

PAN OCEAN CO., LTD.

(Incorporated in the Republic of Korea)

THIRD QUARTER FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2014

PART I INFORMATION REQUIRED FOR THIRD QUARTER ANNOUNCEMENT

1.(a)(i) A statement of comprehensive income (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

For the third quarter and 9 months ended 30 September 2014 (in thousands of US\$)

	The Group			The Group		
	2014	2013	%	2014	2013	%
	Three months ended 30 Sep	Three months ended 30 Sep		Nine months ended 30 Sep	Nine months ended 30 Sep	
Sales	377,891	233,180	62.1%	1,142,104	2,135,848	-46.5%
Cost of sales	(325,182)	(287,526)	13.1%	(961,382)	(2,221,804)	-56.7%
Gross profit (loss)	52,709	(54,346)	-197.0%	180,722	(85,956)	N/M
Selling, marketing and administrative expenses	(11,895)	(21,298)	-44.1%	(29,036)	(78,297)	-62.9%
Operating profit(loss)	40,814	(75,644)	N/M	151,686	(164,253)	N/M
Finance income	882	2,193	-59.8%	3,806	28,436	-86.6%
Finance cost	(30,612)	(39,721)	-22.9%	(82,603)	(130,295)	-36.6%
Net foreign exchange gains(losses) on financial instrument	(591)	(82,731)	N/M	(3,045)	11,060	N/M
Share of profit(loss) of equity accounted investees	28	12,572	N/M	(486)	10,027	-104.8%
Other operating income, net	182,820	(223,985)	N/M	482,636	(247,430)	N/M
Profit(loss) from continuing operations before income tax	193,341	(407,316)	N/M	551,994	(492,455)	N/M
Income tax benefit (expense)	(11)	12,229	-100.1%	(155)	7,397	-102.1%
Profit(loss) from continuing operations for the period	193,330	(395,087)	N/M	551,839	(485,058)	N/M
Profit(loss) from discontinuing operations after income tax	(4,488)	(4,006)	N/M	(5,358)	(4,875)	9.9%
Profit(loss) for the period	188,842	(399,093)	N/M	546,481	(489,933)	N/M
Other comprehensive income(loss) that will be reclassified subsequently to profit(loss)						
Change in fair value of other financial assets, net of tax	(14)	178	N/M	105	(121)	-186.8%
Change in fair value of derivative financial assets, net of tax	118	63	87.3%	271	1,054	-74.3%
Net change of changes in equity from equity securities	(210)	322	N/M	29	(31)	N/M
Currency translation differences, net of tax	112	(1,853)	N/M	(553)	(2,368)	N/M
Other comprehensive income(loss) that will not be reclassified subsequently to profit(loss)						
Remeasurements of defined benefit	(21)	(26)	-19.2%	(65)	(69)	-5.8%
Total other comprehensive income for the period	(15)	(1,316)	N/M	(213)	(1,535)	N/M
Total comprehensive income(loss) for the period	188,827	(400,409)	N/M	546,268	(491,468)	N/M

N/M : Not meaningful

	The Group			The Group		
	2014	2013	%	2014	2013	%
	Three months ended 30 Sep	Three months ended 30 Sep		Nine months ended 30 Sep	Nine months ended 30 Sep	
Profit (loss) attributable to :						
Equity holders of the Company	188,863	(399,065)	N/M	546,652	(490,698)	N/M
Non-controlling interest	(21)	(28)	-25.0%	(171)	765	N/M
Profit(loss) for the period	188,842	(399,093)	N/M	546,481	(489,933)	N/M
Total comprehensive income(loss) attributable to :						
Equity holders of the Company	188,981	(400,451)	N/M	546,566	(491,587)	N/M
Non-controlling interest	(154)	42	N/M	(298)	119	N/M
Total comprehensive income(loss) for the period	188,827	(400,409)	N/M	546,268	(491,468)	N/M

1.(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year (in thousands of US\$).

	The Group		The Company	
	At 30 Sep 2014	At 31 Dec 2013	At 30 Sep 2014	At 31 Dec 2013
Assets				
Current assets				
Cash and cash equivalents	306,869	211,792	261,096	123,643
Trade receivables	126,427	186,010	102,543	154,607
Other receivables	26,439	31,587	21,781	27,563
Derivative financial assets	2,242	355	2,242	248
Other financial assets	4,297	8,052	3,877	7,089
Assets from financial services	-	48,095	-	-
Inventories	57,277	79,276	57,230	77,600
Other assets	137,667	172,814	146,087	164,548
Assets held for sale	81,348	32,340	7,154	32,340
	742,566	770,321	602,010	587,638
Non-current assets				
Trade receivables	235	116	113	116
Other receivables	25,034	20,023	24,399	17,080
Other financial Assets	19,686	27,075	19,642	21,229
Assets from financial services	-	20,620	-	-
Investments in subsidiaries	-	-	43,289	43,446
Investments in associates and joint ventures	5,727	6,142	6,754	6,714
Vessels, property and equipment	3,349,951	3,761,787	3,297,251	3,705,779
Intangible assets	5,527	8,724	4,745	5,073
Deferred income tax assets	614	154	-	-
Other assets	11,399	9,438	11,400	9,438
	3,418,173	3,854,079	3,407,593	3,808,875
Total assets	4,160,739	4,624,400	4,009,603	4,396,513
Liabilities				
Current liabilities				
Trade payables	92,176	136,838	92,192	121,998
Borrowings	261,577	330,015	239,229	305,590
Rehabilitation liabilities	505,364	75,834	505,364	75,834
Derivative financial liabilities	5,722	263	5,722	263
Liabilities from financial services	-	101,121	-	-
Other payables	28,628	64,899	24,621	62,731
Provisions	1,734	1,963	1,734	1,963
Income tax liabilities	-	1,615	-	-
Other liabilities	106,318	160,108	116,051	156,135
Liabilities held for sale	73,361	19,221	-	19,221
	1,074,880	891,877	984,913	743,735
Non-current liabilities				
Borrowings	1,437,401	1,729,969	1,423,169	1,713,226
Rehabilitation liabilities	540,236	333,309	540,236	333,309
Derivative financial liabilities	407	678	407	678
Liabilities from financial services	-	7,146	-	-
Provisions	348,658	1,419,870	367,242	1,418,710
Retirement benefit obligations	9,012	12,746	9,012	11,986
Deferred income tax liabilities	492	22	-	-
Other payables	476	494	376	394
	2,336,682	3,504,234	2,340,442	3,478,303
Total liabilities	3,411,562	4,396,111	3,325,355	4,222,038
Equity				
Share capital	143,149	105,779	143,149	105,779
Share premium	389	-	-	-
Treasury shares	-	(257)	-	-
Other reserves	1,009,095	1,066,043	1,018,896	1,075,281
Retained earnings	(404,476)	(951,063)	(477,797)	(1,006,585)
	748,157	220,502	684,248	174,475
Non-controlling interest	1,020	7,787	-	-
Total equity	749,177	228,289	684,248	174,475
Total equity and liabilities	4,160,739	4,624,400	4,009,603	4,396,513

1.(b)(ii) Aggregate amount of group's borrowings and debt securities(in thousands of US\$)

	The Group		The Group	
	At 30 September 2014		At 31 Decemebr 2013	
	Secured	Unsecured	Secured	Unsecured
Amount repayable in one year or less	261,577	-	330,015	-
Amount repayable after one year	1,437,401	-	1,729,969	-
	1,698,978	-	2,059,984	-

Details of collateral

The Group's borrowings are secured by way of :

- legal mortgages over certain vessels or building and land of the Group ; and
- legal charges over certain bank accounts

1.(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year (in thousands of US\$).

	The Group	
	Nine months ended 30 Sep	
	2014	2013
Cash flows from operating activities		
Cash generated from operations	297,216	182,279
Interest paid	(54,908)	(110,707)
Income tax paid	(3,185)	(404)
Net cash generated from operating activities	239,123	71,168
Cash flows from investing activities		
Purchases of property and equipment	(37,776)	(79,097)
Purchases of intangible assets	(488)	(39)
Proceeds from sale of property and equipment	267,154	131,421
Proceeds from intangible assets	471	1,340
Purchase of financial assets	(3,704)	(14,430)
Proceeds from financial assets	9,592	8,907
Purchases of investment in subsidiaries	0	(338)
Purchases of investment in associates and joint ventures	(30)	62,957
Dividend received	1,173	1,118
Loans	5,719	52,021
Interest received	2,244	3,222
Others, net	(42)	(118)
Net cash provided by (used in) investing activities	244,313	166,964
Cash flows from financing activities		
Proceeds from borrowings	28,022	524,490
Repayments of borrowings	(295,139)	(806,352)
Increase/ Decrease in rehabilitation liabilities	(90,800)	-
Repayments of other liabilities	(230)	-
Disposals of treasury shares	256	-
Decrease due to division	(2,421)	-
Dividend paid to Company's shareholders	(2,100)	-
Net cash provided by (used in) financing activities	(362,412)	(281,862)
Currency translation differences	(4,604)	(4,726)
Net (decrease)/increase in cash and cash equivalents	116,420	(48,456)
Cash and cash equivalents at beginning of the year	211,792	268,693
Assets held for sale	21,343	-
Cash and cash equivalents at end of the period (Continuing operations)	306,869	220,237

1.(d) (i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year (in thousands of US\$)

	Attributable to equity holders of the Group						Non-controlling Interest	Total equity
	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total		
Balance as of January 1, 2013	170,896	701,189	(25,272)	(3,745)	809,714	1,652,782	8,071	1,660,853
Total comprehensive income for the period								
Profit or loss for the period	-	-	-	-	(490,699)	(490,699)	766	(489,933)
Other comprehensive income(loss)								
Item that will be reclassified subsequently to profit or loss :								
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	(121)	-	(121)	-	(121)
Net change in fair value of derivative assets, net of tax	-	-	-	1,054	-	1,054	-	1,054
Net change of Changes In Equity From Equity Securities				(31)		(31)		(31)
Foreign Currency translation differences, net of tax	-	-	-	(1,722)	-	(1,722)	(646)	(2,368)
Item that will not be reclassified to profit or loss :								
Remeasurements of defined benefit liability	-	-	-	-	(69)	(69)	-	(69)
Total other comprehensive income (loss)	-	-	-	(820)	(69)	(889)	(646)	(1,535)
Total comprehensive income (loss) for the period	-	-	-	(820)	(490,768)	(491,588)	120	(491,468)
Balance as of September 30, 2013	170,896	701,189	(25,272)	(4,565)	318,946	1,161,194	8,191	1,169,385

Attributable to equity holders of the Group

	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total	Non- controlling Interest	Total equity
Balance as of January 1, 2014	105,779		(257)	1,066,043	(951,063)	220,502,	7,787	228,289
Total comprehensive income for the period								
Profit or loss for the period	-	-	-	-	546,652	546,652	(171)	546,481
Other comprehensive income(loss)								
Item that will be reclassified subsequently to profit or loss :								
Net change in fair value of other financial assets, net of tax	-	-	-	105	-	105	-	105
Net change in fair value of derivative financial assets and liabilities, net of tax	-	-	-	271	-	271	-	271
Net change of Changes In Equity From Equity Securities	-	-	-	29	-	29	-	29
Foreign Currency translation differences, net of tax	-	-	-	(426)	-	(426)	(127)	(553)
Item that will not be reclassified to profit or loss :								
Remeasurements of defined benefit liability	-	-	-	-	(65)	(65)	-	(65)
Total other comprehensive income	-	-	-	(21)	(65)	(86)	(127)	(213)
Total comprehensive income (loss) for the period	-	-	-	(21)	546,587	546,566	(298)	546,268
Transactions with equity holder, recorded directly in equity Contributions by and distributions to owners								
Debt to be swapped for equity	37,370	-	-	(56,760)	-	(19,390)	-	(19,390)
Loss on disposal of Treasury Shares	-	-	257	(167)	-	90	-	90
Total contributions by and distributions to owners	37,370	-	257	(56,927)	-	(19,300)	-	(19,300)
Changes in ownership interests in subsidiaries that do not result in a loss of control								
Changes in non-controlling shares of subsidiary incorporated during the period	-	389	-	-	-	389	(4,369)	(3,980)
Dividends	-	-	-	-	-	-	(2,100)	(2,100)
Total change in ownership interests in subsidiaries	-	389	-	-	-	389	(6,469)	(6,080)
Balance as of September 30, 2014	143,149	389	-	1,009,095	(404,476)	748,157	1,020	749,177

	Attributable to equity holders of the Company					Total	Total equity
	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings		
Balance as of January 1, 2013	170,896	701,189	(25,272)	2,835	891,851	1,741,499	1,741,499
Total comprehensive income for the period							
Profit or loss for the period	-	-	-	-	(611,086)	(611,086)	(611,086)
Other comprehensive income(loss)							
Item that will be reclassified subsequently to profit or loss :							
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	(121)	-	(121)	(121)
Net change in fair value of derivative assets and liabilities, net of tax	-	-	-	470	-	470	470
Item that will not be reclassified to profit or loss :							
Remeasurements of defined benefit liability	-	-	-	-	(69)	(69)	(69)
Total other comprehensive income	-	-	-	349	(69)	280	280
Total comprehensive income (loss) for the period	-	-	-	349	(611,155)	(610,806)	(610,806)
Balance as of September 30, 2013	170,896	701,189	(25,272)	3,184	280,696	1,130,693	1,130,693

Attributable to equity holders of the Company

	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total	Total equity
Balance as of January 1, 2014	105,779	-	-	1,075,281	(1,006,585)	174,475	174,475
Total comprehensive income for the period							
Profit or loss for the period	-	-	-	-	528,853	528,853	528,853
Other comprehensive income(loss)							
Item that will be reclassified subsequently to profit or loss :							
Net change in fair value of available-for-sale for financial assets, net of tax	-	-	-	105	-	105	105
Net change in fair value of derivative assets and liabilities, net of tax	-	-	-	270	-	270	270
Item that will not be reclassified to profit or loss :							
Remeasurements of defined benefit liability					(65)	(65)	(65)
Total other comprehensive income	-	-	-	375	(65)	310	310
Total comprehensive income (loss) for the period	-	-	-	375	528,788	529,163	529,163

Transactions with equity holder, recorded directly in equity Contributions by and distributions to owners

Debt to be swapped for equity	37,370	-	-	(56,760)	-	(19,390)	(19,390)
Total contributions by and distributions to owners	37,370	-	-	(56,760)	-	(19,390)	(19,390)
Balance as of September 30, 2014	143,149	-	-	1,018,896	(477,797)	684,248	684,248

1.(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue,

share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Not applicable.

1.(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

	The Issuer At 30 Sep 2014	The Issuer At 31 Dec. 2013
Total number of issued shares	163,414,036	120,887,541
Less number of shares held as treasury shares	-	(292,140)
Total number of issued shares excluding treasury shares of the issuer	163,414,036	120,595,401

2. Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice.

The figures have not been reviewed.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The Group has applied the same accounting policies and methods of computation in financial statements for the period ended 30 September 2014 compared with the audited financial statements for the year ended 31 December 2013.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

Not applicable

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends:

	<u>The Group</u> <u>2014</u> Nine months ended 30 June	<u>The Group</u> <u>2013</u> Nine months ended 30 June
Earnings per share for profit from continuing operations attributable to the equity holders of the Company during the year (expressed in US\$ per share)		
(a) Basic	3.96	(4.05)
(b) Diluted	3.96	(4.05)
Earnings per share for profit from discontinuing operations attributable to the equity holders of the Company during the year (expressed in US\$ per share)		
(a) Basic	(0.04)	(0.04)
(b) Diluted	(0.04)	(0.04)

* The business of Heung Kook Mutual Savings Bank belongs to discontinuing operations since 100% of the shares of Heung Kook Mutual Savings Bank the Company currently owns is determined to be disposed. (More details are in “8 (3) Discontinuing operations”)

7. Net asset value (for the issuer and group) per ordinary share based on the total number of issued share excluding treasury shares of the issuer at the end of the

(a) Current financial period reported on; and

(b) Immediately preceding financial year (in US\$).

	<u>The Group</u>		<u>The Company</u>	
	At 30 Sep 2014	At 31 Dec. 2013	At 30 Sep 2014	At 31 Dec. 2013
Net Asset Value per ordinary share based on issued share capital of the issuer	4.58	1.89	4.19	1.44

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-

- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

(1) Income Statement

9M 2014 vs 9M 2013

The Group recorded sales of US\$1,142 million, a decrease of 46.5% and costs of sales of US\$961 million, a decrease of 56.7% for the quarter on quarter (QoQ). This is mainly due to its downsized businesses in line with rehabilitation proceedings.

For the factor mentioned above, selling, marketing and administrative expenses for the 9 months of 2014 were reduced by 62.9% compared to the corresponding period of the last year. Therefore, the Group reached US\$152 of operating profit from US\$164 million of operating loss.

Meanwhile, the finance costs were declined from US\$130 million to US\$83million by 36.6% due to the decline of borrowings.

3Q 2014 vs 3Q 2013

The Group achieved sales of US\$378 million for the three months of the third quarter of 2014, an increase of 62.1% from the corresponding period of 2013. However, the cost of sales slightly increased from US\$288 to US\$325 by 13.1%.

Under such circumstances, selling, marketing and administrative expenses for the third quarter of 2014 decreased by 44.1% compared to the third quarter of 2013. Due to the above, the Group turned from an operating loss of US\$76 million to a profit of US\$41 million.

Meanwhile, the finance costs were declined by 22.9% and recorded US\$31 million due to the decline of borrowings.

(2) Balance Sheet & Cash Flow

The Group's total assets were decreased by US\$464 million from US\$4,624 million at 31 December 2013 mainly because of the disposal of its vessels and cancellation of shipbuilding agreements.

Total liabilities of the group showed a sharp drop of US\$984 million from US\$4,396 million at the end of the last year to US\$3,412 million at 30 September 2014 by cutting down on its borrowings and provisions.

Cash flows from operating and investing activities were surplus amounting to US\$239 million and US\$244 million respectively.

Net cash used in financing activities for the first half of 2013 recorded the deficit amounting to US\$362 million.

For those reasons, considering US\$5 million of the currency translation difference, the group's cash & equivalents increased by US\$116 million compared to the beginning of this year.

(3) Discontinuing Opearations

During the third quarter of 2014, the Group has obtained the approval of Korean Court to dispose all the shares of Heung Kook Mutual Savings Bank which the Group currently owns 100%. The statement of comprehensive income provides profit from continuing operations and profit from discounting operations respectively and the one for the 9 months ended September 30, 2013 has been restated for comparison. The statement of financial position for the Group classifies the corresponding business of Heung Kook Mutual Savings Bank to Assets/Liabilities held for sale.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10. If a decision regarding dividend has been made:

(a) Current Financial Period Reported On

Not applicable

(b) Corresponding Period of the Immediately Preceding Financial Year

Not applicable

(c) Date payable

Not applicable

(d) Books closure date

Not applicable

11. If no dividend has been declared (recommended), a statement to that effect.

Not applicable.

12. Reconciliations of K-IFRS with IFRS

There has been a change in listing status of the Group on the Mainboard of the SGX-ST from primary listing to secondary listing since January 23, 2013 and in compliance with statutory reporting purposes, the Group continues to prepare consolidated financial statements in accordance with Korea International Financial Reporting Standards (“K-IFRS”).

The Group adopted the amendments pursuant to the amended K-IFRS No. 1001, ‘Presentation of Financial Statements’ from the annual period ended December 31, 2012. The Group’s operating profit (loss) is calculated as revenue less: (1) cost of goods sold, and (2) selling, general and administrative expenses, and is presented separately in the consolidated statement of comprehensive income.

Whereas, IFRS does not explicitly define operating profit (loss), but it is interpreted that all profit (loss) items except ones clearly excluded from operating activities be included in operating profit (loss).

Based on this interpretation, the operating profit (loss) of the Group for three months ended September 30 2014 and 2013 shall be adjusted as below:

(In thousands of US dollars)

	The Group	
	2014 9M	2013 9M
Operating profit (loss) In K-IFRS	\$ 151,686	(164,253)
Adjustment :		
Gain on sale of vessels, property and equipment	23,399	18,965
Loss on sale of vessels, property and equipment	(659)	(195,844)
Gain on valuation of derivatives, net	3,043	2,424
Gain (loss) on derivative transactions, net	4,154	1,945
Gain (loss) on foreign currency translations, net	(4,161)	(9,774)
Gain (loss) on foreign currency transactions, net	5,091	5,072
Expense of marine accident	74,584	(24,637)
Donations	(73)	(1)
Losses on impairment of vessels, property and equipment	-	(44,975)
Other	17,909	(1,065)
Operating Profit(loss) In IFRS	\$ 274,973	(412,143)