

PAN OCEAN CO., LTD.

Separate 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 separate financial statements of Pan Ocean Co., Ltd. (the "Company"), which comprise the separate statements of financial position as at December 31, 2015 and 2014, the separate 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 Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate 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 separate 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 separate 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 separate financial statements present fairly, in all material respects, the financial position of the Company 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 40, the Company 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 Company 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 Company 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 40, under revised rehabilitation plan, the Company 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 Company'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\$ 484,776 thousand, respectively, and other reserves decreased by US\$ 31,034 thousand.

(d) Uncertainty of estimates and existence of significant contingency

As described in note 29 and 35, the Company 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 Company'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 separate 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.

Separate 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	\$ 190,619	330,866
Trade receivables	5,12,13,15	81,826	71,584
Other receivables	5,12,13,16	18,905	22,853
Derivative financial assets	5,11,12,13	32	172,606
Other financial assets	5,12,13,14	1,070	2,398
Inventories	19	34,162	53,713
Other assets	18	128,414	124,197
Assets held for sale	39	2,649	190
Total current assets		457,677	778,407
Trade receivables	5,12,13,15	71	121
Other receivables	5,12,13,16	10,571	16,852
Other financial assets	5,12,13,14	16,050	19,545
Investments in subsidiaries	10	48,983	41,287
Investments in associates and joint ventures	10	1,498	6,756
Vessels, property and equipment	6,8	3,065,422	3,160,081
Intangible assets	9	4,059	4,611
Other assets	18	3,344	11,125
Total non-current assets		3,149,998	3,260,378
Total assets		\$ 3,607,675	4,038,785

See accompanying notes to the separate financial statements.

Pan Ocean Co., Ltd.

Separate 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	\$ 56,941	76,835
Borrowings	5,12,13,25	225,217	224,712
Derivative financial liabilities	5,11,12,13	1,714	177,673
Other payables	5,12,13,23	40,946	73,474
Provisions	29	1,837	1,576
Other liabilities	24	64,012	87,994
Total current liabilities		390,667	642,264
Borrowings	5,12,13,25	1,053,801	1,358,245
Rehabilitation liabilities	5,12,13,26	-	527,653
Derivative financial liabilities	5,11,12,13	213	384
Provisions	29	107,071	228,401
Retirement benefit obligations	28	9,526	11,927
Other payables	5,12,13,23	-	798
Total non-current liabilities		1,170,611	2,127,408
Total liabilities		\$ 1,561,278	2,769,672
Equity			
Share capital	20	471,717	192,334
Share premium	20	626,615	141,839
Other reserves	21	1,141,252	1,171,353
Accumulated deficit	22	(193,187)	(236,413)
Total equity		2,046,397	1,269,113
Total equity and liabilities		\$ 3,607,675	4,038,785

See accompanying notes to the separate financial statements.

Pan Ocean Co., Ltd.

Separate 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	\$ 1,553,377	1,477,718
Cost of sales	30	(1,319,125)	(1,239,086)
Gross profit		234,252	238,632
Selling and Administrative expenses		(37,615)	(35,909)
Operating profit	7	196,637	202,723
Finance income	32	8,835	4,825
Finance costs	32	(67,509)	(105,389)
Net foreign exchange gain (loss) on financial instruments net	33	(1,822)	(4,981)
Other non-operating income(loss), net	31	(92,337)	673,977
Profit before income tax		43,804	771,155
Income tax benefit(expense)	27	-	-
Profit for the year		43,804	771,155
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		762	441
Net change in unrealized fair value of derivative financial assets and liabilities, net of tax		171	294
		<u>933</u>	<u>735</u>
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability		(578)	(984)
		<u></u>	<u></u>
Total other comprehensive income (loss) for the year, net of tax		355	(249)
		<u></u>	<u></u>
Total comprehensive income for the year		\$ 44,159	770,906
		<u></u>	<u></u>
Earnings per share	34		
- Basic		\$ 0.11	6.98
- Diluted		\$ 0.11	6.98
		<u></u>	<u></u>

See accompanying notes to the separate financial statements.

Pan Ocean Co., Ltd.

Separate Statements of Changes in Equity

		Share capital	Share premium	Treasury shares	Other reserves	Retained earnings (accumulated deficit)	Total equity
<i>In thousands of US dollars</i>							
Balance as of January 1, 2014	\$	105,779	-	-	1,075,281	(1,006,585)	174,475
Total comprehensive income for the year							
Profit for the year		-	-	-	-	771,156	771,156
Other comprehensive income (loss)							
Net change in unrealized fair value of available-for-sale financial assets, net of tax		-	-	-	441	-	441
Net change in unrealized fair value of derivative assets and liabilities, net of tax		-	-	-	294	-	294
Remeasurements of defined benefit liability		-	-	-	-	(984)	(984)
Total other comprehensive income		-	-	-	735	(984)	(249)
Total comprehensive income for the year		-	-	-	735	770,172	770,907
Transactions with owners of the Company, recorded directly in equity							
Contributions by and distributions to owners of the Company							
Debt-equity swap		86,555	141,839	-	95,337	-	323,731
Total contributions by and distributions to owners		86,555	141,839	-	95,337	-	323,731
Balance as of December 31, 2014	\$	192,334	141,839	-	1,171,353	(236,413)	1,269,113

See accompanying notes to the separate financial statements.

Pan Ocean Co., Ltd.

Separate Statements of Changes in Equity

		Share capital	Share premium	Treasury shares	Other reserves	Retained earnings (accumulated deficit)	Total equity
<i>In thousands of US dollars</i>							
Balance as of January 1, 2015	\$	192,334	141,839	-	1,171,353	(236,413)	1,269,113
Total comprehensive income for the year							
Profit for the year		-	-	-	-	43,804	43,804
Other comprehensive income (loss)							
Net change in unrealized fair value of available-for-sale financial assets, net of tax		-	-	-	762	-	762
Net change in unrealized fair value of derivative assets and liabilities, net of tax		-	-	-	171	-	171
Remeasurements of defined benefit liability		-	-	-	-	(578)	(578)
Total other comprehensive income		-	-	-	933	(578)	355
Total comprehensive income for the year		-	-	-	933	43,226	44,159
Transactions with owners of the Company, recorded directly in equity							
Contributions by and distributions to owners of the Company							
Capital increase by issuing new stock		306,334	457,572	-	-	-	763,906
Capital reduction without refund		(41,393)	-	-	41,393	-	-
Debt-equity swap		14,442	27,204	-	(72,427)	-	(30,781)
Total contributions by and distributions to owners		279,383	484,776	-	(31,034)	-	733,125
Balance as of December 31, 2015	\$	471,717	626,615	-	1,141,252	(193,187)	2,046,397

See accompanying notes to the separate financial statements.

Pan Ocean Co., Ltd.

Separate 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	\$ 326,047	456,960
Interest paid		(56,881)	(70,573)
Income tax paid		(928)	291
Net cash provided by operating activities		<u>268,238</u>	<u>386,678</u>
Cash flows from investing activities			
Acquisition of vessels, property and equipment		(47,664)	(39,040)
Acquisition of intangible assets		-	(693)
Proceeds from sale of vessels, property and equipment		20	298,239
Proceeds from sale of intangible assets		408	716
Acquisition of financial assets		(4,194)	(3,014)
Proceeds from sale of financial assets		9,172	9,359
Acquisition of subsidiaries		(7,696)	(30)
Acquisition of investments in associates and joint ventures		(40)	(43)
Proceeds from sale of investments in associates and joint ventures		4,635	9,051
Dividends received		4,629	1,466
Loans collected		218	3,310
Interest received		4,260	2,964
Net cash provided by (used in) investing activities		<u>(36,252)</u>	<u>282,285</u>
Cash flows from financing activities			
Proceeds from borrowings		176,310	28,022
Repayments of borrowings		(477,040)	(366,197)
Repayment of rehabilitation liabilities		(787,009)	(123,459)
Repayment of other liabilities		-	(229)
Proceeds from capital increase		715,644	-
Net cash used in financing activities		<u>(372,095)</u>	<u>(461,863)</u>
Net increase(decrease) in cash and cash equivalents		(140,109)	207,100
Cash and cash equivalents at beginning of the year		330,866	123,643
Effect of exchange rate fluctuations on cash held		(138)	123
Cash and cash equivalents at end of the year		<u>\$ 190,619</u>	<u>330,866</u>

See accompanying notes to the separate financial statements.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

1. General information

Description of the company

Pan Ocean Co., Ltd. ("the Company") operates 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 Company in preparation of its separate financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements by the Company, unless otherwise indicated.

The separate 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.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

2. Basis of Preparation, Continued

These financial statements are prepared in accordance with K-IFRS No.1027, 'Separate Financial Statements' presented by a parent, an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost.

The separate 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.

(a) Basis of measurement

The separate financial statements have been prepared on the historical cost basis, except for the following material items in the separate 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

(b) Functional and presentation currency

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

(c) Use of estimates and judgments

The preparation of the separate 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

2. Basis of Preparation, Continued

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.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the separate 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 Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

2. Basis of Preparation, Continued

When measuring the fair value of an asset or a liability, the Company 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.

- 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 Company 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

Except as described below, the accounting policies applied by the Company in these financial statements are the same as those applied by the Company 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.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its 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.

4.1 Subsidiaries, associates and joint venture in the separate financial statements

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027, 'Separate Financial Statements'. The Company applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS No. 1027. Dividends from a subsidiaries or associates are recognized in profit or loss when the right to receive the dividend is established.

4.2 Operating segments

An operating segment is a component of the Company 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 Company's other components. All operating segments' operating results are reviewed regularly by the Company'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 Company'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 Company'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 Company 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.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

4.3 Foreign currency

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company 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) Translation of the financial statements

If the presentation currency of the Company is different from the functional currency, the financial statements are translated into the presentation currency using the following methods:

The assets and liabilities of the Company, 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.

4.4 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

4.4 Vessels, property and equipment, continued

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 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 Company 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 Company'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.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

4.5 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.

4.6 Borrowing costs

The Company 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

4.6 Borrowing costs, continued

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company 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 Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company 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 Company 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 Company capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

4.7 Impairment of non-financial assets

The carrying amounts of the Company'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. 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.

The Company estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Company 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued, Continued

4.7 Impairment of non-financial assets, continued

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.

4.8 Non-derivative financial assets

The Company 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 Company recognizes financial assets in the separate statement of financial position when the Company 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued, Continued

4.8 Non-derivative financial assets, continued

(b) Held-to-maturity financial assets

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company 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.

(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 Company 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued, Continued

4.8 Non-derivative financial assets, continued

If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company 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 Company 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.

4.9 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 Company can recognize impairment losses directly or establish a provision to cover impairment losses.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued, Continued

4.9 Impairment of financial assets, continued

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.

(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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

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4. Significant Accounting Policies, Continued

4.10 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 Company holds forward freight agreements, interest swap, forward exchange contracts, 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 Company'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.

Cash flow hedge accounting is applied for the interest rate swaps since they meet the requirements specified in K-IFRS No. 1039. The Company 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

4.10 Derivative financial instruments, including hedge accounting, continued

(b) Cash flow hedge, continued

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.

4.11 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 Company'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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

4.12 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.

4.13 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 Company 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.

4.14 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

4.14 Share capital, continued

When the Company 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 Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

4.15 Non-derivative financial liabilities

The Company 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 Company recognizes financial liabilities in the separate statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

(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 Company 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).

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

4.16 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.

(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 Company 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 Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

4.16 Income taxes, continued

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 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 Company expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

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.

4.17 Employee benefits

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

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

4.17 Employee benefits, continued

(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 Company during an accounting period, the Company 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 Company during a period, the Company 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 Company 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.

(c) Retirement benefits: defined benefit plans

The Company'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 Company, 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

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4. Significant Accounting Policies, Continued

4.17 Employee benefits, continued

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 Company 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 Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

4.18 Provisions

Provisions are recognized when the Company 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

4.18 Provisions, continued

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 Company 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 Company 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.

4.19 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 Company.

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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

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4. Significant Accounting Policies, Continued

4.20 Leases

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company 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 Company 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 Company reviews to determine whether the leased asset may be impaired.

(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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

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4. Significant Accounting Policies, Continued

4.20 Leases, continued

(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 Company 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 Company concludes for a financial lease that it is impracticable to separate the payments reliably, the Company 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

4.21 Earnings per share

The Company 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 Company 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

4.22 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 Company 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).

4.23 Debt-equity swap and adjustment for receivables and payables

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

Pan Ocean Co., Ltd.

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4. Significant Accounting Policies, Continued

4.24 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 Company for annual periods beginning after January 1, 2015, and the Company has not early adopted them. Management believes the impact of the amendments on the Company's separate 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.

5. Financial Risk Management

5.1 Financial risk factors

The Company 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 Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(a) Risk management activities

The Company's risk management policies are established to identify and analyze the risks faced by the Company, 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 Company's activities. The Company, 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 Company Risk Management Team oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

(b) Market risk

(i) Currency risk

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

- transaction risks which arise from day-to-day requirements to pay and/or receive currencies other than U.S. dollars 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 Company's sales and operating expenses were denominated in U.S. dollars. The Company's vessels are principally chartered in or purchased in U.S. dollars, including those vessels acquired under the terms of lease financing agreements or other similar agreements. Moreover, since the market value of the vessels is denominated in U.S. dollars, the dollar exposure related to the financing of vessels is considered an effective hedge.

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5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(b) Market risk, continued

The Company 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 Company 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>	<u>2015</u>	<u>2014</u>
Gains on foreign currency translations, net	\$ 1,071	8,581
Gains on foreign currency transactions, net	7,273	16,089

The Company is primarily exposed to exchange risk in relation to currencies other than USD. Exposures to exchange risk in relation to currencies other than USD 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	\$ 59,757	118,528
Trade receivables	8,520	6,086
Other receivables	213	1,460
Trade payables	(10,528)	(10,323)
Other non-trade payables	(7,076)	(5,892)
Finance lease liabilities	(19,625)	(28,296)
Rehabilitation liabilities	-	(272,156)
Bond	(34,130)	-
Other	30,954	1,170
Total exposure, net	<u>\$ 28,087</u>	<u>(189,423)</u>

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December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(b) Market risk, continued

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>		2015	2014
Exchange rate	10% increase	(2,522)	18,707
	10% decrease	3,122	(22,836)

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

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

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Notes to the Separate Financial Statements

December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(b) Market risk, continued

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

The Company will then attempt to match FFAs and bunker swap contracts that the Company has entered into with a third party, which is usually another shipping company, a shipper or a financial institution, with such charter-in agreement in terms of the duration and index in order to hedge against any market fluctuations in freight spot contract rates and fuel oil purchase prices, and “lock in” a profit margin.

In order to reduce counterparty risk, all the relevant agreements require periodic cash settlement, which is usually every month, depending on the movement of the relevant index. The Company limits the counterparties for such transactions to long-time market participants. Most of forward freight agreements have terms of between three to twelve months.

(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 (FFAs) 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>
BDI index	10% increase	\$	11	-
	10% decrease		(11)	-

(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:

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Notes to the Separate Financial Statements

December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(b) Market risk, continued

<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 Company 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 Company 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 Company 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	\$ 143,599	245,629
Floating interest rate	1,135,419	1,337,327
	<u>\$ 1,279,018</u>	<u>1,582,957</u>

The Company 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 Company's profit or loss, the Company 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 Company accounted for these contracts using cash flow 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(b) Market risk, continued

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>		<u>2015</u>	<u>2014</u>
Interest rate	0.5% increase	\$ (5,644)	(6,687)
	0.5% decrease	5,644	6,687

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers 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>	<u>2015</u>	<u>2014</u>
Non-current :		
Trade receivables	\$ 71	121
Other receivables	10,571	16,852
Other financial assets	11,949	15,024
	<u>22,591</u>	<u>31,997</u>
Current :		
Cash and cash equivalent	189,455	329,436
Trade receivables	81,826	71,584
Other receivables	18,905	22,853
Derivative financial assets	32	172,606
Other financial assets	1,070	2,398
	<u>291,288</u>	<u>598,877</u>
	\$ <u>313,879</u>	<u>630,874</u>

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(c) Credit risk, continued

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

(i) Trade receivables and other receivables

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

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

The Company 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 Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables and other receivables.

The Company 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 Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in the Company 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.

There is no concentration risk, due to the Company 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 Company's trade receivables.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(c) Credit risk, continued

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

In thousands of US dollars

	2015		2014	
	Gross	Impairment	Gross	Impairment
Trade Receivables:				
Not past due	\$ 72,858	(4,087)	71,554	(16,265)
Past due up to 3 month	13,767	(6,661)	12,299	(7,775)
Past due 3 to 6 month	5,977	(4,839)	4,376	(3,220)
More than 6 month	105,508	(100,626)	111,139	(100,403)
	<u>\$ 198,110</u>	<u>(116,213)</u>	<u>199,368</u>	<u>(127,663)</u>
Other receivables:				
Not past due	\$ 72,847	(19,766)	85,396	(15,711)
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	21,579	(21,156)	24,874	(23,772)
	<u>\$ 96,274</u>	<u>(40,978)</u>	<u>112,547</u>	<u>(39,913)</u>

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

In thousands of US dollars

	2015	2014
Trade receivables:		
Beginning	\$ 127,663	135,579
Allowance (reversal) for doubtful accounts	(3,485)	(4,561)
Write-offs etc.	(7,965)	(3,355)
Ending	<u>\$ 116,213</u>	<u>127,663</u>
Other receivables:		
Beginning	\$ 39,913	42,129
Allowance (reversal) for doubtful accounts	4,221	(2,216)
Write-offs etc.	(3,156)	-
Ending	<u>\$ 40,978</u>	<u>39,913</u>

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

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 31 December, 2015 is as follows:

In thousands of US dollars

		Less than 3month	Past due 3month to 6month	Past due 6month to 1year	Past due 1year to 2year	More than 2year	Total
Trade receivables	\$	7,106	1,138	1,706	1,398	1,777	13,125
Other receivables		1,583	209	51	372	-	2,215
	\$	8,689	1,347	1,757	1,771	1,777	15,341

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

In thousands of US dollars

		Less than 3month	Past due 3month to 6month	Past due 6month to 1year	Past due 1year to 2year	More than 2year	Total
Trade receivables	\$	4,523	1,156	1,800	7,891	1,046	16,417
Other receivables		1,273	576	341	734	27	2,951
	\$	5,796	1,732	2,142	8,625	1,073	19,368

(ii) Investments

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

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(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.

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

(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)	\$ 264,805	258,386	422,189	480,401	1,425,781
Derivative financial liabilities	1,714	-	213	-	1,927
Trade payables	56,941	-	-	-	56,941
Other payables(*2)	40,946	-	-	-	40,946
	<u>\$ 364,406</u>	<u>258,386</u>	<u>422,402</u>	<u>480,402</u>	<u>1,525,595</u>

(*1) Borrowings consist of short-term borrowings, long-term borrowings, bonds and payables for vessels. Borrowings for vessels included US\$ 146,763 thousand and US\$ 223,993 thousand of finance costs as of December 31, 2015 and 2014, respectively.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.1 Financial risk factors, continued

(d) Liquidity risk, continued

(*2) As described in note 29, the Company 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	\$ 274,107	278,128	469,382	785,333	1,806,950
Derivative financial liabilities	177,673	-	-	384	178,057
Trade payables	76,835	-	-	-	76,835
Other payables	73,474	798	-	-	74,272
Rehabilitation Liabilities(*1)	-	28,480	151,294	747,107	926,881
	<u>\$ 602,089</u>	<u>307,406</u>	<u>620,676</u>	<u>1,532,824</u>	<u>3,062,995</u>

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

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

5. Financial Risk Management, Continued

5.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company's adjusted net debt to equity ratio as of December 31, 2015 and 2014 are as follows:

<i>In thousands of US dollars</i>	2015	2014
Total liabilities	\$ 1,561,278	2,769,672
Less: cash and cash equivalents	(190,619)	(330,866)
Adjusted net debt	1,370,659	2,438,806
Total equity	2,046,397	1,269,113
Adjusted net debt-equity ratio	67%	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.

Depreciation of vessels

The cost of the Company'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 Company'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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

6. Critical Accounting Estimates and Judgments, Continued

6.1 Critical accounting estimates and assumptions, continued

If the actual final outcome (on the accounting estimates) were to differ by 10% from management's estimates, the Company 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	\$ 11,643	11,823
	10% decrease	(13,003)	(14,370)
Expected residual value	10% increase	3,746	2,800
	10% decrease	(2,702)	(2,809)

6.2 Impairment loss of vessels and other properties

The Company tests for impairment of vessels and other properties at the end of each reporting period. The Company recognized impairment losses on vessels and other properties, plants and equipments 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:

	<u>Method of estimation</u>
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).

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

6. Critical Accounting Estimates and Judgments, Continued

6.2 Impairment loss of vessels and other properties, continued

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	\$	70,040	156,141
	10% decrease		(76,001)	(140,666)
Discount rate	10% increase		(44,256)	(68,390)
	10% decrease		45,885	75,243

6.3 Critical judgments in applying the entity's accounting policies

Revenue recognition

The Company 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 Company 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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

7. Operating Segments

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

The following summary describes the operations in each of the Company'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:

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

7. Operating Segments, Continued

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

<i>In thousands of US dollars</i>	BLKR	CNTR	TNKR	Other (*1)	Reportable segment total	Non- shipping (*2)	Unalloca- ted	- The Company
Sales	\$ 1,312,790	78,058	151,851	10,678	1,553,377	-	-	1,553,377
Operating profit	153,158	6,668	38,671	(1,774)	196,723	(86)	-	196,637
Assets	2,937,934	20,171	360,777	9,271	3,328,153	6,837	272,685	3,607,675
Liabilities	1,237,831	41,826	137,769	4,718	1,422,144	-	139,134	1,561,278
Capital expenditures	43,226	617	3,750	-	47,593	71	-	47,664
Depreciation	119,951	4,384	16,744	-	141,079	2	-	141,081
Amortization	121	8	15	-	144	-	-	144
Allowance for doubtful accounts	618	40	76	-	734	-	-	734
Losses on impairment of vessels, property and equipment	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 trade business and etc.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

7. Operating Segments, Continued

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

<i>In thousands of US dollars</i>	BLKR	CNTR	TNKR	Other Shipping	Reportable segment total	Non- shipping (*)	Unalloca- ted	- The Company
Sales	\$ 1,247,217	70,732	126,748	30,229	1,474,926	2,792	-	1,477,718
Operating profit	177,582	9,563	11,841	1,755	200,741	1,981	-	202,723
Assets	3,233,811	15,666	332,895	37,265	3,619,637	7,084	412,064	4,038,785
Liabilities	1,951,032	62,491	216,149	17,806	2,247,478	889	521,30	2,769,672
Capital expenditures	35,394	4,886	264	-	40,544	-	-	40,544
Depreciation	117,923	4,609	23,554	-	146,086	562	-	146,648
Amortization	344	19	35	-	398	-	-	398
Allowance for doubtful accounts	(4,531)	(253)	(459)	-	(5,243)	-	-	(5,243)
Losses on impairment of vessels, property and equipment	(46,874)	1,322	112,445	-	66,893	4,612	-	71,505

(*) Non-shipping segment includes miscellaneous services such as trade business and service of training institute, leasing service, etc.

Segment assets consist primarily of vessels, inventories and trade receivables. They exclude items such as cash and cash equivalents, 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 Company'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.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

7. Operating Segments, Continued

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	\$	684,274	589,701
Oceania		266,562	275,245
Europe		16,515	10,557
North America		222,270	197,676
South America		345,504	389,908
Africa		18,252	14,631
Total sales	\$	<u>1,553,377</u>	<u>1,477,718</u>

If the geographical segments of sales are allocated based on the country in which the goods are unloaded, about 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.

(c) Customer segments

The Company'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

<i>In thousands of US dollars</i>		2015	2014
Revenue from voyage operation	\$	1,466,628	1,381,698
Revenue from time charter		86,749	93,228
Other		-	2,792
Total	\$	<u>1,553,377</u>	<u>1,477,718</u>

Pan Ocean Co., Ltd.

Notes to the Separate 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>	Vessels	Land	Buildings	Vehicles	Tools, furniture & fixture	Construction -in-progress	Total
Beginning balance	\$ 3,110,661	6	6,991	24	9,675	32,724	3,160,081
Additions	21,843	-	-	-	71	25,750	47,664
Disposal	-	-	-	-	(15)	-	(15)
Depreciation	(136,294)	-	(160)	(6)	(4,621)	-	(141,081)
Losses on impairment of vessels, property and equipment	(1,227)	-	-	-	-	-	(1,227)
Ending balance	<u>\$ 2,994,983</u>	<u>6</u>	<u>6,831</u>	<u>18</u>	<u>5,110</u>	<u>58,474</u>	<u>3,065,422</u>

(ii) For the year ended December 31, 2014

<i>In thousands of US dollars</i>	Vessels	Land	Buildings	Vehicles	Tools, furniture & fixture	Construction -in-progress	Total
Beginning balance	\$ 3,306,205	14,512	36,507	4	17,729	330,822	3,705,779
Additions	12,216	-	-	29	5,391	22,908	40,544
Disposal	-	(14,506)	(24,117)	(1)	(8,458)	(321,006)	(368,088)
Depreciation	(140,868)	-	(787)	(8)	(4,987)	-	(146,649)
Losses on impairment of vessels, property and equipment	(66,892)	-	(4,612)	-	-	-	(71,504)
Ending balance	<u>\$ 3,110,661</u>	<u>6</u>	<u>6,991</u>	<u>24</u>	<u>9,675</u>	<u>32,724</u>	<u>3,160,081</u>

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

8. Vessels, Property and Equipment, Continued

For the year ended December 31, 2015, depreciation expense of US\$ 140,116 thousand (2014: US\$ 146,648 thousand) included in cost of sales, and US\$ 966 thousand (2014: US\$ 1,254 thousand) in selling and administrative expenses.

(b) Impairment loss

The Company performed impairment test for each CGU (cash generating unit) of 77 owned vessels and 4 vessels in constructing. The Company'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 Company 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) considering the Company's target capital structure and specific risk factor.

The details of impairment losses recognized by the Company 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 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	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 Separate 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 Company 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	\$ 3,830,537	(704,675)	(293,550)	3,879,926	(573,976)	(288,424)

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

8. Vessels, Property and Equipment, Continued

(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:

	2015			2014		
	Cost	Accumulated depreciation	Accumulated Impairment losses	Cost	Accumulated depreciation	Accumulated Impairment losses
<i>In thousands of US dollars</i>						
Vessels	\$ 4,097,140	(804,846)	(297,313)	4,075,297	(668,551)	(296,085)
Land	6	-	-	6	-	-
Buildings	13,240	(1,797)	(4,612)	13,240	(1,637)	(4,612)
Vehicles	56	(37)	-	79	(55)	-
Tools, furniture & fixture	36,409	(31,299)	-	37,427	(27,752)	-
Construction-in-progress	58,474	-	-	32,725	-	-
	<u>\$ 4,205,325</u>	<u>(837,979)</u>	<u>(301,925)</u>	<u>4,158,774</u>	<u>(697,996)</u>	<u>(300,697)</u>

(e) Amount of borrowing costs capitalized of for the years ended December 31, 2015 and 2014 were US\$ 2,266 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:

	2015	2014
<i>In thousands of US dollars</i>		
Computer software	\$ 490	634
Club membership	3,569	3,977
	<u>\$ 4,059</u>	<u>4,611</u>

Pan Ocean Co., Ltd.

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December 31, 2015 and 2014

9. Intangible Assets, Continued

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

<i>In thousands of US dollars</i>	Computer software	Club membership	Total
For the year ended December 31, 2015			
Balance as of January 1, 2015	\$ 634	3,977	4,611
Additions	-	-	-
Disposals	-	(408)	(408)
Amortization	(144)	-	(144)
Balance as of December 31, 2015	<u>\$ 490</u>	<u>3,569</u>	<u>4,059</u>

As of December 31, 2015

Cost	\$ 16,920	7,924	24,844
Accumulated amortization	(16,430)	-	(16,430)
Accumulated impairment loss	-	(4,355)	(4,355)
Net book amount	<u>\$ 490</u>	<u>3,569</u>	<u>4,059</u>

<i>In thousands of US dollars</i>	Computer software	Club membership	Total
For the year ended December 31, 2014			
Balance as of January 1, 2014	\$ 340	4,733	5,073
Additions	693	-	693
Disposals	-	(756)	(756)
Amortization	(398)	-	(398)
Balance as of December 31, 2014	<u>\$ 634</u>	<u>3,977</u>	<u>4,611</u>

As of December 31, 2014

Cost	\$ 16,920	8,332	25,251
Accumulated amortization	(16,286)	-	(16,286)
Accumulated impairment loss	-	(4,355)	(4,355)
Net book amount	<u>\$ 634</u>	<u>3,977</u>	<u>4,611</u>

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December 31, 2015 and 2014

10. Investments in Subsidiaries, Associates and Joint Ventures

Investments in subsidiaries, associates and joint ventures accounted at cost as of December 31, 2015 and 2014 are as follows:

(i) As of December 31, 2015

*In thousands of US
dollars*

	Name	National	Interest held	Book value
Subsidiaries(*1)	Pan Ocean (America) Inc.(*1).	USA	34%	12,700
	Pan Ocean Singapore Bulk Carrier Pte. Ltd.	Singapore	100%	8,253
	Pan Ocean(China) Co., Ltd.	China	100%	15,000
	STX Pan Ocean(U.K.) Co., Ltd.	U.K.	100%	-
	Pan Ocean Japan Corporation	Japan	100%	6,954
	Pan Ocean Brasil Apoio Maritimo Ltda.	Brazil	100%	4,380
	POS SM Co., Ltd.	Korea	100%	1,696
Associates(*2)	Korea LNG Trading Co., Ltd.(*2)	Korea	18%	461
	Mirae Asset Agri-Energy Fund #4(*3)	Korea	25%	-
	Busan Cross Dock, Ltd.	Korea	20%	791
	YEGRINA Co., Ltd	Korea	44%	246
Joint venture	Sea Best Maritime, Ltd.	China	50%	-
				<u>50,481</u>

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

(*2) Although the Company's percentage of ownership is below 20%, the Company classified Korea LNG Trading Co., Ltd. as an associate because the Company is able to exercise significant influence over the investees since the Company can participate in making decision.

(*3) As Mirae Asset Agri-Energy Fund #4 is under liquidating, the Company classified its share as held for sale.

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10. Investments in Subsidiaries, Associates and Joint Ventures, Continued

(ii) As of December 31, 2014

*In thousands of US
dollars*

	Name	National	Interest held	Book value
Subsidiaries(*1)	Pan Ocean(America) Inc.	USA	100%	6,700
	Pan Ocean Singapore Bulk Carrier Pte. Ltd.	Singapore	100%	8,253
	Pan Ocean(China) Co., Ltd.	China	100%	15,000
	STX Pan Ocean(U.K.) Co., Ltd.	U.K.	100%	-
	Pan Ocean Japan Corporation	Japan	100%	6,954
	Pan Ocean Brasil Apoio Maritimo Ltda.	Brazil	100%	4,380
	STX Gulf Shipping DMCCO	U.A.E.	99%	-
Associates(*2)	Korea LNG Trading Co., Ltd.	Korea	18%	461
	Mirae Asset Agri-Energy Fund #4	Korea	25%	5,298
	Busan Cross Dock, Ltd.	Korea	20%	791
	YEGRINA Co., Ltd	Korea	46%	206
Joint venture	Sea Best Maritime, Ltd.	China	50%	-
				<u>48,043</u>

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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
Forward freight agreement	\$ -	28	-	-
Interest rate swap	-	213	-	384
Commodity swap/option	32	1,686	172,606	177,673
	<u>\$ 32</u>	<u>1,927</u>	<u>172,606</u>	<u>178,057</u>
Non-current	\$ -	213	-	384
Current	32	1,714	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
Commodity swap/option	(7,319)	(1,654)	5,851	(7,492)
	<u>\$ (7,232)</u>	<u>(1,511)</u>	<u>6,802</u>	<u>(7,198)</u>
Other income(losses), net	\$ (7,232)	(1,682)	6,802	(7,492)
Other comprehensive income	-	171	-	294

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

11. Derivative Financial Assets and Liabilities, Continued

(i) Interest rate swap

The Company 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 Company 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, the Company recorded a gain of US\$ 171 thousand and US \$294 thousand arising from the contract classified as equity as of December 31, 2015 and 2014, respectively.

(ii) Commodity swap/option

The Company is exposed to changes in fuel price for vessels from fluctuations in international oil price. The Company entered into commodity swap contracts with Woori Bank and other financial institutes to hedge the risk of changes in fuel price. Although, currency forward 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. Forward exchanges 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 Company 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.

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Notes to the Separate Financial Statements

December 31, 2015 and 2014

12. Classification of Financial Instruments by Categories

The Company 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 Company did not reclassify any financial assets out of the fair-value-through-profit-or-loss category, nor did the Company reclassify any financial assets out of the available-for-sale category.

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	Loans and receivables	Available for sale financial assets	Total
Non-current :				
Trade receivables	\$ -	71	-	71
Other receivables	-	10,571	-	10,571
Other financial assets	-	3	16,047	16,050
	-	10,645	16,047	26,692
Current :				
Cash and cash equivalent	-	190,619	-	190,619
Trade receivables	-	81,826	-	81,826
Other receivables	-	18,905	-	18,905
Derivative financial assets	32	-	-	32
Other financial assets	-	1,070	-	1,070
	32	292,420	-	292,452
\$	32	303,065	16,047	319,144

Pan Ocean Co., Ltd.

Notes to the Separate 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	Loans and receivables	Available for sale financial assets	Total
Non-current :				
Trade receivables	\$ -	121	-	121
Other receivables	-	16,852	-	16,852
Other financial assets	-	49	19,496	19,545
	-	17,022	19,496	36,518
Current :				
Cash and cash equivalent	-	330,866	-	330,866
Trade receivables	-	71,584	-	71,584
Other receivables	-	22,853	-	22,853
Derivative financial assets	172,606	-	-	172,606
Other financial assets	-	2,398	-	2,398
	172,606	427,701	-	600,307
\$	172,606	444,723	19,496	636,825

Pan Ocean Co., Ltd.

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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	\$ -	1,053,801	1,053,801
Derivative financial liabilities	213	-	213
	<u>213</u>	<u>1,053,801</u>	<u>1,054,014</u>
Current :			
Borrowings	-	225,217	225,217
Derivative financial liabilities	1,714	-	1,714
Trade payables	-	56,941	56,941
Other payables	-	40,946	40,946
	<u>1,714</u>	<u>323,104</u>	<u>324,818</u>
	<u>\$ 1,927</u>	<u>1,376,905</u>	<u>1,378,832</u>

Pan Ocean Co., Ltd.

Notes to the Separate 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	\$ -	1,358,245	1,358,245
Derivative financial liabilities	384	-	384
Other payables	-	798	798
Rehabilitation liabilities	-	527,653	527,653
	384	1,886,696	1,887,080
Current :			
Borrowings	-	224,712	224,712
Derivative financial liabilities	177,673	-	177,673
Trade payables	-	76,835	76,835
Other payables	-	73,474	73,474
Rehabilitation liabilities	-	-	-
	177,673	375,021	552,694
	\$ 178,057	2,261,717	2,439,774

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

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 Company 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.

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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	10,571	10,571	16,852	16,852
Other financial assets	16,050	16,050	19,545	19,545
	<u>26,692</u>	<u>26,692</u>	<u>36,518</u>	<u>36,518</u>
Current :				
Cash and cash equivalent	190,619	190,619	330,866	330,866
Trade receivables	81,826	81,826	71,584	71,584
Other receivables	18,905	18,905	22,853	22,853
Derivative financial assets	32	32	172,606	172,606
Other financial assets	1,070	1,070	2,398	2,398
	<u>292,452</u>	<u>292,452</u>	<u>600,307</u>	<u>600,307</u>
	<u>\$ 319,144</u>	<u>319,144</u>	<u>636,825</u>	<u>636,825</u>

Pan Ocean Co., Ltd.

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13. Fair Value of Financial Assets and Liabilities, Continued

13.1 Recognition of fair value, continued

(b) Financial liabilities

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>In thousands of US dollars</i>				
Non-current :				
Borrowings	\$ 1,053,801	1,053,801	1,358,245	1,358,245
Rehabilitation liabilities	-	-	527,653	527,653
Other payables	-	-	798	798
Derivative financial liabilities	213	213	384	384
	1,054,014	1,054,014	1,887,080	1,887,080
Current :				
Trade payables	56,941	56,941	76,835	76,835
Borrowings	225,217	225,217	224,712	224,712
Other payables	40,946	40,946	73,474	73,474
Derivative financial liabilities	1,714	1,714	177,673	177,673
	324,818	324,818	552,694	552,694
	\$ 1,378,832	1,378,832	2,439,774	2,439,774

13.2 The fair value hierarchy

The Company 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 Separate 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

(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	1,714	-	-	1,714	177,673	-	-	177,673
	1,714	-	-	1,714	177,673	-	-	177,673
\$	1,714	213	-	1,927	177,673	384	-	178,057

Pan Ocean Co., Ltd.

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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 Separate 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	\$ 1,070	2,446
Available-for-sales financial assets:		
Unlisted stocks	4,102	4,521
Beneficiary certificates	11,948	14,976
	16,050	19,497
	\$ 17,120	21,943
Non-current	\$ 16,050	19,545
Current	1,070	2,398

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

(b) 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
		\$ 4,102		\$ 4,521

Pan Ocean Co., Ltd.

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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	198,038	199,247
Less: provision for impairment	(116,212)	(127,663)
	<u>81,826</u>	<u>71,584</u>
\$	<u><u>81,897</u></u>	<u><u>71,705</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	\$ 258	461
Deposit	10,313	16,391
	<u>10,571</u>	<u>16,852</u>
Current :		
Loan	28,364	31,177
Less: provision for impairment	(17,081)	(13,642)
Other receivable	14,568	12,255
Less: provision for impairment	(6,946)	(6,937)
	<u>18,905</u>	<u>22,853</u>
\$	<u><u>29,476</u></u>	<u><u>39,705</u></u>

Pan Ocean Co., Ltd.

Notes to the Separate 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	\$	1,164	1,430
Deposits and others		<u>189,455</u>	<u>329,436</u>
	\$	<u><u>190,619</u></u>	<u><u>330,866</u></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	\$	<u>3,344</u>	<u>11,125</u>
		3,344	11,125
Current :			
Prepayments		42,772	52,264
Less: provision for impairment		(16,951)	(19,334)
Prepaid expenses		43,631	51,271
Accrued income – shipping		<u>58,962</u>	<u>39,996</u>
		<u>128,414</u>	<u>124,197</u>
	\$	<u><u>131,758</u></u>	<u><u>135,322</u></u>

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Notes to the Separate 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	\$ 24,218	43,590
Spare parts	9,944	10,123
	<u>\$ 34,162</u>	<u>53,713</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>	<u>2015</u>	<u>2014</u>
Share premium(*)	\$ 626,615	141,839
	<u>626,615</u>	<u>141,839</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 separate 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>	<u>2015</u>	<u>2014</u>
Unrealized fair value of available-for-sale financial assets	\$ 401	(362)
Unrealized fair value of derivative assets and liabilities	(49)	(220)
Gain on disposal of treasury stock	996	996
Surplus from reduction of capital	1,062,678	1,021,286
Debt to be swapped for equity	77,226	149,653
	<u>\$ 1,141,252</u>	<u>1,171,353</u>

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22. Accumulated Deficit

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

<i>In thousands of US dollars</i>	2015	2014
Legal reserve	\$ 36,164	36,165
Undisposed accumulated deficit	(229,351)	(272,578)
	<u>\$ (193,187)</u>	<u>(236,413)</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>\$ (229,351)</u>	<u>(272,578)</u>

(*) As 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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23. Other Payables

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

<i>In thousands of US dollars</i>	2015	2014
Non-current :		
Lease deposits	\$ -	798
	-	798
Current :		
Other non-trade payables	9,072	8,633
Dividend payables	5	125
Withholdings	31,869	64,716
	40,946	73,474
\$	40,946	74,272

24. Other liabilities

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

<i>In thousands of US dollars</i>	2015	2014
Advance received	\$ 8	-
Deferred income	24,685	34,032
Accrued expense	39,319	53,962
\$	64,012	87,994

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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	979,973	1,221,526
	<u>1,053,801</u>	<u>1,358,245</u>
Current :		
Current portion of long-term borrowings	3,722	11,784
Current portion of finance lease liabilities	221,495	212,928
	<u>225,217</u>	<u>224,712</u>
	<u>\$ 1,279,018</u>	<u>1,582,957</u>

Total borrowings include secured borrowings of US\$ 1,224,888 thousand as of December 31, 2015 (2014: US\$ 1,582,957 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>	Currency	Issue Date	Maturity	Annual interest rate	Carrying amount
Unsecured private placed bond	KRW	2015.6.20	2020.6.20	5.00%	\$ 34,130

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

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25. Borrowings, Continued

(c) 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
			43,420		148,503
Less: current portion of long-term borrowings			(3,722)		(11,784)
			<u>\$ 39,698</u>		<u>\$ 136,719</u>

Pan Ocean Co., Ltd.

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December 31, 2015 and 2014

25. Borrowings, Continued

(d) 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+0.60%	8,868	Libor+0.60%	9,120
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%	406,146	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	8.400%	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		-
			1,201,469		1,434,454
Less: current portion of lease liabilities			(221,496)		(212,928)
			<u>\$ 979,973</u>		<u>\$ 1,221,526</u>

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

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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 Company 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.

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

<i>In thousands of US dollars</i>	<u>2015</u>	<u>2014</u>
Between 1 and 2 years	\$ 225,680	234,405
Between 2 and 3 years	184,174	220,575
Between 3 and 4 years	192,030	179,473
Between 4 and 5 years	267,511	187,104
Later than 5 years	184,406	536,688
	<u>\$ 1,053,801</u>	<u>1,358,245</u>

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

<i>In thousands of US dollars</i>	<u>2015</u>	<u>2014</u>
US dollar	\$ 1,225,264	1,554,661
Korean won	53,755	28,296
	<u>\$ 1,279,019</u>	<u>1,582,957</u>

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December 31, 2015 and 2014

25. Borrowings, Continued

(g) Minimum finance lease liabilities and present values are as follows:

In thousands of US dollars

	2015	2014
Finance lease liabilities – minimum lease payments :		
Within 1 year	\$ 256,323	250,452
Between 1 and 2 years	250,184	262,911
Between 2 and 3 years	202,478	243,100
Between 3 and 4 years	204,122	196,726
Between 4 and 5 years	238,725	199,461
Over 5 years	170,128	434,465
	1,321,960	1,587,115
Future finance charges on finance leases	(120,491)	(152,661)
Present value of finance lease liabilities	\$ 1,201,469	1,434,454
	2015	2014

The present value of finance lease liabilities :

Within than 1 year	\$ 221,496	212,929
Between 1 and 2 years	221,958	230,684
Between 2 and 3 years	180,452	216,853
Between 3 and 4 years	188,308	175,751
Between 4 and 5 years	229,659	183,382
Over 5 years	159,596	414,855
	\$ 1,201,469	1,434,454

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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	-	285,838
	-	926,880
Less: present value discount	-	(399,227)
Less: current portion of rehabilitation liabilities	-	-
	-	527,653

(b) The Company 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 Benefit (Expense)

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

<i>In thousands of US dollars</i>	2015	2014
Current tax expense	\$ -	-
Origination and reversal of temporary differences	-	-
Income tax recognized in other comprehensive income	-	-
Total income tax benefit (expense)	\$ -	-

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

27. Income Tax Benefit (Expense), Continued

(b) Reconciliation of effective tax rate:

In thousands of US dollars

	<u>2015</u>	<u>2014</u>
Profit before income tax	\$ 43,804	771,155
Income tax expense at the domestic rates applicable to profit in the country concerned	10,600	186,620
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	(10,574)	(1,475)
Income tax expense	<u>\$ -</u>	<u>-</u>

(c) Deferred tax benefit (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

	<u>2015</u>	<u>2014</u>
Deferred assets (liabilities) as at the end of the year	\$ -	-
Deferred assets (liabilities) as at the beginning of the year	-	-
Deferred tax benefit (expense) by origination and reversal of temporary differences	<u>\$ -</u>	<u>-</u>

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Notes to the Separate Financial Statements

December 31, 2015 and 2014

27. Income Tax Benefit (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	1,319	(819)	(41)	459
Provisions	381	24,721	-	25,102
Other	(4,705)	42,652	-	37,947
Total	63,412	63,932	(222)	127,122
 Tax loss carryforward	 651,325	 (31,362)	 -	 619,963
Unrecognized deferred tax assets	(714,737)	(32,570)	222	(747,085)
\$	-	-	-	-

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Notes to the Separate Financial Statements

December 31, 2015 and 2014

27. Income Tax Benefit (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	477	(1)	(90)	386
Present value of defined benefit obligation	2,831	(338)	-	2,493
Derivatives	166	1,224	(71)	1,319
Provisions	4,231	(3,850)	-	381
Other	311,136	(315,841)	-	(4,705)
Total	322,111	(258,538)	(161)	63,412
 Tax loss carryforward	 352,438	 298,887	 -	 651,325
Unrecognized deferred tax assets	(674,549)	(40,349)	161	(714,737)
\$	-	-	-	-

Pan Ocean Co., Ltd.

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December 31, 2015 and 2014

27. Income Tax Benefit (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 Company did not recognize the deferred tax assets exceeding the deferred tax liabilities because the Company predicted that the utilization of the deductible temporary differences and deficit carried forward is not considered probable. The unused amounts and their expiration dates for the amounts that the income tax effect has not been recognized because they are not considered probable to be realized are as follows:

In thousands of US dollars

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

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Notes to the Separate Financial Statements

December 31, 2015 and 2014

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 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	17,019
Current service cost	2,200	2,530
Interest cost	383	580
Benefits paid	(4,668)	(5,284)
Actuarial losses	558	892
Other(*)	(870)	(586)
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
Expected return on plan assets	(77)	(171)
Net actuarial losses recognized during the year	578	983
	\$ 3,084	3,922
Cost of sales	2,506	2,939
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\$ 57thousand and US\$ 80 thousand, respectively.

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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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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	\$	228,401	(20,225)	(101,105)	107,071
Current		1,576	261	-	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	\$	1,418,710	(709)	(1,189,600)	228,401
Current		1,964	(388)	-	1,576

(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	209,929
Compensation for claims(*2)		5,815	18,472
	\$	107,071	228,401

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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 Company 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 Company 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 Company by customers and vessel owners. The amount accrued during the period is recorded as other operating expenses, and recognized non-current provisions for estimated payments of 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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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	\$ 295,960	188,522
Port charges	195,926	135,389
Cargo expenses	105,542	94,004
Bunker fuel costs	351,288	471,452
Voyage relet costs	62,136	37,261
Depreciation	141,225	147,047
Vessel maintenance expense	38,644	38,403
Salaries and wages	94,020	91,154
Retirement benefit	5,923	6,402
Other employee benefits	25,949	24,097
Lubricant oil costs	8,525	9,196
Other cost of sales	23,831	22,672
Office rental	4,311	4,500
Allowance for (reversal of) doubtful accounts	(3,511)	(5,243)
IT expense	2,082	3,183
Taxes and dues	2,474	2,503
Other administrative expenses	2,415	4,453
Total cost of sales, selling and general administrative expenses	\$ 1,356,740	1,274,995

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31. Other Non-Operating Income, Net

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

<i>In thousands of US dollars</i>	<u>2015</u>	<u>2014</u>
Gains on sale of vessels, property and equipment	\$ 1,737	27,866
Losses on sale of vessels, property and equipment	(2)	(12,274)
Gains (losses) on derivative transactions, net	(7,232)	6,802
Gains (losses) on foreign currency translation, net	(2,059)	7,342
Gains on foreign currency transaction, net	12,171	22,309
Allowance for provision, net	20,226	709
Losses on investments in subsidiaries	1,797	7,051
Losses on impairment of vessels, property and equipment	(1,227)	(71,504)
Allowance for (reversal of) doubtful accounts	(4,245)	1,534
Gains (losses) from debt adjustment(*)	(114,735)	671,205
Other	2,914	20,429
	<u>\$ (92,337)</u>	<u>673,977</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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Notes to the Separate Financial Statements

December 31, 2015 and 2014

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	-	2,389	1,170	-	-	4,159
Interest expense	-	-	-	-	(66,739)	(66,739)
Guarantee fee	-	-	-	-	(120)	(120)
Dividend income	-	-	4,629	-	-	4,629
	-	2,389	5,796	-	(66,859)	(58,674)
Finance income	-	2,389	6,446	-	-	8,835
Finance cost	-	-	(650)	-	(66,859)	(67,509)
Other comprehensive income						
Gains on valuation	-	-	762	171	-	933
	-	-	762	171	-	933
\$	-	2,389	6,558	171	(66,859)	(57,741)

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

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	\$ -	-	(391)	-	-	(391)
Interest income	-	1,079	1,832	-	-	2,911
Interest expense	-	-	-	-	(104,642)	(104,642)
Guarantee fee	-	-	-	-	(128)	(128)
Dividend income	-	-	1,466	-	-	1,466
Gains on bond redemption	-	-	-	-	448	448
Losses on bond redemption	-	-	-	-	(228)	(228)
	-	1,079	2,907	-	(104,550)	(100,564)
Finance income	-	1,079	3,298	-	448	4,825
Finance cost	-	-	(391)	-	(104,998)	(105,389)
Other comprehensive income						
Gains on valuation	-	-	441	294	-	735
	-	-	441	294	-	735
\$	-	1,079	3,348	294	(104,550)	(99,828)

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

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33. Net Foreign Exchange Gains (Losses)

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

<i>In thousands of US dollars</i>	2015	2014
Other non-operating income(loss)		
Gains(losses) on foreign currency translation	\$ (2,059)	7,342
Gains(losses) on foreign currency transaction	12,171	22,309
	10,112	29,651
Net foreign exchange gains(losses) on financial instruments		
Gains(losses) on foreign currency translation	3,076	1,239
Gains(losses) on foreign currency transaction	(4,898)	(6,219)
	\$ 8,290	24,671

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>	2015	2014
Profit for the year	\$ 43,804	771,155
Weighted average number of ordinary shares(*)	384,360,881	110,415,021
Basic earnings per share (expressed in US\$ per share)	\$ 0.11	6.98

(*) 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

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

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 Company also has potential ordinary share (expected to convert to equity from debt). The Company 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 Company 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 Company's expectation according to actual result from the judgment.

(b) As of December 31, 2015, in relation to cargo claims and vessel damages, the Company is a defendant in 49 legal cases with claimed amounts of US\$ 19,463 thousand. In addition, the Company is a plaintiff in 16 legal cases with claimed amounts of US\$ 23,422 thousand. When pending litigations in which the Company participates as a defendant qualify for recognition, provisions are recognized as described note 29.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

35. Contingencies, Continued

(c) Assets pledged as collateral for the Company'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 Company has provided guarantee for the next five-year lawsuits regarding the accident of vessel damages occurred in Bangladesh in 2013.

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

36. Commitments

(a) Capital commitments

As of December 31, 2015 and 2014, the Company 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 Company is the lessee

The Company 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\$ 295,960 thousand and US\$188,522 thousand, respectively.

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

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

37. Cash Generated from Operations

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

<i>In thousands of US dollars</i>	2015	2014
Profit for the year	\$ 43,804	771,155
Adjustment for:		
Depreciation	141,081	146,648
Retirement benefit	4,102	6,402
Allowance (reversal) for provision	(19,964)	(1,097)
Allowance (reversal) for doubtful accounts	(3,511)	(5,243)
Allowance for other doubtful accounts	4,245	(1,534)
Gains on sale of vessels, property and equipment	(1,737)	(27,866)
Losses on sale of vessels, property and equipment	2	12,274
Valuation gains on derivatives, net	1,682	7,492
Interest income	(4,159)	(2,910)
Interest expense	66,739	104,642
Dividend income	(4,629)	(1,466)
Losses on impairment of vessels, property and equipment	1,227	71,505
Foreign currency translation losses (gains), net	(1,017)	(8,581)
Losses on sale of investment in associate	69	-
Gains on sale of investment in subsidiaries	(1,866)	(7,051)
Gains on exemption of liabilities	-	(671,205)
Losses(gains) on redemption of liabilities	114,735	(448)
Change in provisions	(15,726)	(1,594)
Change in inventories	19,552	23,887
Change in trade receivables	(6,788)	87,511
Change in other receivables	4,795	13,136
Change in other assets	(2,837)	17,545
Change in trade payables	(1,160)	(45,113)
Change in other payables	7,938	(13,096)
Change in other liabilities	(9,127)	(12,166)
Change in retirement benefit obligation	(7,082)	(5,605)
Change in derivative financial assets and liabilities	(5,067)	(2,439)
Others	746	2,177
Cash generated from operating activities	\$ 326,047	456,960

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

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.	
Subsidiaries	Pan Ocean(America) Inc. Pan Ocean Singapore Bulk Carrier Pte. Ltd. Pan Ocean(China) Co., Ltd. STX Pan Ocean(U.K.) Co., Ltd. Pan Ocean Japan Corporation Pan Ocean Brasil Apoio Maritimo Ltda. POS SM Co., Ltd. and etc.	Pan Ocean(America) Inc. Pan Ocean Singapore Bulk Carrier Pte. Ltd. Pan Ocean(China) Co., Ltd. STX Pan Ocean(U.K.) Co., Ltd. Pan Ocean Japan Corporation Pan Ocean Brasil Apoio Maritimo Ltda. Heung Kook Mutual Savings Bank (*2) STX Gulf Shipping DMCCO
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(*3) 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. and Etc.	

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

38. Related Party Transactions, Continued

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

(*2) For the year end December 2015, the Company sold 100% share of Heung Kook Mutual Savings Bank which was classified as held for sale as of December 31, 2014.

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

(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

	Sales	Others	Purchases	Others
2015				
Subsidiaries				
Pan Ocean (China) Co., Ltd.	-	-	866	-
Pan Ocean Japan Corporation	77,707	-	16,598	-
Pan Ocean Singapore Bulk Carrier Pte. Ltd.	22,399	-	8,986	-
Pan Ocean(America), Inc.	971	-	-	-
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.	-	-	-	44
FARMSCO	-	-	-	37
Harim Co., Ltd.	-	-	-	6
	111,755	-	26,450	109

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

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, continued:

In thousands of US dollars

		<u>Sales</u>	<u>Others</u>	<u>Purchases</u>	<u>Others</u>
<u>2014</u>					
Subsidiaries					
Heung Kook Mutual Savings Bank	\$	67	-	-	-
Pan Ocean (China) Co., Ltd.		529	-	1,484	-
Pan Ocean Japan Corporation		40,307	-	307	-
Pan Ocean Singapore Bulk Carrier Pte. Ltd.		33,357	-	8,713	-
Pan Ocean(America), Inc.		174	-	-	-
STX Pan Ocean (U.K.) Co., Ltd.		-	732	11	-
Associates and joint ventures					
Korea LNG Trading Co., Ltd.		31,521	-	-	-
	\$	<u>105,955</u>	<u>732</u>	<u>10,515</u>	<u>-</u>

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

38. Related Party Transactions, Continued

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

In thousands of US dollars	Receivables		Payables	
	Accounts receivable		Accounts payable	
	- trade	Others	- trade	Others
2015				
Subsidiaries				
Pan Ocean Japan Corporation	\$ 531	-	756	-
Pan Ocean Singapore Bulk Carrier Pte. Ltd.	31,184	2,520	589	-
STX Pan Ocean (U.K.) Co. Ltd.	12,379	18,854	-	-
Associates and joint ventures				
Korea LNG Trading Co., Ltd.	1,125	-	-	-
	<u>\$ 45,219</u>	<u>21,374</u>	<u>1,345</u>	<u>-</u>

In thousands of US dollars	Receivables		Payables	
	Accounts receivable		Accounts payable	
	- trade	Others	- trade	Others
2014				
Subsidiaries				
Pan Ocean Japan Corporation	\$ 2,596	-	93	1,479
Pan Ocean Singapore Bulk Carrier Pte. Ltd.	36,212	2,520	543	-
Pan Ocean(America), Inc.	-	-	-	500
STX Pan Ocean (U.K.) Co. Ltd.	14,179	19,466	164	-
Heung Kook Mutual Savings Bank	-	-	-	758
Pan Ocean (China) Co., Ltd.	-	-	272	-
Associates and joint ventures				
Korea LNG Trading Co., Ltd.	2,295	-	-	-
	<u>\$ 55,982</u>	<u>21,986</u>	<u>1,072</u>	<u>2,737</u>

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

38. Related Party Transactions, Continued

(d) The Company 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 Company 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.

(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
	<u>\$ 730</u>	<u>384</u>

(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			
Pan Ocean Singapore Bulk Carrier Pte. Ltd.	\$	9,376	BNP Paribas
Employee stock ownership association		1,310	Heung Kook Mutual Savings Bank

Pan Ocean Co., Ltd.

Notes to the Separate Financial Statements

December 31, 2015 and 2014

39. Assets and Liabilities Held for Sale

- (a) During 2014, the Company 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, amounted to US\$189 thousand. For the years ended 2015, all shares were sold out and the Company recognized gains on sales of investment of US\$ 1,871 thousand.
- (b) 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 Company classified remaining portion of investment as held for sale.

40. Termination of the rehabilitation procedure

The Company 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 Company 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 Company 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 Company 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 July 30, 2015. The Company also holds the fund amounting KRW 41,257 million for unconfirmed rehabilitation claims as escrow accounts.

Independent Auditors' Review Report on Internal Accounting Control System

Based on a report originally Issued in Korean

To the President of
Pan Ocean Co., Ltd.

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Pan Ocean Co., Ltd. as of December 31, 2015. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2015, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with Korean International Financial Reporting Standards. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2015 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

Nexia Samduk is a member of NEXIA International, a world-wide network of independent accounting and consulting firms.

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NEXIA SAMDUK
Auditors & Consultants

This report applies to the Company's IACS in existence as of December 31, 2015. We did not review the Company's IACS subsequent to December 31, 2015. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

Nexia Samduk

Seoul, Korea

March 11, 2016

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2015 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Joint-stock Companies of the Republic of Korea.

Report on the Assessment of operations of the ICFR for 2015 (By Internal Accounting Manager)

To the Board of Directors and Audit Committee of Pan Ocean

I, As the Internal Accounting Manager of Pan Ocean ("the Company"), assessed the effectiveness of the design and operation of the Company's Internal Control over Financial Reporting ("ICFR") for the year ending December 31, 2015.

The Company's management, Including myself, is responsible for designing and operating an ICFR. I assessed the design and operational effectiveness of the ICFR in the prevention and detention of an error or fraud which may cause a misstatement in the preparation and disclosure of reliable financial statement. I followed the Best Practice Guideline to evaluate the effectiveness of the ICFR design and operation.

Based on the assessment results, I believe that the Company's ICFR, as of December 31, 2015, is effectively designed and operating, in all material respects, in conformity with Best Practice Guideline.

January 25, 2016

Sung-Yob Choo, Chief Executive Officer

Bo-Yeon Kim, Internal Accounting Manager