

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

Pan Ocean Co., Ltd.

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December 31, 2018 and 2017

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Independent Auditor's Report

To the Board of Directors and Shareholders of
Pan Ocean Co., LTD.

Opinion

We have audited the accompanying separate financial statements of Pan Ocean Co., LTD. (the "Company"), which comprise the separate statements of financial position as at December 31, 2018 and 2017, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2018 and 2017, and its separate financial performance and its separate cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the separate financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The voyage operating revenue and revenue from time charter

Reasons why the matter was determined to be a key audit matter

As described in Note 2.19 to the financial statements, the Company recognizes revenue as performance obligation is satisfied, and the underlying information for the revenue amount exist in the complex sales system. As revenue is a key performance indicator of the Group and executives, it is the matter in which intentional adjustment may arise to achieve target and has high inherent risk. In addition, as described in Note 2.2 to the financial statements, there is a possibility of an error due to the initial implementation of Korean IFRS 1115 Revenue from Contracts with Customers.

Considering the above reasons, we have decided the revenue on the voyage operating revenue and revenue from time charter as a key audit matter.

Key audit matters addressed in the audit

For the accounting treatment on the voyage operating revenue and revenue from time charter of the Company, we conducted audit procedures including the following:

- Evaluating whether accounting policy for the voyage operating revenue and revenue from time charter conforms with Korean IFRS 1115
- Understanding and evaluating processes and controls related to the voyage operating revenue and revenue from time charter
- Confirming the appropriateness of information technology general control on system of revenue recognition
- Performing interface test between sales system and accounting system
- Performing substantive procedures for the accuracy of the amount of impact of changes in accounting policies due to the application of Korean IFRS 1115, based on the selected sample
- Confirming the existence of transaction, cut off and the accuracy of the amount by inspecting contracts with customers and supporting documents for the selected samples of individual transaction units.

Other Matter

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such separate financial statements may differ from those generally accepted and applied in other countries.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with [Korean IFRS/ Accounting Standards for Non-Public Entities in the Republic of Korea], and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the

economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yun-seok Hwang, Certified Public Accountant.

Seoul, Korea
March 19, 2019

Samit PricewaterhouseCoopers

This report is effective as of March 19, 2019, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

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	4,5,6,12	9,893	29,894
Inventories	13	54,597	46,906
Other assets	14	110,206	172,923
Contract Assets	37	87,196	-
		<u>544,068</u>	<u>480,267</u>
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
		<u>3,082,372</u>	<u>3,086,054</u>
Total assets		<u>\$ 3,626,440</u>	<u>\$ 3,566,321</u>
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	42,483	63,064
Contract liabilities	37	68,107	-
		<u>580,816</u>	<u>475,975</u>
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
Other liabilities		4,577	-
		<u>700,091</u>	<u>875,286</u>
Total liabilities		<u>1,280,907</u>	<u>1,351,261</u>
Equity			
Share capital	1,24	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		<u>2,345,533</u>	<u>2,215,060</u>
Total liabilities and equity		<u>\$ 3,626,440</u>	<u>\$ 3,566,321</u>

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		<u>\$ 131,110</u>	<u>\$ 128,827</u>
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		<u>(82)</u>	<u>593</u>
		<u>(69)</u>	<u>712</u>
Total comprehensive income		<u>\$ 131,041</u>	<u>\$ 129,539</u>
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

<i>(in thousands of US dollars)</i>	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
<i>Items that will be subsequently reclassified to profit or loss:</i>					
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
<i>Items that will not be reclassified to profit or loss:</i>					
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	<u>\$ 480,727</u>	<u>\$ 651,366</u>	<u>\$ 1,068,157</u>	<u>\$ 14,810</u>	<u>\$ 2,215,060</u>
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	<u>480,727</u>	<u>651,366</u>	<u>1,068,692</u>	<u>13,881</u>	<u>2,214,666</u>
Total comprehensive income for the year					
Profit for the period	-	-	-	131,110	131,110
<i>Items that will be subsequently reclassified to profit or loss:</i>					
Change in the fair value of derivative financial assets and liabilities	-	-	13	-	13
<i>Items that will not be reclassified to profit or loss:</i>					
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	<u>\$ 480,755</u>	<u>651,483</u>	<u>1,068,386</u>	<u>144,909</u>	<u>2,345,533</u>

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		<u>253,342</u>	<u>217,656</u>
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		<u>(112,800)</u>	<u>(106,289)</u>
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		<u>(135,364)</u>	<u>(133,804)</u>
Effect of exchange rate changes on cash and cash equivalents		55	(164)
Net increase(decrease) in cash and cash equivalents		<u>5,233</u>	<u>(22,601)</u>
Cash and cash equivalents at the beginning of the year		<u>138,390</u>	<u>160,991</u>
Cash and cash equivalents at the end of the year		<u>\$ 143,623</u>	<u>\$ 138,390</u>

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

1. General Information

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\$ 478,105 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:

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

2. Significant Accounting Policies

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

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

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards and interpretations 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 36 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 36 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.

- Korean IFRS 1109 *Financial Instruments*

The narrow-scope amendments made to Korean IFRS 1109 *Financial Instruments* enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. When a modification of a financial liability measured at amortized cost that does not result in the derecognition, a modification gain or loss shall be recognized in profit or loss. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted.

- Amendments to Korean IFRS 1019 *Employee Benefits*

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendments are effective for plan amendments, curtailments and settlements occurring in reporting periods that begin on or after 1 January 2019.

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

The amendments clarify that an entity shall apply Korean IFRS 1109 to financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted. In accordance with the transitional provisions in Korean IFRS 1109, the restatement of the comparative information is not required and the cumulative effects of initially applying the amendments retrospectively should be recognized in the beginning balance of retained earnings (or other components of equity, as appropriate) at the date of initial application.

- Enactment to Interpretation of Korean IFRS 2123 *Uncertainty over Income Tax Treatments*

The Interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed. This Interpretation will be applied for annual periods beginning on or after January 1, 2019, and an entity can either restate the comparative financial statements retrospectively or recognize the cumulative effect of initially applying the Interpretation as an adjustment in the beginning balance at the date of initial application.

- Annual Improvements to Korean IFRS 2015 – 2017 Cycle:

- Korean IFRS 1103 *Business Combination*

The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business

combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation. These amendments will be applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early adoption permitted.

- Korean IFRS 1111 *Joint Agreements*

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured. These amendments will be applied to transactions in which an entity obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early adoption permitted.

- Paragraph 57A of Korean IFRS 1012 *Income Tax*

The amendment is applied to all the income tax consequences of dividends and requires an entity to recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. These amendments will be applied for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted.

- Korean IFRS 1023 *Borrowing Costs*

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings. These amendments will be applied to borrowing costs incurred on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early adoption permitted.

2.3 Subsidiaries and Shares in Investees accounted for using Equity Method

These separate financial statements are prepared and presented in accordance with Korean IFRS 1027 Separate Financial Statements. The Company applied the cost method to investments in subsidiaries and associates in accordance with Korean IFRS 1027. Dividends from a subsidiaries or associates are recognized in profit or loss when the right to receive the dividend is established.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which each entity operates (the 'functional currency'). The separate financial statements are presented in US dollar, which is the Parent Company's functional 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. They are deferred in other comprehensive income if they relate to qualifying cash flow hedges and qualifying effective portion of net investment hedges, or are attributable to monetary part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss within 'other income or other expenses'.

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 by applying the below exchange rates. The translation differences are recognized as other comprehensive income(loss):

- 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 for the reporting period.
- equity is translated at the historical exchange rate.
- all resulting exchange differences are recognized in other comprehensive income.

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 'finance income or costs' 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 'finance income or costs' 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 expected credit losses on debt instruments carried at amortized cost and fair value through other comprehensive income based on forward-looking information. The impairment methodology applied depends on whether there has been a significant increase in credit risk. However, for trade receivables, the Company applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables.

(d) Recognition and 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 separate statements of

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

2.6 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently 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 Trade Receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less loss allowance.

2.8 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.

2.9 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.

2.10 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:

	<u>Useful lives(Years)</u>
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.

2.11 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.

2.12 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:

	<u>Useful lives(Years)</u>
Development costs	5
Other Intangible Assets	5

2.13 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.

2.14 Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of reporting period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities, unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method

2.15 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 separate 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 separate 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.

2.16 Provisions

Provisions for service warranties, make good obligation, and legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. 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.

2.17 Current and Deferred Tax

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

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

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

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

2.18 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.

2.19 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, the Company recognizes revenue as performance obligation is satisfied and the recognized revenue amount is allocated transaction price for the

satisfied performance obligation. For performance obligations satisfied over time, the Company recognizes revenue over time by selecting an appropriate method for measuring the Company's progress towards complete satisfaction of that performance obligation.

(c) Variable consideration

In addition to the freight charge from contracts with customers, there may be a discount charge(dispatch money) to be paid to the shippers for early loading / unloading of cargoes or late fee(demurrage) to be paid to the shipping companies for delay of loading / unloading of cargoes. Accordingly, consideration from customers can be vary. 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.

(d) 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 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 the Company to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

2.20 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.

2.21 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.

2.22 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.

2.23 Financial Guarantee Contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value, subsequently at the higher of following and recognized in the statement of financial position within 'other financial liabilities'.

- the amount determined in accordance with the expected credit loss model under Korean IFRS 1109 *Financial Instruments* and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with Korean IFRS 1115 *Revenue from Contracts with Customers*

2.24 Approval of Issuance of the Financial Statements

The financial statements 2018 of the Company were 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 preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

(a) Income taxes

The Company's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 23).

4. Financial Risk Management

4.1 Financial Risk Factors

The Company's activities exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out under policies approved by the Board of Directors. The board reviews and approves written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

4.1.1 Market risk

(1) Foreign exchange risk

The Company's revenue and expenses are denominated primarily in U.S. dollars, the functional currency. The Company's foreign exchange risks mainly comprise:

- transaction risks which arise from day-to-day requirements to pay and/or receive currencies other than U.S. dollars
- foreign exchange exposures arising from repayment obligations or borrowings which are denominated in currencies other than U.S. dollars.

A vast majority of the Company's sales and operating expenses are denominated in U.S. dollars. The Company's vessels are principally chartered in or purchased in U.S. dollars, including those vessels acquired under the terms of lease financing agreements or other similar agreements. Moreover, since the market value of the vessels is denominated in U.S. dollars, the dollar exposure related to the financing of vessels is considered an effective hedge.

The Company does not actively use foreign exchange derivative instruments as a means of

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hedging transaction risks. The risk is reduced through matching, as far as possible, receipts and payments in each individual currency. The Company holds bank deposits, beneficiary certificates and borrowings denominated in Korean won that are short-term in nature, therefore, foreign exchange risk of these assets and liabilities may not be material.

Gain and loss on foreign currency translations and transactions as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	<u>2018</u>	<u>2017</u>
Gains (losses) on foreign currency translations	\$ (919)	\$ 2,118
Gains (losses) on foreign currency transactions	(387)	2,841

The Company is primarily exposed to exchange risk in relation to currencies other than USD. Exposures to exchange risk in relation to currencies other than USD as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 39,748	\$ 26,826
Trade receivables	9,678	9,097
Other receivables	392	2,248
Trade payables	(20,495)	(14,207)
Other non-trade payables	(5,847)	(4,321)
Long-term borrowings	(55,004)	-
Bonds	(31,303)	(14,000)
Other	33,519	36,378
	<u>\$ (29,312)</u>	<u>\$ 42,021</u>

The effect of a 10% increase or decrease in exchange rates on profit before tax as at December 31, 2018 and 2017, is as follows:

<i>(in thousands of US dollars)</i>	<u>2018</u>	<u>2017</u>
Exchange rate at the 10% increase	\$ 2,709	\$ (3,228)
end of the period 10% decrease	(3,308)	3,951

(2) Price risk

The Company is exposed to charter contract price risk arising from various market conditions. The Company enters into forward freight agreements (FFAs) to hedge, in whole and in part, the exposure to changes in fair values and cash flows of long-term chartered-in vessels as a result of market fluctuations with respect to freight spot contract rates derived in utilizing these vessels. The Company is responding to freight-leading contracts and long-term presidential election contracts to

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effectively hedge risks. Generally, the Company enters into charter contract according to BDI (Baltic Dry Index) or other similar index.

The Company is exposed to fuel oil purchase price risk arising from various market conditions. The Company enters into commodity swap/options contracts to hedge, in whole and in part, the exposure to changes in fair values and cash flows of relevant fuel oil contracts as a result of market fluctuations. In order to retain hedge effectiveness, the Company matches commodity swap contracts with the fuel oil contracts. Generally, the underlying agreement pursuant to which the Company charters vessels will be based on WTI or a similar index.

The Company will then attempt to match FFAs and commodity swap contracts that the Company has entered into with a third party, which is usually another shipping company, a shipper or a financial institution, with such charter-in agreement in terms of the duration and index in order to hedge against any market fluctuations in freight spot contract rates and fuel oil purchase prices, and “lock in” a profit margin. In order to reduce counterparty risk, all the relevant agreements require periodic cash settlement, depending on the movement of the relevant index. The Company limits the counterparties for such transactions to long-time market participants. Most of forward freight agreements have terms of between three to twelve months.

The effect of a 10% increase or decrease of in the BDI index applicable to forward freight agreements (FFAs) would have resulted in an increase (decrease) in profit before tax as at December 31, 2018 and 2017, as follows:

<i>(in thousands of US dollars)</i>		<u>2018</u>	<u>2017</u>
BDI index	10% increase	\$ 356	\$ 553
	10% decrease	(356)	(553)

The effect of a 10% increase or decrease of in the index applicable to commodity swap/option would have resulted in an increase (decrease) in profit before tax as at December 31, 2018 and 2017, as follows:

<i>(in thousands of US dollars)</i>		<u>2018</u>	<u>2017</u>
Commodity Swap/Option	10% increase	\$ 855	\$ 875
	10% decrease	(855)	(875)

The Company is exposed to other price fluctuation risks associated with financial assets measured at fair value through other comprehensive income that are subject to fluctuations in fair value or future cash flows due to changes in market prices. The Company regularly measures the fluctuation risk of the fair value of future cash flows of equity instruments.

(3) Interest risk

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Interest rate risk is defined as the risk that the interest expenses arising from borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises on floating rate borrowings. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty in interest rates fluctuations and interest expense.

Book amounts of interest-bearing financial liabilities held by the Company for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Financial liabilities with fixed interest rate	\$ 115,347	\$ 143,953
Financial liabilities with floating interest rate	892,637	996,727
	<u>\$ 1,007,984</u>	<u>\$ 1,140,680</u>

The Company does not recognize financial instruments with fixed interest rate as financial instruments at fair value through profit or loss, and does not designate derivatives such as interest rate swap as hedge instrument of fair value hedge accounting. Therefore, changes in interest rates do not affect profit or loss.

The effect of a 0.5% increase (decrease) in interest rates would have resulted in a decrease (increase) in profit before tax as at December 31, 2018 and 2017, as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Interest rate 0.5% increase	\$ (4,049)	\$ (4,413)
0.5% decrease	4,049	4,413

4.1.2 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. Outstanding balances of financial assets which represent maximum exposures of credit risk as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Non-current		
Other receivables	\$ 22,062	\$ 17,114
Derivative financial assets	-	174
Other financial assets	12,215	13,297
	<u>34,277</u>	<u>30,585</u>
Current		
Cash and cash equivalent ¹	141,965	137,751
Trade receivables	107,156	65,257

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Other receivables	27,300	21,912
Derivative financial assets	1,006	2,772
Other financial assets	9,893	29,894
Financial guarantee contracts	33,000	10,903
	<u>320,320</u>	<u>268,489</u>
	<u>\$ 354,597</u>	<u>\$ 299,074</u>

¹ Excludes 'cash on hand'.

The Company requests for collaterals or additional credit based on the credit of the counterparty; however, these requests do not have a material impact on the credit risk that the Company is exposed to.

4.1.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company's treasury department aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the Company's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal to their carrying balances as the impact of discounting is not significant.

(in thousands of US dollars)

	2018				
	Less than 1 month	Between 1 and 2 years	Between 2 and 4 years	Over 4 years	Total
Borrowings ¹	\$ 377,795	\$ 337,069	\$ 200,672	\$ 192,430	\$ 1,107,966
Derivative financial liabilities	2,484	1	-	-	2,485
Trade payables	69,919	-	-	-	69,919
Other payables	53,929	-	-	-	53,930
Financial guarantee contracts	33,000	-	-	-	33,000
	<u>\$ 537,127</u>	<u>\$ 337,070</u>	<u>\$ 200,672</u>	<u>\$ 192,430</u>	<u>\$ 1,267,299</u>

(in thousands of US dollars)

	2017				
	Less than 1 month	Between 1 and 2 years	Between 2 and 4 years	Over 4 years	Total
Borrowings ¹	\$ 341,578	\$ 276,236	\$ 386,216	\$ 272,767	\$ 1,276,797
Derivative financial liabilities	133	14	-	-	147
Trade payables	68,523	-	-	-	68,523
Other payables	42,410	-	-	-	42,410
Financial guarantee	10,903	-	-	-	10,903

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contracts

\$ 463,547	\$ 276,250	\$ 386,216	\$ 272,767	\$ 1,398,780
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¹ Borrowings consist of short-term borrowings, long-term borrowings, bonds and payables for vessels. Borrowings for vessels includes \$ 99,982 thousand and \$ 136,118 thousand of finance costs as at December 31, 2018 and 2017, respectively.

4.2 Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'short and long-term borrowings' as shown in the separate statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the separate statement of financial position plus net debt.

The gearing ratios as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Total borrowings	\$ 1,007,984	\$ 1,140,679
Less: cash and cash equivalents	(143,623)	(138,390)
Net debt (A)	864,360	1,002,289
Total equity (B)	2,345,533	2,215,060
Total capital (C = A + B)	\$ 3,209,894	\$ 3,217,349
Gearing ratio (A / C)	27%	31%

5. Fair Value of Financial Assets and Liabilities

5.1 Fair value of Financial Instruments by Category

There are no significant changes in the business and economic environment that affect the fair value of the Company's financial assets and liabilities in 2018. Financial instruments whose carrying amount is a reasonable approximation of fair value are excluded from fair value disclosures.

Carrying amount and the fair value of financial assets as at December 31, 2018 and 2017, are as follows:

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<i>(in thousands of US dollars)</i>	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current				
Derivative financial assets	\$ -	\$ -	\$ 174	\$ 174
Financial assets at fair value through profit or loss	5,658	5,658	-	-
Available-for-sale financial assets	-	-	6,528	6,528
Financial assets measured at fair value through other comprehensive income	3,611	3,611	-	-
Current				
Derivative financial assets	1,006	1,006	2,772	2,772
Financial assets at fair value through profit or loss	156	156	-	-
	<u>\$ 10,431</u>	<u>\$ 10,431</u>	<u>\$ 9,474</u>	<u>\$ 9,474</u>

Carrying amount and the fair value of financial liabilities as at December 31, 2018 and 2017, are summarized as follows:

<i>(in thousands of US dollars)</i>	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current				
Derivatives financial liabilities	\$ 1	\$ 1	\$ 14	\$ 14
Current				
Derivatives financial liabilities	2,484	2,484	132	132
	<u>\$ 2,485</u>	<u>\$ 2,485</u>	<u>\$ 146</u>	<u>\$ 146</u>

¹ Financial liabilities whose carrying amount is a reasonable approximation of fair value are excluded from fair value disclosures.

5.2 Fair value Hierarchy

Assets measured at fair value or for which the fair value is disclosed are categorized within the fair value hierarchy, and the defined levels are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

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Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value or its fair value is disclosed as at December 31, 2018 and 2017, are as follows:

(in thousands of US dollars)

	2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Non-current				
Financial assets at fair value through profit or loss	\$ -	\$ 5,658	\$ -	\$ 5,658
Financial assets measured at fair value through other comprehensive income	-	-	3,611	3,611
Derivatives financial assets	-	-	-	-
	-	5,658	3,611	9,269
Current				
Financial assets at fair value through profit or loss	-	157	-	157
Derivatives financial assets	1,006	-	-	1,006
	1,006	157	-	1,163
	\$ 1,006	\$ 5,815	\$ 3,611	\$ 10,432
Financial liabilities				
Non-current				
Derivatives financial liabilities	\$ -	\$ 1	\$ -	\$ 1
	-	1	-	1
Current				
Derivatives financial liabilities	2,484	-	-	2,484
	2,484	-	-	2,484
	\$ 2,484	\$ 1	\$ -	\$ 2,485

(in thousands of US dollars)

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Non-current				
Derivatives financial assets	\$ 174	\$ -	\$ -	\$ 174
Other financial assets	-	6,528	-	6,528
	174	6,528	-	6,702
Current				
Derivatives financial assets	2,772	-	-	2,772
	2,772	-	-	2,772
	\$ 2,946	\$ 6,528	\$ -	\$ 9,474
Financial liabilities				
Non-current				

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	2017			
	Level 1	Level 2	Level 3	Total
Derivatives financial liabilities	\$ -	\$ 14	\$ -	\$ 14
	-	14	-	14
Current				
Derivatives financial liabilities	133	-	-	133
	133	-	-	133
	\$ 133	\$ 14	\$ -	\$ 147

5.3 Valuation Technique and the Inputs

Valuation techniques and inputs used in the fair value of assets and liabilities categorized within Level 2 of the fair value hierarchy as at December 31, 2018 and 2017, are as follows:

(in thousands of US dollars)

(in thousands of US dollars)		Valuation techniques		Inputs	
Fair value					
2018	2017				
Assets					
Financial assets at fair value through profit or loss (current)	\$ 156	\$ -	Market comparison technique (Ship Fund)	Adjusted market price of underlying asset	
Financial assets at fair value through profit or loss (non-current)	5,658	6,528	Market comparison technique (Ship Fund)	Adjusted market price of underlying asset	
Liabilities					
Derivatives financial liabilities (current)	-	-	Market comparison technique(Interest-rate Swap)	Interest rate of 3 month USD Libor	
Derivatives financial liabilities (non-current)	1	14	Market comparison technique(Interest-rate Swap)	Interest rate of 3 month USD Libor	

6. Financial Instrument by Category

(1) Categorizations of financial assets as at December 31, 2018 and 2017, are as follows:

(in thousands of US dollars)

	2018			
	Financial assets at fair value			Total
	Financial assets at fair value through profit or loss	Financial assets through other comprehensive income	Financial assets at amortized cost	
Non-current				
Other receivables	\$ -	\$ -	\$ 22,063	\$ 22,063

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(in thousands of US dollars)

	2018			
	Financial assets at fair value			
	Financial assets at fair value through profit or loss	through other comprehensive income	Financial assets at amortized cost	Total
Derivatives financial assets	-	-	-	-
Other financial assets	5,658	3,611	6,559	15,828
	5,658	3,611	28,622	37,891
Current				
Cash and cash equivalents	-	-	143,623	143,623
Trade receivables	-	-	107,156	107,156
Other receivables	-	-	27,300	27,300
Derivatives financial assets	1,006	-	-	1,006
Other financial assets	156	-	9,737	9,893
	1,162	-	287,816	288,978
	\$ 6,820	\$ 3,611	\$ 316,438	\$ 326,869

(in thousands of US dollars)

	2017			
	Financial assets at fair value			
	through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
Non-current				
Other receivables	\$ -	17,114	\$ -	17,114
Derivatives financial assets	174	-	-	174
Other financial assets	-	6,772	10,629	17,401
	174	23,886	10,629	34,689
Current				
Cash and cash equivalents	\$ -	\$ 138,390	\$ -	\$ 138,390
Trade receivables	-	65,257	-	65,257
Other receivables	-	21,912	-	21,912
Derivatives financial assets	2,772	-	-	2,772
Other financial assets	-	29,894	-	29,894
	2,772	255,453	-	258,225
	\$ 2,946	\$ 279,339	\$ 10,629	\$ 292,914

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Categorizations of financial liabilities as at December 31, 2018 and 2017, are as follows:

(in thousands of US dollars)

	2018		
	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortized cost	Total
Non-current			
Borrowings	\$ -	\$ 667,285	\$ 667,285
	-	667,285	667,285
Current			
Borrowings	-	340,699	340,699
Derivatives financial liabilities	2,484	-	2,484
Trade payables	-	69,919	69,919
Other payables	-	53,929	53,929
	2,484	464,547	467,031
	\$ 2,484	\$ 1,131,832	\$ 1,134,316

(in thousands of US dollars)

	2017		
	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortized cost	Total
Non-current			
Borrowings	\$ -	842,320	842,320
Derivatives financial liabilities	14	-	14
	14	842,320	842,334
Current			
Borrowings	-	\$ 298,359	\$ 298,359
Derivatives financial liabilities	132	-	133
Trade payables	-	68,524	68,523
Other payables	-	42,410	42,410
	132	409,293	409,425
	\$ 146	\$ 1,251,613	\$ 1,251,759

7. Credit quality of Financial Assets

(1) Trade receivables and other receivables

The aging analysis of trade and other receivables, and the provision for impaired receivable as at December 31, 2018 and 2017, are as follows:

(in thousands of US dollars)

	2018		2017	
	Gross amount	Provision for impairment	Gross amount	Provision for impairment
Trade receivables:				
Not past due	\$ 88,294	\$ (236)	\$ 48,593	\$ (72)
Up to 3 months	12,402	(387)	8,208	(206)
3 to 6 months	2,682	(1,105)	2,384	(944)
Over 6 months	27,165	(21,659)	27,994	(20,700)
	<u>\$ 130,543</u>	<u>\$ (23,387)</u>	<u>\$ 87,179</u>	<u>\$ (21,922)</u>
Other receivables and others				
Not past due	\$ 108,800	\$ (18,504)	\$ 84,266	\$ (18,499)
Up to 3 months	798	(13)	1,266	(24)
3 to 6 months	276	(2)	89	-
Over 6 months	22,178	(21,731)	22,060	(21,724)
	<u>132,052</u>	<u>(40,250)</u>	<u>107,681</u>	<u>(40,247)</u>
	<u>\$ 262,595</u>	<u>\$ (63,637)</u>	<u>\$ 194,860</u>	<u>\$ (62,169)</u>

Movements in provision for impairment of trade and other receivables during the current and prior year are as follows:

(in thousands of US dollars)

	2018	2017
Trade receivables		
Beginning balance	\$ 21,921	\$ 52,364
(Reversal of) provision for impaired receivables during the year	2,440	(10,297)
Write-offs and others	(974)	(20,145)
Ending balance	<u>\$ 23,387</u>	<u>\$ 21,922</u>
Other receivables and others		
Beginning balance	\$ 40,248	\$ 40,236
(Reversal of) provision for impaired receivables during the year	36	47
Write-offs and others	(34)	(35)
Ending balance	<u>\$ 40,250</u>	<u>\$ 40,248</u>

Trade and other receivables neither past due nor impaired relate to a number of independent

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customers who have no recent history of default. The aging analysis of receivables past due but not impaired as at December 31, 2018 and 2017, is as follows:

	2018					Total
	Less than 3 months	3 to 6 months	6 months to 1 year	1 year to 2 years	More than 2 years	
Trade receivables	\$ 12,015	\$ 1,577	\$ 1,037	\$ 612	\$ 3,857	\$ 19,098
Other receivables and others	785	274	82	319	45	1,506
	<u>\$ 12,800</u>	<u>\$ 1,851</u>	<u>\$ 1,119</u>	<u>\$ 931</u>	<u>\$ 3,903</u>	<u>\$ 20,604</u>

	2017					Total
	Less than 3 months	3 to 6 months	6 months to 1 year	1 year to 2 years	More than 2 years	
Trade receivables	\$ 8,003	\$ 1,440	\$ 1,443	\$ 1,845	\$ 4,005	\$ 16,736
Other receivables and others	1,242	89	288	3	45	1,667
	<u>\$ 9,245</u>	<u>\$ 1,529</u>	<u>\$ 1,731</u>	<u>\$ 1,848</u>	<u>\$ 4,050</u>	<u>\$ 18,403</u>

(2) Other financial assets

The Company limits its exposure to credit risk by operating funds only in short-term deposit and only with counterparties that have high credit ratings such as Korea Development Bank.

8. Cash and Cash Equivalents

Details of cash and cash equivalents as at December 31, 2018 and 2017, are summarized as follows:

	2018	2017
Cash on hand	\$ 1,658	\$ 639
Deposits and others	141,965	137,751
	<u>\$ 143,623</u>	<u>\$ 138,390</u>

9. Trade Receivables

Trade receivables as at December 31, 2018 and 2017, are summarized as follows:

	2018	2017
Current :		
Trade receivables	\$ 130,543	\$ 87,178
Less: provision for impairment	(23,387)	(21,921)
	<u>\$ 107,156</u>	<u>\$ 65,257</u>

10. Other Receivables

Details of other receivables as at December 31, 2018 and 2017, are summarized as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Non-current :		
Loan	\$ 314	\$ 128
Deposit provided	21,748	16,986
	22,062	17,114
Current :		
Loan	24,014	26,055
Less: provision for impairment	(16,578)	(16,612)
Prepayment	23,687	13,135
Less: provision for impairment	(1,761)	(1,723)
Other receivable	3,959	6,202
Less: provision for impairment	(2,930)	(2,932)
	30,391	24,125
	<u>\$ 52,453</u>	<u>\$ 41,239</u>

11. Derivative Financial Assets and Liabilities

(1) Derivative financial assets and liabilities as at December 31, 2018 and 2017, are summarized as follows:

<i>(in thousands of US dollars)</i>	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Non-current				
Forward freight agreement	\$ -	\$ -	\$ 174	\$ -
Interest rate swap	-	1	-	14
	-	1	174	14
Current				
Forward freight agreement	512	72	1,210	107
Commodity swap/option	494	2,412	1,562	26
	1,006	2,484	2,772	133
	<u>\$ 1,006</u>	<u>\$ 2,485</u>	<u>\$ 2,946</u>	<u>\$ 147</u>

(2) Gains and losses on valuation and transaction of derivative financial assets and liabilities for the years ended December 31, 2018 and 2017, are summarized as follows:

<i>(in thousands of US dollars)</i>	2018		2017	
	Gains (losses) on transaction	Gains (losses) on valuation	Gains (losses) on transaction	Gains (losses) on valuation
Forward freight agreement	\$ (254)	\$ 148	\$ (437)	\$ 1,277

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Interest rate swap	-	13	-	75
Commodity swap/option	641	(2,267)	217	1,537
	<u>\$ 387</u>	<u>\$ (2,106)</u>	<u>\$ (220)</u>	<u>\$ 2,889</u>
Other non-operating income(expenses)	\$ 387	\$ (2,119)	\$ (220)	\$ 2,814
Other comprehensive income	-	13	-	75

12. Other Financial Assets

(1) Details of other financial assets by categories as at December 31, 2018 and 2017, are follows:

<i>(in thousands of US dollars)</i>	2018	2017
Loans and receivables:		
Deposit and others ¹	\$ 16,294	\$ 36,666
	<u>16,294</u>	<u>36,666</u>
Available-for-sales financial assets:		
Unlisted shares	3,611	4,102
Beneficiary certificates	5,814	6,528
	<u>9,425</u>	<u>10,630</u>
	<u>\$ 25,719</u>	<u>\$ 47,296</u>
Non-current	\$ 15,826	\$ 17,402
Current	9,893	29,894

¹ As at December 31, 2018, financial assets amounting to \$ 7,122 thousand are restricted in use due to an escrow for cash reimbursement according to the amended reorganization plan (Note 31).

(2) Equity instruments which were classified as financial assets measured at fair value through other comprehensive income (available-for-sale), but for which fair value could not be reasonably assessed are recognized at cost. Details of unmarketable equity instruments recognized at cost as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018		2017	
	Percentage of ownership	Book amount	Percentage of ownership	Book amount
Korea P&I Club	-	\$ -	8.25%	\$ 491
Taeyoung Grain Terminal Co., Ltd.	7.00%	3,611	7.00%	3,611
		<u>3,611</u>		<u>4,102</u>

(3) Changes in unlisted stocks and beneficiary certificates, etc. for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
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Beginning balance	\$	10,630	\$	11,576
Additions		-		-
Disposal		(1,202)		(990)
Gains (losses) on valuation, net		(3)		44
Ending balance	\$	<u>9,425</u>	\$	<u>10,630</u>

13. Inventories

Inventories as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>		2018		2017
Fuel	\$	41,790	\$	34,624
Spare parts and others		<u>12,807</u>		<u>12,282</u>
	\$	<u>54,597</u>	\$	<u>46,906</u>

The cost of inventories included in cost of sales as expenses during the year is \$ 550,786 thousand (2017: \$ 438,975 thousand).

14. Other Assets

Details of other assets as at December 31, 2018 and 2017, are summarized as follows:

<i>(in thousands of US dollars)</i>		2018		2017
Non-current :				
Reimbursement receivables	\$	<u>4,447</u>	\$	<u>4,840</u>
		<u>4,447</u>		<u>4,840</u>
Current :				
Prepayments		58,329		45,176
Less: provision for impairment		(18,981)		(18,981)
Prepaid expenses		70,248		56,981
Prepaid income tax		395		-
Accrued income		<u>214</u>		<u>89,748</u>
		<u>110,205</u>		<u>172,924</u>
	\$	<u>114,652</u>	\$	<u>177,764</u>

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15. Investments in Subsidiaries, Associates and Joint Ventures

(1) Details of subsidiaries, associates and joint ventures as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>		2018				
	Name of entity	Country	Interest held	Closing date	Main business	Book amount
Subsidiaries	Pan Ocean (America) Inc. ¹	USA	34%	December 31, 2018	Shipping	\$ 8,244
	Pan Ocean Singapore Bulk Carrier Pte. Ltd.	Singapore	100%	December 31, 2018	Shipping	5,092
	Pan Ocean(China) Co., Ltd.	China	100%	December 31, 2018	Shipping	15,000
	STX Pan Ocean(U.K.) Co., Ltd.	U.K.	100%	December 31, 2018	Shipping	-
	Pan Ocean Japan Corporation	Japan	100%	December 31, 2018	Shipping	6,954
	Pan Ocean Brasil Apoio Maritimo Ltda.	Brazil	100%	December 31, 2018	Shipping	2,500
	POS SM Co., Ltd.	Korea	100%	December 31, 2018	Ship Management	3,368
Associates	Korea LNG Trading Co., Ltd. ²	Korea	18%	December 31, 2018	Shipping	461
	Busan Cross Dock, Ltd.	Korea	20%	December 31, 2018	Warehousing	791
						<u>\$ 42,410</u>

¹ Although the Company owns less than half of the entity's share and voting power, management has determined that the Company controls the entity by virtue of an agreement with its other shareholders.

² Although the Company holds less than 20% interest, the Company has significant influence as the Company's management participates as a member of the investee's Board of Directors.

<i>(in thousands of US dollars)</i>		2017				
	Name of entity	Country	Interest held	Closing date	Main business	Book amount
Subsidiaries	Pan Ocean (America) Inc. ¹	USA	34%	December 31, 2017	Shipping	\$ 12,700
	Pan Ocean Singapore Bulk Carrier Pte. Ltd.	Singapore	100%	December 31, 2017	Shipping	5,092
	Pan Ocean(China) Co., Ltd.	China	100%	December 31, 2017	Shipping	15,000
	STX Pan Ocean(U.K.) Co., Ltd.	U.K.	100%	December 31, 2017	Shipping	-
	Pan Ocean Japan Corporation	Japan	100%	December 31, 2017	Shipping	6,954
	Pan Ocean Brasil Apoio Maritimo Ltda.	Brazil	100%	December 31, 2017	Shipping	4,380
	POS SM Co., Ltd.	Korea	100%	December 31, 2017	Ship Management	3,368
Associates	Korea LNG Trading Co., Ltd. ²	Korea	18%	December 31, 2017	Shipping	461

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Busan Cross Dock, Ltd.	Korea	20%	December 31, 2017	Warehousing	791
YEGRINA Co., Ltd. ³	Korea	-	-	-	-
					<u>\$ 48,746</u>

¹ Although the Company owns less than half of the entity's share and voting power, management has determined that the Company controls the entity by virtue of an agreement with its other shareholders.

² Although the Company holds less than 20% interest, the Company has significant influence as the Company's management participates as a member of the investee's Board of Directors.

³ As at December 31, 2017, the liquidation procedure is in progress.

(2) Changes in investments subsidiaries and associates for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018		
	Subsidiaries	Associates	Total
Beginning balance	\$ 47,493	\$ 1,252	\$ 48,745
Impairment	(6,335)	-	(6,335)
Ending balance	<u>\$ 41,158</u>	<u>\$ 1,252</u>	<u>\$ 42,410</u>

<i>(in thousands of US dollars)</i>	2017		
	Subsidiaries	Associates	Total
Beginning balance	\$ 50,655	\$ 1,252	\$ 51,907
Impairment	(3,162)	-	(3,162)
Ending balance	<u>\$ 47,493</u>	<u>\$ 1,252</u>	<u>\$ 48,745</u>

16. Vessels, Property and Equipment

(1) Changes in vessels, property and equipment for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018						
	Land	Buildings	Vessels	Vehicles	Tools, furniture & fixture	Construction in progress	Total
Opening net book amount	\$ 6	\$ 6,512	\$ 2,963,129	\$ 7	\$ 5,273	\$ 18,403	\$ 2,993,329
Additions	-	-	21,854	68	6,300	134,220	162,442
Disposal	-	(100)	(10,431)	-	-	-	(10,531)
Depreciation	-	(159)	(149,089)	(13)	(1,378)	-	(150,638)

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Impairment loss on vessels, property and equipment	-	-	(1,308)	-	-	-	(1,308)
Closing net book amount	\$ 6	\$ 6,253	\$ 2,824,155	\$ 62	\$ 10,195	\$ 152,623	\$ 2,993,294

2017							
(in thousands of US dollars)	Land	Buildings	Vessels	Vehicles	Tools, furniture & fixture	Construction in progress	Total
Opening net book amount	\$ 6	\$ 6,672	\$ 2,964,565	\$ 13	\$ 4,750	\$ 29,640	\$ 3,005,646
Additions	-	-	48,622	-	65	86,012	134,699
Disposal	-	-	(1,725)	-	(3)	-	(1,728)
Depreciation	-	(160)	(143,727)	(6)	(1,394)	-	(145,287)
Replacement	-	-	95,394	-	1,855	(97,249)	-
Closing net book amount	\$ 6	\$ 6,512	\$ 2,963,129	\$ 7	\$ 5,273	\$ 18,403	\$ 2,993,330

For the year ended December 31, 2018, depreciation expense of \$ 150,047 thousand (2017: \$ 144,409 thousand) is included in cost of sales, \$ 743 thousand (2017: \$ 981 thousand) in selling and administrative expenses and depreciation expense of US\$ 150,790 thousand includes US\$ 153 thousand subject to the capitalization of costs to fulfil a contract.

(2) The acquisition costs, accumulated depreciation and accumulated impairment losses for each item of vessels, property and equipment as at December 31, 2018 and 2017, are as follows:

(in thousands of US dollars)	2018			2017		
	Cost	Accumulated depreciation	Accumulated impairment losses	Cost	Accumulated depreciation	Accumulated impairment losses
Land	\$ 6	\$ -	\$ -	\$ 6	\$ -	\$ -
Buildings	13,083	(2,218)	(4,612)	13,240	(2,116)	(4,612)
Vessels	4,231,985	(1,032,941)	(374,889)	4,266,231	\$ (923,566)	\$ (379,536)
Vehicles	96	(34)	-	56	(49)	-
Tools, furniture & fixture	39,967	(29,772)	-	34,649	(29,376)	-
Construction-in-progress	152,623	-	-	18,403	-	-
	<u>\$ 4,437,760</u>	<u>\$ (1,064,965)</u>	<u>\$ (379,501)</u>	<u>\$ 4,332,585</u>	<u>\$ (955,107)</u>	<u>\$ (384,148)</u>

(3) As at December 31, 2018 and 2017, the book amounts of vessels include the following amounts where the Company is a lessee under finance leases:

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(in thousands of US dollars)	2018			2017		
	Cost	Accumulated depreciation	Accumulated Impairment losses	Cost	Accumulated depreciation	Accumulated Impairment losses
Vessels	\$ 3,992,177	\$ (941,637)	\$ (351,633)	\$ 4,015,692	\$ (820,147)	\$ (359,508)
Construction-in-progress	26,029	-	-	18,403	-	-
	<u>\$ 4,018,206</u>	<u>\$ (941,637)</u>	<u>\$ (351,633)</u>	<u>\$ 4,034,095</u>	<u>\$ (820,147)</u>	<u>\$ (359,508)</u>

(4) Amount of borrowing costs capitalized of for the years ended December 31, 2018 and 2017, were \$ 3,970 thousand and \$ 773 thousand, respectively, and the capitalization rates used to determine the amount of borrowing costs eligible for capitalization for the years ended December 31, 2018 and 2017, were 4.20% and 3.71%, respectively.

17. Intangible Assets

(1) Intangible assets as at December 31, 2018 and 2017, are summarized as follows:

(in thousands of US dollars)	2018	2017
Computer software	\$ 223	\$ 340
Club membership	4,110	4,109
	<u>\$ 4,333</u>	<u>\$ 4,449</u>

(2) Changes in intangible assets for the years ended December 31, 2018 and 2017, are as follows:

(in thousands of US dollars)	2018		
	Computer software	Club membership	Total
Beginning balance	\$ 340	\$ 4,110	\$ 4,449
Additions	59	-	59
Disposals	-	-	-
Amortization	(175)	-	(175)
Ending Balance	<u>\$ 223</u>	<u>\$ 4,110</u>	<u>\$ 4,333</u>

(in thousands of US dollars)	2017		
	Computer software	Club membership	Total
Beginning balance	\$ 347	\$ 3,569	\$ 3,916
Additions	143	797	940
Disposals	-	(257)	(257)
Amortization	(150)	-	(150)
Ending Balance	<u>340</u>	<u>4,109</u>	<u>4,449</u>

(3) The details of intangible assets as at December 31, 2018 and 2017, are as follows:

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(in thousands of US dollars)

	2018		
	Computer software	Club membership	Total
Acquisition cost	\$ 895	\$ 7,872	\$ 8,766
Accumulated amortization	(671)	-	(671)
Accumulated impairment loss	-	(3,762)	(3,762)
Net book amount	<u>\$ 223</u>	<u>\$ 4,110</u>	<u>\$ 4,333</u>

(in thousands of US dollars)

	2017		
	Computer software	Club membership	Total
Acquisition cost	\$ 15,311	\$ 7,871	\$ 23,182
Accumulated amortization	(14,971)	-	(14,971)
Accumulated impairment loss	-	(3,762)	(3,762)
Net book amount	<u>\$ 340</u>	<u>\$ 4,109</u>	<u>\$ 4,449</u>

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18. Borrowings

(1) Details of borrowings as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Non-current :		
Bond	\$ 37,888	26,500
Long-term borrowings	97,094	67,270
Finance lease liabilities	532,303	748,550
	<u>667,285</u>	<u>842,320</u>
Current :		
Short-term borrowings	25,000	44,125
Current portion of bond	25,915	25,000
Current portion of long-term borrowings	34,074	23,007
Current portion of finance lease liabilities	255,710	206,227
	<u>340,699</u>	<u>298,359</u>
	<u>\$ 1,007,984</u>	<u>\$ 1,140,679</u>

Vessels, property and equipment are pledged as collaterals for the above borrowings. Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. Certain borrowings other than finance lease liabilities are secured by vessels (note 31).

(2) Short-term borrowings as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>		2018		2017	
	Currency	Annual interest rate	Carrying amount	Annual interest rate	Carrying amount
SC Bank	USD	-	-	Libor+1.78%	11,529
SC Bank	USD	-	-	Libor+1.78%	3,596
The Export-Import Bank of Korea	USD	Libor+1.19%	15,000	Libor+1.89%	19,000
China Construction Bank	USD	-	-	Libor+1.60%	10,000
Industrial and Commercial Bank of China	USD	Libor+1.55%	10,000	-	-
			<u>25,000</u>		<u>44,125</u>

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(3) Bond issued as at December 31, 2018 and 2017, is summarized as follows:

<i>(in thousands of US dollars)</i>	Currency	Issue Date	Maturity Date	Annual interest rate	2018	2017
Secured private placed bond 17 th	USD	2016-06-02	2019-06-02	Libor+1.3%	\$ 12,500	\$ 37,500
Unsecured private placed bond 18 th	KRW	2017-11-13	2019-11-13	3.2%	13,416	14,000
Unsecured private placed bond 19 th	KRW	2018-06-22	2020-06-22	3.80%	17,888	-
Sinhan bank FRN 1.5 years (A)	USD	2018-10-12	2020-04-12	Libor+0.85%	5,000	-
Sinhan bank FRN 2.0 years (B)	USD	2018-10-12	2020-10-12	Libor+0.9%	5,000	-
Sinhan bank FRN 2.5 years (C)	USD	2018-10-12	2021-04-12	Libor+0.95%	5,000	-
Sinhan bank FRN 3.0 years (D)	USD	2018-10-12	2021-10-12	Libor+1%	5,000	-
					<u>63,804</u>	<u>51,500</u>
Less: current portion of bond					<u>(25,916)</u>	<u>(25,000)</u>
					<u>\$ 37,888</u>	<u>\$ 26,500</u>

(4) Long-term borrowings as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	Currency	2018		2017	
		Annual interest rate	Carrying amount	Annual interest rate	Carrying amount
DB Insurance Co.,Ltd.	USD	7.20%	\$ 32,254	7.20%	\$ 35,976
Woori Bank	KRW	Libor+1.78%	8,049	-	-
Industrial and Commercial Bank of China	KRW	Libor+1.35%	13,416	Libor+2.03%	45,601
Korea Development Bank	USD	Libor+1.39%	8,700	-	-
ICBC	USD	Libor+2.03%	30,860	-	-
Korea Exchange Bank	KRW	Libor+1.5%	33,539	-	-
Korea Development Bank	USD	Libor+1.3%	4,350	Libor+1.3%	8,700
			<u>131,168</u>		<u>90,277</u>
Less: current portion of long-term borrowings			<u>(34,074)</u>		<u>(23,007)</u>
			<u>\$ 97,094</u>		<u>\$ 67,270</u>

(5) Finance lease liabilities as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>		2018		2017	
	Currency	Annual interest rate	Carrying amount	Annual interest rate	Carrying amount
Mizuho Corporate Bank	USD	Libor+0.65%	\$ 6,780	Libor+0.65%	\$ 12,806
Korea Development Bank	USD	Libor+0.60%~1.70%	34,715	Libor+0.60%~1.70%	53,121
	USD	2.00%	13,662	2.00%	13,662
		46			

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Credit Agricole Corporate and Investment Bank	USD	Libor+0.55%	12,771	Libor+0.55%~3.25%	24,546
	USD	-	-	5.37%	626
DNB Bank	USD	-	-	Libor+2.00%~3.50%	21,457
BNP Paribas	USD	Libor+0.325%	3,349	Libor+0.325%	6,698
Sumitomo Mitsui Banking Corporation	USD	Libor+0.9%	12,282	Libor+0.90%	16,974
Korea Export and Import Bank	USD	Libor+1.90%~3.00%	23,970	Libor+1.90%~3.00%	28,421
China Construction Bank	USD	Libor+2.65%	13,668	Libor+2.65%	17,556
Bank of China	USD	-	-	Libor+2.10%	4,444
ABN AMRO Bank N.V.	USD	Libor+2.00%~3.30%	352,865	Libor+2.00%~3.30%	423,802
	USD	Libor+1.75%	4,386	-	-
NIBC Bank	USD	-	-	Libor+2.85%	15,577
Norddeutsche Landesbank	USD	Libor+1.60%~2.80%	157,284	Libor+1.60%~2.80%	185,913
United Overseas Bank Limited Co.	USD	-	-	Libor+2.60%	5,732
DBInsurance Co., Ltd.	USD	7.20%	16,127	7.20%	17,988
CJL NO. 1 LLC	USD	-	-	-	-
DVB Transport Finance Ltd, Tokyo Branch	USD	-	-	-	-
National Foundation of Fisheries Cooperatives	USD	Libor+3.5%	21,500	Libor+2.50%	21,500
ING Bank N.V.	USD	Libor+1.95%~2.95%	43,304	Libor+1.95%~2.95%	59,754
	USD	Libor+3.5%	5,000	-	-
Korea Asset Management Corporation	USD	3.65%	22,000	3.65%	24,200
Societe Generale Bank	USD	Libor+1.68%	44,351	-	-
			788,014		954,777
Less: Current portion of finance lease liabilities			(255,710)		(206,227)
			<u>\$ 532,304</u>		<u>\$ 748,550</u>

19. Other Payables

Details of other liabilities as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Non-trade payable	\$ 6,669	7,849
Dividend payable	-	5
Withholdings ¹	48,198	35,497
	<u>\$ 54,867</u>	<u>43,351</u>

¹The Company received government grants related to eco-ship conversion project.

20. Provisions

(1) Changes in provisions for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018			
	Opening net book amount	Effect of accounting changes	Reversal of provision	Paid or transferred amount
				Closing net book amount

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Non-current	\$	28,727	\$	-	\$	(242)	\$	(3,910)	\$	24,575
Current		2,545		258		(546)		-		2,257

(in thousands of US dollars)

	2017			
	Opening net book amount	Reversal of provision	Paid or transferred amount	Closing net book amount
Non-current	31,557	(3,197)	367	28,727
Current	\$ 3,008	\$ (463)	\$ -	\$ 2,545

(2) Non-current provisions

Details of non-current provisions as at December 31, 2018 and 2017, are as follows:

(in thousands of US dollars)

	2018	2017
Litigation for finalization of reorganization claim or security ¹	\$ 16,791	\$ 21,169
Compensation for claims ²	7,784	7,558
	<u>\$ 24,574</u>	<u>\$ 28,727</u>

¹ As at December 31, 2018, 15 lawsuits (amounting to \$ 63,479 thousand) including litigation for finalization of reorganization claim are in progress.

² The amounts are provisions for cargo claims and vessel damages brought against the Company by customers and vessel owners. The amount accrued during the period is recorded as other operating expenses, and recognized non-current provisions for estimated payments of legal provisions.

21. Other Liabilities

Details of other liabilities as at December 31, 2018 and 2017, are as follows:

(in thousands of US dollars)

	2018	2017
Advance received	\$ 48	\$ 2,413
Deferred income	-	19,865
Accrued expense	41,906	40,660
Current tax liabilities	(20)	126
Other	549	-
	<u>\$ 42,483</u>	<u>\$ 63,064</u>

22. Retirement Benefit Obligations

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(1) Details of the retirement benefit obligations related to defined benefit obligations recognized in the statement of financial position as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Present value of defined benefit obligation	\$ 10,157	\$ 11,241
Fair value of plan assets	(6,504)	(7,017)
	<u>\$ 3,653</u>	<u>\$ 4,224</u>

(2) The changes in the defined benefit obligation and the plan assets for the years ended December 31, 2018 and 2017, are as follows:

① The changes in the defined benefit obligations

<i>(in thousands of US dollars)</i>	2018	2017
Beginning	\$ 11,241	\$ 11,259
Current service cost	1,986	2,309
Interest cost	293	300
Benefits paid	(2,864)	(3,345)
Remeasurements	(40)	(644)
Other ¹	(459)	1,362
Ending	<u>\$ 10,157</u>	<u>\$ 11,241</u>

¹ Other changes include the effect of currency translation difference.

② The changes in the plan assets for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Beginning	\$ 7,017	\$ 5,433
Employer contribution	1,051	1,625
Expected return on plan assets	194	150
Remeasurements of defined benefit liability	(122)	(81)
Benefits paid	(1,348)	(852)
Other ¹	(288)	742
Ending	<u>\$ 6,504</u>	<u>\$ 7,017</u>

¹ Other changes include the effect of currency translation difference.

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(3) The amounts of retirement benefits recognized in the separate statement of comprehensive income are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Current service cost	\$ 1,955	\$ 2,309
Interest cost	289	300
Expected return on plan assets	(191)	(150)
Remeasurements of defined benefit liability	83	(563)
	<u>\$ 2,136</u>	<u>\$ 1,896</u>
Cost of sales	\$ 2,053	\$ 2,489
Other comprehensive income	82	(593)

(4) The principal actuarial assumptions used were as follows:

	2018	2017
Discount rate	2.75%	3.00%
Salary growth rate	4.00%	4.00%

(5) As at December 31, 2018 and 2017, the Company has the following component as plan assets.

<i>(in thousands of US dollars)</i>	2018		2017	
	Amount	Ratio	Amount	Ratio
Deposits, etc.	\$ 6,504	100%	\$ 7,017	100

Actual revenues related to plan assets of \$ 72 thousand and \$ 70 thousand are recognized for the years ended December 31, 2018 and 2017, respectively.

(6) Remeasurements of defined benefit liability recognized as other comprehensive income for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Defined benefit obligation:		
- Changes in financial assumptions	\$ 175	\$ (187)
- Experience adjustment	(215)	(492)
	<u>(40)</u>	<u>(679)</u>
Plan assets	122	(86)
	<u>\$ 82</u>	<u>\$ (593)</u>

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(7) The sensitivity of the defined benefit obligation to changes in the principal assumptions as at December 31, 2018, is as follows:

① Discount rate

<i>(in thousands of US dollars)</i>	Changes in discount rate	Discount rate	Book amount	Amount of change
Defined benefit obligation	0.25% increase	3.25%	\$ 9,982	\$ (175)
	-	2.75%	10,157	-
	0.25% decrease	2.75%	10,339	182

② Salary growth rate

<i>(in thousands of US dollars)</i>	Changes in salary growth rate	Salary growth rate	Book amount	Amount of change
Defined benefit obligation	0.25% increase	4.25%	\$ 10,348	\$ 191
	-	4.00%	10,157	-
	0.25% decrease	3.75%	9,973	(184)

(8) Impact of defined benefit plans on future cash flows

The expected maturity analysis of undiscounted pension benefits as at December 31, 2018, is as follows.

<i>(in thousands of US dollars)</i>	Less than 1 year	Between 1 year and 2 years	Between 2 year and 5 years	Over 5 years	Total
Pension benefits	\$ 1,804	\$ 1,640	\$ 4,811	\$ 6,086	\$ 14,341

The weighted average duration of the defined benefit obligations is 7.2 years.

23. Income Tax Expense

(1) The component of income tax expense for the periods ended December 31, 2017 and 2016, is as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Current tax expense	\$ -	\$ 468
Adjustments in respect of prior years	(604)	60
Origination and reversal of temporary differences	-	-
Income tax recognized in other comprehensive income	-	-
Total income tax expense	<u>\$ (604)</u>	<u>\$ 528</u>

(2) Reconciliation of effective tax rate:

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<i>(in thousands of US dollars)</i>	2018	2017
Profit before income tax	\$ 130,506	\$ 129,355
Income tax expense at the domestic rates applicable to profit in the country concerned	31,582	31,304
Adjustment:		
- Non-taxable income	(26)	256
- Temporary differences incurred during the year, but not recognized as deferred tax	(31,132)	(30,068)
- Other	(1,028)	(963)
Income tax expense	\$ (604)	\$ 528

(3) Changes in deferred tax assets (liabilities) for the periods ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018			
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Vessel	\$ 82,261	\$ (3,382)	\$ -	\$ 78,879
Building	-	-	-	-
Land	37	-	-	37
Gain(loss) on valuation of finance assets	139	2	1	142
Present value of defined benefit obligation	1,022	(123)	-	899
Derivatives	(678)	1,045	(3)	364
Provisions	5,780	(830)	-	4,950
Other	7,778	11,762	204	19,744
Total	96,339	8,473	202	105,014
Tax loss carryforwards	438,206	(35,028)	-	403,178
Unrecognized deferred tax assets	(534,545)	26,555	(202)	(508,192)
	\$ -	\$ -	\$ -	\$ -

<i>(in thousands of US dollars)</i>	2017			
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Vessel	\$ 84,042	\$ (1,781)	\$ -	\$ 82,261
Building	-	-	-	-
Land	37	-	-	37
Gain(loss) on valuation of finance assets	241	(47)	(55)	139
Present value of defined benefit obligation	1,415	(393)	-	1,022
Derivatives	(372)	(287)	(19)	(678)

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Provisions	6,542	(762)	-	5,780
Other	37,512	(29,734)	-	7,778
Total	<u>129,417</u>	<u>(33,004)</u>	<u>(74)</u>	<u>96,339</u>
Tax loss carryforwards	590,465	(152,259)	-	438,206
Unrecognized deferred tax assets	<u>(719,882)</u>	<u>185,263</u>	<u>74</u>	<u>(534,545)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(4) The possibility of realization of deferred tax assets depends on the estimated timing of the utilization of the temporary differences and the future taxable income during the carry forward periods of the deficit. The Company did not recognize the deferred tax assets exceeding the deferred tax liabilities because the Company predicted that the utilization of the deductible temporary differences and deficit carried forward is not considered probable. The unused amounts and their expiration dates for the amounts that the income tax effect has not been recognized because they are not considered probable to be realized are as follows:

<i>(in thousands of US dollars)</i>	Amount	Expiration date
Temporary differences	\$ 433,942	-
Tax loss carryforwards	361,001	2023
	<u>1,278,360</u>	2024
Total	<u>2,208,854</u>	

(5) 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 Company has a legally enforceable right to offset and intends either to settle on a net basis.

(6) The Company had applied tonnage tax from 2005 to 2008, in accordance with tax incentive limitation law, but has applied the general corporate income tax since 2009. The Company considers re-adoption of tonnage tax. Under tonnage tax system, temporary difference and tax loss carry forward may not be deductible from income of shipping business.

24. Paid-in Capital

(1) Details of ordinary shares as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars except share data and par value)</i>	2018	2017
Number of authorized shares	3,000 million	3,000 million
Par value	KRW 1,000	KRW 1,000
Number of shares issued	534,569,207	534,537,812
Share capital	\$ 480,755	\$ 480,727

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(2) Changes of number of shares issued for the years ended December 31, 2018 and 2017, are as follows:

<i>(in shares)</i>	2018		2017	
	Number of shares issued	Outstanding share	Number of shares issued	Outstanding share
Beginning number of shares	534,537,812	534,537,812	534,392,834	534,392,834
Debt-to-equity swap, etc.	31,395	31,395	144,978	144,978
Ending number of shares	<u>534,569,207</u>	<u>534,569,207</u>	<u>534,537,812</u>	<u>534,537,812</u>

(3) Details of capital surplus as at December 31, 2018 and 2017, are as follows.

<i>(in thousands of US dollars)</i>	2018	2017
Share premium	\$ 651,483	\$ 651,366

25. Other Reserves

The changes of the other reserves for the years ended December 31, 2018 and 2017, are presented in the separate statements of changes in equity. Details of other reserves as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Loss on valuation of available-for-sale financial assets	\$ -	\$ (536)
Loss on valuation of derivative instruments	(1)	(14)
Gain (loss) on presentation currency translation	-	-
Gain on disposal of treasury share	996	996
Surplus from reduction of capital	1,062,678	1,062,678
Debt to be swapped to equity	4,712	5,033
	<u>\$ 1,068,385</u>	<u>\$ 1,068,157</u>

26. Retained Earnings (Accumulated Deficit)

(1) Details of retained earnings (accumulated deficit) as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Legal reserve ¹	\$ 36,165	\$ 36,165
Unappropriated retained earnings (undisposed accumulated deficit)	108,744	(21,355)
	<u>\$ 144,909</u>	<u>\$ 14,810</u>

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¹ In accordance with the Commercial Act in the Republic of Korea, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of issued capital. The legal reserve cannot be used as a source for cash dividends and may only be used to offset an accumulated deficit or credited to paid-in capital according to the resolution in the shareholders' meeting.

(2) Statements of appropriation of retained earnings (disposition of accumulated deficit) for the years ended December 31, 2018 and 2017, are as follows:

Expected date of Appropriation for 2018: March 23, 2019

Date of Disposition for 2017: March 22, 2018

(in thousands of US dollars)

	2018	2017
I. Unappropriated retained earnings (undisposed accumulated deficit)		
Unappropriated retained earnings (undisposed accumulated deficit) carried over from prior year	\$ (22,284)	\$ (150,775)
Re-measurements of defined benefit liability	(82)	593
Profit for the year	131,110	128,827
II. Transfer from voluntary reserves	-	-
III. Total (I + II)	<u>108,744</u>	<u>(21,355)</u>
Appropriation of retained earnings (disposition of accumulated deficit)	-	-
IV. Unappropriated retained earnings (disposed accumulated deficit) to be carried forward	<u>\$ 108,744</u>	<u>\$ (21,335)</u>

27. Expenses by Nature

Details of expenses by nature for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Charterage	\$ 588,646	\$ 428,550
Port charges	210,577	208,535
Cargo expenses	121,015	120,034
Bunker fuel costs	530,736	415,829
Voyage relet costs	109,926	83,911
Depreciation and amortization	150,965	145,437
Vessel maintenance expense	41,409	32,914
Salaries and wages	104,606	97,809
Post-employment retirement benefit	6,256	6,280
Other employee benefits	29,861	29,215
Lubricant oil costs	8,090	8,389
Other cost of sales	26,133	26,045

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Office rental	3,061	2,911
Impairment loss on receivables	2,476	(10,251)
IT expense	1,334	1,299
Taxes and dues	2,355	1,659
Other administrative expenses	2,636	2,857
Total cost of sales, selling and general administrative expenses	<u>\$ 1,940,082</u>	<u>\$ 1,601,423</u>

28. Finance Income and Costs

Details of finance income and costs for the years ended December 31, 2018 and 2017, are as follows:

(in thousands of US dollars)

	2018					
	Financial assets and liabilities through profit or loss	Loans and receivables	Available for sale financial assets	Derivatives financial assets	Borrowings	Total
Finance income and costs						
Gains on transaction	\$ -	\$ -	\$ 107	\$ -	\$ -	\$ 107
Losses on transaction	-	-	(108)	-	-	(108)
Interest income	-	1,936	438	-	-	2,374
Interest expense	-	-	-	-	(49,820)	(49,820)
Guarantee fee	-	-	-	-	(252)	(252)
Gains on currency translation	-	892	-	-	6,053	6,945
Losses on currency translation	-	(6,638)	-	-	(978)	(7,616)
Dividend income	-	-	238	-	-	238
	-	(3,810)	675	-	(44,997)	(48,132)
Finance income	-	2,828	783	-	6,053	9,664
Finance cost	-	(6,257)	(108)	-	(51,050)	(57,796)
Other comprehensive income						
Gains on valuation	-	-	-	13	-	13
	-	-	-	13	-	13
	<u>\$ -</u>	<u>\$ (3,810)</u>	<u>\$ 675</u>	<u>\$ 13</u>	<u>\$ (44,997)</u>	<u>\$ (48,119)</u>

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(in thousands of US dollars)

	2017					
	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Available for sale financial assets	Derivatives	Borrowings	Total
Finance income and costs						
Gains on transaction	\$ -	\$ -	\$ 226	\$ -	\$ -	\$ 226
Losses on transaction	-	-	(229)	-	-	(229)
Interest income	-	1,245	465	-	-	1,710
Interest expense	-	-	-	-	(45,819)	(45,819)
Guarantee fee	-	-	-	-	(222)	(222)
Gains on currency translation	-	7,838	-	-	236	8,074
Losses on currency translation	-	(703)	-	-	(3,327)	(4,030)
Dividend income	-	-	1,035	-	-	1,035
	-	8,380	1,497	-	(49,132)	(39,255)
Finance income	-	9,083	1,726		236	11,045
Finance cost	-	(703)	(229)		(49,368)	(50,300)
Other comprehensive income						
Losses on valuation	-	-	44	75	-	119
	-	-	44	75	-	119
	\$ -	\$ 8,380	\$ 1,541	\$ 75	\$ (49,132)	\$ (39,136)

29. Other Non-operating Income (Expenses)

Other non-operating Income (expenses) presented in the separate statement of comprehensive income for the years ended December 31, 2018 and 2017, are summarized as follows:

(in thousands of US dollars)	2018	2017
Gains on sale of vessels, property and equipment	\$ 2,874	\$ 3
Losses on sale of vessels, property and equipment	(724)	(1,729)
Gains on sale of intangible asset	-	233
Losses on sale of intangible asset	-	-
Gains on valuation of derivatives	(2,119)	2,814
Gains(losses) on derivative transactions, net	387	(220)
Gains(losses) on foreign currency translation, net	(1,137)	1,771
Gains(losses) on foreign currency transaction, net	501	(857)
Reversal of provision for claim compensation	242	3,198
Provision for claim compensation	-	(13,102)
Impairment loss on investments in subsidiaries	(6,335)	(3,162)
Impairment loss on vessels, property and equipment	(1,308)	-
Gains from debt restructuring ¹	220	968

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Other	1,510	391
	<u>\$ (5,889)</u>	<u>\$ (9,692)</u>

¹ For the year ended December 31, 2018, \$ 220 of gain from debt restructuring was recognized and this is the difference between the fair value of shares issued as a result of litigation for finalization for reorganization and debt-to-equity swap and the carrying amount of debts subject to restructuring.

30. Earnings per Share

(1) Basic earnings per share

Basic earnings per share for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Profit for the year	\$ 131,110	\$ 128,827
Weighted average number of ordinary shares ¹	<u>534,549,334</u>	<u>534,466,969</u>
Basic earnings per share (expressed in \$ per share)	<u>\$ 0.25</u>	<u>\$ 0.24</u>

¹ Details of weighted average number of ordinary shares are as follows:

<i>(in shares)</i>	2018	2017
Beginning number of shares	534,537,812	534,392,834
Debt-to-equity swap, etc.	<u>11,522</u>	<u>74,135</u>
Ending number of shares	<u>534,549,334</u>	<u>534,466,969</u>

(2) Diluted earnings per share

As at December 31, 2018, the Company has no convertible notes or warrants. Therefore, basic earnings per share is identical to diluted earnings per share.

(3) Potential ordinary share

Although the effect of semi-dilution is not taken into account in calculating the diluted earnings per share, if the debt to be transferred and the provision is settled as a liability, it can be invested and potentially dilute the basic earnings per share in the future.

31. Contingencies

(1) Litigation case

As at December 31, 2018, the Company has pending lawsuits for cargo and hull damages as a defendant with litigation costs of \$ 20,760 thousand, and also has pending non-contentious claims

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with claim costs of \$ 9,410 thousand. The Company recognized provisions for a certain portion of the lawsuits and claims as described in Note 20 if requirements for provision recognition were met.

- (2) Assets provided as collaterals for the Company's debts as at December 31, 2018, are as follows:

(in thousands of US dollars)

Assets pledged as collaterals	Carrying amounts	Related account	Borrowings and etc.	Lender	Description
Vessel ¹	2,578,368				
Other financial asset	567	Borrowings	\$ 828,931	ABN AMRO BANK N.V and etc.	Collateral on borrowings

¹ There is an arrangement (minimum commitment) to provide additional collateral or to repay some of the borrowings to meet the percentage in case that the amount of collateral is less than a certain percentage (110%~145%) of the carrying amount of the borrowing related to the ship financing. In addition, there is a put option agreement for certain ship financing, which is classified as current borrowings regardless of its exercise, if exercise date is within one year as at the end of the reporting period.

- (3) Guarantees and performance guarantees provided by others as at December 31, 2018, are summarized as follows:

(in thousands of US dollars / in millions of KRW)

Guarantee provider	Guarantee amount	Guaranteed customer
Kookmin Bank	\$ 12,691	Korea South-east Power Co., Korea
Shinhan Bank Bank	20,000	Southern Power Co., Ltd., Korea East-west
KEB Hana Bank	2,692	Power Co., Ltd., Korea Western Power Co.,
BNP Paribas Bank	3,796	Ltd., Korea Midland Power Co., Ltd. and etc.
Seoul Guarantee Insurance	6,000	
	KRW 15,923	

- (4) Details of guarantees provided for others as at December 31, 2018, are as follows:

(in thousands of US dollars)

Beneficiary	Guarantee amount	Description of guarantee
Wilhelmsen Ships Service Ltd.	\$ 1,512	Guarantee on litigation loss ¹

¹ The Company has provided guarantee for the next lawsuits regarding the accident of vessel damages occurred in Bangladesh in 2013.

- (5) Ship Investment Agreement

As at the end of the current year, the Company has signed a contract to construct 18 vessels (total purchase price: \$ 781,638 thousand) to replace the old ship and to expand the fleet. These vessels will be delivered between 2019 and 2021. According to the vessel construction contract, as at December 31, 2018, the estimated future expenditure is \$ 657,182 thousand.

(6) The Company provides a single check (KRW 100 million) and a note (KRW 50 million) for the implementation of the obligations adopted by the joint committee of the Korea Offshore Transportation Association and the Yellow Sea Periodical Shipping Association.

(7) The Company has entered into a credit agreement with Standard Chartered Bank for \$ 166,000 thousand. The execution amount of the loan agreement is \$ 25,000 thousand.

(8) Litigation for Finalization of Reorganization Claim or Security

The Company decided to apply for a reorganization plan to the Seoul District Court in 2013, due to a maritime recession and liquidity crisis.

In addition, after the signing of a large-scale investment contract with the Harim Group-JKL Consortium in February 2015, the Company received approval for a plan to amend the plan to include early redemption after a partial exemption of residual debt, etc. in June 2015. In July 2015, the Company received a decision to terminate the reorganization process through the early redemption of reviving debts according to the revised reorganization plan (lump-sum repayment to approximately 83% of the confirmed receivables).

Meanwhile, the Company recognized provisions for the contingencies relating to unsettled receivables of reorganization as described in Note 20, and deposited \$ 6,555 thousand in escrow accounts for cash redemption according to the amended reorganization plan.

32. Contracts of Vessel Chartering and Demising

The Company has entered into charter or presidential agreements with other companies for normal business activities.

A. substituting vessel contract

(1) Charter fees recognized by the Company as expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Charter Fee	\$ 698,572	\$ 512,461

(2) As at December 31, 2018 and 2017, the chartered amount to be paid to vessels chartered and operated by other companies is as follows:

<i>(in thousands of US dollars)</i>	2018	2017
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Less than 1 year	\$ 110,620	\$ 119,188
Over 1 year, less than 5 years	9,759	8,730
Over 5 years	298	-
Total amount	<u>\$ 120,677</u>	<u>\$ 127,918</u>

B. vessel chartering contract

(1) Charter fees recognized by the Company as income for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Charter Fee	\$ 274,948	\$ 184,556

(2) As at December 31, 2018 and 2017, the chartered amount to be received to vessels chartered and operated by other companies is as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Less than 1 year	\$ 47,354	\$ 53,002
Over 1 year, less than 5 years	2,022	8,463
Total amount	<u>\$ 49,376</u>	<u>\$ 61,464</u>

33. Cash Generated from Operations

(1) Details of cash generated from operations of the Company using the indirect method for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Profit for the year	\$ 131,110	\$ 128,827
Adjustment for:		
Income tax expense	(604)	529
Depreciation	150,638	145,287
Post-employment benefit	6,256	7,338
Amortization	175	150
Reversal of provisions	(840)	(3,659)
Reversal of provision for impaired receivables	2,476	(10,251)
Gains on sale of vessels, property and equipment	(2,874)	(3)
Losses on sale of vessels, property and equipment	724	1,729

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Impairment losses on vessels, property and equipment	1,308	-
Gains on intangible assets	-	(233)
Valuation gains (losses) on derivatives, net	2,119	(2,813)
Gains (losses) on sale of financial assets	(1)	-
Interest income	(2,373)	(1,709)
Interest expense	49,821	45,819
Dividend income	(238)	(1,035)
Foreign currency translation losses (gains), net	919	(2,118)
Impairment losses on investment in associate	6,335	3,162
Gains on exemption of liabilities	(220)	(968)
Gains on valuation of profit	(106)	-
Gains on valuation of loss	109	-
Others	(2)	2
Decrease (increase) in non-current provisions	(3,412)	1,207
Increase in inventories	(7,208)	(7,358)
Increase in trade receivables	(27,809)	(2,054)
Increase in other receivables	(19,909)	(11,997)
Increase in other assets	(11,156)	(41,518)
Increase in trade payables	1,270	4,023
Increase in other payables	7,409	19,095
Increase (decrease) in other liabilities	25,416	(4,015)
Decrease in retirement benefits obligation	(4,724)	(6,055)
Change in derivative financial assets and liabilities	2,171	1,225
Cash generated from operating activities	<u>\$ 306,776</u>	<u>\$ 262,607</u>

(2) Details on significant non-cash transactions for investing and financing activities for the periods ended in 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Reclassification of provisions to reorganization liabilities	\$ 52	\$ 841
Reclassification of reorganization liabilities to equity swap debt	265	623
Changes in equity due to debt-to-equity swap	148	693
Reclassification to current portion of long-term borrowings	334,660	240,820
Acquisition of ships through finance leases	2,924	21,219

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Reclassification of ship acquisition and equity swap of Singapore corporation	-	18,566
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(3) Adjustments for liabilities arising from financial activities, are as follows:

<i>(in thousands of US dollars)</i>	Short-term borrowings	Current portion of long-term borrowings	Long-term borrowings	Bond	Finance lease liabilities
Opening net book amount of 2017	\$ -	264,259	81,326	37,500	863,183
Gains (losses) on foreign currency translations	-	-	-	574	-
Proceeds from borrowings	44,125	-	8,700	13,426	70,214
Repayments of borrowings	-	-	(18,032)	(12,500)	(239,735)
Reclassification to current portion	-	(10,024)	(4,724)	(12,500)	54,888
Closing net book amount of 2017	<u>\$ 44,125</u>	<u>\$ 254,235</u>	<u>\$ 67,270</u>	<u>\$ 26,500</u>	<u>\$ 748,550</u>
Opening net book amount of 2018	44,125	254,235	67,270	26,500	748,550
Gains (losses) on foreign currency translations	-	-	126	(732)	-
Proceeds from borrowings	250,946	-	65,810	38,035	53,462
Repayments of borrowings	(270,071)	(273,196)	-	-	-
Reclassification to current portion	-	334,660	(36,112)	(25,916)	(269,708)
Closing net book amount of 2018	<u>25,000</u>	<u>315,699</u>	<u>97,094</u>	<u>37,887</u>	<u>532,304</u>

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34. Related Party Transactions

(1) Related parties as at December 31, 2018 and 2017, are as follow:

Related party	2018	2017
Parent and ultimate controlling party	Harim Holdings Co., Ltd. (Former Jeil Holdings)	Harim Holdings Co., Ltd. (Former Jeil Holdings)
Subsidiaries	Pan Ocean(America) Inc. Pan Ocean Singapore Bulk Carrier Pte. Ltd. Pan Ocean(China) Co., Ltd. STX Pan Ocean(U.K.) Co., Ltd. Pan Ocean Japan Corporation Pan Ocean Brasil Apoio Maritimo Ltda. POS SM Co., Ltd	Pan Ocean(America) Inc. Pan Ocean Singapore Bulk Carrier Pte. Ltd. Pan Ocean(China) Co., Ltd. STX Pan Ocean(U.K.) Co., Ltd. Pan Ocean Japan Corporation Pan Ocean Brasil Apoio Maritimo Ltda. POS SM Co., Ltd
Associates and joint ventures	Korea LNG Trading Co.,Ltd. Busan Cross Dock, Ltd.	Korea LNG Trading Co.,Ltd. Busan Cross Dock, Ltd.
Other related parties	Subsidiaries, Associates and other related parties of Harim Holdings Co., Ltd.	Subsidiaries, Associates and other related parties of Harim Holdings Co., Ltd.

(2) Sales and purchases with related parties for the years ended December 31, 2018 and 2017, are as follows:

(in thousands of US dollars)

	2018			
	Sales	Others	Purchases	Others
Subsidiaries				
Pan Ocean (China) Co., Ltd.	\$ -	\$ -	\$ 1,618	\$ -
Pan Ocean Japan Corporation	-	-	12,513	-
Pan Ocean Singapore Bulk Carrier Pte. Ltd.	5,914	-	1,531	-
Pan Ocean(America), Inc.	30,282	-	227	-
PAN OCEAN BRASIL APOIO MARITIMO LTDA.	-	-	397	-
POS SM Co., Ltd.	121	-	102,683	-
Associates and joint ventures				
Korea LNG Trading Co., Ltd.	25,137	-	-	-
Other related parties				
Jeil Feed Company, Ltd.	-	-	-	29
Joowon Pekin Duck Co., Ltd.	-	-	-	13
Sunjin Co., Ltd.	-	-	-	53
Sunjin FS Co., Ltd.	-	-	-	8
FARMSCO	-	-	-	89
Cham trading co., ltd	-	-	-	8
Sunurihanu	-	-	-	19
Harim Co., Ltd.	-	-	-	63
	<u>\$ 61,454</u>	<u>\$ -</u>	<u>\$ 118,969</u>	<u>\$ 282</u>

(in thousands of US dollars)

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	Sales	Others	Purchases	Others
Subsidiaries				
Pan Ocean (China) Co., Ltd.	\$ -	\$ -	\$ 1,558	\$ -
Pan Ocean Japan Corporation	2	-	14,435	-
Pan Ocean Singapore Bulk Carrier Pte. Ltd.	6,359	-	6,889	14,134
Pan Ocean(America), Inc.	22,808	-	191	-
PAN OCEAN BRAZIL APOLO MARTIMO LTDA.	-	-	373	-
POS SM Co., Ltd.	95	-	96,189	-
Associates and joint ventures				
Korea LNG Trading Co., Ltd.	18,510	-	-	-
Other related parties				
Jeil Feed Company, Ltd.	-	-	-	11
Joowon Pekin Duck Co., Ltd.	-	-	-	48
Sunjin Co., Ltd.	-	-	-	4
Sunjin FS Co., Ltd.	-	-	-	2
Nbicorn	-	-	-	95
FARMSCO	-	-	-	7
Cham trading co., ltd	-	-	-	5
Harim MS	-	-	-	56
Harim Co., Ltd.	-	-	-	29
	<u>\$ 47,774</u>	<u>\$ -</u>	<u>\$ 119,635</u>	<u>\$ 14,391</u>

(3) Outstanding balances arising from sales/purchases of goods and services as at December 31, 2018 and 2017, are as follows:

(in thousands of US dollars)

	2018			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
Subsidiaries				
Pan Ocean Japan Corporation	\$ 1,450	\$ -	\$ 109	\$ 4
Pan Ocean(China) Co., Ltd.	-	-	47	-
Pan Ocean Singapore Bulk Carrier Pte. Ltd.	-	-	159	-
Pan Ocean(America), Inc.	3,877	-	56	-
STX Pan Ocean (U.K.) Co. Ltd. ¹	12,333	21,723	-	-
POS SM Co., Ltd.	-	1,076	2,968	487
Associates and joint ventures				
Korea LNG Trading Co., Ltd.	-	-	-	-
Other related parties				
Jeil Feed Company, Ltd.	-	343	-	3
	<u>\$ 17,660</u>	<u>\$ 23,142</u>	<u>\$ 3,339</u>	<u>\$ 494</u>

¹ As at December 31, 2018, the Company has recognized the allowance for impairment for the entire receivable.

(in thousands of US dollars)

	2017			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables

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Subsidiaries				
Pan Ocean Japan Corporation	\$	1,687	\$	-
Pan Ocean(China) Co., Ltd.		-		-
Pan Ocean Singapore Bulk Carrier Pte. Ltd. ¹		-		-
Pan Ocean(America), Inc.		-		-
STX Pan Ocean (U.K.) Co. Ltd. ²		12,333	21,724	-
POS SM Co., Ltd.		-	18	3,238
Associates and joint ventures				
Korea LNG Trading Co., Ltd.		1,791	-	-
Other related parties				
Jeil Feed Company, Ltd.		-	384	-
	\$	15,811	\$	22,126
			\$	3,826
			\$	12
			\$	12

¹ As at December 31, 2017, the Company has recognized the allowance for impairment for the entire receivable.

(4) Key management compensation for the years ended December 31, 2018 and 2017, is as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Salaries and other short-term benefits	\$ 1,145	\$ 1,021
Post-employment benefits	115	111
	\$ 1,260	\$ 1,132

(5) Details of payment guarantees provided by the Company to the related parties as at December 31, 2018, are as follows:

<i>(in thousands of US dollars, in millions of Korean won)</i>		
Guarantee recipient	Guaranteed amount	Lender
Pan Ocean(America), Inc	\$ 31,487	Korea Agro-Fisheries & Food Trade Corporation, Korea Feed Association, Nonghyup Feed, Standard Chartered Bank New York Branch
Employee share ownership association	₩ 104	Heung Kook Mutual Savings Bank

(6) As at December 31, 2018, the Company is provided with a performance guarantee from the Parent Company related to the long-term transportation contract with VALE international SA.

(7) Delegation of voting rights from related parties

As at the end of the reporting period, the Company has entered into an agreement with related

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parties to delegate voting rights of Pan Ocean (America), Inc to the Company.

35. Operating Segment Information

(1) Information about reportable segments

The Company has four reportable segments, as described below, which are the Company's strategic business units. The strategic business units offer different shipping services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Company's CEO reviews internal management reports at least on a quarterly basis.

The management performance result and significant financial information by each operating segment for the years ended December 31, 2018 and 2017, are as follows:

(in thousands of US dollars)

	2018							
	Bulker	Tanker	Container	Other ¹	shipping segment	Grain business	Non-shipping ² / Unallocated	Total
Sales	\$ 1,839,155	\$ 108,575	\$ 149,470	\$ 26,318	\$ 2,123,518	\$ 1,091	\$ -	\$ 2,124,609
Operating profit	174,057	427	6,238	2,716	183,438	1,091	(2)	184,527
Assets	2,952,328	321,175	46,563	2,450	3,322,516	-	303,924	3,626,440
Liabilities	1,064,915	33,935	31,409	5,739	1,135,998	-	144,909	1,280,907
Acquisition of vessels, property and equipment	138,038	6,792	17,165	-	161,995	-	447	162,442
Depreciation	127,299	21,379	2,110	-	150,788	-	2	150,790
Amortization	154	9	12	-	175	-	-	175
Provision for impairment	\$ 2,174	\$ 128	\$ 174	\$ -	\$ 2,476	\$ -	\$ -	\$ 2,476

¹ Other segment includes other shipping services such as LNG and special shipping services.

² Non-shipping segment includes rental and ship management services.

³ The company's key operating segments generate revenue over period, and the grain business generates revenue when transferring goods or services.

(in thousands of US dollars)

(in thousands of US dollars)	2017						
					shipping	Non-shipping ² / Unalloca-	
	Bulker	Tanker	Container	Other ¹	segment	ted	Total
Sales	\$1,535,792	\$111,968	113,199	\$ 18,510	\$ 1,779,469	\$ 257	\$ 1,779,726
Operating profit	160,591	4,679	9,730	3,049	178,049	254	178,303
Assets	2,908,836	328,466	27,414	1,845	3,266,561	299,760	3,566,321
Liabilities	1,143,199	56,884	21,190	5,260	1,226,533	124,728	1,351,261
Acquisition of vessels, property and equipment	108,868	24,796	970	65	134,699	-	134,699
Depreciation	123,915	19,466	1,906	-	145,287	-	145,287
Amortization	130	10	10	-	150	-	150
Provision for impairment	(8,933)	(668)	(650)	-	(10,251)	-	(10,251)

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¹ Other segment includes other shipping services such as LNG and special shipping services.

² Non-shipping segment includes rental, ship management services and grain business.

³ The company's key operating segments generate revenue over period, and the grain business generates revenue when transferring goods or services.

Assets by each segment consist of vessels, inventories and trade receivable, and cash, deferred income tax and other financial assets are not allocated. Liabilities by each segment consist of trade payables, other liabilities and borrowings. Acquisition of vessels, property and equipment primarily consist of vessel investments.

(2) Geographical segments

The Company's four reportable segments excluding other segment are operating in six geographical areas and managed multi-nationally. The main operating segment is located in Korea and segment information is allocated based on the location of loading port.

Details of revenue by geographical area for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Asia	\$ 828,070	\$ 685,363
Oceania	424,989	358,810
Europe	28,777	18,856
North America	348,932	287,755
South America	415,841	379,792
Africa	78,000	49,150
	<u>\$ 2,124,609</u>	<u>\$ 1,779,726</u>

The vessels are used all over the world, and the remaining property and equipment are primarily located in Korea; therefore, assets and capital expenditure information by geographical area are not disclosed as the disclosure of the information is immaterial.

(3) The Company derives the following types of revenue:

<i>(in thousands of US dollars)</i>	2018	2017
Revenue from contracts with customers		
Revenue from voyage operation	\$ 1,848,569	\$ 1,594,913
Other	1,091	257
Other		
Revenue from time charter	274,949	184,556
	<u>\$ 2,124,609</u>	<u>\$ 1,779,726</u>

(4) Revenue from external customers:

Revenues of approximately \$ 246,567 thousand (2017: \$ 206,029 thousand), over 10% of the Company's revenue, are derived from a single external customer relating to the voyage operating revenue.

36. Changes in Accounting Policies

36.1 Adoption of Korean IFRS 1109 *Financial Instruments*

As explained in Note 2, 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 for prior reporting period have not been restated. The effect of application of the amendments is as follows:

(a) Classification and Measurement of financial instruments

The details of retained earning affected by the reclassification and measurement of financial instruments are as follows:

(in thousands of US dollars)

Beginning balance of retained earning - Korean IFRS 1039

Beginning balance – Korean IFRS 1039	\$ 14,810
Reclassification of available-for-sale securities to financial assets at fair value through profit or loss	(535)

Beginning balance of retained earning - Korean IFRS 1109	14,275
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Adjustment from adoption of Korean IFRS 1115	(394)
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Beginning balance of retained earning at January 1, after adjustments	<u>\$ 13,881</u>
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On the date of initial application of Korean IFRS 1109, January 1, 2018, the Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate Korean IFRS 1109 categories. The main effects resulting from this reclassification are as follows:

(in thousands of US dollars)

	Fair value through profit or loss	Fair value through other comprehensive income (Available-for- sale financial assets in 2017)	Amortized cost (loans and receivables in 2017)	Total
Beginning balance – Korean IFRS 1039	\$ 2,946	\$ 10,630	\$ 279,339	\$ 292,915
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	6,528	(6,528)	-	-

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Beginning balance - Korean IFRS 1109	\$ 9,474	\$ 4,102	\$ 279,339	\$ 292,915
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The impact on these changes on the Company's equity is as follows:

(in thousands of US dollars)

	Effect on accumulated other comprehensive income	Effects on fair value through other comprehensive income reserve	Effect on earnings
Beginning balance – Korean IFRS 1039	\$ (535)	\$ -	\$ 14,810
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	535	-	(535)
Beginning balance - Korean IFRS 1109	\$ -	\$ -	\$ 14,275

(i) Reclassification from available-for-sale to fair value through profit or loss

As at January 1, 2018, ship funds amounting to \$ 6,528 thousand were reclassified from available-for-sale to financial assets at fair value through profit or loss. They do not meet the criteria to be classified as at amortized cost in accordance with Korean IFRS 1109, because their cash flows do not represent solely payments of principal and interest. Related accumulated other comprehensive income of \$ 535 thousand were transferred from the available-for-sale financial assets to retained earnings on January 1, 2018.

(ii) Reclassification of equity investments from available-for-sale to fair value through other comprehensive income

The Company elected to present changes in the fair value of the equity investments which are not held for trading, previously classified as available-for-sale in other comprehensive income. As a result, the amount, \$ 4,102 thousand was reclassified to equity investments at fair value through other comprehensive income.

(iii) Other financial assets

Equity investments held for trading and contingent considerations are all required to be held as fair value through profit or loss under Korean IFRS 1109. There was no impact on the amounts recognized in relation to these assets from the adoption of Korean IFRS 1109.

(vi) Reclassifications of financial instruments on adoption of Korean IFRS 1109

On the date of initial application, January 1, 2018, the financial instruments of the Company with any reclassifications noted, were as follows:

	Measurement category		Carrying amount		Difference ¹
	Korean IFRS 1039	Korean IFRS 1109	Korean IFRS 1039	Korean IFRS 1109	
Current financial assets					
Derivative instruments	Financial assets at	Fair value		\$ 2,772	\$ -

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	fair value through profit or loss**	through profit or loss**	\$ 2,772		
Non-current financial assets					
Equity instruments	Available-for-sale financial assets	Fair value through other comprehensive income*	4,102	4,102	-
Preferred shares	Available-for-sale financial assets	Fair value through profit or loss**	6,528	6,528	-
Derivative instruments	Financial assets at fair value through profit or loss**	Fair value through profit or loss**	174	174	
Current financial liabilities					
Derivative instruments	Financial assets at fair value through profit or loss**	Fair value through profit or loss**	133	133	-
Non-current financial liabilities					
Derivative instruments	Financial assets at fair value through profit or loss**	Fair value through profit or loss**	14	14	-

* Financial assets at fair value through other comprehensive income: Investments to equity instruments and debt instruments

** Financial assets measured at fair value through profit or loss

36.2 Adoption of Korean IFRS 1115 *Revenue from Contracts with Customers*

As explained in Note 2, the Company has applied Korean IFRS 1115 *Revenue from contracts with customers* from January 1, 2018. In accordance with the transitional provisions in Korean IFRS 1115, comparative figures have not been restated. The significant changes in accounting policies from the application of Korean IFRS 1115 and the impacts of the changes on the financial statements are as follows.

The impact on the financial statements due to the application of Korean IFRS 1115 at the date of initial application (January 1, 2018) is as follows:

(in thousands of US dollars)	December 31, 2017 Korean IFRS 1018 carrying amount ¹	Remeasurements	January 1, 2018 Korean IFRS 1115 carrying amount
Trade receivables	\$ 65,258	\$ 16,446	\$ 81,704
Other current assets	219,831	2,568	222,399
Total assets	\$ 3,566,322	\$ 19,014	\$ 3,585,336
Provisions	\$ 2,545	\$ 258	\$ 2,803
Other non-current assets	63,063	19,150	82,213
Total liabilities	\$ 1,351,262	\$ 19,408	\$ 1,370,670
retained earnings	\$ 14,275	\$ (394)	\$ 13,881
Total equity	\$ 2,215,060	\$ (394)	\$ 2,214,666
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¹ The amounts in this column are after the adjustments from the adoption of Korean IFRS 1109.

Under the previous standard, revenues were recognized over voyage period, which includes travel periods from departure to place of shipment. Under K-IFRS 1115, revenues are recognized over the course from departure to place of discharge. Due to the change of standards, related assets increased by \$ 19,014 thousand and related liabilities increased by \$ 19,408 thousand as at the beginning of the period.

Financial statement line items affected by the adoption of the new rules in the current period are as follows:

Statement of financial position

<i>(in thousands of US dollars)</i>	Reported amount¹	Remeasurements	Amount before application of Korean IFRS 1115
Trade receivables	\$ 107,156	\$ (23,719)	\$ 83,437
Other current assets	164,803	652	165,455
Total assets	\$ 3,626,440	\$ (23,067)	\$ 3,603,373
Provisions	\$ 2,257	\$ (226)	\$ 2,031
Other non-current assets	110,041	(24,050)	85,991
Total liabilities	\$ 1,280,907	\$ (24,276)	\$ 1,256,631
Retained earnings (accumulated deficits) ¹	144,909	1,209	146,118
Others	1,068,386	-	1,068,386
Total equity	\$ 2,345,533	\$ 1,209	\$ 2,346,742

¹ The amounts in this column are after the adjustments from the adoption of Korean IFRS 1109.

Statements of comprehensive income

<i>(in thousands of US dollars)</i>	Reported amount¹	Adjustments	Amount before application of Korean IFRS 1115
Sales	\$ 2,124,609	\$ (1,998)	\$ 2,122,611
Cost of sales	(1,893,729)	2,847	(1,890,882)
Selling and administrative expenses	(46,353)	(35)	(46,388)
Finance costs	(48,132)	-	(48,132)

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Other non-operating expenses	(5,889)	-	(5,889)
Income tax expenses	604	-	604
Profit for the year	131,110	814	131,924
Total comprehensive income	\$ 131,041	\$ 814	\$ 131,855

Statements of cash flows

<i>(in thousands of US dollars)</i>	Reported amount ¹	Adjustments	Amount before application of Korean IFRS 1115
Profit for the year	\$ 131,110	\$ 814	\$ 131,924
Adjustments for:	(840)	32	(808)
Reversal of provisions	(840)	32	(808)
Changes in operating assets and liabilities			
Decrease (increase) in trade receivables	(27,809)	25,717	(2,092)
Decrease (increase) in trade payables	1,270	-	1,270
Decrease (increase) in other assets	(18,364)	(2,417)	(20,781)
Decrease (increase) in other liabilities	25,416	(24,146)	1,270
Increase (decrease) in provisions	(3,412)	-	(3,412)
Others	199,405	-	199,405
Cash generated from operations	\$ 306,776	\$ -	\$ 306,776

The cash flows from (with) the application of Korean IFRS 1115 decreased in related assets amounting to \$ 23,299 thousand and increased in related liabilities amounting to \$ 24,145 thousand, compared to the cash flows in accordance with the previous accounting standards. However, there is no impact on net cash flows generated from operations due to the application of Korean 1115.

37. Contract Assets and Liabilities

As explained in Notes 2.2.1, the Company has applied Korean 1115 *Revenue from Contracts with Customers* from January 1, 2018.

(1) The contract assets and liabilities recognized by the Company are as follows:

<i>(in thousands of US dollars)</i>	2018	2017
Contract assets for carriage contracts	\$ 87,196	\$ 79,345
Contract liabilities for carriage contracts	68,107	39,849

The contract assets and liabilities are included in 'contract assets' and 'contract liabilities' in statements of financial position, respectively.

(2) The revenue from the contract liabilities

Revenue recognized in the current reporting period related to the carried-forward contract liabilities balance:

<i>(in thousands of US dollars)</i>	<u>2018</u>
Revenue recognized that was included in the contract liability balance at the beginning of the period	\$ 39,849

(3) Assets recognized from costs to fulfil a contract

In addition to the contract balances disclosed above, the Company has also recognized an asset in relation to costs to fulfil a transportation contract. This is presented within 'other current asset' in the statements of financial position:

<i>(in thousands of US dollars)</i>	<u>2018</u>
Assets recognized from costs to fulfil a contract as at December 31	\$ 67,612

The costs incurred to fulfil transportation contracts have been recognized as assets. The asset is amortized over the term of the specific contract, which does not exceed one to two months due to the nature of the transportation service. Accordingly, the Company has not recognized impairment loss on assets as at the period-end.

**Report on Independent Auditor's
Review of Internal Control over Financial Reporting**

To the President of
Pan Ocean Co., Ltd.

We have reviewed the accompanying management's report on the effectiveness of the Internal Control over Financial Reporting ("ICFR") of Pan Ocean Co., Ltd. (the "Company") as at December 31, 2018. The Company's management is responsible for designing and operating ICFR and for its assessment of the effectiveness of ICFR. Our responsibility is to review the management's report on the effectiveness of the ICFR and issue a report based on our review. The management's report on the effectiveness of the ICFR of the Company states that "Based on the assessment results, Chief Executive Officer and ICFR Officer believe that the Company's ICFR, as at December 31, 2018, is designed and operating effectively, in all material respects, in conformity with the Best Practice Guideline"

Our review was conducted in accordance with the ICFR review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the effectiveness of the ICFR to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's ICFR and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's ICFR is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as adopted by the Republic of Korea. Because of its inherent limitations, ICFR may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the effectiveness of the ICFR, referred to above, is not presented fairly, in all material respects, in accordance with the Best Practice Guideline.

Our review is based on the Company's ICFR as of December 31, 2018, and we did not review management's assessment of its ICFR subsequent to December 31, 2018. This report has been prepared pursuant to the Acts on External Audit for Stock Companies, etc. in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

March 19, 2019

Report on the Assessment of operations of the ICFR for 2018

To the Shareholders, Board of Directors and Audit Committee of Pan Ocean

We, as the Chief Executive Officer and the Internal Accounting Manager of Pan Ocean ("the Company"), assessed operating status of the Company's Internal Control over Financial Reporting("ICFR") for the year ending December 31, 2018.

Design and operation of ICFR is the responsibility of the Company's management, including the Chief Executive Officer and the Internal Accounting Manager.

We evaluated whether the Company effectively designed and operated its ICFR to prevent and detect errors or frauds which may cause a misstatement in financial statements to ensure preparation and disclosure of reliable financial information.

We used the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting' established by the Operating Committee of Internal Control over Financial Reporting in Korea (the "ICFR Committee") as the criteria for design and operation of the Company's ICFR. And we conducted an evaluation of ICFR based on the 'Management Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting' established by the ICFR Committee.

Based on our assessment, we concluded that the Company's ICFR is designed and operated effectively as of December 31, 2018, in all material respects, in accordance with the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting'.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statements which might cause material misunderstandings of the readers, and we have reviewed and verified this report with sufficient care.

January 31, 2019

Sung-Yob Choo, Chief Executive Officer

S. Y. Choo