

PAN OCEAN CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders

Pan Ocean Co., Ltd.:

We have audited the accompanying consolidated financial statements of Pan Ocean Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following:

(a) Termination of rehabilitation procedures

As described in note 41, the Group entered into investment contract with Harim Group and JKL Consortium on February 12, 2015 by undertaking fund amounts of KRW 1,007,950 million (issuance of new capital stock amounting KRW 850,000 million and private unsecured bond amounting KRW 157,950 million). The Group submitted revised rehabilitation plan to change of shareholders' right and to early repay for remaining confirmed rehabilitation liabilities with partially exemption based on invested funds net of already redeemed rehabilitation liabilities and M&A advisors' fee. The plan was approved by Seoul Central District Court on June 12, 2015.

The Group made early repayment of rehabilitation liabilities (except unconfirmed claims and unidentified liabilities), change of shareholders' right and hold of the fund for unconfirmed rehabilitation claims. Seoul Central District Court approved the termination of the rehabilitation procedure on July 30, 2015.

(b) Early repayment and partially exemption of rehabilitation liabilities

As described in note 26 and 41, under revised rehabilitation plan, the Group made the early repayment of rehabilitation liabilities (which is recognized as non-current liabilities with present discounted value on prior year's financial statements) amounting 83% of confirmed liabilities without unidentified liabilities amounting US\$ 1,842 thousand.

(c) Changes of share capital

As described in note 20 and 21, the Group's common stock increased in 309,886,570 shares by issuance of new stock (increase of 340,000,000 shares), debt-equity swap (increase of 16,046,309 shares), share consolidation (decrease of 45,635,846 shares) and retirement of share (decrease of 523,893 shares) according to revised rehabilitation plan, and consequently capital stock and share premium increased by US\$279,383 thousand and US\$ 484,777 thousand, respectively, and other reserves decreased by US\$ 31,033 thousand.

(d) Uncertainty of estimates and existence of significant contingency

As described in note 29 and 35, the Group reserved provisions for the probable amounts that are reliably estimated to be additionally approved as rehabilitation claims. However, the contingent amounts of US\$ 130,807 thousand which were excluded from provisions may be different from the Group's expectation according to actual result from the judgement.

Nexia Samduk

Seoul, Korea

March 11, 2016

This report is effective as of March 11, 2016, 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 consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Pan Ocean Co., Ltd. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2015 and 2014

In thousands of US dollars

	Note	2015	2014
Assets			
Cash and cash equivalents	5,17	\$ 237,344	364,546
Trade receivables	5,12,13,15	98,243	70,417
Other receivables	5,12,13,16	20,986	23,465
Derivative financial assets	5,11,12,13	32	172,606
Other financial assets	5,12,13,14	1,170	2,814
Inventories	19	34,164	53,760
Other assets	18	139,929	131,373
Assets held for sale	40	2,417	64,996
Total current assets		534,285	883,977
Trade receivables	5,12,13,15	71	121
Other receivables	5,12,13,16	12,655	16,687
Other financial assets	5,12,13,14	16,050	19,588
Investments in associates and joint ventures	10	1,333	6,465
Vessels, property and equipment	6,8	3,106,110	3,203,392
Intangible assets	9	7,261	5,121
Deferred tax assets	27	21	112
Other assets	18	3,344	11,126
Total non-current assets		3,146,845	3,262,612
Total assets		\$ 3,681,130	4,146,589

See accompanying notes to the consolidated financial statements.

Pan Ocean Co., Ltd. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2015 and 2014

In thousands of US dollars

	Note	2015	2014
Liabilities			
Trade payables	5,12,13	\$ 72,640	73,642
Borrowings	5,12,13,25	232,982	235,746
Derivative financial liabilities	5,11,12,13	1,772	177,673
Other payables	23	43,725	77,204
Provisions	29	1,837	1,575
Income tax liabilities		250	-
Other liabilities	24	72,600	90,624
Liabilities held for sale	12,13,40	-	61,685
Total current liabilities		425,806	718,149
 Borrowings	5,12,13,25	1,063,847	1,371,640
Rehabilitation liabilities	5,12,13,26	-	527,654
Derivative financial liabilities	5,11,12,13	213	384
Provisions	29	107,071	222,498
Retirement benefit obligations	28	9,526	11,927
Other payables	23	60	140
Total non-current liabilities		1,180,717	2,134,243
Total liabilities		1,606,523	2,852,392
 Equity			
Share capital	20	471,717	192,334
Share premium	20	627,169	142,228
Other reserves	21	1,124,116	1,161,906
Accumulated deficit	22	(169,941)	(203,448)
Equity attributable to owners of the Group		2,053,061	1,293,020
Non-controlling interests	39	21,546	1,177
Total equity		2,074,607	1,294,197
Total equity and liabilities		\$ 3,681,130	4,146,589

See accompanying notes to the consolidated financial statements.

Pan Ocean Co., Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2015 and 2014

In thousands of US dollars, except per share data

	Note	2015	2014
Sales	7	\$ 1,605,284	1,563,710
Cost of sales	30	(1,357,471)	(1,313,669)
Gross profit		247,813	250,041
Selling and administrative expenses	30	(51,532)	(46,057)
Operating profit	7	196,281	203,984
Finance income	32	5,295	4,897
Finance costs	32	(68,159)	(106,009)
Net foreign exchange gain (loss) on financial instruments	33	(1,858)	(6,834)
Gain(loss) related to investments in associates and joint ventures	10	(282)	490
Other non-operating income(loss), net	31	(95,201)	655,792
Profit before income tax		36,076	752,320
Income tax expense	27	728	831
Profit from continuing operation		35,348	751,489
Loss from discontinuing operation, net of tax		(1,254)	(2,954)
Profit for the year		34,094	748,535
Other comprehensive income (loss)			
Items that will be reclassified subsequently to profit or loss:			
Net change in unrealized fair value of available-for-sale financial assets, net of tax	32	762	441
Net change in unrealized fair value of derivative financial assets and liabilities, net of tax	32	(36)	294
Net change of OCI of equity accounted investees, net		308	(199)
Currency translation differences, net of tax	32	(7,811)	466
		(6,777)	1,002
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability		(578)	(984)
Total other comprehensive income(loss) for the year, net of tax		(7,355)	18
Total comprehensive income for the year		26,739	748,553
Profit (loss) attributable to :			
Owners of the Group		34,085	748,599
Non-controlling interests		9	(64)
Profit for the year		34,094	748,535
Total comprehensive income (loss) attributable to :			
Owners of the Group		26,750	748,308
Non-controlling interests		(11)	245
Total comprehensive income for the year		\$ 26,739	748,553

Pan Ocean Co., Ltd. and Subsidiaries Consolidated Statements of Comprehensive Income

In thousands of US dollars, except per share data

	Note	2015	2014
Earnings per share			
- Basic	34	\$ 0.09	6.81
- Diluted	34	\$ 0.09	6.81
Earnings per share – continuing operations			
- Basic	34	\$ 0.09	6.81
- Diluted	34	\$ 0.09	6.81

See accompanying notes to the consolidated financial statements.

Pan Ocean Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Equity

		Attributable to owners of the Group					Non- control- ling interests	Total equity	
		Share capital	Share premium	Treasury shares	Other reserves	Retained Earnings (accumulat ed deficit)			Total
<i>In thousands of US dollars</i>									
Balance at January 1, 2014	\$	105,779	-	(257)	1,066,043	(951,063)	220,502	7,787	228,289
Total comprehensive income for the year									
Profit (loss) for the year		-	-	-	-	748,599	748,599	(64)	748,535
Other comprehensive income (loss)									
Net change in unrealized fair value of available-for-sale financial assets, net of tax		-	-	-	441	-	441	-	441
Net change in unrealized fair value of derivative assets and liabilities, net of tax		-	-	-	294	-	294	-	294
Net change of OCI of equity accounted investees, net		-	-	-	(199)	-	(199)	-	(199)
Currency translation differences, net of tax		-	-	-	157	-	157	309	466
Remeasurements of defined benefit liability		-	-	-	-	(984)	(984)	-	(984)
Total other comprehensive income (loss)		-	-	-	693	(984)	(291)	309	18
Total comprehensive income for the year		-	-	-	693	747,615	748,308	245	748,553
Transactions with owners of the Group recorded directly in equity									
Contributions by and distributions to owners of the Group									
Debt-equity swap		86,555	141,839	-	95,337	-	323,731	-	323,731
Decrease of treasury shares		-	-	257	(167)	-	90	-	90
Dividend		-	-	-	-	-	-	(2,486)	(2,486)
Acquisition of non-controlling interest		-	389	-	-	-	389	(4,369)	(3,980)
Total transactions with owners of the Group recorded directly in equity		86,555	142,228	257	95,170	-	324,210	(6,855)	317,355
Balance at December 31, 2014	\$	192,334	142,228	-	1,161,906	(203,448)	1,293,020	1,177	1,294,197

See accompanying notes to the consolidated financial statements.

Pan Ocean Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Equity

		Attributable to owners of the Group					Non- control- ling interests	Total equity	
		Share capital	Share premium	Treasury shares	Other reserves	Retained Earnings (accumulat ed deficit)			Total
<i>In thousands of US dollars</i>									
Balance at January 1, 2015	\$	192,334	142,228	-	1,161,906	(203,448)	1,293,020	1,177	1,294,197
Total comprehensive income									
for the year									
Profit for the year		-	-	-	-	34,085	34,085	9	34,094
Other comprehensive income (loss)									
Net change in unrealized fair value of available-for-sale financial assets, net of tax		-	-	-	762	-	762	-	762
Net change in unrealized fair value of derivative assets and liabilities, net of tax		-	-	-	(36)	-	(36)	-	(36)
Net change of OCI of equity accounted investees, net		-	-	-	308	-	308	-	308
Currency translation differences, net of tax		-	-	-	(7,791)	-	(7,791)	(20)	(7,811)
Remeasurements of defined benefit liability		-	-	-	-	(578)	(578)	-	(578)
Total other comprehensive income (loss)		-	-	-	(6,757)	(578)	(7,335)	(20)	(7,355)
Total comprehensive income for the year		-	-	-	(6,757)	33,507	26,750	(11)	26,739
Transactions with owners of the Group recorded directly in equity									
Contributions by and distributions to owners of the Group									
Debt-equity swap		14,442	27,205	-	(72,426)	-	(30,779)	-	(30,779)
Capital increase by issuing new stock		306,334	457,572	-	-	-	763,906	-	763,906
Capital reduction without refund		(41,393)	-	-	41,393	-	-	-	-
Acquisition of non-controlling interest		-	164	-	-	-	164	20,380	20,544
Total transactions with owners of the Group recorded directly in equity		279,383	484,941	-	(31,033)	-	733,291	20,380	753,671
Balance at December 31, 2015	\$	471,717	627,169	-	1,124,116	(169,941)	2,053,061	21,546	2,074,607

See accompanying notes to the consolidated financial statements.

Pan Ocean Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

In thousands of US dollars

	Note	2015	2014
Cash flows from operating activities			
Cash generated from operating activities	37	\$ 322,184	443,122
Interest paid		(57,360)	(73,614)
Income tax refund (paid)		(1,328)	(2,465)
Net cash provided by operating activities		263,496	367,043
Cash flows from investing activities			
Acquisition of vessels, property and equipment		(48,379)	(39,624)
Acquisition of intangible assets		(850)	(693)
Proceeds from sale of vessels, property and equipment		57	298,538
Proceeds from sale of intangible assets		408	716
Acquisition of financial assets		(5,806)	(2,777)
Proceeds from sale of financial assets		9,719	11,039
Acquisition of subsidiaries share		-	(30)
Proceeds from sale of subsidiaries share		4,635	9,051
Acquisition of investments in associates		(40)	(43)
Proceeds from sale of investment in associates		-	12
Dividends received		1,140	1,466
Loans provided		(6)	-
Loans collected		224	6,132
Change of consolidated subsidiaries		(647)	(6,948)
Interest received		4,941	7,342
Net cash provided by (used in) investing activities		(34,604)	284,181
Cash flows from financing activities			
Proceeds from borrowings		176,310	28,022
Repayments of borrowings		(480,388)	(378,301)
Repayment of rehabilitation liabilities		(787,009)	(123,460)
Proceeds from capital increase		715,644	-
Change of non-controlling interests		20,997	-
Proceeds from sales of treasury shares		-	257
Dividends paid		-	(2,098)
Others, net		-	(2,361)
Net cash used in financing activities		\$ (354,446)	(478,168)

Pan Ocean Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows

		2015	2014
Net increase(decrease) in cash and cash equivalents	\$	(125,554)	173,056
Cash and cash equivalents at beginning of the year		364,546	211,792
Effect of exchange rate fluctuations on cash held		(1,648)	(2,473)
Classification of non-current assets held for sale	40	-	(17,829)
Cash and cash equivalents at end of the year	\$	<u>237,344</u>	<u>364,546</u>

See accompanying notes to the consolidated financial statements.

Pan Ocean Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General information

Description of the controlling Company

Pan Ocean Co., Ltd. ("the Company") and its subsidiaries (together "the Group") operate marine transportation (mainly bulk carrying) and other related services.

The Company was established in Korea in May, 1966.

The Company became listed 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: STX Namsan Tower, 98, Huam-ro, Jung-gu, Seoul, Korea.

The paid-in capital amount as of December 31, 2015 is US\$ 471,717 thousand and the number of shares issued is 524,425,070. As of December 31, 2015, the detail of the shareholders structure is as follows:

Shareholders	Number of common shares held	Percentage of ownership
Jeil Holdings Co., Ltd.	272,000,000	51.87%
Poseidon 2014. LLC.	68,000,000	12.97%
Other shareholders	184,425,070	35.16%
	524,425,070	100.00%

2. Basis of Preparation

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by Group entities, unless otherwise indicated.

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audits of Corporations in the Republic of Korea.

Pan Ocean Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

2. Basis of Preparation, Continued

(a) Basis of measurement

The consolidated financial statements were authorized for issue by the Board of Directors on February 24, 2016, which will be submitted for approval to the shareholders' meeting to be held on March 25, 2016.

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statement of financial position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

(c) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in U.S. dollars, which is the Group's functional and presentation currency. All financial information presented in U.S. dollars has been rounded to the nearest thousands unless otherwise stated.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Pan Ocean Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

2. Basis of Preparation, Continued

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 6.3– Revenue recognition

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 6.1 – Depreciation and residual value of vessels
- Note 6.2 & 8 – Impairment and assumption of value in use of vessels
- Note 27 – Utilization of deferred tax assets including adoption of tonnage tax
- Note 28 – Measurement of defined benefit obligations
- Note 29 – Provisions
- Note 35 – Contingencies

Fair Value Measurement

A number of The Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, The Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Pan Ocean Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

2. Basis of Preparation, Continued

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the note 13 – Fair Value of Financial Assets and Liabilities

3. Changes in accounting policies

3.1 Newly adopted standards and interpretations

Except as described below, the accounting policies applied by the Group in these financial statements are the same as those applied by the Group in its financial statements as of and for the years ended December 31, 2015 and 2014.

■ ***K-IFRS 1019 'Employee Benefits' – Employee contributions***

According to the amendments K-IFRS 1019, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits.

Pan Ocean Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

3. Changes in Accounting Policies, Continued

3.2 Discontinued operation and re-presentation of comparative period

The Group reclassifies the line of business or geographical area of operation as a discontinued operation when it can be clearly distinguished from the rest of the Group, and the comparative consolidated statement of profit or loss and OCI is restated as if the operation had been discontinued from the start of the comparative period.

The Group discloses single line of post-tax profit (loss) of discontinued operation in the consolidated income statement. Analysis of the revenue, expenses and the related income tax expense, net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented in note 40.

4. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for the changes in accounting policies as explained in note 3.

Classification and presentation for certain amounts on the prior year's consolidated statement of comprehensive income have been restated in accordance with changes in reporting standards in relation to the presentation of comprehensive income and loss.

Pan Ocean Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

4.1 Consolidation

(a) Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss. If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(b) Non-controlling interests ("NCI")

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Pan Ocean Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies

4.1 Consolidation, continued

(d) Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(e) Interests in equity-accounted Investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

(f) Intra-group transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(g) Business combinations under common control

The assets and liabilities acquired under business combinations under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is recognized as part of share premium.

Pan Ocean Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

4.2 Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

4.3 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets, primarily the Group's headquarters, head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The Group has four operating segments which consist of bulk carrier service, container service, tanker service and other shipping service, as described in note 7.

Pan Ocean Co., Ltd. and Subsidiaries

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4. Significant Accounting Policies, Continued

4.4 Foreign currency

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

Pan Ocean Co., Ltd. and Subsidiaries

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4. Significant Accounting Policies, Continued

4.4 Foreign currency, continued

(b) Foreign operations, continued

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

4.5 Vessels, property and equipment

Vessels, property and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of vessels, property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Subsequent to initial recognition, an item of vessels, property and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent to initial recognition, an item of vessels, property and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Pan Ocean Co., Ltd. and Subsidiaries

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4. Significant Accounting Policies, Continued

4.5 Vessels, property and equipment, continued

Subsequent costs are recognized in the carrying amount of vessels, property and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

An element of the cost of an acquired vessel is attributed at acquisition to its service potential reflecting its maintenance condition. This cost is depreciated over the period to the next dry docking. Costs incurred on subsequent dry docking of vessel are capitalized as part of tangible fixed assets and expensed over the period to the next dry docking.

Vessels, property and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. The estimated useful lives of the Group's vessels, property and equipment are as follows:

	<u>Useful lives (years)</u>
● Buildings	50 years
● Vessels	25 years
● Vehicles	5 years
● Tools, furniture and fixture	2.5~10 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

Pan Ocean Co., Ltd. and Subsidiaries

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4. Significant Accounting Policies, Continued

4.6 Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill and club membership is calculated on a straight-line basis over the estimated useful lives (5 years) of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized. The club memberships are tested for impairment annually and carried at cost less accumulated impairment loss.

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

Pan Ocean Co., Ltd. and Subsidiaries

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4. Significant Accounting Policies, Continued

4.7 Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

4.8 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories and deferred tax assets are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

Pan Ocean Co., Ltd. and Subsidiaries

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4. Significant Accounting Policies, Continued

4.8 Impairment of non-financial assets, continued

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Pan Ocean Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

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4. Significant Accounting Policies, Continued

4.9 Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the separate statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their 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 asset's acquisition or issuance.

(a) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(b) Held-to-maturity financial assets

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(c) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

Pan Ocean Co., Ltd. and Subsidiaries

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4. Significant Accounting Policies, Continued

4.9 Non-derivative financial assets, continued

(d) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives those are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

(e) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(f) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the separate statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

Pan Ocean Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

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4. Significant Accounting Policies, Continued

4.10 Impairment of financial assets

A financial asset which is not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

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4. Significant Accounting Policies, Continued

4.10 Impairment of financial assets, continued

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

4.11 Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

(a) Hedge accounting

The Group holds forward freight agreements, interest swap, forward exchange contracts, grain future, commodity swaps, commodity options and other derivative contracts to manage risks from changes in vessel rent, interest rate, currency exchange rate, and fuel price. Among the Group's derivative financial instruments, forward freight agreements, forward exchange contracts, commodity swaps and commodity options, offers hedge effectiveness, but they do not meet the requirements specified in K-IFRS No. 1039 'Financial Instruments: Recognition and Measurement' that classified as financial asset at fair value through profit or loss.

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4. Significant Accounting Policies, Continued

4.11 Derivative financial instruments, including hedge accounting, continued

Cash flow hedge accounting is applied for the interest rate swaps since they meet the requirements specified in K-IFRS No. 1039. The Group officially designates hedging relationships, hedging objectives, and hedging strategy with documentations at the beginning of hedging relationships. These documentations includes hedging instruments and hedged items along with beginning dates and a method to assess the effect of offsetting changes in cash flows by the risk to hedge in subsequent periods.

(b) Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(c) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

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4. Significant Accounting Policies, Continued

4.12 Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

4.13 Inventories

Inventories mainly comprise fuel and spare parts. The quantity of inventories is checked in the end of every reporting period. The cost of inventories is based on the weighted 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 value 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 an expense in the period in which the reversal occurs.

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4. Significant Accounting Policies, Continued

4.14 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are used by the Group in management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents. However, redeemable preference shares, for which the period from the acquisition to redemption is short, are classified as cash and cash equivalents.

4.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

4.16 Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the separate statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

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4. Significant Accounting Policies, Continued

4.16 Non-derivative financial liabilities, continued

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(b) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the separate statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

4.17 Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(a) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

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4. Significant Accounting Policies, Continued

4.17 Income taxes, continued

(b) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

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

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

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4. Significant Accounting Policies, Continued

4.17 Income taxes, continued

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

4.18 Employee benefits

Most of the Group employees and directors are entitled to receive a lump-sum payment upon termination of their employment depending on their length of service and rate of pay at the time of termination, regardless of the reason for termination.

The Group mainly applies defined benefit plans to employees of shipping services and defined contribution plans to employees of non-shipping services. The Group is under the national pension scheme, a defined contribution plan, regulated by the Korean Government.

(a) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(b) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

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4. Significant Accounting Policies, Continued

4.18 Employee benefits, continued

(c) Retirement benefits: defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailments is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

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4. Significant Accounting Policies, Continued

4.19 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

A provision shall be used only for expenditures for which the provision was originally recognized.

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4. Significant Accounting Policies, Continued

4.20 Revenue recognition

Revenue comprises the fair value for revenue earned from voyage and time charter, net of value-added tax, rebates and discounts and after eliminating transactions within the Group.

Revenue from voyage charter is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. Fuel cost, port charge, cargo expense, and other relevant voyage cost are recognized according to equivalent standards. Periodic chartered vessel revenue is recognized equally during the term of contracts. Losses from voyages are recognized as expenses in the periods in which they are able to be estimated and classified as current liabilities.

4.21 Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(a) Finance leases

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its separate statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

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4. Significant Accounting Policies, Continued

4.21 Leases, continued

(b) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

(c) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a financial lease that it is impracticable to separate the payments reliably, the Group recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser's incremental borrowing rate of interest

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4. Significant Accounting Policies, Continued

4.22 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

4.23 Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036, 'Impairment of Assets'.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

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4. Significant Accounting Policies, Continued

4.24 Debt-equity swap and adjustment for receivables and payables

In case of issuing shares for repaying debts of the Group (debt-equity swap), the difference between the book value of debts and the fair value of the securities is recorded as gain from debt adjustment. In case the Group agreed with creditors to be converted into capital, but not implemented immediately, the Group accounted for the adjusted debts as other capital and the difference between the book value of adjusted debts and the fair value of the debt-equity swapped shares is recorded as gain from debt adjustment.

4.25 New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2015, and the Group has not early adopted them. Management believes the impact of the amendments on the Group's consolidated financial statements is not significant.

K-IFRS No. 1109, Financial Instruments

K-IFRS 1109 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from K-IFRS No. 1039. K-IFRS 1109 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

K-IFRS No. 1115, Revenue from Contracts with Customers

K-IFRS 1115 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. K-IFRS 1115 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

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5. Financial Risk Management

5.1 Financial risk factors

The Group has exposure to the following risks from its use of financial instruments:

- (a) market risk (including currency risk, price risk and interest rate risk)
- (b) credit risk
- (c) liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

(a) Risk management activities

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

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5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(b) Market risk

(i) Currency risk

The Group's revenue and costs are denominated primarily in U.S. dollars, the functional currency. The Group'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, and
- foreign exchange exposures arising from repayment obligations or borrowings which are denominated in currencies other than U.S. dollars.

A vast majority of the Group's sales and operating expenses were denominated in U.S. dollars. The Group'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 Group does not actively use foreign exchange derivative instruments as a means to hedge transaction risks. The risk is reduced through matching, as far as possible, receipts and payments in each individual currency. The Group holds bank deposits, beneficiary certificates and borrowings denominated in Korean won. The foreign exchange risk of these assets and liabilities may be material.

Gains and losses on foreign currency translations and transactions as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>		2015	2014
Gains on foreign currency translations	\$	1,089	7,926
Gains on foreign currency transactions		6,531	15,816

Pan Ocean Co., Ltd. and Subsidiaries

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December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(b) Market risk, continued

The Group is primarily exposed to exchange risk in relation to currencies other than USD. Exposures to exchange risk in relation to currencies other than USD for the years ended December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>		<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$	68,120	118,528
Trade receivables		8,802	6,086
Other receivables		213	1,460
Trade payables		(12,398)	(10,323)
Other non-trade payables		(7,076)	(5,892)
Finance lease liabilities		(19,625)	(28,296)
Bonds		(34,130)	-
Rehabilitation payables		-	(272,156)
Other		31,270	1,170
Total exposure, net	\$	<u>35,176</u>	<u>(189,423)</u>

As of December 31, 2015 and 2014, the effect of a 10% increase or decrease in exchange rates on profit before tax is as follows:

<i>In thousands of US dollars</i>		<u>2015</u>	<u>2014</u>
Exchange rate	10% increase	\$ (2,545)	18,642
	10% decrease	3,115	(22,771)

Pan Ocean Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(b) Market risk, continued

Exchange rates applied for the years ended December 31, 2015 and 2014 are as follows:

(KRW / Foreign currency, KRW / Functional currency)

	2015		2014	
	Average Exchange rate	Closing Exchange rate	Average Exchange rate	Year-end Exchange rate
GBP	1,730.22	1,735.91	1,734.14	1,710.47
CNY	179.47	178.48	170.83	176.81
JPY	934.69	972.01	996.08	920.14
KRW	1,131.30	1,172.00	1,052.70	1,099.20

(ii) Price risk

The Group is exposed to grain purchase contract price risk arising from various market conditions. The Group enters into grain future contract to hedge, in whole and in part, the exposure to changes in fair values and cash flows of grain purchase contract as a result of market fluctuations. In order to retain hedge effectiveness, the Group matches grain future contracts with the grain purchase contracts. Generally, the underlying agreement pursuant to which the Group enters into contract based on CBOT (Chicago Board of Trade) future index.

The Group is exposed to charter contract price risk arising from various market conditions. The Group 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.

Usually, the Group enters into charter contract according to BDI (Baltic Dry Index) or other similar index.

Pan Ocean Co., Ltd. and Subsidiaries

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December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(b) Market risk, continued

The Group is exposed to fuel oil purchase price risk arising from various market conditions. The Group enters into bunker swap 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 Group matches bunker swap contracts with the fuel oil contracts. Generally, the underlying agreement pursuant to which the Group charters vessels will be based on WTI or a similar index.

The Group will then attempt to match FFAs and bunker swap contracts that the Group 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, which is usually every month, depending on the movement of the relevant index. The Group limits the counterparties for such transactions to long-time market participants. Most of forward freight agreements have terms of between three to twelve months.

(a) As of December 31, 2015 and 2014, the effect of a 10% increase or decrease of in the BDI index applicable to forward freight agreements would have resulted in an increase (decrease) in profit before tax as follows:

<i>In thousands of US dollars</i>			2015	2014
BDI index	10% increase	\$	11	-
	10% decrease		(11)	-

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Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(b) Market risk, continued

(b) As of December 31, 2015 and 2014 the effect of a 10% increase or decrease of in the index applicable to commodity swap would have resulted in an increase (decrease) in profit before tax as follows:

<i>In thousands of US dollars</i>			<u>2015</u>	<u>2014</u>
Commodity swap	10% increase	\$	193	413
	10% decrease		(193)	(413)

(iii) Interest rate risk

The Group believes that the interest rate risk of floating rate financial assets is immaterial as the maturities of these are primarily less than three months. The Group is exposed to interest rate risk arising from the volatility of benchmark interest rates (especially LIBOR), as a majority of borrowings are on a floating rate basis.

Book values of interest-bearing financial liabilities held by the Group for the years ended December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>		<u>2015</u>	<u>2014</u>
Fixed interest rate	\$	144,321	245,629
Floating interest rate		1,152,508	1,361,757
	\$	<u>1,296,829</u>	<u>1,607,386</u>

Pan Ocean Co., Ltd. and Subsidiaries

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5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(b) Market risk, continued

The Group generally does not take a speculative view on the movement in interest rates and, therefore, does not actively use interest rate derivative instruments to hedge exposed risks. Therefore, changes in interest rates do not affect gains and losses.

To hedge the risk arising on the Group's profit or loss, the Group entered into interest swap contracts with Credit Agricole Corporate and Investment Bank and other financial institutions for the years ended December 31, 2015 and 2014. The Group accounted for these contracts using cashflow hedge accounting in accordance with K-IFRS No. 1039, and recorded a cumulative loss of US\$ 49 thousand arising from the contract classified as equity as of December 31, 2015.

As of December 31, 2015 and 2014, the effect of a 0.5% increase (decrease) in interest rates would have resulted in a decrease(increase) in profit before tax as follows:

<i>In thousands of US dollars</i>		2015	2014
Interest rate	0.5% increase	\$ (5,733)	(6,791)
	0.5% decrease	5,733	6,791

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December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. Outstanding balances of financial assets which represent maximum exposures of credit risk as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	2015	2014
Non-current :		
Trade receivables	\$ 71	121
Other receivables	12,655	16,687
Other financial assets	11,949	15,024
	<u>24,675</u>	<u>31,832</u>
Current :		
Cash and cash equivalent	236,180	363,116
Trade receivables	98,243	70,418
Other receivables	20,986	23,464
Derivative financial assets	32	172,606
Other financial assets	1,170	2,815
	<u>356,611</u>	<u>632,418</u>
	<u>\$ 381,286</u>	<u>664,250</u>

The Group claims pledges or additional credits according to the credit of counter parties, but these requests do not materially lighten the Group's exposure to credit risk.

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December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(c) Credit risk, continued

(i) Trade receivables, other receivables and assets from financial services

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group review of customer's credit limit includes external ratings, when available, and in some cases bank references. The credit limits are reviewed regularly.

The Group encourages collection of individual receivables, performs monthly receivables aging to cover credit healthiness of trade receivables and makes credit enhancement (i.e. suspension of transactions if credit risk management team judges credit risk exists).

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables, other receivables and assets from financial services.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Pan Ocean Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(c) Credit risk, continued

There is no concentration risk, due to the Group having a large number of customers who are internationally dispersed; the management believes that no additional credit risk beyond the amount of allowance for impairment made is inherent in the Group's trade receivables.

Aging of trade receivables, other receivables and assets from financial services, and the impaired amount of each receivable as of December 31, 2015 and 2014 are as follows:

	2015		2014	
	Gross	Impairment	Gross	Impairment
Trade receivables				
Not past due	\$ 92,828	(2,577)	68,043	(8,777)
Past due up to 3 month	7,024	(1,747)	3,928	(239)
Past due 3 to 6 month	669	(184)	859	(55)
More than 6 month	73,932	(71,631)	22,485	(15,706)
	<u>\$ 174,453</u>	<u>(76,139)</u>	<u>95,315</u>	<u>(24,776)</u>
Other receivables				
Not past due	\$ 79,801	(19,034)	90,958	(16,740)
Past due up to 3 month	1,617	(34)	1,535	(262)
Past due 3 to 6 month	231	(22)	743	(167)
More than 6 month	207	(34)	1,220	(373)
	<u>\$ 81,856</u>	<u>(19,124)</u>	<u>94,456</u>	<u>(17,542)</u>

Pan Ocean Co., Ltd. and Subsidiaries

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December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(c) Credit risk, continued

Changes in provision for impairment of trade receivables, other receivables and assets from financial services during the current and prior year are as follows:

<i>In thousands of US dollars</i>	<u>2015</u>	<u>2014</u>
Provision for impairment :		
Trade Receivables		
Beginning	\$ 24,776	35,602
Allowance (reversal) for doubtful accounts	1,883	(7,113)
Write-offs	(10,631)	(3,713)
Others	60,111	-
Ending	<u>\$ 76,139</u>	<u>24,776</u>
Other receivables		
Beginning	\$ 17,542	19,791
Allowance (reversal) for doubtful accounts	3,485	(1,443)
Write-offs	-	-
Others	(1,903)	(806)
Ending	<u>\$ 19,124</u>	<u>17,542</u>

Aging of overdue financial assets without impairment as of December 31, 2015 is as follows:

<i>In thousands of US dollars</i>		Past due 3month to 6month	Past due 6month to 1year	Past due 1year to 2year	More than 2year	Total
	Less than 3month					
Trade receivables	\$ 5,276	486	135	642	1,524	8,063
Other receivables	1,584	209	51	121	-	1,965
	<u>6,860</u>	<u>695</u>	<u>186</u>	<u>763</u>	<u>1,524</u>	<u>10,028</u>

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December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(c) Credit risk, continued

Aging of overdue financial assets without impairment as of December 31, 2014 is as follows:

<i>In thousands of US dollars</i>			Past due	Past due	Past due		
		Less than	3month to	6month to	1year to	More than	Total
		3month	6month	1year	2year	2year	
Trade receivables	\$	3,689	805	1,449	4,284	1,046	11,273
Other receivables		1,273	576	419	415	15	2,698
		4,962	1,381	1,868	4,699	1,061	12,941

(ii) Investments

The Group 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.

(d) 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 Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the Group'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 their carrying balances as the impact of discounting is not significant.

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December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(d) Liquidity risk, continued

(i) As of December 31, 2015

<i>In thousands of US dollars</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 4 years	Over 4 years	Total
Borrowings(*1)	\$ 272,693	261,835	428,553	480,821	1,443,902
Derivative financial liabilities	1,772	-	213	-	1,985
Trade payables	72,640	-	-	-	72,640
Other payables(*2)	43,725	60	-	-	43,785
	<u>\$ 390,830</u>	<u>261,895</u>	<u>428,766</u>	<u>480,821</u>	<u>1,562,312</u>

(*1) Borrowings consist of short-term borrowings, long-term borrowings, bonds and payables for vessels. Borrowings for vessels included US\$ 147,073 thousand and US\$ 225,500 thousand of finance costs as of December 31, 2015 and 2014, respectively.

(*2) The Group recognizes the amount of US\$ 101,256 thousand as final debt inspection judgment provision, and this provisional amount shall be repaid in cash additionally according to revised rehabilitation plan.

(ii) As of December 31, 2014

<i>In thousands of US dollars</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 4 years	Over 4 years	Total
Borrowings(*1)	\$ 286,320	281,616	476,242	788,708	1,832,886
Derivative financial liabilities	177,673	-	-	384	178,057
Trade payables	73,642	-	-	-	73,642
Asset from financial service	-	-	-	-	-
Other payables	77,204	140	-	-	77,344
Rehabilitation liabilities(*2)	-	28,480	151,294	747,107	926,881
	<u>\$ 614,839</u>	<u>310,236</u>	<u>627,536</u>	<u>1,536,199</u>	<u>3,088,810</u>

Pan Ocean Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(d) Liquidity risk, continued

(*1) According to revised rehabilitation plan, the Group finished the early repayment for amounting 83% of unpaid long-term rehabilitation liabilities except for unidentified liabilities.

5.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group'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. The Group's adjusted net debt to equity ratio as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	<u>2015</u>	<u>2014</u>
Total liabilities	\$ 1,606,523	2,852,392
Less: cash and cash equivalents	(237,344)	(364,546)
Adjusted net debt	1,369,179	2,487,846
Total equity	2,074,607	1,294,197
Adjusted net debt-equity ratio	66%	192%

6. Critical Accounting Estimates and Judgments

Estimates and judgments 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.

6.1 Critical accounting estimates and assumptions

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below.

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6. Critical Accounting Estimates and Judgments, Continued

6.1 Critical accounting estimates and assumptions, continued

Depreciation of vessels

The cost of the Group's vessels is depreciated on a straight-line basis over the vessels' useful lives to their residual values. The management estimates the useful life of the Group's vessels to be 25 years. This is a common life expectancy applied in the shipping industry. Changes in the expected level of use of the assets and market factors could impact the useful lives and the residual values of the property and equipment, therefore future depreciation charges could be revised.

If the actual final outcome (on the accounting estimates) were to differ by 10% from management's estimates, the Group would need to increase (decrease) profit before income tax by the amounts presented below:

<i>In thousands of US dollars</i>			<u>2015</u>	<u>2014</u>
Expected useful life	10% increase	\$	11,786	12,790
	10% decrease		(13,164)	(15,552)
Expected residual value	10% increase		3,766	2,869
	10% decrease		(2,709)	(2,878)

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6. Critical Accounting Estimates and Judgments, Continued

6.2 Impairment loss of vessels

The Group tests for impairment of vessels and other properties at the end of each reporting period. The Group recognized impairment losses on vessels and other properties, plants and equipment amounting to US\$ 1,227 thousand and US\$ 71,505 thousand for the years ended December 31, 2015 and 2014, respectively.

An impairment loss was recognized for the carrying amount of an asset exceeding its recoverable amount. The impairment test methods used depending on the purpose of the assets and their current status are as follows:

	Method of estimation
Vessels on voyage and in construction progress	Impairment is recognized for the carrying amount of the vessels exceeding its value in use.
Buildings	Impairment is recognized for the carrying amount of the buildings exceeding its net realizable value (sales price in the contract).

Future cash flows and discount rates applied for impairment test are fluctuate according to the environmental changes in marine shipping industries. If the actual final outcome were to differ by 10% from management's estimates, it would have resulted in a decrease in profit before tax as follows:

<i>In thousands of US dollars</i>		2015	2014
Expected cash flows	10% increase	\$ 74,467	156,142
	10% decrease	(80,642)	(140,666)
Discount rate	10% increase	(46,866)	(68,390)
	10% decrease	48,641	75,243

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December 31, 2015 and 2014

6. Critical Accounting Estimates and Judgments, Continued

6.3 Critical judgments in applying the entity's accounting policies

Revenue recognition

The Group recognizes revenue from time charters and voyage charters which consist of contracts of affreightment and freight contracts offered on the spot market. The terms of time charters are specific and there are no estimations involved in the revenue recognition. Under a voyage charter, the Group agrees to provide a vessel for the transport of specific goods between specific ports in return for the payment of an agreed upon freight per ton of cargo or, alternatively, for a specified total amount. Revenue from voyage charter is recognized on a percentage of completion method, calculated that the revenues and associated voyage costs, such as fuel and port charges are recognized ratably over the estimated duration of the voyage.

The management uses judgments to estimate the total number of days of a voyage of a vessel to compute the amount of revenue and expense to recognize for the voyage in progress at the end of each quarter using the percentage of completion method on a discharge-to-discharge basis. The management uses assumptions to determine these estimates that are supported by historical trends, more specifically about the operating capability of the vessel (speed and fuel consumption) and about the trading route and port.

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7. Operating Segments

The Group has four reportable segments, as described below, which are the Group'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 Group's CEO reviews internal management reports at least on a quarterly basis. The following summary describes the operations in each of the Group's main reportable segments:

- Bulk carrier service (BLKR) mainly includes marine transportation service employing diverse sizes of dry bulk vessels.
- Container service (CNTR) mainly includes marine transportation service employing container cargo.
- Tanker service (TNKR) mainly includes marine transportation services of liquid or "wet" cargo through tankers.
- Other shipping mainly includes marine transportation services to transport Liquefied Natural Gas (LNG) and other special carrier service.

(a) Information about reportable segments

The segment results and material reconciling items (other non-reportable segment result, unallocated activities and elimination of inter-segment) as of and for the years then ended December 31, 2015 and 2014 are as follows:

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December 31, 2015 and 2014

7. Operating Segments, continued

(a) Information about reportable segments, continued

(i) As of and for the year ended December 31, 2015

In thousands of US dollars	BLKR	CNTR	TNKR	Other (*1)	Reportable Segment	Non- shipping (*2)	Discontinued Operation	Unallocated	Elimination of inter- segment	Group
Sales	\$ 1,391,856	95,483	182,938	10,678	1,680,955	51,836	-	-	(127,507)	1,605,284
Operating profit(loss)	154,402	7,457	39,205	(1,774)	199,290	1,363	-	-	(4,372)	196,281
Assets	2,956,148	21,455	393,605	9,271	3,380,479	36,350	-	394,812	(130,511)	3,681,130
Liabilities	1,298,636	43,250	183,872	4,718	1,530,476	17,716	-	204,248	(145,917)	1,606,523
Capital expenditures	43,693	617	3,762	-	48,072	307	-	-	-	48,379
Depreciation	119,967	4,385	18,685	-	143,037	799	-	-	-	143,836
Amortization	121	8	15	-	144	18	-	-	-	162
Allowance for doubtful account	(2,973)	(193)	(367)	-	(3,533)	(2)	-	-	8,903	5,368
Losses on impairment of vessel and PPE	31,885	(4,469)	(26,189)	-	1,227	-	-	-	-	1,227

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

(*2) Non-shipping segment includes miscellaneous services such as grain trading business and etc.

Pan Ocean Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

7. Operating Segments, Continued

(a) Information about reportable segments, continued

(ii) As of and for the year ended December 31, 2014

In thousands of US dollars	BLKR	CNTR	TNKR	OTHER	Reportable Segment	Non- shipping	Discontinued Operation	Unallocated	Elimination of inter- segment	Group
Sales	\$ 1,317,965	99,930	140,177	30,229	1,588,301	65,006	(3,837)	-	(85,760)	1,563,710
Operating profit(loss)	170,553	9,911	12,342	1,755	194,561	(390)	2,159	-	7,654	203,984
Assets	3,256,512	40,786	366,334	37,265	3,700,897	74,356	(64,995)	481,203	(44,872)	4,146,589
Liabilities	2,105,627	66,640	241,169	17,924	2,431,360	65,373	(61,685)	526,385	(109,041)	2,852,392
Capital expenditures	33,341	4,886	847	-	39,074	2,054	-	-	-	41,128
Depreciation	117,985	5,439	25,503	-	148,927	606	(8)	-	-	149,525
Amortization	344	39	35	-	418	28	(27)	-	-	419
Allowance for doubtful account	680	(253)	(460)	-	(33)	262	(98)	-	(7,153)	(7,022)
Losses on impairment of vessel and PPE	(46,874)	1,322	112,445	-	66,893	4,612	-	-	-	71,505

Pan Ocean Co., Ltd.

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7. Operating Segments, Continued

Segment assets consist primarily of vessels, inventories and trade receivables. They exclude items such as cash, deferred taxation and investments. Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings. Segment capital expenditure primarily comprises additions to vessels.

(b) Geographical segments

The Group's four reportable segments operate in six geographical areas, even though they are managed on a worldwide basis. The home country of the Company – which is the main operating company – is Korea. The geographical segments of sales are allocated based on the country in which the loading port is located.

Details of revenue by geography for the years ended December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>		2015	2014
Asia	\$	723,009	675,231
Oceania		266,562	275,245
Europe		16,534	10,796
North America		234,815	197,834
South America		346,112	389,971
Africa		18,252	14,633
Total sales	\$	<u>1,605,284</u>	<u>1,563,710</u>

If the geographical segments of sales are allocated based on the country in which the goods are unloaded, more than 70% of sales revenue would be originated from the Asian region. The vessels are used all over the world, and the remaining property and equipments are primarily located in Korea, so it is not meaningful to provide information on segment assets and additions by geographical region.

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

7. Operating Segments, Continued

(c) Customer segments

The Group's sales are originated all over the world, and there is no customer comprising more than 10% of total sales. Therefore the information on sales of main customers is not provided.

(d) Analysis of sales by category

In thousands of US dollars

	<u>2015</u>	<u>2014</u>
Revenue from voyage operation	\$ 1,460,134	1,406,079
Revenue from time charter	93,314	92,625
Other	51,836	65,006
Total	<u>\$ 1,605,284</u>	<u>1,563,710</u>

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

8. Vessels, Property and Equipment

(a) Changes in vessels, property and equipment for the years ended December 31, 2015 and 2014 are as follows:

(i) For the year ended December 31, 2015

<i>In thousands of US dollars</i>	<u>Vessels</u>	<u>Land</u>	<u>Buildings</u>	<u>Vehicles</u>	<u>Tools, furniture & fixture</u>	<u>Construction -in-progress</u>	<u>Total</u>
Beginning balance	\$ 3,143,637	6	16,157	527	10,342	32,724	3,203,393
Additions	22,322	-	-	138	169	25,750	48,379
Disposals	-	-	-	(18)	(48)	-	(66)
Depreciation	(138,225)	-	(797)	(84)	(4,730)	-	(143,836)
Losses on impairment of vessels, property and equipment	(1,227)	-	-	-	-	-	(1,227)
Others	-	-	(484)	(36)	(14)	-	(534)
Discontinued operation	-	-	-	-	-	-	-
Ending balance	<u>\$ 3,026,507</u>	<u>6</u>	<u>14,876</u>	<u>527</u>	<u>5,719</u>	<u>58,474</u>	<u>3,106,109</u>

(ii) For the year ended December 31, 2014

<i>In thousands of US dollars</i>	<u>Vessels</u>	<u>Land</u>	<u>Buildings</u>	<u>Vehicles</u>	<u>Tools, furniture & fixture</u>	<u>Construction -in-progress</u>	<u>Total</u>
Beginning balance	\$ 3,340,543	15,019	46,953	640	27,810	330,822	3,761,787
Additions	12,800	-	-	29	5,391	22,908	41,128
Transfers	-	(487)	(355)	-	(9,115)	-	(9,957)
Disposals	-	(14,506)	(24,117)	(15)	(8,403)	(321,006)	(368,047)
Depreciation	(142,814)	-	(1,455)	(107)	(5,148)	-	(149,524)
Losses on impairment of vessels, property and equipment	(66,893)	-	(4,612)	-	-	-	(71,505)
Discontinued operation	-	-	-	-	(8)	-	(8)
Others	-	(20)	(257)	(20)	(185)	-	(482)
Ending balance	<u>\$ 3,143,637</u>	<u>6</u>	<u>16,157</u>	<u>527</u>	<u>10,342</u>	<u>32,724</u>	<u>3,203,393</u>

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

8. Vessels, Property and Equipment

For the year ended December 31, 2015, depreciation expense of US\$ 142,045 thousand (2014: US\$ 147,340 thousand) included in cost of sales, and US\$ 1,791 thousand (2014: US\$ 2,184 thousand) in selling and administrative expenses.

(b) Impairment loss

The Group performed impairment test for each CGU (cash generating unit) of 79 owned vessels and 4 vessels in constructing. The Group's 25 vessels are under long-term COA (contract of affreightment) or CVC (consecutive voyage contract), and the others are under relatively short-term contract of affreightment or time charter contract. During 2015, freight rate continued to be lower level and consequently short term contract based vessels' impairment risk is increased.

The recoverable amount of CGU was based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the CGU. For calculating value in use, The Group make estimation by CGU based on expectation of future freight rate by external agent, experienced revenue and cost and other indicators. The cash flow projections included specific estimates for five years and fixed terminal growth rate thereafter. Discount rate was calculated by WACC (weighed average capital cost) considered the Group's target capital structure and specific risk factor.

The details of impairment losses recognized by the Group on vessels, properties and equipment for the years ended December 31, 2015 and 2014 are as follows:

(i) For the year ended December 31, 2015

<i>In thousands of US dollars</i>	Characteristics	Valuation	Pre-tax	Principal assumptions and	Impaired	Fair value hierarchy
	of assets	method	discount rate	considered circumstances	amount	
Vessels	Vessels in voyage	Value in use	6.77%	Estimated freight rate, useful life, disposal value and others	1,227	Level 2 or Level 3

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

8. Vessels, Property and Equipment, Continued

(b) Impairment loss, continued

(ii) For the year ended December 31, 2014

<i>In thousands of US dollars</i>	Characteristics of assets	Valuation method	Pre-tax discount rate	Principal assumptions and considered circumstances	Impaired amount	Fair value hierarchy
Vessels	Vessels in voyage	Value in use	8.62%	Estimated freight rate, useful life, disposal value and others	66,892	Level 2 or Level 3
Buildings	Resort membership	Net realizable value	-	Recoverable amount (Standard declared price)	4,612	Level 2 or Level 3

(c) As of December 31, 2015 and 2014, the carrying amounts of vessels include the following amounts where the Group is a lessee under finance leases:

<i>In thousands of US dollars</i>	2015			2014		
	Cost	Accumulated depreciation	Accumulated Impairment losses	Cost	Accumulated depreciation	Accumulated Impairment losses
Vessels	\$ 3,883,260	(716,340)	(303,082)	3,931,585	(558,962)	(297,956)

(d) The acquisition costs, accumulated depreciation and accumulated impairment losses for each account of property, plant and equipment as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	2015			2014		
	Cost	Accumulated depreciation	Accumulated Impairment losses	Cost	Accumulated depreciation	Accumulated Impairment losses
Vessels	\$ 4,149,863	(816,511)	(306,845)	4,128,008	(678,753)	(305,618)
Land	6	-	-	6	-	-
Buildings	26,155	(6,667)	(4,612)	26,884	(6,115)	(4,612)
Vehicles	1,550	(1,023)	-	1,627	(1,100)	-
Tools, furniture & fixture	38,742	(33,023)	-	39,938	(29,596)	-
Construction-in-progress	58,474	-	-	32,724	-	-
	<u>\$ 4,274,790</u>	<u>(857,224)</u>	<u>(311,457)</u>	<u>4,229,187</u>	<u>(715,564)</u>	<u>(310,230)</u>

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

8. Vessels, Property and Equipment, Continued

(e) Amount of borrowing costs capitalized for the years ended December 31, 2015 and 2014 were US\$ 2,188 thousand and US\$ 1,628 thousand, respectively, and the capitalization rates used to determine the amount of borrowing costs eligible for capitalization for the years ended December 31, 2015 and 2014 were 5.52% and 8.14%, respectively.

9. Intangible Assets

(a) Intangible assets as of December 31, 2015 and 2014 are summarized as follows:

<i>In thousands of US dollars</i>		<u>2015</u>	<u>2014</u>
Computer software	\$	491	634
Club membership		3,637	4,046
Others		3,133	441
	\$	<u>7,261</u>	<u>5,121</u>

(b) Changes in intangible assets for the years ended December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>		<u>Computer software</u>	<u>Club membership</u>	<u>Others</u>	<u>Total</u>
For the year ended December 31, 2015					
Balance as of January 1, 2015	\$	634	4,046	441	5,121
Additions		-	-	2,734	2,734
Disposals		-	(409)	-	(409)
Amortization		(143)	-	(19)	(162)
Impairment losses		-	-	-	-
Others		-	-	(23)	(23)
Balance as of December 31, 2015	\$	<u>491</u>	<u>3,637</u>	<u>3,133</u>	<u>7,261</u>
As of December 31, 2015					
Cost	\$	16,939	7,993	4,163	45,383
Accumulated amortization		(16,448)	-	(1,030)	(17,478)
Accumulated impairment loss		-	(4,355)	-	(20,643)
Net book amount	\$	<u>491</u>	<u>3,637</u>	<u>3,133</u>	<u>7,261</u>

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

9. Intangible Assets, Continued

<i>In thousands of US dollars</i>	Computer software	Club membership	Goodwill	Others	Total
For the year ended December 31, 2014					
Balance as of January 1, 2014	\$ 340	5,041	-	3,343	8,724
Additions	693	-	-	-	693
Disposals	-	(756)	-	-	(756)
Amortization	(398)	-	-	(21)	(419)
Discontinued operation	-	-	-	(1,149)	(1,149)
Others	-	(239)	-	(1,733)	(1,972)
Balance as of December 31, 2014	\$ 634	4,046	-	441	5,121
As of December 31, 2014					
Cost	\$ 16,920	8,401	16,288	1,309	42,918
Accumulated amortization	(16,286)	-	-	(868)	(17,154)
Accumulated impairment loss	-	(4,355)	(16,288)	-	(20,643)
Net book amount	\$ 634	4,046	-	441	5,121

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

10. Investments in Associates and Joint Ventures

(a) Changes in balance of investments in associates and joint ventures accounted for using the equity method as of December 31, 2015 and 2014 are as follows:

(i) For the year ended December 31, 2015

	Beginning balance	Addition	Disposal and transfer	Share of gain(loss) of equity accounted investees	Share of OCI of equity accounted investees	Ending balance
<i>In thousands of US dollars</i>						
Investment in associates						
Korea LNG Trading Co, Ltd. \$	736	-	-	(270)	-	466
Mirae Asset Agri-energy fund	4,833	-	(5,199)	-	365	-
Busan Cross Dock, Ltd.	834	-	-	42	(53)	823
YEGRINA Co., Ltd.	62	40	-	(54)	(4)	44
	<u>6,465</u>	<u>40</u>	<u>(5,199)</u>	<u>(282)</u>	<u>308</u>	<u>1,333</u>
Investment in joint ventures						
DTK Oceanic	-	-	-	-	-	-
Sea Best Maritime Ltd.	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>6,465</u>	<u>40</u>	<u>(5,199)</u>	<u>(282)</u>	<u>308</u>	<u>1,333</u>

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

10. Investments in Associates and Joint Ventures, continued

(a) Changes in balance of investments in associates and joint ventures accounted for using the equity method as of December 31, 2015 and 2014 are as follows, Continued

(ii) For the year ended December 31, 2014

	Beginning balance	Addition	Disposal	Share of gain(loss) of equity accounted investees	Share of OCI of equity accounted investees	Ending balance
<i>In thousands of US dollars</i>						
Investment in associates						
Korea LNG Trading Co, Ltd. \$	686	-	-	50	-	736
Mirae Asset Agri-energy fund	4,642	-	-	351	(160)	4,833
Busan Cross Dock, Ltd.	704	-	-	165	(35)	834
YEGRINA Co., Ltd.	74	43	-	(53)	(2)	62
	<u>6,106</u>	<u>43</u>	<u>-</u>	<u>513</u>	<u>(197)</u>	<u>6,465</u>
Investment in joint ventures						
DTK Oceanic	36	-	(13)	(23)	-	-
Sea Best Maritime Ltd.	-	-	-	-	-	-
	<u>36</u>	<u>-</u>	<u>(13)</u>	<u>(23)</u>	<u>-</u>	<u>-</u>
	<u>6,142</u>	<u>43</u>	<u>(13)</u>	<u>490</u>	<u>(197)</u>	<u>6,465</u>

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

10. Investments in Associates and Joint Ventures, Continued

(b) Associates and joint ventures invested by the Group are unlisted and market prices are not released. Summary of financial information of associates and joint ventures as of and for the years ended December 31, 2015 and 2014 is as follows:

(i) As of December 31, 2015

<i>In thousands of US dollars</i>	Name	Country	Interest held	Assets	Liabilities	Sales	Operating income (loss)	Profit (loss)
Investments in Associates	Korea LNG Trading Co., Ltd. (*)	Korea	18%	\$ 692,836	690,249	3,322	(4,452)	(1,502)
	Busan Cross Dock, Ltd.	Korea	20%	8,762	4,647	6,888	712	212
Investments in joint ventures	YEGRINA Co., Ltd.	Korea	44%	136	38	230	(123)	(129)
	Sea Best Maritime Ltd.	China	50%	-	-	-	-	-

(*) Although the Group holds less than 20% interest, the Group has significant influence as the Group's management participates as a member of the Board of Directors.

(ii) As of December 31, 2014

<i>In thousands of US dollars</i>	Name	Country	Interest held	Assets	Liabilities	Sales	Operating income (loss)	Profit (loss)
Investments in Associates	Korea LNG Trading Co., Ltd. (*)	Korea	18%	\$ 708,235	704,147	8,289	465	274
	Mirae Asset Agri-Energy Fund #4	Korea	25%	15,894	178	355	161	(2,210)
	Busan Cross Dock, Ltd.	Korea	20%	9,694	5,525	7,169	1,116	829
	YEGRINA Co., Ltd.	Korea	46%	161	28	323	(167)	(124)
Investments in joint ventures	Sea Best Maritime Ltd.	China	50%	-	-	-	-	-

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

10. Investments in Associates and Joint Ventures, Continued

(c) Adjustments of financial information, net assets, to the book value of associates and joint ventures based on interest held as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	2015			2014		
	Net assets	Interest held	Net asset shares	Net assets	Interest held	Net asset shares
Korea LNG Trading Co.,Ltd.	\$ 2,587	18%	466	4,088	18%	736
Mirae Asset Agri-Energy Fund #4	-	-	-	15,716	25%	4,834
Busan Cross Dock, Ltd.	4,115	20%	823	4,168	20%	833
YEGRINA Co., Ltd.	97	44%	44	133	46%	61
Sea Best Maritime Ltd.	-	50%	-	-	50%	-

Pan Ocean Co., Ltd.

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December 31, 2015 and 2014

11. Derivative Financial Assets and Liabilities

(a) Derivative financial assets and liabilities as of December 31, 2015 and 2014 are summarized as follows:

<i>In thousands of US dollars</i>	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Interest rate swap	\$ -	213	-	384
Forward freight agreement	-	28	-	-
Grain Futures	32	58	-	-
Commodity swap/option	-	1,686	172,606	177,673
	<u>\$ 32</u>	<u>1,985</u>	<u>172,606</u>	<u>178,057</u>
Non-current	\$ -	213	-	384
Current	32	1,772	172,606	177,673

(b) Gains and losses on valuation and transaction of derivative financial assets and liabilities for the years ended December 31, 2015 and 2014 are summarized as follows:

<i>In thousands of US dollars</i>	2015		2014	
	Gains (losses) on transaction, net	Gains (losses) on valuation, net	Gains (losses) on transaction, net	Gains (losses) on valuation, net
Forward freight agreement	\$ 87	(28)	951	-
Interest rate swap	-	171	-	294
Grain futures	46	(207)	-	-
Commodity swap/option	(7,319)	(1,654)	5,851	(7,492)
	<u>\$ (7,186)</u>	<u>(1,718)</u>	<u>6,802</u>	<u>(7,198)</u>
Other income(losses), net	\$ (7,186)	(1,682)	6,802	(7,492)
Finance income(cost)	-	-	-	-
Other comprehensive income	-	(36)	-	294

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

11. Derivative Financial Assets and Liabilities, Continued

(i) Interest rate swap

The Group is exposed to interest rate risk arising from the volatility of interest rate as a majority of borrowings are on a floating rate basis and to hedge the interest rate risk the Group entered into interest swap contracts with Credit Agricole Corporate and Investment Bank and other financial institutes for the years ended December 31, 2015 and 2014. Interest rate swap contracts are expected to take effect on the profits and losses due to the future cash flows from the floating rate based borrowings until their maturities. Cash flow hedge accounting is applied in accordance with K-IFRS No. 1039 paragraph 88 regarding interest rate swap. Because these contracts are effectively hedged, and recorded a loss of US\$ 171 thousand arising from the contract classified as equity as of December 31, 2015 (2014: gain of US\$ 294 thousand).

(ii) Commodity swap/option

The Group is exposed to changes in fuel price for vessels from fluctuations in international oil price. The Group entered into commodity swap contracts with Woori Bank and other financial institutes to hedge the risk of changes in fuel price. Although, commodity swap/option contracts held by the Company's risk management policy offers hedge effectiveness, they do not meet the requirements specified in K-IFRS No. 1039, hedge accounting is not applied. Commodity swap/option contract recorded on the statement of financial position as of December 31, 2015 and 2014 are measured in fair values and, losses of US\$ 7,319 thousand on transaction and loss of US\$ 1,654 thousand on valuation arisen during the current year is recognized as other non-operating income and losses.

(iii) Forward freight agreements

The Group enters into forward freight agreements (FFAs) to hedge, in whole and in part, the risk of changes in fair value and future cash flows from fluctuations in freight spot contract rates derived in utilizing long-term chartered-in vessels. Although, FFAs held by The Company's risk management policy offers hedge effectiveness, they do not meet the requirements specified in K-IFRS No. 1039, hedge accounting is not applied. FFAs recorded on the statement of financial position as of December 31, 2015 and 2014 are measured in fair values and, gains of US\$ 87 thousand on transaction and loss of US\$ 28 thousand on valuation arisen during the current year is recognized as other non-operating income and losses.

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

11. Derivative Financial Assets and Liabilities, Continued

(iv) Grain future contract

The Group enters into grain future contract to hedge, in whole and in part, the exposure to changes in fair values and cash flows of grain purchase contract as a result of market fluctuations. Cash flow hedge accounting is applied in accordance with K-IFRS No. 1039 paragraph 88 regarding grain future. Because these contracts are effectively hedged, and recorded a loss of US\$ 207 thousand arising from the contract classified as equity as of December 31, 2015.

12. Classification of Financial Instruments by Categories

The Group did not designate any financial assets or financial liabilities at fair value through profit or loss except derivatives, listed stocks and beneficiary certificates (included in other financial assets). For the years ended December 31, 2015 and 2014, the Group did not reclassify any financial assets out of the fair-value-through-profit-or-loss category, nor did the Group reclassify any financial assets out of the available-for-sale category.

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

12. Classification of Financial Instruments by Categories, Continued

12.1 Financial assets

(a) As of December 31, 2015, details of financial assets are as follows:

<i>In thousands of US dollars</i>	Financial assets at fair value through profit or loss	Held to maturity investments	Loans and receivables	Available for sale financial assets	Total
Non-current :					
Trade receivables \$	-	-	71	-	71
Other receivables	-	-	12,655	-	12,655
Other financial assets	-	-	3	16,047	16,050
	-	-	12,729	16,047	28,776
Current :					
Cash and cash equivalent	-	-	237,344	-	237,344
Trade receivables	-	-	98,243	-	98,243
Other receivables	-	-	20,986	-	20,986
Derivative financial assets	32	-	-	-	32
Other financial assets	-	-	1,170	-	1,170
	32	-	357,743	-	357,775
\$	32	-	370,472	16,047	386,551

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

12. Classification of Financial Instruments by Categories, Continued

12.1 Financial assets, continued

(b) As of December 31, 2014, details of financial assets are as follows:

<i>In thousands of US dollars</i>	Financial assets at fair value through profit or loss	Held to maturity investments	Loans and receivables	Available for sale financial assets	Total
Non-current :					
Trade receivables \$	-	-	121	-	121
Other receivables	-	-	16,687	-	16,687
Other financial assets	-	-	48	19,540	19,588
	-	-	16,856	19,540	36,396
Current :					
Cash and cash equivalent	-	-	364,546	-	364,546
Trade receivables	-	-	70,417	-	70,417
Other receivables	-	-	23,465	-	23,465
Derivative financial assets	172,606	-	-	-	172,606
Other financial assets	-	-	2,814	-	2,814
	172,606	-	461,242	-	633,848
\$	172,606	-	478,098	19,540	670,244

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

12. Classification of Financial Instruments by Categories, Continued

12.2 Financial liabilities

(a) As of December 31, 2015, details of financial liabilities are as follows:

<i>In thousands of US dollars</i>	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total
Non-current :			
Borrowings	\$ -	1,063,847	1,063,847
Derivative financial liabilities	213	-	213
Other payables	-	60	60
	<u>213</u>	<u>1,063,907</u>	<u>1,064,120</u>
Current :			
Borrowings	-	232,982	232,982
Derivative financial liabilities	1,772	-	1,772
Trade payables	-	72,640	72,640
Other payables	-	43,725	43,725
	<u>1,772</u>	<u>349,347</u>	<u>351,119</u>
	<u>\$ 1,985</u>	<u>1,413,254</u>	<u>1,415,239</u>

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

12. Classification of Financial Instruments by Categories, Continued

12.2 Financial liabilities, continued

(b) As of December 31, 2014, details of financial liabilities are as follows:

<i>In thousands of US dollars</i>	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total
Non-current :			
Borrowings	\$ -	1,371,640	1,371,640
Derivative financial liabilities	384	-	384
Other payables	-	140	140
Rehabilitation liabilities	-	527,654	527,654
	384	1,899,433	1,899,817
Current :			
Borrowings	-	235,746	235,746
Derivative financial liabilities	177,673	-	177,673
Trade payables	-	73,642	73,642
Other payables	-	77,204	77,204
	177,673	386,592	564,265
	\$ 178,057	2,286,025	2,464,082

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

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13. Fair Value of Financial Assets and Liabilities

13.1 Recognition of fair value

(a) Current assets and liabilities

The maturity of current assets and liabilities is in a short period time that the fair value is close to its book value.

(b) Investments on equity instruments and debt securities

The fair value of available-for-sale financial assets and financial asset at fair value through profit of loss is determined by close bid price quoted on the end of reporting period. Equity instruments which were classified as available-for-sale, but for which fair value could not be reasonably assessed are recognized at cost.

(c) Derivatives

Fair value of forward agreements that are not traded in the market are estimated by discounting the difference between agreed forward price and current forward price reflecting residual period until its maturity with risk-free rate which is calculated based on government bonds.

Fair value of interest rate swap is determined by discounting future cash flow according to each contract's conditions and maturities with LIBORs and forward exchange rates posted in the market for each period.

Fair value of derivatives is reflecting its own credit risk and includes settled amount wherein credit risk of the Group and counterparty are considered.

(d) Other financial liabilities

The fair value of other financial liabilities for disclosure is present value of future cash flow from the principal and interest discounted by market interest rate on the last day of reporting period.

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

13. Fair Value of Financial Assets and Liabilities, Continued

13.1 Recognition of fair value, continued

The carrying amount and the fair value of financial assets and liabilities as of December 31, 2015 and 2014 are summarized as follows:

(a) Financial assets

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>In thousands of US dollars</i>				
Non-current :				
Trade receivables	\$ 71	71	121	121
Other receivables	12,655	12,655	16,687	16,687
Other financial assets	16,050	16,050	19,588	19,588
	28,776	28,776	36,396	36,396
Current :				
Cash and cash equivalent	237,344	237,344	364,546	364,546
Trade receivables	98,243	98,243	70,417	70,417
Other receivables	20,986	20,986	23,465	23,465
Derivative financial assets	32	32	172,606	172,606
Other financial assets	1,170	1,170	2,814	2,814
	357,775	357,775	633,848	633,848
	\$ 386,551	386,551	670,244	670,244

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

13. Fair Value of Financial Assets and Liabilities, Continued

13.1 Recognition of fair value, continued

The carrying amount and the fair value of financial assets and liabilities as of December 31, 2015 and 2014 are summarized as follows, continued:

(b) Financial liabilities

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>In thousands of US dollars</i>				
Non-current :				
Borrowings	\$ 1,063,847	1,063,847	1,371,640	1,371,640
Derivative financial liabilities	213	213	384	384
Other payable	60	60	140	140
Rehabilitation liabilities	-	-	527,653	527,653
	1,064,120	1,064,120	1,899,817	1,899,817
Current :				
Borrowings	232,982	232,982	235,746	235,746
Derivative financial liabilities	1,772	1,772	177,673	177,673
Trade payable	72,640	72,640	73,642	73,642
Other payable	43,725	43,725	77,204	77,204
	351,119	351,119	564,265	564,265
	\$ 1,415,239	1,415,239	2,464,082	2,464,082

13.2 The fair value hierarchy

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The level of fair value hierarchy is as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

13. Fair Value of Financial Assets and Liabilities, Continued

13.2 The fair value hierarchy, continued

The fair value measurements classified by fair value hierarchy as of December 31, 2015 and 2014 are as follows:

(a) Financial assets

<i>In thousands of US dollars</i>	2015				2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Non-Current:								
Beneficiary certificates of								
other financial assets	\$ -	11,946	-	11,946	-	14,975	-	14,975
	-	11,946	-	11,946	-	14,975	-	14,975
Current :								
Derivative financial assets	32	-	-	32	172,606	-	-	172,606
	32	-	-	32	172,606	-	-	172,606
	32	11,946	-	11,978	172,606	14,975	-	187,581
	32	11,946	-	11,978	172,606	14,975	-	187,581

(b) Financial liabilities

<i>In thousands of US dollars</i>	2015				2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Non-Current:								
Derivative financial liabilities	\$ -	213	-	213	-	384	-	384
	-	213	-	213	-	384	-	384
Current :								
Derivative financial liabilities	1,772	-	-	1,772	177,673	-	-	177,673
	1,772	-	-	1,772	177,673	-	-	177,673
	1,772	213	-	1,985	177,673	384	-	178,057

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

13. Fair Value of Financial Assets and Liabilities, Continued

13.2 The fair value hierarchy, continued

The following tables show the valuation techniques used in measuring Level 2 fair values, as well as the significant unobservable inputs used:

2015			
	Fair value	Valuation technique	Significant input
<i>In thousands of US dollars</i>			
Financial Asset:			
Beneficiary certificates of other financial assets	11,946	Market comparison technique	Adjusted market price of underlying asset

Financial Liabilities:			
Derivative financial liabilities	213	Market comparison technique	Interest rate of 3 month Libor

2014			
	Fair value	Valuation technique	Significant input
<i>In thousands of US dollars</i>			
Financial Asset:			
Beneficiary certificates of other financial assets	14,975	Market comparison technique	Adjusted market price of underlying asset

Financial Liabilities:			
Derivative financial liabilities	384	Market comparison technique	Interest rate of 3 month Libor

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

14. Other Financial Assets

(a) Details of other financial assets by categories as of December 31, 2015 and 2014 are follows:

<i>In thousands of US dollars</i>	2015	2014
Loans and receivables:		
Deposit and others	\$ 1,172	2,863
	<u>1,172</u>	<u>2,863</u>
Available-for-sales financial assets:		
Unlisted stocks	4,102	4,565
Beneficiary certificates	11,946	14,975
	<u>16,048</u>	<u>19,540</u>
	\$ <u>17,220</u>	<u>22,403</u>
Non-current	\$ 16,050	19,588
Current	1,170	2,814

As of December 31, 2015, financial assets amounting to US\$ 1,027 thousand are provided as pledges for borrowings and guarantees.

(c) Equity instruments which were classified as available-for-sale, but for which fair value could not be reasonably assessed are recognized at cost. Details of unlisted equity instruments recognized at cost as of December 31, 2015 and 2014 are follows:

	2015		2014	
<i>In thousands of US dollars</i>	Equity interest	Carrying amount	Equity interest	Carrying amount
Gwangyang West Container Terminal Co., Ltd.	-	\$ -	80.00%	\$ 419
Korea P&I Club	8.25%	491	8.90%	491
Taeyoung Grain Terminal Co., Ltd.	7.00%	3,611	7.00%	3,611
		<u>\$ 4,102</u>		<u>\$ 4,521</u>

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

15. Trade Receivables

Trade receivables as of December 31, 2015 and 2014 are summarized as follows:

<i>In thousands of US dollars</i>	2015	2014
Non-current :		
Trade receivables	\$ 95	146
Less: present value discount	(24)	(25)
	<u>71</u>	<u>121</u>
Current :		
Trade receivables	174,382	95,194
Less: provision for impairment	(76,139)	(24,777)
	<u>98,243</u>	<u>70,417</u>
\$	<u><u>98,314</u></u>	<u><u>70,538</u></u>

16. Other Receivables

Details of other receivables as of December 31, 2015 and 2014 are summarized as follows:

<i>In thousands of US dollars</i>	2015	2014
Non-current :		
Loan	\$ 267	470
Deposit	12,388	16,217
	<u>12,655</u>	<u>16,687</u>
Current :		
Loan	28,364	31,177
Less: provision for impairment	(17,081)	(13,642)
Other receivable	9,795	8,579
Less: provision for impairment	(92)	(2,649)
	<u>20,987</u>	<u>23,465</u>
\$	<u><u>33,642</u></u>	<u><u>40,152</u></u>

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

17. Cash and Cash Equivalents

Details of cash and cash equivalents as of December 31, 2015 and 2014 are summarized as follows:

<i>In thousands of US dollars</i>	<u>2015</u>	<u>2014</u>
Cash on hand	\$ 1,165	1,430
Deposits and others	236,180	363,116
	<u>\$ 237,345</u>	<u>364,546</u>

As of December 31, 2015, US\$ 35,202 thousand are provided as escrow account for unconfirmed rehabilitation claims.

18. Other Assets

Details of other assets as of December 31, 2015 and 2014 are summarized as follows:

<i>In thousands of US dollars</i>	<u>2015</u>	<u>2014</u>
Non-current :		
Reimbursement receivables	\$ 3,344	11,125
	<u>3,344</u>	<u>11,125</u>
Current :		
Prepayments	31,042	37,822
Less: provision for impairment	(1,951)	(2,056)
Prepaid expenses	47,325	52,365
Accrued income – shipping	61,998	41,894
Miscellaneous	1,515	1,348
	<u>139,929</u>	<u>131,373</u>
	<u>\$ 143,273</u>	<u>142,498</u>

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

19. Inventories

Inventories as of December 31, 2015 and 2014 are summarized as follows:

<i>In thousands of US dollars</i>		2015	2014
Fuel	\$	24,221	43,637
Spare parts		9,943	10,123
	\$	<u>34,164</u>	<u>53,760</u>

20. Share Capital

(a) Details of common stock as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars, except share data and par value</i>		2015	2014
Number of shares in authorized		3,000 million	3,000 million
Par value		KRW 1,000	KRW 1,000
Number of shares issued		524,425,070	214,538,500
Share capital	\$	471,717	192,334

(b) Changes of number of shares issued for the years ended December 31, 2015 and 2014 are as follows:

	2015			2014		
<i>In shares</i>	Number of shares issued	Treasury stock	Outstanding stock	Number of shares issued	Treasury stock	Outstanding stock
Beginning number of shares	214,538,500	-	214,538,500	120,887,541	-	120,887,541
Share consolidation without refund	(45,635,846)	-	(45,635,846)	-	-	-
Debt-equity swap	16,046,309	-	16,046,309	93,650,959	-	93,650,959
Retirement of shares	(523,893)	-	(523,893)	-	-	-
Capital increase with issuing new stock	340,000,000	-	340,000,000	-	-	-
Ending number of shares	524,425,070	-	524,425,070	214,538,500	-	214,538,500

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December 31, 2015 and 2014

20. Share Capital, Continued

(c) Details of share premium as of December 31, 2015 and 2014 are as follows.

<i>In thousands of US dollars</i>	2015	2014
Share premium(*)	\$ 626,615	141,839
Other capital surplus	554	389
	<u>\$ 627,169</u>	<u>142,228</u>

(*) For the year ended December 31, 2015, share premium increased by issuing new stock with premium (US\$ 457,572 thousand) and debt-equity swap (US\$ 27,204 thousand), respectively.

21. Other Reserves

The changes of the other reserves for the years ended December 31, 2015 and 2014 are presented in the consolidated statements of changes in equity. Details of other reserves as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	2015	2014
Equity method accounted investee's capital	\$ (339)	(646)
Unrealized fair value of available-for-sale financial assets	401	(362)
Foreign operation currency translation differences	(16,425)	(8,635)
Unrealized fair value of derivative assets and liabilities	(256)	(220)
Loss on disposal of treasury stock	830	830
Surplus from reduction of capital	1,062,678	1,021,284
Debt to be swapped for equity	77,227	149,655
	<u>\$ 1,124,116</u>	<u>1,161,906</u>

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

22. Accumulated Deficit

(a) Details of accumulated deficit for the years ended December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	2015	2014
Legal reserve	\$ 36,165	36,165
Undisposed accumulated deficit	(206,106)	(239,613)
	<u>\$ (169,941)</u>	<u>(203,448)</u>

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.

(b) Statements of disposition of accumulated deficit for the years ended December 31, 2015 and 2014 are as follows:

Date of Disposition for 2015: March 25, 2016

Date of Disposition for 2014: (*)

<i>In thousands of US dollars</i>	2015	2014
I. Undisposed accumulated deficit		
Undisposed accumulated deficit	\$ (272,578)	(1,042,750)
Re-measurements of defined benefit liability (asset)	(578)	(984)
Net income for the year	43,804	771,156
	<u>(229,351)</u>	<u>(272,578)</u>
II. Transfer from voluntary reserves	-	-
III. Total (I + II)	<u>(229,351)</u>	<u>(272,578)</u>
Disposition of deficit	-	-
IV. Undisposed accumulated deficit to be carried over to subsequent year	<u>\$ (361,654)</u>	<u>(272,578)</u>

(*) The above statement of disposition of accumulated deficit is prepared in accordance with the separate financial statements of the Company, and the Company was under rehabilitation proceeding, prior year's shareholder's meeting was not held and therefore, disposition of accumulated deficit was not be resolved.

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Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

23. Other Payables

Details of other payables as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	<u>2015</u>	<u>2014</u>
Non-current :		
Lease deposits	\$ 60	140
Current :		
Other non-trade payables	12,584	10,747
Dividend payables	5	125
Withholdings	31,136	66,332
	<u>43,725</u>	<u>77,204</u>
\$	<u>43,785</u>	<u>77,344</u>

24. Other Liabilities

Details of other liabilities as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	<u>2015</u>	<u>2014</u>
Advance received	\$ 263	-
Deferred income	28,148	33,074
Accrued expense	44,139	57,544
Miscellaneous	51	6
\$	<u>72,601</u>	<u>90,624</u>

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Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

25. Borrowings

(a) Details of borrowings as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>		2015	2014
Non-current :			
Bond	\$	34,130	-
Long-term borrowings		39,698	136,719
Finance lease liabilities		990,019	1,234,921
		<u>1,063,847</u>	<u>1,371,640</u>
Current :			
Short-term borrowings		4,416	7,686
Current portion of long term borrowings		3,722	11,784
Current portion of finance lease liabilities		224,844	216,276
		<u>232,982</u>	<u>235,746</u>
	\$	<u>1,296,829</u>	<u>1,607,386</u>

Total borrowings include secured borrowings of US\$ 1,262,700 thousand as of December 31, 2015 (2014: US\$ 1,607,386 thousand). Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. Secured borrowings other than finance lease liabilities are secured by vessels.

(b) Bond issued as of December 31, 2015 is summarized as follows:

<i>In thousands of US dollars</i>	<u>Currency</u>	<u>Issue Date</u>	<u>Maturity</u>	<u>Annual interest rate</u>	<u>Carrying amount</u>
Unsecured private placed bond	KRW	2015.6.20	2020.6.20	5.00%	\$ 34,130

The Group issued unsecured private placed bond to Jeil Holdings as bondholder amounting KRW 157,950 million. The Group has the early repayment right, but bondholder does not have the right of recourse until maturity date. During 2015, the Group early repaid amounting KRW 117,950 million.

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Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

25. Borrowings, Continued

(c) Short-term borrowings as of December 31, 2015 and 2014 are as follows:

In thousands of US dollars

	Currency	2015		2014	
		Annual interest rate	Carrying amount	Annual interest rate	Carrying amount
Korea Exchange Bank	USD	Libor+9.75%	3,694	Libor+9.75%	7,686
Other short term borrowing	USD	4.25%	722	-	-
			<u>\$ 4,416</u>		<u>\$ 7,686</u>

(d) Long-term borrowings as of December 31, 2015 and 2014 are as follows:

In thousands of US dollars

	Currency	2015		2014	
		Annual interest rate	Carrying amount	Annual interest rate	Carrying amount
United Overseas Bank Limited Co.	USD		\$ -	Libor+3.00%	\$ 8,063
Dongbu Insurance Co.,Ltd.	USD	7.20%	43,420	7.20%	47,140
Kookmin Bank	USD		-	8.90%	93,300
			<u>43,420</u>		<u>148,503</u>
Less: current portion of long-term borrowings			<u>(3,722)</u>		<u>(11,784)</u>
			<u>\$ 39,698</u>		<u>\$ 136,719</u>

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

25. Borrowings, Continued

(e) Finance lease liabilities as of December 31, 2015 and 2014 are as follows:

In thousands of US dollars

	Currency	2015		2014	
		Annual interest rate	Carrying amount	Annual interest rate	Carrying amount
Mizuho Corporate Bank	USD	Libor+0.65%	\$ 24,860	Libor+0.65%	\$ 30,887
Shinhan Bank	USD	Libor+0.65%	1,375	Libor+0.65%	6,642
Korea Development Bank	USD	Libor+0.60%~1.00%	69,935	Libor+0.60%~1.00%	95,269
	USD	2.00%	13,662	2.00%	13,662
Credit Agricole Corporate and Investment Bank	USD	Libor+0.55%~3.25%	49,574	Libor+0.55%~4.00%	62,687
	USD	5.37%	5,643	5.37%	8,152
Commerz Bank	USD	-	-	Libor+3.00%~4.00%	51,938
DNB Bank	USD	Libor+2.60%~3.50%	48,351	Libor+2.60%~2.95%	35,926
BNP Paribas	USD	Libor+0.325~0.60%	22,263	Libor+0.325~0.60%	25,863
Sumitomo Mitsui Banking Corporation	USD	Libor+0.90%	28,708	Libor+0.90%	33,400
DVB Bank SE	USD	-	-	Libor+3.50%	17,148
Korea Export and Import Bank	USD	Libor+3.00%	23,444	Libor+3.00%	25,911
China Construction Bank	USD	Libor+2.65%	25,334	Libor+2.65%	29,223
Bank of China	USD	Libor+2.10%~2.50%	90,990	Libor+2.10%~2.50%	124,948
ABN AMRO Bank N.V.	USD	Libor+2.50%~4.00%	406,145	Libor+2.50%~4.00%	449,691
NIBC Bank	USD	Libor+2.85%~2.875%	37,739	Libor+2.85%~2.875%	44,959
Norddeutsche Landesbank	USD	Libor+1.60%~2.80%	243,172	Libor+1.60%~2.80%	271,803
United Overseas Bank Limited Co.	USD	Libor+2.60%	9,080	Libor+2.60%	11,158
Dongbu Insurance Co., Ltd.(*)	KRW	-	-	5.40%	7,372
	USD	7.20%	21,710	7.20%	23,571
CJL NO. 1 LLC	USD	5.19%	5,411	5.19%	5,908
DVB Transport Finance Ltd, Tokyo Branch	USD	Libor+3.35%	5,254	Libor+3.35%	7,055
Global Marifin Finance Co., Ltd.(*)	KRW	6.50%	19,625	8.40%	20,924
Kookmin Bank(*)	USD	-	-	8.90%	25,600
National Foundation of Fisheries Cooperatives	USD	Libor+2.50%	21,500	Libor+2.50%	21,500
ING Bank N.V.	USD	Libor+2.50%	41,088		-
			1,214,863		1,451,197
Less: current portion of lease liabilities			(224,844)		(216,276)
			<u>\$ 990,019</u>		<u>\$ 1,234,921</u>

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Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

25. Borrowings, Continued

(*) As of December 31, 2015 and 2014, borrowings with subordinated pledges are US\$ 76,496 thousand and US\$ 112,629 thousand, respectively.

Meanwhile, the Group enters into borrowing contracts to provide additional pledges or credit enhancements to lenders, when the collateral value of vessels to finance lease liabilities exceeds certain levels, for the exceeded portion or to make an advanced redemption.

(f) The maturity of non-current borrowings is as follows:

<i>In thousands of US dollars</i>	2015	2014
Between 1 and 2 years	\$ 229,028	237,753
Between 2 and 3 years	187,522	223,923
Between 3 and 4 years	194,960	182,821
Between 4 and 5 years	267,930	190,035
Later than 5 years	184,407	537,108
	<u>\$ 1,063,847</u>	<u>1,371,640</u>

(g) The carrying amounts of the Group's borrowings are denominated in the following currencies:

<i>In thousands of US dollars</i>	2015	2014
US dollar	\$ 1,243,074	1,579,089
Korean won	53,755	28,297
	<u>\$ 1,296,829</u>	<u>1,607,386</u>

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25. Borrowings, Continued

(h) Minimum finance lease liabilities and payable are as follows:

<i>In thousands of US dollars</i>	2015	2014
Finance lease liabilities		
– minimum lease payments :		
Within 1 year	\$ 259,795	253,942
Between 1 and 2 years	253,632	266,399
Between 2 and 3 years	205,888	246,549
Between 3 and 4 years	207,076	200,136
Between 4 and 5 years	239,145	202,414
Over 5 years	170,128	434,885
	<u>1,335,664</u>	<u>1,604,325</u>
Future finance charges on finance leases	(120,801)	(153,128)
Present value of finance lease liabilities	<u>\$ 1,214,863</u>	<u>1,451,197</u>

<i>In thousands of US dollars</i>	2015	2014
The present value of finance lease liabilities :		
Within than 1 year	\$ 224,844	216,277
Between 1 and 2 years	225,306	234,032
Between 2 and 3 years	183,800	220,202
Between 3 and 4 years	191,238	179,100
Between 4 and 5 years	230,078	186,312
Over 5 years	159,597	415,274
	<u>\$ 1,214,863</u>	<u>1,451,197</u>

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Notes to the Consolidated Financial Statements

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26. Rehabilitation Liabilities

(a) Rehabilitation liabilities as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	2015	2014
Bonds	\$ -	329,557
Loan debts	-	84,125
Commercial debts	-	162,474
Debts of affiliates	-	15,774
Early repayment commercial Debts	-	112
Leasehold deposit debts	-	91
Indemnity confirmed bond	-	48,909
Unrecognized indemnification debts	-	285,839
	-	926,881
Less: present value discount	-	(399,227)
Less: current portion of rehabilitation liabilities	-	-
	-	527,654

(b) The Group made the early repayment for rehabilitation liabilities amounting 83% of confirmed liabilities, and unpaid rehabilitation liabilities amounting US\$ 1,842 thousand was reclassified as other payables.

27. Income Tax Expense

(a) The component of income tax expense (benefit) for the years ended December 31, 2015 and 2014 is as follows:

<i>In thousands of US dollars</i>	2015	2014
Current tax expense	\$ 637	811
Origination and reversal of temporary differences	91	20
Income tax recognized in other comprehensive income	-	-
Total income tax expense	\$ 728	831

Pan Ocean Co., Ltd.

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27. Income Tax Expense, Continued

(b) Reconciliation of effective tax rate:

In thousands of US dollars

	2015	2014
Profit before income tax	\$ 36,076	752,320
Income tax expense at the domestic rates applicable to loss in the country concerned	8,730	182,061
Adjustment :	-	-
- Non-taxable income	(26,321)	(118,848)
- Temporary differences incurred during the year, but not recognized as deferred tax	26,295	(54,297)
- Change in recoverability of temporary difference and tax loss carryforward	-	-
- Other	(7,976)	(8,086)
Income tax expense	\$ 728	831

(c) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2015 and 2014 are as follows:

In thousands of US dollars

	2015	2014
Deferred assets (liabilities) as at the end of the year	\$ 21	112
Deferred assets (liabilities) as at the beginning of the year	112	132
Deferred tax expense by origination and reversal of temporary differences	\$ 91	20

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27. Income Tax Expense, Continued

(d) Changes in deferred tax assets (liabilities) for the years ended December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	Beginning balance	Profit or loss	Other compre- hensive income	Ending balance
December 31, 2015				
Vessel	\$ 62,385	(1,176)	-	61,209
Building	1,116	(1,116)	-	-
Land	37	-	-	37
Gain (loss) on valuation of finance assets	386	-	(181)	205
Present value of defined benefit obligation	2,493	(330)	-	2,163
Derivatives	1,321	(819)	(41)	461
Provision	381	24,721	-	25,102
Other	(4,595)	42,561	-	37,966
Total	63,524	63,841	(222)	127,143
Tax loss carryforward	651,325	(31,362)	-	619,963
Unrecognized deferred tax	(714,737)	(32,570)	222	(747,085)
	<u>\$ 112</u>	<u>(91)</u>	<u>-</u>	<u>21</u>

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

27. Income Tax Expense, Continued

(d) Changes in deferred tax assets (liabilities) for the years ended December 31, 2015 and 2014 are as follows, continued:

<i>In thousands of US dollars</i>	Beginning balance	Profit or loss	Other compre- hensive income	Ending balance
December 31, 2014				
Vessel	\$ 3,585	58,800	-	62,385
Building	-	1,116	-	1,116
Land	(315)	352	-	37
Gain (loss) on valuation of finance assets	475	1	(90)	386
Present value of defined benefit obligation	2,831	(338)	-	2,493
Derivatives	168	1,224	(71)	1,321
Provision	4,231	(3,850)	-	381
Other	311,268	(315,863)		(4,595)
Total	322,243	(258,558)	(161)	63,524
Tax loss carryforward	352,438	298,887	-	651,325
Unrecognized deferred tax	(674,549)	(40,349)	161	(714,737)
	<u>\$ 132</u>	<u>(20)</u>	<u>-</u>	<u>112</u>

Pan Ocean Co., Ltd.

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27. Income Tax Expense, Continued

(e) 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 Group did not recognize the deferred tax assets exceeding the deferred tax liabilities because the Group 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>		<u>Expiration date</u>
Temporary differences	\$ 525,298	-
Tax loss carry forward	36,344	2021
	391,157	2022
	828,416	2023
	1,305,916	2024

(f) The Group sets off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

(g) As of December 31, 2015 and 2014 for temporary differences related to investments of subsidiaries, associates and joint ventures, the related deferred tax liabilities of US\$ 45,492 thousand and US\$ 92,312 thousand, respectively were not recognized because it is probable that the temporary differences will not reverse in the foreseeable future.

(h) The Group 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 Group 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.

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28. Retirement Benefit Obligations

(a) Details of retirement defined benefit obligations as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	2015	2014
Statement of financial position : defined benefit obligations		
for retirement benefits	\$ 9,525	11,927
Income statement : charge for retirement benefits	3,084	3,922

(b) The amounts of retirement defined benefits recognized in the consolidated statement of financial position are determined as follows:

<i>In thousands of US dollars</i>	2015	2014
Present value of wholly or partially funded obligations	\$ 12,754	8,321
Fair value of plan assets	(3,229)	(3,224)
	9,525	5,097
Present value of wholly unfunded defined benefit obligations	-	6,830
Liability in the statement of financial position	\$ 9,525	11,927

(c) The changes in the defined benefit obligation for the years ended December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	2015	2014
Beginning	\$ 15,151	17,779
Current service cost	2,200	2,530
Discontinued operation	-	232
Interest cost	383	580
Benefits paid	(4,668)	(5,284)
Actuarial losses	558	892
Other(*)	(870)	(1,578)
Ending	\$ 12,754	15,151

(*) Other changes include the effect of currency translation difference.

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December 31, 2015 and 2014

28. Retirement Benefit Obligations, Continued

(d) The changes in the fair value of plan assets for the years ended December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	2015	2014
Beginning	\$ 3,223	5,033
Employer contribution	918	-
Expected return on plan assets	77	171
Benefits paid	(761)	(1,756)
Actuarial losses	(20)	(91)
Other(*)	(208)	(134)
Ending	\$ 3,229	3,223

(*) Other changes include the effect of currency translation difference.

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

<i>In thousands of US dollars</i>	2015	2014
Current service cost	\$ 2,200	2,530
Interest cost	383	580
Discontinued operation	-	232
Expected return on plan assets	(77)	(171)
Net actuarial losses recognized during the year	578	983
	\$ 3,084	4,154
Cost of sales	2,506	3,171
Other comprehensive loss	578	983

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

	2015	2014
Discount rate	2.75%	3.00%
Future salary increase	4.00%	4.00%

For the years ended December 31, 2015 and 2014, actual returns on plan assets amounted to US\$ 57 thousand and US\$ 80 thousand, respectively.

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December 31, 2015 and 2014

28. Retirement Benefit Obligations, Continued

(g) Plan assets are comprised as follows:

<i>In thousands of US dollars</i>	2015		2014	
Debt instruments	\$	-	- \$	1,541
Other		3,229		1,682
Total	\$	3,229	\$	3,223
		100%		100%

(h) Historical information

<i>In thousands of US dollars</i>	2015	2014	2013	2012	2011
Present value of defined benefit obligation	\$ 12,754	15,151	17,019	19,886	16,669
Fair value of plan assets	(3,229)	(3,223)	(5,033)	(6,579)	(6,810)
Defined benefit obligation	9,526	11,927	11,986	13,307	9,859
Experience adjustment on plan liabilities	558	892	(811)	2,507	1,424
Experience adjustment on plan assets	(20)	(91)	(98)	(79)	(75)

(i) Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

<i>In thousands of US dollars</i>	Defined benefit obligation	
	Book value (increase)	Book value (decrease)
Discount rate (0.25% movement)	\$ 12,555	12,962
Future salary growth (0.25% movement)	12,973	12,543

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

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Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

29. Provisions

(a) Changes in provisions for the year ended December 31, 2015 are as follows:

<i>In thousands of US dollars</i>		Opening net book amount	Recognized provision	Paid or transferred amount	Closing net book amount
Non-current	\$	222,498	(20,190)	(95,237)	107,071
Current		1,575	262	-	1,837

(b) Changes in provisions for the year ended December 31, 2014 are as follows:

<i>In thousands of US dollars</i>		Opening net book amount	Recognized provision	Paid or transferred amount	Closing net book amount
Non-current	\$	1,419,870	(61,643)	(1,135,729)	222,498
Current		1,963	(388)	-	1,575

(i) Non-current provisions

Details of non-current provisions as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>		2015	2014
Final debt inspection judgment(*1)	\$	101,256	202,176
Compensation for claims(*2)		5,815	20,322
	\$	<u>107,071</u>	<u>222,498</u>

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December 31, 2015 and 2014

29. Provisions, Continued

(*1) As of December 31, 2015, debt inspection judgment (95 cases amounting to US\$ 232,063 thousand) in relation to the denied rehabilitation claim with creditors is in progress. The Group reserved provisions for the probable amounts that are reliably estimated to be additionally approved as rehabilitation claims. When these provisional amounts are finally settled, 67% of principal shall be converted into equity (issue price of KRW 12,500 applying the reconsolidation ratio of 12.5:1) and 33% of principal shall be repaid in cash. Cash repayment of 1st year (2014) and 2nd year (2015) shall be repaid according to original rehabilitation plan and remaining portion shall be repaid 83% of confirmed liabilities. The Group also holds the fund amounting US\$ 35,202 thousand for unconfirmed rehabilitation claims as escrow account.

(*2) The amounts are provisions for cargo claims and vessel damages brought against the Group 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 US\$ 5,815 thousand (2014: US\$ 18,472 thousand) and non-current assets of US\$ 3,344 thousand (2014: US\$ 11,125 thousand) of legal provisions which are expected to be reimbursed from P&I club (Protection & Indemnity) as of December 31, 2015.

(ii) Current provisions

The amounts were provisions for anticipated loss on voyage and time charter contracts in progress. The balance as of December 31, 2015 is expected to be utilized within twelve months and the amount accrued during the period is recorded in cost of sales.

(iii) Assumptions and estimation uncertainty

The management makes judgments, estimates and assumptions that affect the reported amounts of provision. Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year may make the actual results differ from these estimates.

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Notes to the Consolidated Financial Statements

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30. Expenses by Nature

Details of expenses by nature for the years ended December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	2015	2014
Charterage	\$ 277,423	169,972
Port charges	196,006	135,561
Cargo expenses	105,270	93,459
Bunker fuel costs	351,288	471,276
Voyage relet costs	73,283	50,748
Depreciation	143,998	149,944
Vessel maintenance expense	39,916	39,632
Salaries and wages	101,389	98,600
Retirement benefit	5,942	6,402
Other employee benefits	26,759	24,097
Lubricant oil costs	8,525	9,196
Cost of merchandise sold	-	55,663
Other cost of sales	63,908	41,391
Office rental	6,018	6,689
Allowance for (reversal of) doubtful accounts	837	(7,022)
IT expense	2,085	3,199
Taxes and dues	2,975	3,986
Other selling and administrative expenses	3,381	6,933
	<u>\$ 1,409,003</u>	<u>1,359,726</u>

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December 31, 2015 and 2014

31. Other Non-Operating Income (Loss), Net

Other non-operating loss, net which is presented in the consolidated statement of comprehensive income (loss) for the years ended December 31, 2015 and 2014 are summarized as follows:

<i>In thousands of US dollars</i>	2015	2014
Gain on sale of vessels, property and equipment	\$ 1,748	28,069
Loss on sale of vessels, property and equipment	(28)	(12,275)
Gains (losses) on valuation of derivative, net	(1,682)	(7,492)
Gains(losses) on derivative transactions, net	(7,186)	6,802
Gains (losses) on foreign currency translation, net	(1,955)	8,521
Gains on foreign currency transaction, net	11,434	22,055
Reversal for provision, net	20,190	6,538
Donations	-	(73)
Losses on disposal of investment of subsidiary	(197)	(17,600)
Losses on impairment of vessels, property and equipment	(1,228)	(71,505)
Allowance for (reversal of) doubtful accounts	(4,531)	1,534
Gain(losses) from debt adjustment	(114,735)	671,205
Other	2,969	20,013
	<u>\$ (95,201)</u>	<u>655,792</u>

(*) For the year ended December 31, 2015, US\$ 114,735 thousand of loss from debt adjustment was recognized from early repayment of rehabilitation liabilities. For the year ended December 2014, US\$ 671,205 thousand of gain from debt adjustment was recognized from debt-equity swap (difference between the book value of debt and the fair value of ordinary shares).

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32. Finance Incomes and Costs

Details of finance incomes and costs for the years ended December 31, 2015 and 2014 are as follows:

(a) For the year ended December 31, 2015

<i>In thousands of US dollars</i>	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Available for sale financial assets	Derivatives	Borrowings	Total
Finance incomes and costs						
Gains on transaction	\$ -	-	47	-	-	47
Losses on transaction	-	-	(650)	-	-	(650)
Interest income	-	2,338	1,770	-	-	4,108
Interest expense	-	-	-	-	(67,383)	(67,383)
Guarantee fee	-	-	-	-	(125)	(125)
Dividend income	-	-	1,140	-	-	1,140
	-	2,338	2,307	-	(67,508)	(62,863)
Finance income	-	2,338	2,957	-	-	5,295
Finance cost	-	-	(650)	-	(67,508)	(68,158)
Other comprehensive income						
Gains on valuation	-	-	762	(36)	-	726
	-	-	762	(36)	-	726
\$	-	2,338	3,069	(36)	(67,508)	(62,137)

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December 31, 2015 and 2014

32. Finance Incomes and Costs, Continued

(b) For the year ended December 31, 2014

<i>In thousands of US dollars</i>	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Available for sale financial assets	Derivatives	Borrowings	Total
Finance incomes and costs						
Losses on transaction	\$ -	-	(474)	-	-	(474)
Interest income	-	1,151	1,832	-	-	2,983
Interest expense	-	-	-	-	(105,517)	(105,517)
Guarantee fee	-	-	-	-	(150)	(150)
Dividend income	-	-	1,466	-	-	1,466
Gains on bond redemption	-	-	-	-	448	448
Losses on bond redemption	-	-	-	-	(228)	(228)
	-	1,151	2,824	-	(105,087)	(101,112)
Finance income	-	1,151	3,298	-	448	4,897
Finance cost	-	-	(474)	-	(105,535)	(106,009)
Other comprehensive income						
Gains on valuation	-	-	441	294	-	735
	-	-	441	294	-	735
\$	-	1,151	3,265	294	(105,087)	(100,377)

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December 31, 2015 and 2014

33. Net Foreign Exchange Gains (Losses)

The exchange differences (charged) credited to the consolidated statement of comprehensive income (loss) are as follows:

<i>In thousands of US dollars</i>	<u>2015</u>	<u>2014</u>
Other non-operating income (loss)		
Gains (losses) on foreign currency translation	\$ (1,955)	8,521
Gains on foreign currency transaction	11,434	22,055
	<u>9,479</u>	<u>30,576</u>
Net foreign exchange gains (losses) on financial instruments		
Losses on foreign currency translation	3,044	(595)
Gains (losses) on foreign currency transaction	(4,902)	(6,239)
	<u>7,621</u>	<u>23,742</u>
Currency translation differences		
- recognized in other comprehensive income	(7,811)	466
	<u>\$ (190)</u>	<u>24,208</u>

34. Earnings per Share

(a) Basic earnings per share

Basic earnings per share for the years ended December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	<u>2015</u>	<u>2014</u>
Earnings per share		
Profit for the year, attributable to the owners of the Group	\$ 35,339	751,553
Weighted average number of ordinary shares	<u>384,360,881</u>	<u>110,415,021</u>
Basic earnings per share (expressed in US\$ per share)	<u>0.09</u>	<u>6.81</u>
Earnings per share-continuing operations		
Profit for the year, attributable to the owners of the Group	\$ 36,067	752,384
Weighted average number of ordinary shares	<u>384,360,881</u>	<u>110,415,021</u>
Basic earnings per share (expressed in US\$ per share)	<u>\$ 0.09</u>	<u>6.81</u>

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34. Earnings per Share, Continued

(a) Basic earnings per share, continued

(i) Profit attributable to owners of the Group

In thousands of US dollars

	2015	2014
Earnings per share		
Profit (loss) for the year	\$ 35,348	751,489
Profit (loss) attributable to non-controlling interests	9	(64)
Profit (loss) attributable to shareholders of the Group	\$ 35,339	751,553
Earnings per share-continuing operations		
Profit (loss) for the year	\$ 36,076	752,319
Profit (loss) attributable to non-controlling interests	9	(64)
Profit (loss) attributable to shareholders of the Group	\$ 36,067	752,384

(*) Weighted average number of ordinary shares

Period	Number of shares	Days	Weight	Multiplier	Weighted average number of shares
2015	214,538,500	365	100%	78,306,552,500	214,538,500
	13,264,541	329	90%	4,364,033,989	11,956,258
	757,844	247	68%	187,187,468	512,842
	(46,159,739)	196	54%	(9,047,308,844)	(24,787,148)
	340,000,000	195	53%	66,300,000,000	181,643,836
	518,789	155	42%	80,412,295	220,308
	1,505,135	67	18%	100,844,045	276,285
				140,291,721,453	384,360,881

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34. Earnings per Share, Continued

Period	Number of shares	Days	Weight	Multiplier	Weighted average number of shares
2014	120,887,541	365	100%	44,123,952,465	120,887,541
	(42,907,700)	365	100%	(15,661,310,500)	(42,907,700)
	28,384,096	239	65%	6,783,798,944	18,585,751
	14,142,399	155	42%	2,192,071,845	6,005,676
	51,124,464	56	15%	2,862,969,984	7,843,753
				40,301,482,738	110,415,021

(b) Diluted earnings per share and potential ordinary share

As there are no convertible bonds or bonds with warrant outstanding as of December 31, 2015 and 2014, the basic earnings per share and the diluted earnings per share are equal. The Group also has potential ordinary share (expected to convert to equity from debt). The Group does not calculate diluted earnings per share of potential ordinary share, due to its antidilutive effect when their conversion to ordinary shares would increase earnings per share.

35. Contingencies

(a) The final judgment of investigation related to the denied rehabilitation claims is in progress, and the Group recognized the amounts as provisions that are probable of cash outflows in the future as described in note 29. However, the contingent amount of US\$ 130,807 thousand which was excluded from provisions may be different from the Group's expectation according to actual result from the judgment.

(b) As of December 31, 2015, in relation to cargo claims and vessel damages, the Group is a defendant in 90 legal cases with claimed amounts of US\$ 19,806 thousand. In addition, the Group is a plaintiff in 20 legal cases with claimed amounts of US\$ 44,519 thousand. When pending litigations in which the Group participates as a defendant qualify for recognition, provisions are recognized as described in note 29.

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35. Contingencies, Continued

(c) Assets pledged as collateral for the Group's borrowings as of December 31, 2015 are summarized as follows:

In thousands of US dollars

Assets pledged as collateral	Book value	Collateralized amounts	Lender	Description
Vessel(*)		33,276	Hana Bank	Collaterals on
	110,258	86,500	and etc.	borrowings
Short & long-term financial instruments	36,229	36,229		

(*) Vessels provided to secure finance lease liabilities are described in note 25.

(d) Guarantees provided by others as of December 31, 2015 are summarized as follows:

In thousands of US dollars

Guarantee provider	Guarantee amount	Guaranteed customer
Korea Development Bank	1,055	JKC ICHTHYS LNG Joint Venture, POSCO
Seoul Guarantee Insurance	30	POSCO
	10,425	Korea South Power Co., Ltd., and etc.

(e) Details of guarantees provided for others as of December 31, 2015 are as follows:

In thousands of US dollars

Beneficiary	Guarantee amount	Description of guarantee
Wilhelmsen Ships Service Ltd.	1,512	Guarantee on litigation loss(*)

(*) The Group has provided guarantee for the next five-year lawsuits regarding the accident of vessel damages occurred in Bangladesh in 2013.

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36. Commitments

(a) Capital commitments

As of December 31, 2015 and 2014, the Group placed orders for 4 vessels which are expected to be delivered from 2016 to 2017. The aggregate value of the orders amounts to US\$ 211,038 thousand.

Capital expenditures contracted but not yet paid at the end of the year are as follows:

<i>In thousands of US dollars</i>	<u>2015</u>	<u>2014</u>
Vessels, property and equipment	\$ 159,218	180,238

(b) Operating lease commitments – where the Group is the lessee

The Group leases various vessels and offices under operating lease agreements. The future aggregate minimum lease payments under operating lease are as follows:

<i>In thousands of US dollars</i>	<u>2015</u>	<u>2014</u>
Not later than 1 year	\$ 94,009	96,580
Between 1 and 2 years	10,379	28,517
Between 2 and 3 years	4,745	14,703
Between 3 and 4 years	2,106	7,318
Between 4 and 5 years	-	4,692
Later than 5 years	-	12,020
	<u>\$ 111,239</u>	<u>163,831</u>

For the years ended December 31, 2015 and 2014, operating lease expenses including short-term charters are US\$ 277,423 thousand and US\$169,972 thousand, respectively.

(c) As of December 31, 2015, in the ordinary course of business, the Group has provided one check and three promissory notes as collateral for creditors and guarantors.

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37. Cash Generated from Operations

(a) Details of cash generated from operations of the Group using the indirect method for the years ended December 31, 2015 and 2014 are as follows:

In thousands of US dollars

	2015	2014
Profit (loss) for the year	\$ 34,094	748,535
Adjustment for:		
Income tax benefit	728	338
Depreciation	143,836	149,533
Amortization of intangible assets	162	1,595
Allowance (reversal) for provision, net	(19,964)	(8,763)
Allowance (reversal) for doubtful accounts, net	837	(6,981)
Allowance (reversal) for other doubtful accounts, net	4,531	(1,534)
Losses (gains) on sale of vessels, property and equipment, net	(1,720)	(15,794)
Valuation losses (gains) on derivatives, net	1,682	7,675
Loss on sale of available-for-sales financial assets	603	-
Loss on sale of investment in subsidiary	201	17,600
Losses on impairment of vessels, property and equipment	1,227	71,505
Losses on impairment of intangible assets	-	-
Retirement benefit	4,102	6,633
Dividend income	(1,140)	(1,466)
Interest income	(4,840)	(7,288)
Interest expense	68,115	107,682
Foreign currency translation loss(gain), net	(1,121)	(7,926)
Gains on exemption of liabilities	-	(671,205)
Losses (gains) on redemption of liabilities	114,735	(448)
Change in provisions	(17,576)	(1,138)
Change in inventories	19,595	25,506
Change in trade receivables	(19,976)	118,087
Change in other receivables	(12,217)	37,411
Change in assets from financial services	-	30,448
Change in other assets	7,790	(266)
Change in trade payables	7,304	(74,820)
Change in other payables	(1,080)	(25,782)
Change in liabilities from financial services	-	(48,436)
Change in other liabilities	2,176	(999)
Change in retirement benefit obligation	(7,082)	(5,605)
Others	(2,818)	(975)
Cash generated from operating activities	\$ 322,184	443,122

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37. Cash Generated from Operations, Continued

(b) Details on significant non-cash transactions for investing and financing activities for the years ended in 2015 and 2014 are as follows:

In thousands of US dollars

	2015	2014
Reclassification of provisions to rehabilitation liabilities	91,276	755,518
Reclassification rehabilitation liabilities to equity swap debt	62,699	796,583
Debt-equity swap	154,262	827,093

38. Related Party Transactions

(a) Related parties as of December 31, 2015 and 2014 are as follow:

Related party	2015	2014
Parent and ultimate controlling party(*1)	Jeil Holdings Co., Ltd.	
Associates and joint ventures	Korea LNG Trading Co.,Ltd. Busan Cross Dock, Ltd. YEGRINA Co., Ltd. Sea Best Maritime Ltd.	Korea LNG Trading Co.,Ltd. Mirae Asset Agri-Energy Fund #4(*2) Busan Cross Dock, Ltd. YEGRINA Co., Ltd Sea Best Maritime Ltd.
Other related parties	Harim Holdings Co., Ltd. Harim Co., Ltd. Farmsco Joowon Pekin Duck Co., Ltd. Sunjin Co., Ltd. Jeil Feed Company, Ltd. and etc.	

(*1) Under investment contract and revised rehabilitation plan during 2015, Jeil Holdings acquired 51.87% of the Company's total shares.

(*2) As of December 2015, Mirae Asset Agri-Energy Fund #4 is under liquidation process, the Group classified its remaining shares as held for sale.

Pan Ocean Co., Ltd.

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December 31, 2015 and 2014

38. Related Party Transactions, Continued

- (b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2015 and 2014 are summarized as follows:

In thousands of US dollars

	<u>Sales</u>	<u>Others</u>	<u>Purchases</u>	<u>Others</u>
2015				
Associates and joint ventures				
Korea LNG Trading Co., Ltd.	10,678	-	-	-
Other related parties				
Harim Holdings Co., Ltd.	-	-	-	22
Joowon Pekin Duck Co., Ltd.	-	-	-	6
Sunjin Co., Ltd.	2,345	-	-	44
FARMSCO	4,122	-	-	37
Harim Co., Ltd.	2,559	-	-	6
Jeil Feed Company, Ltd.	4,613	-	-	-
	<u>24,317</u>	<u>-</u>	<u>-</u>	<u>109</u>

In thousands of US dollars

	<u>Sales</u>	<u>Others</u>	<u>Purchases</u>	<u>Others</u>
2014				
Associates and joint ventures				
Korea LNG Trading Co., Ltd.	2,995	-	-	-
	<u>\$ 2,995</u>	<u>-</u>	<u>-</u>	<u>-</u>

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38. Related Party Transactions, Continued

(c) Account balances with related companies as of December 31, 2015 and 2014 are as follows:

2015	Receivables		Payables	
	Accounts receivable		Accounts payable	
	- trade	Others	- trade	Others
Associates and joint ventures				
Korea LNG Trading Co.,Ltd.	\$ 1,125	-	-	-
Other related parties				
Sunjin Co., Ltd.	2,345	-	-	-
FARMSCO	4,122	-	-	-
Harim Co., Ltd.	2,559	-	-	-
Jeil Feed Company, Ltd.	4,613	-	-	-
	<u>\$ 13,639</u>	<u>-</u>	<u>-</u>	<u>-</u>

2014	Receivables		Payables	
	Accounts receivable		Accounts payable	
	- trade	Others	- trade	Others
Associates and joint ventures				
Korea LNG Trading Co.,Ltd.	\$ 2,142	-	-	-
	<u>\$ 2,142</u>	<u>-</u>	<u>-</u>	<u>-</u>

(d) The Group issued unsecured private placed bond to Jeil Holdings as bondholder amounting KRW 157,950 million according to investment contract and revised rehabilitation plan. During 2015, the Group early repaid amounting KRW 117,950 million and paid interest expenses amounting KRW 3,820 million. As of December 31, 2015, remaining balance of bonds and accrued interest payable are KRW 40,000 million (US\$ 34,130 thousand) and KRW 66 million (US\$ 56 thousand), respectively.

Pan Ocean Co., Ltd.

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December 31, 2015 and 2014

38. Related Party Transactions, Continued

(e) Key management compensation for the years ended December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	2015	2014
Salaries and other short-term benefit	\$ 639	363
Other long-term benefit	91	21
	\$ 730	384

(f) Details of guarantees provided for related companies as of December 31, 2015 are summarized as follows:

<i>In thousands of US dollars</i>	Guaranteed amount	Lender
Guarantee recipient		
Employee stock ownership association	1,310	Heung Kook Mutual Savings Bank

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December 31, 2015 and 2014

39. Subsidiaries

(a) Details of consolidated subsidiaries as of December 31, 2015 and 2014 are as follows:

(i) As of and for the year ended December 31, 2015

Region	Name	Country of incorporation	Business activity	Equity interest
Asia	Pan Ocean Singapore Bulk Carrier Pte. Ltd.	Singapore	Shipping	100%
Asia	Pan Ocean(China) Co., Ltd.	China	Shipping	100%
Asia	Pan Ocean International Logistics Co., Ltd.	China	Logistics	100%
Asia	Pan Ocean - Sinotrans Logistics Co., Ltd.	China	Logistics	60%
Asia	Wide Sea Logistics Co., Ltd.	China	Logistics	100%
Asia	Pan Ocean Japan Corporation	Japan	Shipping	100%
Asia	Pan Logix Co., Ltd.	Japan	Forwarding	100%
Asia	Pan Ocean Container (Japan) Co., Ltd.	Japan	Forwarding	100%
Asia	POS SM Co., LTD.	Korea	Ship mgmt.	100%
Europe	STX Pan Ocean(U.K.) Co., Ltd.	U.K.	Shipping	100%
Europe	World D&F Investment (UK) Co. Limited	U.K.	Shipping	100%
North America	Pan Ocean(America) Inc.	U.S.A.	Shipping	34%
South America	Pan Ocean Brasil Apoio Maritimo Ltda.	Brazil	Shipping	100%
-	POS Maritime GX S.A., etc.(*)	Panama, etc.	-	-

(*)POS Maritime GX S.A. and numbers of SPEs, established for financing and investment purposes were consolidated in the Group's financial statements. The Group does not own any of the interest in POS Maritime GX S.A. and numbers of SPEs but, they are consolidated as the Group has the decision-making powers to obtain the majority of the benefits of the activities.

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Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

39. Subsidiaries, Continued

(a) Details of consolidated subsidiaries as of December 31, 2015 and 2014 are as follows, continued:

(ii) As of and for the year ended December 31, 2014

Region	Name	Country of incorporation	Business activity	Equity interest
Asia	Pan Ocean Singapore Bulk Carrier Pte. Ltd.	Singapore	Shipping	100%
Asia	STX Gulf Shipping DMCCO	U.A.E	Shipping	100%
Asia	Pan Ocean(China) Co., Ltd.	China	Shipping	100%
Asia	Pan Ocean International Logistics Co., Ltd	China	Logistics	100%
Asia	Pan Ocean - Sinotrans Logistics Co., Ltd.	China	Logistics	60%
Asia	Wide Sea Logistics Co., Ltd.	China	Logistics	51%
Asia	Qingdao STX-Keyun Logistics Co., Ltd.	China	Logistics	100%
Asia	Pan Ocean Japan Corporation	Japan	Shipping	100%
Asia	Pan Logix Co., Ltd.	Japan	Forwarding	100%
Asia	Pan Ocean Container (Japan) Co., Ltd.	Japan	Forwarding	100%
Europe	STX Pan Ocean(U.K.) Co., Ltd.	U.K.	Shipping	100%
Europe	World D&F Investment (UK) Co. Limited	U.K.	Shipping	100%
North America	Pan Ocean(America) Inc.	U.S.A.	Shipping	100%
South America	Pan Ocean Brasil Apoio Maritimo Ltda.	Brazil	Shipping	100%
-	POS Maritime GX S.A., etc.	Panama, etc.	-	-

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Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

39. Subsidiaries, Continued

(b) Financial information of subsidiaries

(i) As of and for the year ended December 31, 2015

In thousands of US dollars

Company	Assets	Liabilities	Revenue	Operating income (loss)	Net profit or loss
Pan Ocean Singapore Bulk Carrier Pte. Ltd. \$	35,878	47,977	33,590	2,241	7,474
Pan Ocean(China) Co., Ltd.	22,017	569	8,655	1,327	1,497
Pan Ocean International Logistics Co., Ltd.	6,746	5,837	3,026	(74)	(77)
Pan Ocean - Sinotrans Logistics Co., Ltd.	4,234	3,125	9,298	38	(49)
Wide Sea Logistics Co., Ltd.	4,148	1,380	7,704	232	139
Pan Ocean Japan Corporation	11,429	6,277	76,575	443	254
Pan Logix Co., Ltd.	1,376	549	9,637	91	24
Pan Ocean Container (Japan) Co., Ltd.	2,683	2,206	17,425	151	86
POS SM Co., LTD.	3,502	1,873	-	(80)	(80)
STX Pan Ocean(U.K.) Co., Ltd.	80	42,213	-	-	(1,157)
World D&F Investment (UK) Co. Limited	33	-	-	-	-
Pan Ocean(America) Inc.	43,702	12,651	13,516	(384)	(621)
Pan Ocean Brasil Apoio Maritimo Ltda.	1,831	55	608	88	227

Financial information and financial statements of major subsidiaries used to prepare consolidated financial statements are as of December 31, 2015.

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

39. Subsidiaries, Continued

(b) Financial information of subsidiaries, Continued

(ii) As of and for the year ended December 31, 2014

In thousands of US dollars

Company	Assets	Liabilities	Revenue	Operating income (loss)	Net profit or loss
Pan Ocean Singapore Bulk Carrier Pte. Ltd. \$	43,809	63,381	44,860	(961)	(1,591)
STX Gulf Shipping DMCCO	278	5	-	(5,262)	(5,262)
Pan Ocean(China) Co., Ltd.	21,895	753	357	260	261
Pan Ocean International Logistics Co., Ltd.	7,271	6,219	3,660	(340)	(334)
Pan Ocean - Sinotrans Logistics Co., Ltd.	4,276	3,056	10,431	18	243
Wide Sea Logistics Co., Ltd.	1,225	13	3,588	(159)	-
Qingdao STX-Keyun Logistics Co., Ltd.	4,003	1,219	7,138	49	37
Pan Ocean Japan Corporation	10,538	2,100	85,518	542	276
Pan Logix Co., Ltd.	1,468	658	10,413	219	217
Pan Ocean Container (Japan) Co., Ltd.	2,305	1,909	1,432	45	46
STX Pan Ocean(U.K.) Co., Ltd.	96	43,184	250	(455)	(3,747)
World D&F Investment (UK) Co. Limited	35	-	-	-	-
Pan Ocean(America) Inc.	4,984	102	-	(1,323)	(1,829)
Pan Ocean Brasil Apoio Maritimo Ltda.	2,371	4	63	(570)	(367)

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

39. Subsidiaries, Continued

(c) Information of non-controlling interests

(i) As of and for the year ended December 31, 2015

<i>In thousands of US dollars</i>	Pan Ocean - Sinotrans Logistics Co., Ltd.	Pan Ocean America Inc.	Total
Equity interest of non- controlling interests	40%	66%	
Non-controlling interests	\$ 1,102	20,444	21,546
Profit (loss) attributable to non- controlling interests	9	-	9

(ii) As of and for the year ended December 31, 2014

<i>In thousands of US dollars</i>	PanOcean - Sinotrans Logistics Co., Ltd.	Sea Win Shipping Co., Ltd.	Pan Ocean Japan Corporation(*)	Total
Equity interest of non-controlling interests	40%	49%	0%	
Non-controlling interests	\$ 489	687	-	1,175
Profit (loss) attributable to non- controlling interests	43	-	(105)	(62)

(*) For the year ended 2014, the Group acquire 100% of shares, loss attributable to non-controlling interest was allocated before acquisition.

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December 31, 2015 and 2014

40. Assets and Liabilities Held for Sale

(a) Details of assets and liabilities held for sale as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	2015	2014
Asset classified as held for sale		
Investment in subsidiaries(Disposal group)(*)	\$ -	64,996
Investment in associate	2,417	-
Vessels and PPE	-	-
	<u>\$ 2,417</u>	<u>64,696</u>
Liabilities classified as held for sale		
Borrowings	\$ -	-
Investment in subsidiaries(Disposal group)	-	61,683
	<u>\$ -</u>	<u>61,683</u>

(b) During 2014, the Group entered into sales contract of 100% share of Heung Kook Mutual Savings Bank, and this asset was measured at the lower of their carrying amount and fair value less cost to sell, amounts to US\$189 thousand. For the years ended 2015, all shares were sold out and the Group recognized gains on sales of investment of US\$ 1,871 thousand.

(c) As of December 2015, Mirae Asset Agri-Energy Fund #4 is under liquidation process. For the years ended 2015, 50% of total investment was refunded and the Group classified remaining portion of investment as held for sale.

Pan Ocean Co., Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

40. Assets and Liabilities Held for Sale, Continued

(c) Discontinued operating result for the years ended December 31, 2015 and 2014 are attributable entirely to the owners of the Group, are as follows:

<i>In thousands of US dollars, except loss per share data</i>	2015	2014
Operating Result:		
Revenue	\$ -	3,837
Cost of sales	-	(3,260)
Gross profit	-	577
Administrative expense	-	(3,858)
Operating loss	-	(3,281)
Other loss	-	(166)
Loss before income tax	-	(3,447)
Income tax benefit	-	(493)
Losses from disposal of discontinued operation	(1,254)	-
Loss from discontinued operation	\$ (1,254)	(2,954)
Earnings per share of discontinued operation		
Basic and diluted earnings per share	\$ -	(0.03)

(d) Cash flow from discontinued operation for the years ended December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	2015	2014
Net cash used in operating activities	\$ -	(23,568)
Net cash from investing activities	-	6,083
Net cash from financing activities	1,997	-
	\$ 1,997	(17,485)

Pan Ocean Co., Ltd.

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December 31, 2015 and 2014

41. Termination of the rehabilitation procedure

The Group filed an application for commencement of the rehabilitation proceeding to Seoul Central District Court in accordance with 'Debtor Rehabilitation and Bankruptcy Act', and the Court ruled on commencement of the rehabilitation on June 17, 2013. The resolution of the rehabilitation plan is approved by the Seoul Central District Court on November 11, 2013.

The Group entered into investment contract with Harim Group and JKL Consortium on February 12, 2015 by undertaking fund amounts of KRW 1,007,950 million (issuance of new capital stock amounting KRW 850,000 million and private unsecured bond amounting KRW 157,950 million). The Group submitted revised rehabilitation plan to change of shareholders' right and to early repay for remaining confirmed rehabilitation liabilities with partially exemption based on invested fund net of already redeemed rehabilitation liabilities and M&A advisors' fee.

The revised rehabilitation plan was approved by the Court on June 12, 2015, and the Group made the early repayment for rehabilitation liabilities amounting 83% of confirmed liabilities, and Seoul Central District Court approved the termination of the rehabilitation procedure on 30 July, 2015. The Group also holds the fund amounting KRW 41,257 million for unconfirmed rehabilitation claims as escrow accounts.