

PAN OCEAN CO. LTD.

(Incorporated in the Republic of Korea)

FULL YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 DECEMBER 2019

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 31 December 2019 (in thousands of US\$)

	The Group		
	2019	2018	%
	Year Ended	Year Ended	
	31 December	31 December	
Sales	2,117,525	2,425,312	-12.7%
Cost of sales	(1,870,608)	(2,172,563)	-13.9%
Gross profit	246,917	252,749	-2.3%
Selling and administrative expenses	(66,714)	(67,389)	-1.0%
Operating profit	180,203	185,360	-2.8%
Finance income	15,680	11,301	38.7%
Finance costs	(57,566)	(58,133)	-1.0%
Other non-operating income (loss), net	(11,136)	(3,167)	251.6%
Gain(loss) related to investments in associates and joint ventures	35	62	-43.5%
Profit before income tax	127,216	135,423	-6.1%
Income tax expense	462	317	45.7%
Profit for the period	126,754	135,106	-6.2%
Other Comprehensive income(loss)			
Items that will be subsequently reclassified to profit or loss:			
Changes in the fair value of derivative financial assets	(18)	55	N/M
Share of the other comprehensive income of associates and joint ventures	(26)	(45)	-42.2%
	(44)	10	N/M
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability	(961)	(132)	628.0%
Exchanges differences	(831)	(4,927)	-83.1%
Total other comprehensive income(loss) for the period, net of tax	(1,836)	(5,049)	-63.6%
Total comprehensive income for the period	124,918	130,057	-4.0%
Profit (loss) attributable to :			
Owners of the Group	130,317	138,528	-5.9%
Non-controlling interests	(3,563)	(3,422)	4.1%
	126,754	135,106	-6.2%
Total comprehensive income (loss) attributable to :			
Owners of the Group	128,489	134,508	-4.5%
Non-controlling interests	(3,571)	(4,451)	-19.8%
	124,918	130,057	-4.0%

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 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Assets				
Current assets				
Cash and cash equivalents	220,516	186,668	171,028	143,623
Trade receivables	113,512	127,837	104,610	107,156
Contract Assets	55,684	87,196	55,684	87,196
Other receivables	22,103	32,085	21,010	30,391
Derivative financial assets	420	1,541	420	1,006
Other financial assets	24,811	16,042	24,709	9,893
Inventories	56,419	54,602	56,415	54,597
Other assets	93,450	113,076	83,293	110,206
	586,915	619,047	517,169	544,068
Non-current assets				
Trade receivables	-	10	-	-
Other receivables	10,315	24,608	9,523	22,062
Other financial Assets	10,022	15,827	10,022	15,826
Investments in subsidiaries	-	-	39,261	41,158
Investments in associates and joint ventures	2,019	2,020	1,252	1,252
Vessels, property and equipment	3,227,672	3,007,560	3,211,552	2,993,294
Intangible assets	6,728	7,704	4,343	4,333
Other assets	3,433	7,596	2,756	4,447
	3,260,189	3,065,325	3,278,709	3,082,372
Total assets	3,847,104	3,684,372	3,795,878	3,626,440
Liabilities				
Current liabilities				
Trade payables	103,805	113,109	92,113	101,092
Borrowings	371,010	340,699	371,010	340,699
Derivative financial liabilities	61	3,004	61	2,484
Other payables	46,258	57,704	41,790	54,867
Provisions	3,170	2,257	3,170	2,257
Other liabilities	13,255	14,802	9,492	11,310
Contract liabilities	62,068	68,107	62,068	68,107
Lease liabilities	12,835	-	11,684	-
	612,462	599,682	591,388	580,816
Non-current liabilities				
Borrowings	684,076	667,285	684,076	667,285
Derivative financial liabilities	19	1	19	1
Provisions	22,638	29,542	22,110	24,575
Retirement benefit obligations	2,308	3,793	2,070	3,653
Other payables	-	65	-	-
Lease liabilities	21,256	-	19,632	-
Other liabilities	-	4,577	-	4,577
	730,297	705,263	727,907	700,091
Total liabilities	1,342,759	1,304,945	1,319,295	1,280,907
Equity				
Share capital	480,755	480,755	480,755	480,755
Capital surplus	652,814	652,814	651,483	651,483
Other reserves	1,051,352	1,052,219	1,068,368	1,068,386
Accumulated deficit	308,103	178,747	275,977	144,909
Equity attributable to owners of the Group & Company	2,493,024	2,364,535	2,476,583	2,345,533
Non-controlling interest	11,321	14,892	-	-
Total equity	2,504,345	2,379,427	2,476,583	2,345,533
Total equity and liabilities	3,847,104	3,684,372	3,795,878	3,626,440

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

	At 31 Dec 2019		At 31 Dec 2018	
	Secured	Unsecured	Secured	Unsecured
Amount repayable in one year or less	343,736	27,274	302,283	38,416
Amount repayable after one year	558,339	125,737	607,933	59,352
	902,075	153,011	910,216	97,768

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	
	Year ended 31 Dec.	
	2019	2018
Cash flows from operating activities		
Cash generated from operations	403,766	298,162
Interest paid	(56,129)	(53,339)
Income tax paid	(325)	(1,168)
Net cash inflow(outflow) by operating activities	347,312	243,655
Cash flows from investing activities		
Acquisition of vessels, property and equipment	(186,196)	(150,376)
Proceeds from sale of vessels, property and equipment	245	12,681
Acquisition of intangible assets	(301)	(176)
Proceeds from sale of intangible assets	1,284	-
Acquisition of other financial assets	(28,465)	(16,353)
Proceeds from sale of other financial assets	25,304	35,063
Dividend received	299	238
Increase in other receivables	(1,309)	(317)
Decrease in other receivables	2,387	1,084
Interest received	3,994	3,131
Net cash inflow(outflow) from investing activities	(182,758)	(115,025)
Cash flows from financing activities		
Proceeds from borrowings	601,401	408,252
Repayment of borrowings	(716,643)	(543,267)
Repayments of lease liabilities	(15,195)	(349)
Changes in other controlling interests	-	(193)
Net cash inflow(outflow) financing activities	(130,437)	(135,557)
Currency translation differences (cash and cash equivalents)	(269)	(215)
Net increase(decrease) in cash and cash equivalents	33,848	(7,142)
Cash and cash equivalents at beginning of the year	186,668	193,810
Cash and cash equivalents at end of the period	220,516	186,668

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, 2018	480,727	651,920	1,056,427	40,351	19,343	2,248,768
Comprehensive income (loss)						
Profit for the Period	-	-	-	138,528	(3,422)	135,106
Items that will be reclassified subsequently to profit or loss:						
Changes in the fair value of available-for-sale financial assets	-	-	-	-	-	-
Changes in the fair value of derivative financial assets and liabilities	-	-	55	-	-	55
Share of the other comprehensive income of associates and joint venture	-	-	(45)	-	-	(45)
Items that will not be reclassified to profit or loss:						
Remeasurements of defined benefit liability	-	-	-	(132)	-	(132)
Exchanges differences	-	-	(3,898)	-	(1,029)	(4,927)
Transactions with owners recorded directly in equity:						
Changes in equity due to debt-equity swap	28	117	(320)	-	-	(175)
Additional acquisition of the non-controlling interest with unchanged control		777				777
Balance at December 31, 2018	<u>480,755</u>	<u>652,814</u>	<u>1,052,219</u>	<u>178,747</u>	<u>14,892</u>	<u>2,379,427</u>
Balance as of January 1, 2019	480,755	652,814	1,052,219	178,747	14,892	2,379,427
Comprehensive income (loss)						
Profit(loss) for the period	-	-	-	130,317	(3,563)	126,754
Items that will be reclassified subsequently to profit or loss:						
Changes in the fair value of derivative financial assets and liabilities	-	-	(18)	-	-	(18)
Share of the other comprehensive income of associates and joint ventures	-	-	(26)	-	-	(26)
Items that will not be reclassified to profit or loss:						
Remeasurements of defined benefit liability	-	-	-	(961)	-	(961)
Exchanges differences	-	-	(823)	-	(8)	(831)
Balance at December 31, 2019	<u>480,755</u>	<u>652,814</u>	<u>1,051,352</u>	<u>308,103</u>	<u>11,321</u>	<u>2,504,345</u>

	Attributable to owners of the Company				
	Share capital	Capital surplus	Other reserves	Accumulated deficit	Total equity
Balance as of January 1, 2018	480,727	651,366	1,068,692	13,881	2,214,666
Comprehensive income (loss)					
Profit for the Period	-	-	-	131,110	131,110
Items that will be reclassified subsequently to profit or loss:					
Changes in the fair value of available-for-sale financial assets	-	-	-	-	-
Changes in the fair value of derivative financial assets and liabilities	-	-	13	-	13
Items that will not be reclassified to profit or loss:					
Remeasurement of defined benefit liability	-	-	-	(82)	(82)
Transactions with owners recorded directly in equity:					
Changes in equity due to debt-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>
Balance as of January 1, 2019	480,755	651,483	1,068,386	144,909	2,345,533
Comprehensive income (loss)					
Profit for the Period	-	-	-	131,889	131,889
Items that will be reclassified subsequently to profit or loss:					
Changes in the fair value of derivative financial assets and liabilities	-	-	(18)	-	(18)
Items that will not be reclassified to profit or loss:					
Remeasurement of defined benefit liability	-	-	-	(821)	(821)
Balance at December 31, 2019	<u>480,755</u>	<u>651,483</u>	<u>1,068,368</u>	<u>275,977</u>	<u>2,476,583</u>

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.

<i>(in shares)</i>	<u>At 31 Dec 2019</u>		<u>At 31 Dec 2018</u>	
	<u>Number of shares issued</u>	<u>outstanding stock</u>	<u>Number of shares issued</u>	<u>outstanding stock</u>
Beginning number of shares	534,569,207	534,569,207	534,537,812	534,537,812
Debt-equity swap	-	-	31,395	31,395
Ending number of shares	534,569,207	534,569,207	534,569,207	534,569,207

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.

	<u>The Issuer At 31 Dec 2019</u>	<u>The Issuer At 31 Dec 2018</u>
Total number of issued shares	534,569,207	534,569,207
Less number of shares held as treasury shares	-	-
Total number of issued shares excluding treasury shares of the issuer	534,569,207	534,569,207

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 audited 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 Korean IFRS 1116 Leases for the year ended 31 December 2019 compared with the audited financial statements for the year ended 31 December 2018.

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.

- The adoption of Korean IFRS 1116 Leases

The Group adopted Korean IFRS 1116 retrospectively as at January 1, 2019, the comparative figures for prior periods have not been restated in accordance with the transitional provision which is one of applicable methods.

Therefore, the group recognized the reclassifications and adjustments in accordance with this new accounting standards in the initial balance sheet as at January 1, 2019.

- The adjustments from adoption of Korean IFRS 1116 Leases

Korean IFRS 1116 leases issued on May22, 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.

The group discounted lease liabilities with the lessee's incremental borrowing rates to recognize the present value of remaining lease payments as at January 1, 2019. The incremental borrowing rates were 4.92% for leased vessels and leased container vans and 4.09% for leased buildings and lease vehicles.

The group has recognized right-of-use assets and lease liabilities for finance leases at the commencement date of the lease. Before the commencement date, the group recognized lease assets and lease liabilities for finance leases. The evaluation standard of Korean IFRS 1116 Leases has been applied after the commencement date of the lease.

With the practical expedient, the group may choose to apply new standard to only contracts entered after the commencement date. Prior contracts before the commencement date will not be required to be evaluated. The group has consistently applied this practical expedient for all contracts entered.

The group has applied the transitional provision for each lease contract which has a short-term lease (a lease term of 12 months or less at the commencement date) or low value assets (e.g. underlying assets below \$5,000).

The effects in income statement affected by new lease standard as follows:

(In thousands of US dollars)

	The Group
	2019
Depreciation expenses of right-of-use assets	
Chartered vessels	10,893
Container vans	2,233
Buildings	2,657
Vehicles	221
Total	16,004
Interest expenses from leases (included in finance expenses)	1,723
Short term lease expense (included in COGS and S&A)	393,367
Lease expense other than short term lease (included in S&A)	71

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>2019</u>	<u>2018</u>
	<u>12 months</u>	<u>12 months</u>
	<u>ended 31 Dec</u>	<u>ended 31 Dec</u>
Earnings per share for profit attributable to owners of the Company during the period (expressed in US\$ per share)		
(a) Basic	0.24	0.26
(b) Diluted	0.24	0.26

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>	
	<u>At 31 Dec.</u>	<u>At 31 Dec.</u>	<u>At 31 Dec.</u>	<u>At 31 Dec.</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net asset value per ordinary share based on issued share capital of the issuer	4.68	4.45	4.63	4.39

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 2019 VS FY 2018

The group achieved sales of US\$ 2,118 million, decrease of 13% compared to the same period in the prior year. And Costs of sales was decreased from US\$ 2,173 million as of 2018 to US\$ 1,871 million as of 2019.

The group recorded operating profit of US\$ 180 million in 2019, as compared to the operating profit of US\$ 185 million in the corresponding period of preceding financial year.

For the non-operating profit, the group recorded finance cost of US\$58 million in 2019.

Consequently, Profit for the year, which had recorded US\$127 million in 2019, as compared US\$ 135 million in 2018.

(2) Balance Sheet & Cash Flow

The group's total assets increased US\$ 163 million, from US\$ 3,684 million as of 31 December 2018 to US\$ 3,847 million as of 31 December 2019.

Total liabilities of the Group decreased US\$ 38 million, from US\$ 1,305 million as of 31 December 2018 to US\$ 1,343 million as of 31 December 2019.

Cash flows from operating activities were surplus amounting to US\$ 347 million but Net cash used in investing activities and financing activities for 2019 recorded the deficit amounting to US\$ 313 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 12 months.

In 2019, the average Baltic Dry Index (BDI) recorded 1,353 points, same as the record in 2018. The lowest BDI point was 595 in the second quarter and the highest was 2,518 in the third quarter last year. The average BDI during the first half of last year recorded 895 points due to negative factors such as the supply disruption of iron ore from Brazil as the one of the major export countries and extended uncertainty resulted from trade tension between US and China. On the other hand, during the second half of last year, the average BDI recorded 1,804 points owing to positive factors such as resumption of iron ore export from Brazil and the increased grain export from South America.

As for the demand, the total dry bulk seaborne trade volume in 2019 increased by 1.1% to 5.28 billion tons, even though the seaborne iron ore trade volume decreased by 1.6% to 1.45 billion tons mainly because of supply disruption from Brazil during the first half of last year. The seaborne coal trade volume increased by 1.7% and recorded 1.29 billion tons because of steady demand from China and growing demand from Asian emerging economies' coal-fired power generation. The growth of grain trade volume in 2019 was a bit limited due to the impact of US-China trade tension, but increased volume of minor cargoes rather diluted its negative impact.

On the supply side, the newbuilding deliveries of dry bulk vessels in 2019 recorded 41.1 million DWT, about 44% up from the previous year (28.5 million DWT). That is mainly because of the increase in new newbuilding orders affected by gradual recovery trend during 2017. The scrapping volume of the bulkers was 7.8 million DWT, about 75% up from the previous year (4.4 million DWT) because of the influence of bearish market mood during the first half of last year and reinforcement of IMO regulations. Consequently, the total fleet growth rate recorded 4%, increased by 1% compared to those of the previous year.

Meanwhile, the organization for economic cooperation and development (OECD) forecasts GDP growth in 2020 to be at 2.9%, the same level as the previous year. In this regard, the overall global commodity demand is expected to remain steady and firm because of positive factors such as the continuation of high growth in emerging economies and the ease of US-China trade tension, even though there are still some negative factors, including slowdown in growth of major countries.

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)	
	12 months Ended 31 Dec. 2019.	12 months Ended 31 Dec. 2018.	12 months Ended 31 Dec. 2019.	12 months Ended 31 Dec. 2018.
PanOcean(America), Inc.	40,846 ³⁾	48,151 ³⁾	26,299 ¹⁾	30,283 ¹⁾
Sunjin Co., Ltd.	-	-	4,040 ²⁾	5,420 ²⁾
Farmsco	-	-	9,159 ²⁾	5,206 ²⁾
Jeil Feed Company, Ltd.	-	-	7,421 ²⁾	4,325 ²⁾
Harim Co., Ltd.	-	-	3,872 ²⁾	2,890 ²⁾
Orpum Co., Ltd.	-	-	636 ²⁾	- ²⁾
Harim Holdings Co.,Ltd.	1,532 ⁴⁾	-	-	-
Harim USA, Ltd.	341 ⁵⁾	-	-	-
Total	42,719	48,151	51,427	48,124

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, Orpum)

3) Provided performance guarantee, finance guarantee for the period and commission fee

4) The group's shared expenses (Harim Holdings Co., Ltd.)

5) The group's effective interest of transaction relating to lending of money to interested person (Harim USA, Ltd.)

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 2019 and 2018 shall be adjusted as below:

(In thousands of US dollars)

	The Group	
	2019	2018
Operating profit(loss) In K-IFRS	180,203	185,360
Adjustment :		
Gain on sale of vessels, property and equipment	234	2,874
Loss on sale of vessels, property and equipment	(905)	(724)
Gain on impairment of vessels, property and equipment	0	0
Loss on impairment of vessels, property and equipment	(4,244)	(1,308)
Gain on sale of Intangible assets	0	0
Loss on sale of Intangible assets	56	0
Gain (loss) on valuation of derivatives, net	345	(2,105)
Gain (loss) on derivative transactions, net	1,332	(1,652)
Gain (loss) on foreign currency translations, net	(948)	(1,214)
Gain (loss) on foreign currency transactions, net	(962)	478
Expense of provision and marine accident	(3,470)	(836)
Donations	(990)	(734)
Other	(1,584)	1,835
Operating profit(loss) In IFRS	169,067	181,974