

PAN OCEAN CO., LTD.

(Incorporated in the Republic of Korea)

THIRD QUARTER FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2017

PART I. INFORMATION REQUIRED FOR ANNUAL 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 period ended 30 September 2017 (in thousands of US\$)

	The Group			The Group		
	2017	2016	%	2017	2016	%
	Three months ended 30 Sep	Three months ended 30 Sep		Nine months ended 30 Sep	Nine months ended 30 Sep	
Sales	515,585	413,108	24.8%	1,527,476	1,171,616	30.4%
Cost of sales	(454,785)	(368,310)	23.5%	(1,361,012)	(1,032,565)	31.8%
Gross profit	60,800	44,798	35.7%	166,464	139,051	19.7%
Selling and administrative expenses	(14,733)	(11,813)	24.7%	(41,828)	(36,981)	13.1%
Operating profit	46,067	32,985	39.7%	124,636	102,070	22.1%
Finance income	1,484	4,407	-66.3%	8,005	10,804	-25.9%
Finance costs	(12,485)	(11,472)	8.8%	(37,878)	(35,463)	6.8%
Other non-operating income (loss), net	2,919	(2,202)	N/M	(9,107)	31,455	N/M
Gain(loss) related to investments in associates and joint ventures	46	98	-53.1%	159	338	-53.0%
Profit before income tax	38,031	23,816	59.7%	85,815	109,204	-21.4%
Income tax expense	1,084	46	2256.5%	3,464	1,222	183.5%
Profit for the year	36,947	23,770	55.4%	82,351	107,982	-23.7%
Other Comprehensive income(loss)						
Items that will be subsequently reclassified to profit or loss:						
Changes in the fair value of available-for-sale financial assets	(7)	(825)	-99.2%	29	(945)	N/M
Changes in the fair value of derivative financial assets	(341)	1,094	N/M	(762)	(537)	41.9%
Share of the other comprehensive income of associates and joint ventures	(6)	44	N/M	48	61	-21.3%
	(354)	313	N/M	(685)	(1,421)	-51.8%
Items that will not be reclassified to profit or loss:						
Remeasurements of defined benefit liability	(5)	93	N/M	(55)	71	N/M
Exchanges differences	(197)	1,455	N/M	(5,467)	4,706	N/M
Total other comprehensive income(loss) for the year, net of tax	(556)	1,861	N/M	(6,207)	3,356	N/M
Total comprehensive income for the year	36,391	25,631	42.0%	76,144	111,338	-31.6%
Profit (loss) attributable to :						
Owners of the Group	37,413	23,738	57.6%	83,302	107,912	-22.8%
Non-controlling interests	(466)	32	N/M	(951)	70	N/M
	36,947	23,770	55.4%	82,351	107,982	-23.7%
Total comprehensive income (loss) attributable to :						
Owners of the Group	36,830	25,602	43.9%	77,038	111,244	-30.7%
Non-controlling interests	(439)	29	N/M	(894)	94	N/M
	36,391	25,631	42.0%	76,144	111,338	-31.6%

N/M : Not meaningful

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 2017	At 31 Dec 2016	At 30 Sep 2017	At 31 Dec 2016
Assets				
Current assets				
Cash and cash equivalents	193,188	202,806	134,228	160,991
Trade receivables	81,531	77,122	66,846	66,841
Other receivables	26,237	20,013	22,695	18,708
Derivative financial assets	1,664	2,451	1,664	1,649
Other financial assets	31,134	6,615	28,721	3,000
Inventories	42,146	39,548	42,146	39,548
Other assets	194,669	125,855	193,741	123,137
	<u>570,569</u>	<u>474,410</u>	<u>490,041</u>	<u>413,874</u>
Non-current assets				
Other receivables	20,719	19,580	17,483	16,863
Derivative financial assets	194	0	194	0
Other financial Assets	17,105	31,257	17,105	27,979
Investments in subsidiaries	-	-	50,655	50,655
Investments in associates and joint ventures	1,860	1,654	1,252	1,252
Vessels, property and equipment	3,030,783	3,043,456	2,993,975	3,005,646
Intangible assets	8,929	8,493	4,389	3,916
Deferred tax assets	225	78	-	-
Other assets	5,888	4,560	5,076	4,525
	<u>3,085,703</u>	<u>3,109,078</u>	<u>3,090,129</u>	<u>3,110,836</u>
Total assets	<u>3,656,272</u>	<u>3,583,488</u>	<u>3,580,170</u>	<u>3,524,710</u>
Liabilities				
Current liabilities				
Trade payables	61,285	67,364	42,303	63,857
Borrowings	323,859	269,307	320,510	264,259
Derivative financial liabilities	514	525	104	21
Other payables	45,753	35,176	43,342	33,199
Provisions	7,209	572	3,000	3,008
Income tax liabilities	3,144	356	2,835	-
Other liabilities	92,866	60,217	86,554	55,045
	<u>534,630</u>	<u>433,517</u>	<u>498,648</u>	<u>419,389</u>
Non-current liabilities				
Borrowings	886,503	988,707	882,316	982,009
Derivative financial liabilities	31	90	31	90
Provisions	28,865	31,993	27,755	31,557
Retirement benefit obligations	6,803	5,923	6,667	5,826
Deferred income tax liabilities	5	22	-	-
Other payables	60	60	-	-
	<u>922,267</u>	<u>1,026,795</u>	<u>916,769</u>	<u>1,019,482</u>
Total liabilities	<u>1,456,897</u>	<u>1,460,312</u>	<u>1,415,417</u>	<u>1,438,871</u>
Equity				
Share capital	480,679	480,598	480,678	480,598
Capital surplus	651,710	651,355	651,155	650,802
Other reserves	1,049,602	1,056,192	1,068,757	1,069,049
Accumulated deficit	(2,562)	(85,809)	(35,837)	(114,610)
Equity attributable to owners of the Group & Company	<u>2,179,429</u>	<u>2,102,336</u>	<u>2,164,753</u>	<u>2,085,839</u>
Non-controlling interest	19,946	20,840	-	-
Total equity	<u>2,199,375</u>	<u>2,123,176</u>	<u>2,164,753</u>	<u>2,085,839</u>
Total equity and liabilities	<u>3,656,272</u>	<u>3,583,488</u>	<u>3,580,170</u>	<u>3,524,710</u>

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

	At 30 Sep 2017		At 31 Dec 2016	
	Secured	Unsecured	Secured	Unsecured
Amount repayable in one year or less	239,877	83,982	256,807	12,500
Amount repayable after one year	860,503	26,000	951,207	37,500
	1,100,380	109,982	1,208,014	50,000

Details of collateral

The Group's borrowings are secured by way of :

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

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. September	
	2017	2016
Cash flows from operating activities		
Cash generated from operations	174,374	232,060
Interest paid	(31,976)	(30,167)
Income tax paid	(126)	(391)
Net cash inflow(outflow) by operating activities	142,272	201,502
Cash flows from investing activities		
Acquisition of vessels, property and equipment	(77,767)	(64,126)
Acquisition of intangible assets	(1,248)	(1,803)
Proceeds from sale of vessels, property and equipment	3	13,134
Proceeds from sale of intangible assets	524	-
Acquisition of financial assets	(34,818)	(42,862)
Proceeds from sale of financial assets	24,691	9,239
Acquisition of investments in subsidiaries share	-	1,635
Acquisition of investments in associates & joint ventures	-	(42)
Proceeds from sale of investments in associates & joint ventures	-	-
Dividend received	153	267
Loans provided	(34)	
Loans collected	767	2,389
Interest received	1,932	1,627
Net cash inflow(outflow) from investing activities	(85,797)	(80,542)
Cash flows from financing activities		
Proceeds from borrowings	127,982	67,819
Repayment of borrowings	(194,460)	(229,894)
Net cash inflow(outflow) financing activities	(66,478)	(162,075)
Currency translation differences (cash and cash equivalents)	385	1,177
Net increase(decrease) in cash and cash equivalents	(10,003)	(41,115)
Cash and cash equivalents at beginning of the year	202,806	237,344
Cash and cash equivalents at end of the year	193,188	197,406

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 owners of the Group				Non-controlling Interest	Total equity
	Share capital	Capital surplus	Other reserves	Accumulated deficit		
Balance as of January 1, 2016	471,717	627,169	1,124,116	(169,941)	21,546	2,074,607
Comprehensive income (loss)						
Profit for the Period	-	-	-	107,912	70	107,982
Items that will be reclassified subsequently to profit or loss:						
Changes in the fair value of available-for-sale financial assets	-	-	(945)	-	-	(945)
Changes in the fair value of derivative financial assets and liabilities	-	-	(537)	-	-	(537)
Share of the other comprehensive income of associates and joint venture	-	-	61	-	-	61
Items that will not be reclassified to profit or loss:						
Remeasurements of defined benefit liability	-	-	-	71	-	71
Exchanges differences	-	-	4,682	-	25	4,707
Transactions with owners recorded directly in equity:						
Changes in equity due to debt-equity swap	7,110	19,003	(70,275)	-	-	(44,162)
Balance as of September 30, 2016	478,827	646,172	1,057,102	(61,958)	21,641	2,141,784
Balance as of January 1, 2017	480,598	651,356	1,056,192	(85,809)	20,840	2,123,177
Comprehensive income (loss)						
Profit(loss) for the period	-	-	-	83,302	(951)	82,351
Items that will be reclassified subsequently to profit or loss:						
Changes in the fair value of available-for-sale financial assets	-	-	29	-	-	29
Changes in the fair value of derivative financial assets and liabilities	-	-	(762)	-	-	(762)
Share of the other comprehensive income of associates and joint ventures	-	-	48	-	-	48
Items that will not be reclassified to profit or loss:						
Remeasurements of defined benefit liability	-	-	-	(55)	-	(55)
Exchanges differences	-	-	(5,524)	-	57	(5,467)
Transactions with owners recorded directly in equity:						
Changes in equity due to debt-equity swap	81	354	(381)	-	-	54
Balance as of September 30, 2017	480,679	651,710	1,049,602	(2,562)	19,946	2,199,375

	Attributable to owners of the Company				
	Share capital	Capital surplus	Other reserves	Accumulated deficit	Total equity
Balance as of January 1, 2016	471,717	626,615	1,141,252	(193,187)	2,046,397
Comprehensive income (loss)					
Profit for the year	-	-	-	110,171	110,171
Items that will be reclassified subsequently to profit or loss:					
Changes in the fair value of available-for-sale financial assets	-	-	(945)	-	(945)
Changes in the fair value of derivative financial assets and liabilities	-	-	(93)	-	(93)
Items that will not be reclassified to profit or loss:					
Remeasurement of defined benefit liability	-	-	-	71	71
Transactions with owners recorded directly in equity:					
Changes in equity due to debt-equity swap	7,110	19,003	(70,275)	-	(44,162)
Balance as of September 30, 2016	478,827	645,618	1,069,939	(82,945)	2,111,439
Balance as of January 1, 2017	480,598	650,802	1,069,049	(114,610)	2,085,839
Comprehensive income (loss)					
Profit for the year	-	-	-	78,838	78,838
Items that will be reclassified subsequently to profit or loss:					
Changes in the fair value of available-for-sale financial assets	-	-	29	-	29
Changes in the fair value of derivative financial assets and liabilities	-	-	60	-	60
Items that will not be reclassified to profit or loss:					
Remeasurement of defined benefit liability	-	-	-	(65)	(65)
Transactions with owners recorded directly in equity:					
Changes in equity due to debt-equity swap	80	353	(381)	-	52
Balance as of September 30, 2017	480,678	651,155	1,068,757	(35,837)	2,164,754

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.

(in shares)	At 30 Sep 2017		At 31 Dec 2016	
	Number of shares issued	outstanding stock	Number of shares issued	outstanding stock
Beginning number of shares	534,392,834	534,392,834	524,425,070	524,425,070
Debt-equity swap	89,740	89,740	9,967,764	9,967,764
Ending number of shares	534,482,574	534,482,574	534,392,834	534,392,834

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. 2017	The Issuer At 31 Dec. 2016
Total number of issued shares	534,482,574	534,392,834
Less number of shares held as treasury shares	-	-
Total number of issued shares excluding treasury shares of the issuer	534,482,574	534,392,834

1.(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current period and as at the end of the current financial period reported on.

Not applicable

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

The figures have been reviewed in accordance with Korean International Financial Reporting Standards

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 2017 compared with the audited financial statements for the year ended 31 December 2016.

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>The Group</u>
	<u>2017</u>	<u>2016</u>
	Nine months	Nine months
	ended 30 Sep	ended 30 Sep
Earnings per share for profit attributable to owners of the Company during the period (expressed in US\$ per share)		
(a) Basic	0.15	0.20
(b) Diluted	0.15	0.20

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 31 Sep.	At 31 Dec.	At 31 Sep.	At 31 Dec.
	2017	2016	2017	2016
Net asset value per ordinary share based on issued share capital of the issuer	4.11	3.97	4.05	3.90

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

FY 2017 3Q VS FY 2016 3Q

The group achieved sales of US\$ 1,527 million, increase of 30% compared to the same period in the prior year. And Costs of sales was increased from US\$ 1,033 million as of 2016 3Q to US\$ 1,361 million as of 2017 3Q.

The group recorded operating profit of US\$ 125 million in 2017 3Q, as compared to the operating profit of US\$ 102 million in the corresponding period of preceding financial year.

For the non-operating profit, the group recorded finance cost of US\$38 million in 2017 3Q.

Pursuant to the amended rehabilitation plan, the Group recognized the profit and loss from debt restructuring including debt-equity swap recorded the gain of US\$ 65 million in 2016 3Q.

And losses on impairment of vessel, property and equipment (held for sale) had recorded US\$ 34 million in 2016 3Q.

Consequently, Profit for the year, which had recorded US\$ 82 million in 3Q of 2017, as compared US\$ 108 million in 3Q of 2016.

(2) Balance Sheet & Cash Flow

The group's total assets increased US\$ 73 million, from US\$ 3,583 million as of 31 December 2016 to US\$ 3,656 million as of 30 September 2017.

Total liabilities of the Group decreased US\$ 3 million, from US\$ 1,460 million as of 31 December 2016 to US\$ 1,457 million as of 30 September 2017.

Cash flows from operating activities were surplus amounting to US\$ 142 million but Net cash used in investing activities and financing activities for 2017 3Q recorded the deficit amounting to US\$ 152 million.

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. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12months.

The first 3 quarters of 2017 has come out positively in terms of demand growth of Iron ore and Coal to China due to steady growth in China Economy. BDI rate through the first 3 quarters of 2017 climbed almost the twice level as in the corresponding period of 2016.

Global fleet supply in the first 3 quarters of 2017 dropped 15.3%, 34.7 million dwt has been delivered from 28.8 million dwt in the same period of 2016. The increasing rate of global dry bulk fleet in 2017 is forecasted high 2% level which slightly above from 2.9% of 2016.

The growth rate of dry bulk seaborne quantity in 2017 is expected to be over 4% with continuing increase of the aforesaid commodities and minor cargos supported by world GDP growth forecasted 3.6% in 2017 and 3.7% in 2018 according to IMF.

11. If a decision regarding dividend has been made: N/A

Not applicable.

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

Not applicable.

13. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1) (a) (ii). If no IPT mandate has been obtained, a statement to that effect.

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)	
	Nine months Ended 30 Sep. 2017.	Nine months Ended 30 Sep. 2016.	Nine months Ended 30 Sep. 2017.	Nine months Ended 30 Sep. 2016.
PanOcean(America), Inc.	-	-	16,682 ¹⁾	10,587 ¹⁾
Sunjin Co., Ltd.	-	-	2,540 ²⁾	687 ²⁾
Farmsco	-	-	3,869 ²⁾	3,012 ²⁾
Jeil Feed Company, Ltd.	-	-	6,611 ²⁾	2,751 ²⁾
Harim Co., Ltd.	-	-	3,711 ²⁾	720 ²⁾
Jeil Holdings Co., Ltd.	-	717 ³⁾	-	-
Total	-	717	33,413	17,757

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

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

3) The value of the transaction is the interest payable on the bond to Jeil Holdings.

The group issued unsecured private placed bond to Jeil holdings KRW 157,950 million and repaid amounting KRW 117,950 million in 2015. and repaid the remaining balance amount to KRW 40,000 million in 2016.

PART II -ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT

14. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous.

Not applicable

15. 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 23 January 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 2017 first half and 2016 first half shall be adjusted as below:

(In thousands of US dollars)

	The Group	
	2017 3Q	2016 3Q
Operating profit(loss) In K-IFRS	124,636	102,070
Adjustment :		
Gain on sale of vessels, property and equipment	3	2,965
Loss on sale of vessels, property and equipment	(684)	(1,758)
Gain on impairment of vessels, property and equipment	0	0
Loss on impairment of vessels, property and equipment	0	(35,148)
Gain on sale of Intangible assets	233	0
Loss on sale of Intangible assets	0	0
Gain (loss) on valuation of derivatives, net	1,754	376
Gain (loss) on derivative transactions, net	(556)	1,438
Gain (loss) on foreign currency translations, net	345	888
Gain (loss) on foreign currency transactions, net	258	438
Expense of provision and marine accident	(12,380)	(934)
Donations	2	(1)
Other	1,306	(1,477)
Operating profit(loss) In IFRS	114,917	68,857