares	1,116,879,112	1,116,879,112	1,209,166,422	Debt-for-equity swap
2013.12.27	Common Shares	-1,088,278,881	-1,088,278,881	120,887,541	Capital reduction
2014.04.01	Common Shares	28,384,096	28,384,096	149,271,637	Debt-for-equity swap
2014.07.01	Common Shares	14,142,399	14,142,399	163,414,036	Debt-for-equity swap
2014.10.01	Common Shares	51,124,464	51,124,464	214,538,500	Debt-for-equity swap

Date	Type	Change in No. shares	Change in amount(₩)	Capital after change	Remarks
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
2018.01.01	Common Shares	2,132	2,132	534,539,944	Debt-for-equity swap
2018.04.01	Common Shares	5,470	5,470	534,545,414	Debt-for-equity swap
2018.07.01	Common Shares	3,287	3,287	534,548,701	Debt-for-equity swap
2018.10.01	Common Shares	20,506	20,506	534,569,207	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 From January 1st to January 15th of every year. ② If necessary for convening an extraordinary general meeting of shareholders or for other purposes, the Company may by a resolution of Board of Directors suspend the entry in the Register of Shareholders of any alterations.
Method of public notices	Internet homepage (http://www.panocean.com)
Type of share certificate	Share certificates(8 types) for 1 / 5 / 10 / 50 / 100 / 500 / 1,000 / 10,000
Share registrar and share transfer agent	(Korea) Korea Securities Depository (Singapore) Boardroom Corporate & Advisory Service Pte. Ltd.(Singapore)
Venue for dealing with share affairs	(Korea) 23 4gil Yeouinaru-ro, Yeongdeungpo-gu Seoul, Korea (Singapore) 50 Raffles Place, Singapore Land Tower #32-01, Sinagpore

[6] Corporate Bonds

(Unit : KRW mil.)

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%	14,903[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.	-
The 19th Unsecured private placement bond	2018.06.22.	20,000	3.80%	20,000	2020.06.22.	-
Guaranteed Floating Rate Notes (Series A)	2018.10.12.	5,713[3)]	LIBOR(3M)+0.85%	5,713[3)]	2020.04.12.	Shinhan Bank
Guaranteed Floating Rate Notes (Series B)	2018.10.12.	5,713[3)]	LIBOR(3M)+0.90%	5,713[3)]	2020.10.12.	Shinhan Bank
Guaranteed Floating Rate Notes (Series C)	2018.10.12.	5,713[3)]	LIBOR(3M)+0.95%	5,713[3)]	2021.04.12.	Shinhan Bank
Guaranteed Floating Rate Notes (Series D)	2018.10.12.	5,713[3)]	LIBOR(3M)+1.00%	5,713[3)]	2021.10.12.	Shinhan Bank

1) The KRW amount that USD 50.0 mil. was converted into at the exchange rate of 1,192.20 won per USD on the issuance date.

2) The KRW amount that USD 12.5 mil. was converted into at the exchange rate of 1,192.20 won per USD on the issuance date.

3) The KRW amount that USD 5.0 mil. was converted into at the exchange rate of 1,142.50 won per USD on the 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.

In 2018, the dry bulk market maintained its overall upward trend because of improved global economy, but the upturn was limited because of deepening trade conflict between US and China and its negative effects in the latter part of the year. Accordingly, the growth rate of demand for commodities was slightly lower than that of 2017. Meanwhile, the newbuilding deliveries decreased compare to the same period of previous year, and the scrapping volume also decreased because of the overall market improvement. The fleet supply growth remained at the same level as in 2017. The average Baltic Dry Index (BDI) was 1,353 points for the year, which rose from 1,145 points in 2017. The BDI was 948 at the lowest points early in the second quarter and touched its highest level at 1,774 points in the third quarter.

As for the demand, due to rising demand in the Asian emerging markets, the total trade volume remained at 1,470 million tons despite China's iron ore imports decreased for the first time since 2011 that is caused by increasing use of steel scrap. The seaborne coal trade volume increased by 3.3% to 1,240 million tons. The coal trade increased as Asian emerging economies' coal-fired power generation and steel production increased. And oil prices continued to rise until the third quarter, which also affected coal demand growth. On the other hand, as grain trade volume was limited because of the impact of US-China trade tensions, the total dry bulk cargo trade volume in 2018 increased by 2.3% to 5,206 million tons.

On the supply side, the newbuilding deliveries of dry bulk vessels in 2018 are 28.5 million DWT, down 26% from the previous year (38.4 million DWT). That is mainly due to the decrease in new newbuilding orders affected by bear market in 2016. The scrapping volume of the bulkers is 4.2 million DWT, 71% decreased from the previous year (14.7 million DWT), as the market returned to healthy level. The fleet supply growth is 3.0%, which is same as in 2017.

Global GDP growth is projected to 3.5% in 2019 from 3.75% in 2018 by the Organization for Economic Cooperation and Development (OECD) because of decline in both major and emerging economies' growth. China's demand for commodities is expected to slow down because of weakening growth engine and trade disputes. However, Asian emerging economies are expected to maintain high growth, and overall demand for commodities is expected to continue to increase. In 2019, even though newbuilding deliveries are expected to be more than 40 million DWT that is caused by the increase in new building orders after 2017, the dry bulk market in 2019 is expected to be improved thanks to the positive impact from IMO 2020 which will cause ship owners to send their old vessels to scrap yards and will push more vessels to go into repair yards for retrofitting.

[2] Financial Results by operating segments

(Unit : KRW mil.)

Segment	Sales			Note
	53rd	52nd	51st	
Shipping related	2,352,568	2,033,539	1,638,768	-
Others	315,785	302,701	235,218	Grain trading business, etc.
Total	2,668,353	2,336,240	1,873,986	-

* 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 DWT	5	2019~2020	Bulker
325,000 DWT	6	2019~2021	Bulker
63,500 DWT	3	2020	Bulker
37,500 DWT	2	2020	Bulker
1800 TEU	2	2019~2020	Container

2) Business Overview

(Unit : KRW mil.)

Type of Funding	**Amount**	**Purpose**	**Remarks**
Ship Financing (3 Vessels)	4,903	Shipbuilding	In case of Foreign debt, it was converted into Korea Won with the exchange rate of KRW 1,118.10 per dollar at 31 Dec. 2018

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

[1] The status of Parent company

As of 31 December 2018

Name of Parent company	Harim Holdings		
Address	228, Gobong-ro, Iksan-si, Jeollabuk-do, Korea		
Share Capital	KRW 9,358,419,800	Major Business	Business consulting of subsidiary
Shareholding	292,400,000 shares	Shareholding Ratio	54.70%
Major trading with Parent Company	-		

[2] The status of subsidiary

As of 31 December 2018

Status of Subsidiary				Relation with Pan Ocean		
Name	Address	Share Capital	Business	No of shareholding	Ratio	Business
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 Transpo rtation	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 Transpo rtation	70,600	100%	Supporting sales and operation in Japan
Pan Ocean Singapore Bulk Carrier Pte. Ltd.	20 Anson Road #12-02 Twenty Anson Singapore	SGD 4,288,362.47	Marine Transpo rtation	4,004,874	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 Transpo rtation	Not issued	100%	Supporting sales and operation in South America
STX Pan Ocean (U.K.) Co., Ltd.	13 Approach Road, London, SW20 8BA	GBP 10,300,000	Marine Transpo rtation	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 Transpo rtation	38,000,000	100%	Supporting sales and operation in Hong Kong

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

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

As of 31 December 2018

Executive director with a concurrent office		Company to be served additionally		
Name	Position	Name of the company	Position	Task
Kim Hong Kuk	Chairman	Harim Holdings	CEO	-
Kim Bo Yeon	Executive Vice President	POS SM Co., Ltd	Auditor	-
Ahn Joong Ho	Executive Vice President	POS SM Co., Ltd / Pan Ocean (China) Co., Ltd.	Director	-
Kim Hyuk Ki	Senior Vice President	Pan Ocean (America), Inc.	Director	-
Chae Ho Seok	Senior Vice President	Pan Ocean Singapore Bulk Carrier Pte. Ltd.	Director	-
Rah Byung Chul	Senior Vice President	Pan Ocean Japan Corporation	Director	-
Bang Sang Doo	Vice President	Pan Ocean (China) Co., Ltd.	Director	-
Chung Do Shik	Vice President	STX Pan Ocean (U.K.) Co., Ltd.	Director	-

4. The financial status for the last 3 years

[1] Operating Result

53rd Period : From 1 January 2018 to 31 December 2018

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

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

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

Subject	53rd	52nd	51st
Sales	2,668,353	2,336,240	1,873,986
Operating profit(loss)	203,936	195,023	167,901
Profit(loss)	148,645	141,275	97,089

Statements of Comprehensive income (Unit : KRW mil.)

Subject	53rd	52nd	51st
Sales	2,337,517	2,013,013	1,606,337
Operating profit(loss)	203,019	201,675	159,066
Profit(loss)	144,248	145,713	90,822

[2] Financial Status

53rd Period : end of the 2018

52nd Period : end of the 2017

51st Period : end of the 2016

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

Subject	53rd	52nd	51st
Assets	4,119,496	3,894,362	4,330,646
Liabilities	1,459,059	1,484,610	1,764,786
Equity	2,660,437	2,409,752	2,565,860

Statements of Financial position (Unit : KRW mil.)

Subject	53rd	52nd	51st
Assets	4,054,723	3,820,957	4,259,612
Liabilities	1,432,182	1,447,741	1,738,876
Equity	2,622,541	2,373,216	2,520,736

5. The challenging task of the Company

Please find following company core assignments on 2019.

Assignments	Action Plan
Consolidation of Revenue Base	➢ Provide differentiated service to strategically important customers to promote relations ➢ Enhance prediction / responsiveness abilities to maximize fleet profitability ➢ Continuous effort to secure cost competitiveness comparing to other competitors
Enhance Risk Management Capabilities	➢ Timely and suitable response to environmental regulation to minimize non-operation loss ➢ Close fleet management and safe operation process ➢ Reinforced management of counterparts risk and derivatives trading risk
Strengthen Organization Competency	➢ Training experts in various fields with practical education programs ➢ Improve work processes and promote cooperation between organizations
Secure New Profit Source	➢ Pursue stable business expansion from new-building related long-term COAs ➢ Discover new business opportunity in shipping related / adjacent business

6. The status of directors and auditors

As of 31 December 2018

Full time /Part time	Name	Position & Duty	Transaction with Pan Ocean	Remarks
Full time	Kim Hong Kuk	CEO & Chairman (Inside director)	Not Applicable	-
Full time	Choo Sung Yob	CEO & President (Inside director)		-
Full time	Cheon Se Gi	Head of Ethical Management Dept. (Inside director)		-
Part time	Choi Seung Hwan	Chairman of Audit Committee Director (Outside director)		-
Part time	Chang Yoo Whan	Member of Audit Committee Director (Outside director)		-
Part time	Oh Keum Seok	Member of Audit Committee Director (Outside director)		-
Part time	Christopher Anand Daniel	Outside director		-

7. The status of substantial shareholders

As of 31 December 2018

Name	No. of Shares	Ratio	Transaction with Pan Ocean	Remarks
Harim Holdings	292,400,000	54.70%	Not Applicable	-
National Pension Service	31,969,731	5.98%	Not Applicable	-
POSEIDON 2014 LLC	20,400,000	3.82%	Not Applicable	-
KOREA POST SAVINGS	6,000,910	1.12%	Not Applicable	-
ROSTRUM TRADE S.A.	4,632,381	0.87%	Not Applicable	-

* Top 5 shareholders based on ratio

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

As of 31 December 2018

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.		Not issued	100%	Marine transportation
Pan Ocean Japan Corporation		70,600	100%	Marine transportation
Pan Ocean Singapore Bulk Carrier Pte. Ltd.		4,004,874	100%	Marine transportation
Pan Ocean Brasil Apoio Maritimo Ltda.		Not issued	100%	Marine transportation
Pan Ocean (America), Inc.		8,940	34%	Grain business in North America
STX Pan Ocean (U.K.) Co., Ltd.		10,300,000	100%	Marine transportation
STX Pan Ocean (Hong Kong) Co., Ltd.		38,000,000	100%	Marine transportation
Busan Cross Dock Co., Ltd.		Not issued	20%	Logistics
Korea LNG Trading Co.,Ltd.		Not issued	18%	LNG transportation
Yegrina 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.		Not issued	100%	Forwarding
Wide Sea Logistics Co., Ltd.		Not issued	100%	Container Yard business
Pan Logix Co., Ltd	Pan Ocean Japan Corporation	3,000	100%	Forwarding
Pan Ocean Container Japan Co.,Ltd		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

9. The major creditors

As of 31 December 2018

Name of Creditor	Amount (million won)	No. of shareholding	Ratio(%)	Others
POS MARITIME RZ	64,098	-	-	-
POS MARITIME QZ	60,259	-	-	-
POS MARITIME PZ	56,420	-	-	-
LTSF SPO 1 INC.	47,880	-	-	-
POS MARITIME WZ	45,507	-	-	-
POS MARITIME UZ	41,212	-	-	-
POS MARITIME VZ	40,970	-	-	-
POS MARITIME RB	38,033	-	-	-
POS MARITIME SB	38,033	-	-	-
POS MARITIME UB	32,285	-	-	-

* Top 10 creditors based on amount, In case of Foreign debt, it was converted into Korea Won with the exchange rate of KRW 1,118.10 per dollar at 31 December, 2018.

10. The important issue after the financial year

※ Not Applicable

11. The important matter related to other operating

※ Not Applicable

12. IPT

	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)	
Name of interested person	12 months Ended 31 Dec. 2018.	12 months Ended 31 Dec. 2017.	12 months Ended 31 Dec. 2018.	12 months Ended 31 Dec. 2017.
PanOcean(America), Inc.	34,651 3)	24,107 3)	30,283 1)	22,725 1)
Sunjin Co., Ltd.	-	-	5,420 2)	3,428 2)
Farmsco	-	-	5,206 2)	6,268 2)
Jeil Feed Company, Ltd.	-	-	4,325 2)	7,596 2)
Harim Co., Ltd.	-	-	2,890 2)	4,401 2)
Jeil Holdings Co., Ltd.	-	-	-	-
Total	34,651	24,107	48,124	44,419

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) Provided performance gurantee, finance gurantee for the period and commission fee

2018 Financial Statements

(2018.1.1 ~ 2018.12.31)

Contents

Pan Ocean Co., Ltd. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2018 and 2017

(In thousands of US dollars)	Notes	2018	2017
Assets			
Current assets			
Cash and cash equivalents	4,6,8	$ 186,668	$ 193,810
Trade receivables	4,6,7,9	127,837	94,095
Other receivables	4,6,7,10	32,085	26,568
Derivative financial assets	4,5,6,11	1,541	3,065
Other financial assets	4,6,12	16,042	33,794
Inventories	13	54,602	46,906
Other assets	14	113,076	174,102
Contract assets		87,196	-
		619,047	572,340
Non-current assets			
Trade receivables		10	-
Other receivables	4,6,7,10	24,608	19,118
Derivative financial assets	4,5,6,11	-	174
Other financial assets	4,5,6,12	15,827	17,402
Investments in associates and joint ventures	15	2,020	2,003
Vessels, property and equipment	16	3,007,560	3,008,788
Intangible assets	17	7,704	8,975
Other assets	14	7,596	6,034
		3,065,325	3,062,494
Total assets		$ 3,684,372	$ 3,634,834
Liabilities and Equity			
Current liabilities			
Trade payables	4,6	$ 80,773	$ 81,734
Borrowings	4,6,18	340,699	298,359
Derivative financial liabilities	4,5,6,11	3,004	468
Other payables	4,6,19	57,704	61,404
Provisions	20	2,257	2,545
Other liabilities	21	46,589	64,590
Lease liabilities		549	-
Contract liabilities		68,107	-
		599,682	509,100
Non-current liabilities			
Borrowings	4,6,18	667,285	842,320
Derivative financial liabilities	4,5,6,11	1	14
Provisions	20	29,542	29,881
Retirement benefit obligations	22	3,793	4,286
Other payables	4,5,19	65	71
Lease liabilities		4,577	-
		705,263	876,572
Total liabilities		1,304,945	1,385,672
Equity			
Equity attributable to the owners of the Group			
Share capital	1,24	480,755	480,727
Capital surplus	24	652,814	651,920
Other reserves	25	1,052,219	1,055,891
Retained Earning	26	178,747	41,281
		2,364,535	2,229,819
Non-controlling interests		14,892	19,343
Total equity		2,379,427	2,249,162
Total liabilities and equity		$ 3,684,372	$ 3,634,834

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, 2018 and 2017

(In thousands of US dollars, except per share amount)	**Notes**	**2018**	**2017**
Sales	35	$ 2,425,312	$ 2,065,495
Cost of Sales	27	(2,172,563)	(1,831,946)
Gross profit		252,749	233,549
Selling and administrative expenses	27	(67,389)	(61,127)
Operating profit	35	185,360	172,422
Finance income	28	11,301	12,626
Finance costs	28	(58,133)	(52,601)
Share of profit of associates and joint ventures	15	62	233
Other non-operating expenses, net	29	(3,167)	(6,098)
Profit before income tax		135,423	126,582
Income tax expense	23	317	1,679
Profit from continuing operation		135,106	124,903
Gain(loss) from discontinuing operation, net of tax		-	-
Profit for the period		$ 135,106	$ 124,903
Other comprehensive income			
Items that will be subsequently reclassified to profit or loss:			
Changes in the fair value of available-for-sale financial assets		-	44
Changes in the fair value of derivative financial assets and liabilities		55	(538)
Share of other comprehensive income of associates and joint ventures		(45)	117
		10	(377)
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability		(132)	612
Exchange differences		(4,927)	1,165
Total other comprehensive income for the period, net of tax		(5,049)	1,400
Total comprehensive income for the period		$ 130,057	$ 126,303
Profit (loss) attributable to:			
Owners of the Parent Company		138,528	126,478
Non-controlling interests		(3,422)	(1,575)
		$ 135,106	$ 124,903
Total comprehensive income attributable to:			
Owners of the Parent Company		134,508	127,800
Non-controlling interests		(4,451)	(1,497)
		$ 130,057	$ 126,303
Earnings per share	30		
Basic earnings per share		$ 0.26	$ 0.23
Diluted earnings per share		$ 0.26	$ 0.23

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, 2018 and 2017

	Attributable to owners of the Parent Company					
(In thousands of US dollars)	**Share capital**	**Capital surplus**	**Other reserves**	**Retained Earning (Accumulated deficit)**	**Non- controlling interests**	**Total Equity**
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
Balance at January 1, 2018	$ 480,727	$ 651,920	$ 1,055,891	$ 41,281	$ 19,343	$ 2,249,162
Effect of change in accounting policies	-	-	536	(930)	-	(394)
After adjustment	480,727	651,920	1,056,427	40,351	19,343	2,248,768
Total comprehensive income for the period						
Profit (loss) for the period	-	-	-	138,528	(3,422)	135,106
Items that will be subsequently reclassified to profit or loss:						
Changes in the fair value of available-for-sale financial assets	-	-	-	-	-	-
Changes in the fair value of derivative financial assets and liabilities	-	-	55	-	-	55
Share of other comprehensive income of associates and joint ventures	-	-	(45)	-	-	(45)
Items that will not be reclassified to profit or loss:						
Remeasurements of defined benefit liability	-	-	-	(132)	-	(132)
Exchange differences	-	-	(3,898)	-	(1,029)	(4,927)
Transactions with owners						
Changes in equity due to debt-to-equity swap	28	117	(320)	-	-	(175)
Additional acquisition of the non-controlling interest with unchanged control	-	777	-	-	-	777
Balance at December 31, 2018	$ 480,755	$ 652,814	$ 1,052,219	$ 178,747	$ 14,892	$ 2,379,427

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, 2018 and 2017

(In thousands of US dollars)	**Notes**	**2018**	**2017**
Cash flows from operating activities	33		
Cash generated from operations		$ 298,162	$ 277,472
Interest paid		(53,339)	(45,330)
Income tax paid		(1,168)	(848)
Net cash inflow from operating activities		243,655	231,294
Cash flows from investing activities			
Acquisition of vessels, property and equipment		(150,376)	(94,142)
Proceeds from sale of vessels, property and equipment		12,681	3
Acquisition of intangible assets		(176)	(1,352)
Proceeds from sale of intangible assets		-	523
Acquisition of other financial assets		(16,353)	(29,353)
Proceeds from sale of other financial assets		35,063	16,925
Acquisition of investments in associates and joint ventures		-	-
Proceeds from sale of assets held for sale		-	-
Dividends received		238	1,035
Increase in other receivables		(317)	(51)
Decrease in other receivables		1,084	821
Interest received		3,131	2,003
Net cash outflow from investing activities		(115,025)	(103,588)
Cash flows from financing activities			
Proceeds from borrowings		408,252	136,463
Repayments of borrowings		(543,267)	(273,522)
Repayments of lease liabilities		(349)	-
Changes in other controlling interests		(193)	-
Net cash outflow from financing activities		(135,557)	(137,059)
Effect of exchange rate changes on cash and cash equivalents		(215)	357
Net increase (decrease) in cash and cash equivalents		(7,142)	(8,996)
Cash and cash equivalents at the beginning of year		193,810	202,806
Cash and cash equivalents at the end of year		$ 186,668	$ 193,810

The above consolidated statements of cash flows 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 Group was established in Republic of Korea in May 1966. The Group 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, 2018 is US$ 480,755 thousand and the number of shares issued is 534,569,207. As at December 31, 2018, the detail of the shareholders structure is as follows:

	Number of shares	Percentage of ownership (%)
Harim Holdings Co., Ltd. (formerly, Jeil Holdings Co., Ltd.)	292,400,000	54.70%
Other shareholders	242,169,207	45.30%
	534,569,207	100.00%

1.1 Consolidated Subsidiaries

Details of consolidated subsidiaries as at December 31, 2018, are as follows:

	Location	Main business	2018 Parent company	2018 Subsidiary	2018 Total
Asia					
Pan Ocean Singapore Bulk Carrier Pte. Ltd.	Singapore	Shipping	100%	-	100%
Pan Ocean(China) Co., Ltd.	China	Shipping	100%	-	100%
Pan Ocean International Logistics Co., Ltd.	China	Logistics	-	100%	100%
Pan Ocean - Sinotrans Logistics Co., Ltd.	China	Logistics	-	60%	60%
Wide Sea Logistics Co., Ltd.	China	Logistics	-	100%	100%
Pan Ocean Japan Corporation	Japan	Shipping	100%	-	100%
Pan Logix Co., Ltd.	Japan	Forwarding	-	100%	100%
Pan Ocean Container (Japan) Co., Ltd.	Japan	Forwarding	-	100%	100%
POS SM Co.,Ltd	Korea	Ship management	100%	-	100%
Europe					
STX Pan Ocean(U.K.) Co., Ltd.	U.K.	Shipping	100%	-	100%
North America					
Pan Ocean(America) Inc.	USA	Shipping	34%	-	34%
South America					
Pan Ocean Brasil Apoio Maritimo Ltda.[1]	Brazil	Shipping	100%	-	100%
Others					
POS Maritime GB S.A. and others [2]	Panama and others	-	-	-	-

[1] Although the Group owns less than half of the entity's share and voting power, management has determined that the Group controls the entity by virtue of an agreement with its other shareholders. The summarized financial information and financial statements of each subsidiary are dated December 31, 2018.

[2] POS Maritime GB S.A. and others are the special purpose entities ("SPEs") for the Group. As at December 31, 2018, the Group owns no shares of these entities, but rights to obtain the majority of the benefits from the operation of SPEs. Accordingly, these SPEs are included in the Group's consolidated subsidiaries.

1.2 Summarized Financial Information

Summarized statements of financial position for consolidated subsidiaries as at December 31, 2018, is as follows:

(in thousands of US dollars)	2018		
	Assets	**Liabilities**	**Equity**
Asia			
Pan Ocean Singapore Bulk Carrier Pte. Ltd.	$ 2,315	$ 233	$ 2,082
Pan Ocean(China) Co., Ltd.	21,541	400	21,141
Pan Ocean International Logistics Co., Ltd.	6,755	5,401	1,354
Pan Ocean - Sinotrans Logistics Co., Ltd.	3,281	2,206	1,075
Wide Sea Logistics Co., Ltd.	5,011	1,038	3,973
Pan Ocean Japan Corporation	5,626	38	5,588
Pan Logix Co., Ltd.	2,710	747	1,963
Pan Ocean Container (Japan) Co., Ltd.	3,174	2,104	1,070
POS SM Co.,Ltd	23,574	13,703	9,871
Europe			
STX Pan Ocean(U.K.) Co., Ltd.	50	34,720	(34,670)
North America			
Pan Ocean(America) Inc.	34,667	12,536	22,131
South America			
Pan Ocean Brasil Apoio Maritimo Ltda.[1]	1,988	25	1,963
Others			
POS Maritime GB S.A. and others [2]	-	-	-

[1] Although the Group owns less than half of the entity's share and voting power, management has determined that the Group controls the entity by virtue of an agreement with its other shareholders. The summarized financial information and financial statements of each subsidiary are dated December 31, 2018.

[2] POS Maritime GB S.A. and others are the special purpose entities ("SPEs") for the Group. As at December 31, 2018, the Group owns no shares of these entities, but rights to obtain the majority of the benefits from the operation of SPEs. Accordingly, these SPEs are included in the Group's consolidated subsidiaries.

Summarized for statements of profit or loss for consolidated subsidiaries for the years ended December 31, 2018, is as follows:

(in thousands of US dollars)	2018		
	Sales	**Operating profit (loss)**	**Profit (loss) for the period**
Asia			
Pan Ocean Singapore Bulk Carrier Pte. Ltd.	$ 7,569	$ 188	$ 195
Pan Ocean(China) Co., Ltd.	5,193	723	1,534
Pan Ocean International Logistics Co., Ltd.	10,346	202	202
Pan Ocean - Sinotrans Logistics Co., Ltd.	5,713	21	11
Wide Sea Logistics Co., Ltd.	8,929	710	549
Pan Ocean Japan Corporation	901	111	28
Pan Logix Co., Ltd.	11,511	544	537
Pan Ocean Container (Japan) Co., Ltd.	19,676	149	149
POS SM Co.,Ltd	101,277	2,387	2,316
Europe			
STX Pan Ocean(U.K.) Co., Ltd.	-	-	(472)
North America			
Pan Ocean(America) Inc.	285,932	(1,741)	(5,389)
South America			
Pan Ocean Brasil Apoio Maritimo Ltda.[1]	373	(102)	12
Others			
POS Maritime GB S.A. and others [2]	-	-	-

[1] Although the Group owns less than half of the entity's share and voting power, management has determined that the Group controls the entity by virtue of an agreement with its other shareholders. The summarized financial information and financial statements of each subsidiary are dated December 31, 2018.

[2] POS Maritime GB S.A. and others are the special purpose entities ("SPEs") for the Group. As at December 31, 2018, the Group owns no shares of these entities, but rights to obtain the majority of the benefits from the operation of SPEs. Accordingly, these SPEs are included in the Group's consolidated subsidiaries.

(in thousands of US dollars)

			2017					
Subsidiary	**Location**	**Main business**	**Ownership interest held by the Group (%)**	**Assets**	**Liabilities**	**Sales**	**Operating profit (loss)**	**Profit (loss) for the period**
Asia								
Pan Ocean Singapore Bulk Carrier Pte. Ltd.	Singapore	Shipping	100%	$ 2,188	$ 302	$ 13,083	$ 898	$ (5,848)
Pan Ocean(China) Co., Ltd.	China	Shipping	100%	21,304	679	4,271	723	574
Pan Ocean International Logistics Co., Ltd. [2]	China	Logistics	100%	7,264	6,048	8,148	90	87
Pan Ocean - Sinotrans Logistics Co., Ltd. [2]	China	Logistics	60%	3,256	2,139	4,415	(17)	(19)
Wide Sea Logistics Co., Ltd. [2]	China	Logistics	100%	4,573	960	8,618	684	479
Pan Ocean Japan Corporation	Japan	Shipping	100%	5,498	64	1,079	114	29
Pan Logix Co., Ltd. [3]	Japan	Forwarding	100%	2,165	772	10,840	489	286
Pan Ocean Container (Japan) Co., Ltd. [3]	Japan	Forwarding	100%	2,693	1,793	19,689	162	96
POS SM Co.,Ltd	Korea	Ship management	100%	18,406	10,429	100,075	3,010	1,668
Europe								
STX Pan Ocean(U.K.) Co., Ltd.	U.K.	Shipping	100%	76	36,279	-	-	(2)
North America								
Pan Ocean(America) Inc. [4]	USA	Shipping	34%	53,082	25,605	266,972	(2,484)	(2,562)
South America								
Pan Ocean Brasil Apoio Maritimo Ltda.	Brazil	Shipping	100%	2,304	17	391	(74)	87
Others								
POS Maritime GX S.A. and others [1]	Panama and others	-	-	-	-	-	-	-

[1] POS Maritime GX S.A. and others are the special purpose entities ("SPEs") for the Group. As at December 31, 2017, the Group owns no shares of these entities, but rights to obtain the majority of the benefits from the operation of SPEs. Accordingly, these SPEs are included in the Group's consolidated subsidiaries.
[2] Subsidiaries of Pan Ocean (China) Co., Ltd.
[3] Subsidiaries of Pan Ocean Japan Corporation.
[4] Although the Group owns less than half of the entity's share and voting power, management has determined that the Group controls the entity by virtue of an agreement with its other shareholders.
The summarized financial information and financial statements of each subsidiary are dated December 31, 2017.

Details of the Group's shares in non-controlling interests as at December 31, 2018 and 2017, are as follows:

(in thousands of US dollars)	2018			
	Percentage of ownership of non-controlling interest (%)	**Book amount of non-controlling interest**	**Profit(loss) attributable to non-controlling interests**	**Total comprehensive income (loss) attributable to non-controlling interests**
Pan Ocean - Sinotrans Logistics Co., Ltd.	40%	$ 429	$ 110	$ 122
Pan Ocean(America) Inc.	66%	14,462	(3,532)	(4,573)
		$ 14,891	$ (3,422)	$ (4,451)

(in thousands of US dollars)	2017		
	Percentage of ownership of non-controlling interest (%)	**Book amount of non-controlling interest**	**Profit(loss) attributable to non- controlling interests**
Pan Ocean - Sinotrans Logistics Co., Ltd.	40%	$ 1,350	$ 115
Pan Ocean(America) Inc.	66%	17,993	(1,735)
		$ 19,343	$ (1,576)

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 Policies 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, 2018. The adoption of these amendments did not have any material impact on the financial statements.

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

When an investment in an associate or a joint venture is held by, or is 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 each investment separately at fair value through profit or loss in accordance with Korean IFRS 1109. The amendment does not have a significant impact on the financial statements because the Group is not a venture capital organization.

- Amendment to Korean IFRS 1040 *Transfers of Investment Property*

The amendment to Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and the list of evidence for a change of use in the standard was re-characterized as a non-exclusive list of example. The amendment does not have a significant impact on the financial statements.

- Amendment 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 amendment does not have a significant impact on the financial statements.

- Enactment of Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to the enactment, 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. The enactment does not have a significant impact on the financial statements.

- Korean IFRS 1109 *Financial Instruments*

The Group has applied Korean IFRS 1109 *Financial Instruments* on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated, and the differences between previous book amounts and book amounts at the date of initial application are recognized to retained earnings. See Note 19 for further details on the impact of the application of the standard.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group has applied to apply Korean IFRS 1115 *Revenue from Contracts with Customers*. In accordance with the transition provisions in Korean IFRS 1115, comparative figures have not been restated. The Group elected the modified retrospective approach, and recognized the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings as at January 1, 2018, the period of initial application. See Note 19 for further details on the impact of the application of the standard.

(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, 2018 and have not been early adopted by the Group are set out below.

- Enactment of Korean IFRS 1116 *Leases*

Korean IFRS 1116 Leases issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*, Interpretation 2104 *Determining whether an Arrangement contains a Lease*, Interpretation 2015 *Operating Leases-Incentives*, and Interpretation 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

At inception of a contract, the entity shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the entity shall assess whether the contract is, or contains, a lease in accordance with the standard. However, the entity will not need to reassess all contracts with applying the practical expedient because the entity elected to apply the practical expedient only to contracts entered before the date of initial application.

For a contract that is, or contains, a lease, the entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date) and low value assets (e.g. underlying assets below $ 5,000). In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

A lessee shall apply this standard to its leases either:

· retrospectively to each prior reporting period presented applying Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* (Full retrospective application); or

· retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Group has not yet elected the application method.

The Group did not perform an impact assessment to identify potential financial effects of applying Korean IFRS 1116.

2.3 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110 *Consolidated Financial Statements*.

(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.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(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 and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

(c) Translation to the presentation currency

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period,
- income and expenses for each statement of profit or loss are translated at average exchange rates,
- equity is translated at the historical exchange rate, and

2.5 Financial Assets

(a) Classification

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Group reclassifies debt investments when, and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(b) Measurement

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 or the issuance of the financial liabilities. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

A. Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into one of the following three measurement categories:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'other income or expenses' in the year in which it arises.

B. Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments, in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'finance income' when the right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'other income and expenses' in the statement of profit or loss as applicable. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) 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.

(d) Derecognition

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Group classified the financial liability as 'borrowings and other liabilities' in the statement of financial position

(e) 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 remeasured 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)' based on 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.

Depreciation of all vessels, property and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of 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 assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.10 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition or 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)
Development costs	5
Other Intangible Assets	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 the end of each reporting period.

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 consolidated 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 consolidated statement of profit or loss as 'finance costs', together with interest expenses recognized on other financial liabilities.

(b) Derecognition

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

2.14 Provisions

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

2.15. Current and Deferred Tax

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

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

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

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

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

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

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

2.16 Employee Benefits

Most of employees and directors are entitled to receive a lump-sum payment upon termination of their employment with the Group based on their periods of service and salary levels 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 reporting 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.

For defined contribution plans, the Group pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Group has no further payment obligation once the contribution have been paid. The contribution are recognized as employee benefit expense when they are due.

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

From January 1, 2018, the Group has applied Korean IFRS 1115 *Revenue from Contracts with Customers.*

(a) Identify performance obligation

With the implementation of Korean IFRS 1115, the Group identifies performance obligations from contract with a customer. The timing of revenue recognition depends on a performance obligation is satisfied at a point in time or over time.

(b) A performance obligation is satisfied over time

With the implementation of Korean IFRS 1115, if a performance obligation is satisfied over time the Group also recognizes the related revenue over time. The Group recognizes revenue over time based on costs incurred relative to total estimated costs to determine the extent of progress toward completion.

(c) Variable consideration

With implementation of Korean IFRS 1115, the Group estimates an amount of variable consideration by using the expected value which the Group expects to better predict the amount of consideration. The Group recognize revenue with transaction price including variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the refund period has lapsed. The refund liability is measured at the amount of consideration received for which the Group does not expect to be entitled.

(d) Allocating the transaction price

With implementation of Korean IFRS 1115, the transaction price in an arrangement must be allocated to each separate performance obligation based on the relative standalone selling prices of the goods or services being provided to a customer. The Group determines the standalone selling price for each separate performance obligation by using ‘adjust market assessment approach’. In limited circumstances, the Group plans to use ‘expected cost plus a margin approach’
to estimate expected cost plus a reasonable margin.

(e) Incremental costs of obtaining a contract

With implementation of Korean IFRS 1115, the Group recognizes as an asset the incremental costs of obtaining a contract with a customer of the Group expects to recover those costs, and costs that are recognized as assets are amortized over the period that the related goods or services transfer to the customer. The Group plans to apply a practical expedient that permits an entity to expense the costs to obtain a contract as incurred when the expected amortization period is one year or less.

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.

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.

2.21 Approval of Issuance of the Financial Statements

The consolidated financial statements 2018 of the Group will be approved for issue by the Board of Directors on February 11, 2019 and are subject to change with the approval of shareholders at their Annual General Meeting.

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.

Significant accounting estimates and assumptions applied in the preparation of the consolidated financial statements are the same as those applied to the financial statements for the year ended December 31, 2017, except for the estimates used to determine tax expense, and accounting estimates and assumptions for implementation of Korean IFRS 1109 explained as below.

(a) Impairment of financial assets

The provision for impairment for financial assets of Korean IFRS 1109 are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Pan Ocean Co., Ltd.
Separate Statements of Financial Position
December 31, 2018 and 2017

(in thousands of US dollars)	Notes	2018	2017
Assets			
Current assets			
Cash and cash equivalents	4,6,8	$ 143,623	$ 138,390
Trade receivables	4,6,7,9	107,156	65,257
Other receivables	4,6,7,10	30,391	24,125
Derivative financial assets	4,5,6,11	1,006	2,772
Other financial assets	4,6,12	9,893	29,894
Inventories	13	54,597	46,906
Other assets	14	110,206	172,923
Contract Assets		87,196	-
		544,068	480,267
Non-current assets			
Other receivables	4,6,7,10	22,062	17,114
Other financial assets	4,5,6,12	15,826	17,402
Derivative financial assets	4,5,6,11	-	174
Investments in subsidiaries	15	41,158	47,493
Investments in associates and joint ventures	15	1,252	1,252
Vessels, property and equipment	16	2,993,294	2,993,329
Intangible assets	17	4,333	4,449
Other assets	14	4,447	4,841
		3,082,372	3,086,054
Total assets		$ 3,626,440	$ 3,566,321
Liabilities			
Current liabilities			
Trade payables	4,6	$ 69,919	$ 68,524
Borrowings	4,6,18	340,699	298,359
Derivative financial liabilities	4,5,6,11	2,484	132
Other payables	4,6,19	54,867	43,351
Provisions	20	2,257	2,545
Other liabilities	21	41,934	63,064
Lease liabilities		549	
Contract liabilities		68,107	-
		580,816	475,975
Non-current liabilities			
Borrowings	4,6,18	667,285	842,320
Derivative financial liabilities	4,5,6,11	1	14
Provisions	20	24,575	28,727
Retirement benefit obligations	22	3,653	4,225
Lease liabilities		4,577	-
		700,091	875,286
Total liabilities		1,280,907	1,351,261
Equity			
Share capital	24	480,755	480,727
Capital surplus	24	651,483	651,366
Other reserves	25	1,068,386	1,068,157
Retained Earning(Accumulated deficit)	26	144,909	14,810
Total equity		2,345,533	2,215,060
Total liabilities and equity		$ 3,626,440	$ 3,566,321

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, 2018 and 2017

(in thousands of US dollars, except per share data)	Notes	2018	2017
Sales	35	$ 2,124,609	$ 1,779,726
Cost of sales	27	(1,893,729)	(1,570,085)
Gross profit		230,880	209,641
Selling and administrative expenses	27	(46,353)	(31,338)
Operating profit	35	184,527	178,303
Finance income	28	9,664	11,045
Finance costs	28	(57,796)	(50,300)
Other non-operating expenses, net	29	(5,889)	(9,693)
Profit before income tax		130,506	129,355
Income tax expense (income)	23	(604)	528
Profit for the period		$ 131,110	$ 128,827
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
Changes in the fair value of derivative financial assets and liabilities, net of tax		13	75
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability		(82)	593
		(69)	712
Total comprehensive income		$ 131,041	$ 129,539
Earnings per share	30		
Basic earnings per share		$ 0.25	$ 0.24
Diluted earnings per share		0.25	0.24

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, 2018 and 2017

(in thousands of US dollars)	Share capital	Capital surplus	Other reserves	Retained Earning (Accumulated deficit)	Total Equity
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
Balance at January 1, 2018	$ 480,727	$ 651,366	$ 1,068,157	$ 14,810	$ 2,215,060
Effect of change in accounting policies	-	-	535	(929)	(394)
After adjustment	480,727	651,366	1,068,692	13,881	2,214,666
Total comprehensive income for the year					
Profit for the period	-	-	-	131,110	131,110
Items that will be subsequently reclassified to profit or loss:					
Change in the fair value of derivative financial assets and liabilities	-	-	13	-	13
Items that will not be reclassified to profit or loss:					
Remeasurements of defined benefit liability	-	-	-	(82)	(82)
Transactions with owners					
Changes in equity due to debt-to-equity swap	28	117	(319)	-	(174)
Balance at December 31, 2018	$ 480,755	651,483	1,068,386	144,909	2,345,533

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, 2018 and 2017

(in thousands of US dollars)	Notes	2018	2017
Cash flows from operating activities			
Cash generated from operating activities	33	$ 306,776	$ 262,607
Interest paid		(53,516)	(44,994)
Income tax refund		82	43
Net cash inflow from operating activities		253,342	217,656
Cash flows from investing activities			
Acquisition of vessels, property and equipment		(150,072)	(93,640)
Proceeds from sale of vessels, property and equipment		12,681	3
Acquisition of intangible assets		(59)	(940)
Proceeds from sale of intangible assets		-	488
Acquisition of other financial assets		(10,188)	(29,089)
Proceeds from sale of other financial assets		31,311	13,620
Acquisition of investments in subsidiaries		-	-
Proceeds from sale of assets held for sale		-	-
Acquisition of investments in associates and joint ventures		-	-
Dividends received		238	1,035
Increase in other receivables		(317)	(32)
Decrease in other receivables		1,072	817
Interest received		2,534	1,449
Net cash outflow from investing activities		(112,800)	(106,289)
Cash flows from financing activities			
Proceeds from borrowings		408,252	136,463
Repayments of borrowings		(543,267)	(270,267)
Repayments of lease liabilities		(349)	-
Net cash outflow from financing activities		(135,364)	(133,804)
Effect of exchange rate changes on cash and cash equivalents		55	(164)
Net increase(decrease) in cash and cash equivalents		5,233	(22,601)
Cash and cash equivalents at the beginning of the year		138,390	160,991
Cash and cash equivalents at the end of the year		$ 143,623	$ 138,390

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

1. General Information

1.1 Parent 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, 2018 is US$ 480,755 thousand and the number of shares issued is 534,569,207. As at December 31, 2018, the detail of the shareholders structure is as follows:

	Number of shares	Percentage of ownership (%)
Harim Holdings Co., Ltd. (formerly, Jeil Holdings Co., Ltd.)	292,400,000	54.70%
Other shareholders	242,169,207	45.30%
	534,569,207	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 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 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 Company's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated 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 consolidated financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policies 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, 2018. The adoption of these amendments did not have any material impact on the financial statements.

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

When an investment in an associate or a joint venture is held by, or is 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 each investment separately at fair value through profit or loss in accordance with Korean IFRS 1109. The amendment does not have a significant impact on the financial statements because the Company is not a venture capital organization.

- Amendment to Korean IFRS 1040 *Transfers of Investment Property*

The amendment to Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and the list of evidence for a change of use in the standard was re-characterized as a non-exclusive list of example. The amendment does not have a significant impact on the financial statements.

- Amendment 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 amendment does not have a significant impact on the financial statements.

- Enactment of Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to the enactment, 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. The enactment does not have a significant impact on the financial statements.

- Korean IFRS 1109 *Financial Instruments*

The Company has applied Korean IFRS 1109 *Financial Instruments* on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated, and the differences between previous book amounts and book amounts at the date of initial application are recognized to retained earnings. See Note 19 for further details on the impact of the application of the standard.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Company has applied to apply Korean IFRS 1115 *Revenue from Contracts with Customers*. In accordance with the transition provisions in Korean IFRS 1115, comparative figures have not been restated. The Company elected the modified retrospective approach, and recognized the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings as at January 1, 2018, the period of initial application. See Note 19 for further details on the impact of the application of the standard.

(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, 2018 and have not been early adopted by the Company are set out below.

- Enactment of Korean IFRS 1116 *Leases*

Korean IFRS 1116 Leases issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*, Interpretation 2104 *Determining whether an Arrangement contains a Lease*, Interpretation 2015 *Operating Leases-Incentives*, and Interpretation 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

At inception of a contract, the entity shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the entity shall assess whether the contract is, or contains, a lease in accordance with the standard. However, the entity will not need to reassess all contracts with applying the practical expedient because the entity elected to apply the practical expedient only to contracts entered before the date of initial application.

For a contract that is, or contains, a lease, the entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date) and low value assets (e.g. underlying assets below $ 5,000). In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

A lessee shall apply this standard to its leases either:

· retrospectively to each prior reporting period presented applying Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* (Full retrospective application); or

· retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Company has not yet elected the application method.

The Company did not perform an impact assessment to identify potential financial effects of applying Korean IFRS 1116.

2.3 Subsidiaries and Shares in Investees accounted for using Equity Method

These separate financial statements are prepared and presented in accordance 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 consolidated financial statements are presented in US dollar, which is the Parent Company’s functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

(c) Translation to the presentation currency

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period,
- income and expenses for each statement of profit or loss are translated at average exchange rates,
- equity is translated at the historical exchange rate, and

2.5 Financial Assets

(a) Classification

From January 1, 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Company reclassifies debt investments when, and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(b) Measurement

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 or the issuance of the financial liabilities. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

A. Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments into one of the following three measurement categories:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'other income or expenses' in the year in which it arises.

B. Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments, in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'finance income' when the right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'other income and expenses' in the statement of profit or loss as applicable. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Company of financial assets is impaired. A financial asset or a Company 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 Company 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.

(d) Derecognition

If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classified the financial liability as ‘borrowings and other liabilities’ in the statement of financial position

(e) 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 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 remeasured 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)' based on 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 Company) Held-for-sale

Non-current assets (or disposal Company) 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.

Depreciation of all vessels, property and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of 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 assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.10 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition or 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)
Development costs	5
Other Intangible Assets	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 the end of each reporting period.

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 consolidated 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 consolidated statement of profit or loss 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 consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

The 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

Most of employees and directors are entitled to receive a lump-sum payment upon termination of their employment with the Company based on their periods of service and salary levels 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 reporting 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.

For defined contribution plans, the Company pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Company has no further payment obligation once the contribution have been paid. The contribution are recognized as employee benefit expense when they are due.

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

From January 1, 2018, the Company has applied Korean IFRS 1115 *Revenue from Contracts with Customers.*

(a) Identify performance obligation

With the implementation of Korean IFRS 1115, the Company identifies performance obligations from contract with a customer. The timing of revenue recognition depends on a performance obligation is satisfied at a point in time or over time.

(b) A performance obligation is satisfied over time

With the implementation of Korean IFRS 1115, if a performance obligation is satisfied over time the Company also recognizes the related revenue over time. The Company recognizes revenue over time based on costs incurred relative to total estimated costs to determine the extent of progress toward completion.

(c) Variable consideration

With implementation of Korean IFRS 1115, the Company estimates an amount of variable consideration by using the expected value which the Company expects to better predict the amount of consideration. The Company recognize revenue with transaction price including variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the refund period has lapsed. The refund liability is measured at the amount of consideration received for which the Company does not expect to be entitled.

(d) Allocating the transaction price

With implementation of Korean IFRS 1115, the transaction price in an arrangement must be allocated to each separate performance obligation based on the relative standalone selling prices of the goods or services being provided to a customer. The Company determines the standalone selling price for each separate performance obligation by using 'adjust market assessment approach'. In limited circumstances, the Company plans to use 'expected cost plus a margin approach' to estimate expected cost plus a reasonable margin.

(e) Incremental costs of obtaining a contract

With implementation of Korean IFRS 1115, the Company recognizes as an asset the incremental costs of obtaining a contract with a customer of the Company expects to recover those costs, and costs that are recognized as assets are amortized over the period that the related goods or services transfer to the customer. The Company plans to apply a practical expedient that permits an entity to expense the costs to obtain a contract as incurred when the expected amortization period is one year or less.

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.

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.

2.21 Approval of Issuance of the Financial Statements

The consolidated financial statements 2018 of the Company will be approved for issue by the Board of Directors on February 11, 2019 and are subject to change with the approval of shareholders at their Annual General Meeting.

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.

Significant accounting estimates and assumptions applied in the preparation of the consolidated financial statements are the same as those applied to the financial statements for the year ended December 31, 2017, except for the estimates used to determine tax expense, and accounting estimates and assumptions for implementation of Korean IFRS 1109 explained as below.

(a) Impairment of financial assets

The provision for impairment for financial assets of Korean IFRS 1109 are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.