

PAN OCEAN CO., LTD.

(Incorporated in the Republic of Korea)

FULL YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 DECEMBER 2017

PART I. INFORMATION REQUIRED FOR ANNUAL ANNOUNCEMENT

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

For the period ended 31 December 2017 (in thousands of US\$)

	The Group		
	2017	2016	%
	Year Ended 31 December	Year Ended 31 December	
Sales	2,065,495	1,616,997	27.7%
Cost of sales	(1,831,946)	(1,423,998)	28.6%
Gross profit	233,549	192,999	21.0%
Selling and administrative expenses	(61,127)	(48,219)	26.8%
Operating profit	172,422	144,780	19.1%
Finance income	12,626	13,419	-5.9%
Finance costs	(52,601)	(52,008)	1.1%
Other non-operating income (loss), net	(6,098)	(21,776)	-72.0%
Gain(loss) related to investments in associates and joint ventures	233	352	-33.8%
Profit before income tax	126,582	84,767	49.3%
Income tax expense	1,679	1,766	-4.9%
Profit for the year	124,903	83,001	50.5%
Other Comprehensive income(loss)			
Items that will be subsequently reclassified to profit or loss:			
Changes in the fair value of available-for-sale financial assets	44	(981)	N/M
Changes in the fair value of derivative financial assets	(538)	737	N/M
Share of the other comprehensive income of associates and joint ventures	117	337	-65.3%
	(377)	93	N/M
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability	612	450	36.0%
Exchanges differences	1,165	3,140	-62.9%
Total other comprehensive income(loss) for the year, net of tax	1,400	3,683	-62.0%
Total comprehensive income for the year	126,303	86,684	45.7%
Profit (loss) attributable to :			
Owners of the Group	126,478	83,682	51.1%
Non-controlling interests	(1,575)	(681)	131.3%
	124,903	83,001	50.5%
Total comprehensive income (loss) attributable to :			
Owners of the Group	127,800	87,390	46.2%
Non-controlling interests	(1,497)	(706)	112.0%
	126,303	86,684	45.7%

N/M : Not meaningful

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

	The Group		The Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Assets				
Current assets				
Cash and cash equivalents	193,810	202,806	138,390	160,991
Trade receivables	94,095	77,122	65,257	66,841
Other receivables	26,568	20,013	24,125	18,708
Derivative financial assets	3,065	2,451	2,772	1,649
Other financial assets	33,794	6,615	29,894	3,000
Inventories	46,906	39,548	46,906	39,548
Other assets	174,102	125,855	172,923	123,137
	572,340	474,410	480,267	413,874
Non-current assets				
Other receivables	19,118	19,580	17,114	16,863
Derivative financial assets	174	-	174	-
Other financial Assets	17,402	31,257	17,402	27,979
Investments in subsidiaries	-	-	47,493	50,655
Investments in associates and joint ventures	2,003	1,654	1,252	1,252
Vessels, property and equipment	3,008,788	3,043,456	2,993,329	3,005,646
Intangible assets	8,975	8,493	4,449	3,916
Deferred tax assets	383	78	-	-
Other assets	5,651	4,560	4,841	4,525
	3,062,494	3,109,078	3,086,054	3,110,836
Total assets	3,634,834	3,583,488	3,566,321	3,524,710
Liabilities				
Current liabilities				
Trade payables	81,734	67,364	68,524	63,857
Borrowings	298,359	269,307	298,359	264,259
Derivative financial liabilities	468	525	132	21
Other payables	61,404	35,176	43,351	33,199
Provisions	2,545	572	2,545	3,008
Income tax liabilities	717	356	-	-
Other liabilities	63,873	60,217	63,064	55,045
	509,100	433,517	475,975	419,389
Non-current liabilities				
Borrowings	842,320	988,707	842,320	982,009
Derivative financial liabilities	14	90	14	90
Provisions	29,881	31,993	28,727	31,557
Retirement benefit obligations	4,286	5,923	4,225	5,826
Deffered income tax liabilities	11	22	-	-
Other payables	60	60	-	-
	876,572	1,026,795	875,286	1,019,482
Total liabilities	1,385,672	1,460,312	1,351,261	1,438,871
Equity				
Share capital	480,727	480,598	480,727	480,598
Capital surplus	651,920	651,355	651,366	650,802
Other reserves	1,055,891	1,056,192	1,068,157	1,069,049
Accumulated deficit	41,281	(85,809)	14,810	(114,610)
Equity attributable to owners of the Group & Company	2,229,819	2,102,336	2,215,060	2,085,839
Non-controlling interest	19,343	20,840	-	-
Total equity	2,249,162	2,123,176	2,215,060	2,085,839
Total equity and liabilities	3,634,834	3,583,488	3,566,321	3,524,710

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

	At 31 Dec 2017		At 31 Dec 2016	
	Secured	Unsecured	Secured	Unsecured
Amount repayable in one year or less	229,235	69,124	256,807	12,500
Amount repayable after one year	815,820	26,500	951,207	37,500
	1,045,055	95,624	1,208,014	50,000

Details of collateral

The Group's borrowings are secured by way of :

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

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

	The Group	
	Year ended 31 Dec.	
	2017	2016
Cash flows from operating activities		
Cash generated from operations	277,472	259,268
Interest paid	(45,330)	(41,464)
Income tax paid	(848)	(978)
Net cash inflow(outflow) by operating activities	231,294	216,826
Cash flows from investing activities		
Acquisition of vessels, property and equipment	(94,142)	(85,702)
Acquisition of intangible assets	(1,352)	(1,989)
Proceeds from sale of vessels, property and equipment	3	20,593
Proceeds from sale of intangible assets	523	-
Acquisition of other financial assets	(29,353)	(43,869)
Proceeds from sale of other financial assets	16,925	23,194
Acquisition of investments in subsidiaries share	-	2,694
Acquisition of investments in associates & joint ventures	-	(42)
Dividend received	1,035	341
Loans provided	(51)	(5)
Loans collected	821	2,900
Interest received	2,003	2,058
Net cash inflow(outflow) from investing activities	(103,588)	(79,827)
Cash flows from financing activities		
Proceeds from borrowings	136,463	143,235
Repayment of borrowings	(273,522)	(313,906)
Net cash inflow(outflow) financing activities	(137,059)	(170,671)
Currency translation differences (cash and cash equivalents)	357	(866)
Net increase(decrease) in cash and cash equivalents	(9,353)	(33,672)
Cash and cash equivalents at beginning of the year	202,806	237,344
Cash and cash equivalents at end of the year	193,810	202,806

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

	Attributable to owners of the Group				Non-controlling Interest	Total equity
	Share capital	Capital surplus	Other reserves	Accumulated deficit		
Balance as of January 1, 2016	471,717	627,169	1,124,116	(169,941)	21,546	2,074,607
Comprehensive income (loss)						
Profit for the Period	-	-	-	83,682	(681)	83,001
Items that will be reclassified subsequently to profit or loss:						
Changes in the fair value of available-for-sale financial assets	-	-	(981)	-	-	(981)
Changes in the fair value of derivative financial assets and liabilities	-	-	737	-	-	737
Share of the other comprehensive income of associates and joint venture	-	-	337	-	-	337
Items that will not be reclassified to profit or loss:						
Remeasurements of defined benefit liability	-	-	-	450	-	450
Exchanges differences	-	-	3,165	-	(25)	3,140
Transactions with owners recorded directly in equity:						
Changes in equity due to debt-equity swap	8,881	24,186	(71,182)	-	-	(38,115)
Balance as of December 31, 2016	<u>480,598</u>	<u>651,355</u>	<u>1,056,192</u>	<u>(85,809)</u>	<u>20,840</u>	<u>2,123,176</u>
Balance as of January 1, 2017	480,598	651,355	1,056,192	(85,809)	20,840	2,123,176
Comprehensive income (loss)						
Profit(loss) for the period	-	-	-	126,478	(1,575)	124,903
Items that will be reclassified subsequently to profit or loss:						
Changes in the fair value of available-for-sale financial assets	-	-	44	-	-	44
Changes in the fair value of derivative financial assets and liabilities	-	-	(538)	-	-	(538)
Share of the other comprehensive income of associates and joint ventures	-	-	117	-	-	117
Items that will not be reclassified to profit or loss:						
Remeasurements of defined benefit liability	-	-	-	612	-	612
Exchanges differences	-	-	1,087	-	78	1,165
Transactions with owners recorded directly in equity:						
Changes in equity due to debt-equity swap	129	565	(1,011)	-	-	(317)
Balance as of December 31, 2017	<u>480,727</u>	<u>651,920</u>	<u>1,055,891</u>	<u>41,281</u>	<u>19,343</u>	<u>2,249,162</u>

	Attributable to owners of the Company				
	Share capital	Capital surplus	Other reserves	Accumulated deficit	Total equity
Balance as of January 1, 2016	471,717	626,615	1,141,252	(193,187)	2,046,397
Comprehensive income (loss)					
Profit for the year	-	-	-	78,127	78,127
Items that will be reclassified subsequently to profit or loss:					
Changes in the fair value of available-for-sale financial assets	-	-	(981)	-	(981)
Changes in the fair value of derivative financial assets and liabilities	-	-	(40)	-	(40)
Items that will not be reclassified to profit or loss:					
Remeasurement of defined benefit liability	-	-	-	450	450
Transactions with owners recorded directly in equity:					
Changes in equity due to debt-equity swap	8,881	24,187	(71,182)	-	(38,114)
Balance as of December 31, 2016	<u>480,598</u>	<u>650,802</u>	<u>1,069,049</u>	<u>(114,610)</u>	<u>2,085,839</u>
Balance as of January 1, 2017	480,598	650,802	1,069,049	(114,610)	2,085,839
Comprehensive income (loss)					
Profit for the year	-	-	-	128,827	128,827
Items that will be reclassified subsequently to profit or loss:					
Changes in the fair value of available-for-sale financial assets	-	-	44	-	44
Changes in the fair value of derivative financial assets and liabilities	-	-	75	-	75
Items that will not be reclassified to profit or loss:					
Remeasurement of defined benefit liability	-	-	-	593	593
Transactions with owners recorded directly in equity:					
Changes in equity due to debt-equity swap	129	564	(1,011)	-	(318)
Balance as of December 31, 2017	<u>480,727</u>	<u>651,366</u>	<u>1,068,157</u>	<u>14,810</u>	<u>2,215,060</u>

1.(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

(in shares)	At 31 Dec 2017		At 31 Dec 2016	
	Number of shares issued	outstanding stock	Number of shares issued	outstanding stock
Beginning number of shares	534,392,834	534,392,834	524,425,070	524,425,070
Debt-equity swap	144,978	144,978	9,967,764	9,967,764
Ending number of shares	534,537,812	534,537,812	534,392,834	534,392,834

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

	The Issuer At 31 Dec. 2017	The Issuer At 31 Dec. 2016
Total number of issued shares	534,537,812	534,392,834
Less number of shares held as treasury shares	-	-
Total number of issued shares excluding treasury shares of the issuer	534,537,812	534,392,834

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

Not applicable.

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

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

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

Not applicable

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

The Group has applied the same accounting policies and methods of computation in financial statements for the period ended 31 December 2017 compared with the audited financial statements for the year ended 31 December 2016.

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

Not applicable

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

	<u>The Group</u>	<u>The Group</u>
	<u>2017</u>	<u>2016</u>
	<u>12 months</u>	<u>12 months</u>
	<u>ended 31 Dec</u>	<u>ended 31 Dec</u>
Earnings per share for profit attributable to owners of the Company during the period (expressed in US\$ per share)		
(a) Basic	0.23	0.16
(b) Diluted	0.23	0.16

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

(a) Current financial period reported on; and

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

	<u>The Group</u>		<u>The Company</u>	
	<u>At 31 Dec.</u>	<u>At 31 Dec.</u>	<u>At 31 Dec.</u>	<u>At 31 Dec.</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net asset value per ordinary share based on issued share capital of the issuer	4.21	3.97	4.14	3.90

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

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

(1) Income Statement

FY 2017 VS FY 2016

The group achieved sales of US\$ 2,065 million, increase of 28% compared to the same period in the prior year. And Costs of sales was increased from US\$ 1,424 million as of 2016 to US\$ 1,832 million as of 2017 .

The group recorded operating profit of US\$ 172 million in 2017, as compared to the operating profit of US\$ 145 million in the corresponding period of preceding financial year.

For the non-operating profit, the group recorded finance cost of US\$53 million in 2017.

Consequently, Profit for the year, which had recorded US\$125 million in 2017, as compared US\$ 108 million in 2016.

(2) Balance Sheet & Cash Flow

The group's total assets increased US\$ 52 million, from US\$ 3,583 million as of 31 December 2016 to US\$ 3,635 million as of 31 December 2017.

Total liabilities of the Group decreased US\$ 74 million, from US\$ 1,460 million as of 31 December 2016 to US\$ 1,386 million as of 31 December 2017.

Cash flows from operating activities were surplus amounting to US\$ 231 million but Net cash used in investing activities and financing activities for 2017 recorded the deficit amounting to US\$ 241 million.

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

Not applicable.

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

After weak market conditions for past few years, fleet growth increased marginally in 2017. On the contrary, demand for commodities picked up supporting prices. The average Baltic Dry Index (BDI) was 1,145 points for the year, which rose significantly above 70% from 673 points in 2016. The BDI was only 685 at the lowest points early in the year and touched its highest level at 1,743 points before the end of the year.

As for the demand, China's iron ore imports amounted to 1,058 million tons in 2017, making the highest level on record, showing an annual increase of 5%. Through 2017, the demand for oil has increased as the global economy has improved and put upward pressure on oil prices. A rise in oil prices and better economic conditions resulted in an increased demand for coal, and the coal trade volume grew to 1,230 million tons. Global grain trade was also seen substantial rising. For this reason, the total dry bulk cargo trade growth has increased in 2017 to 4%, with the trade volume reaching 5,103 million tons. The demand in 2018 will continue to strengthen. The trade volume will increase to 3% with the strengthening of Chinese demand for high-grade imported iron ore and Asian developing countries' coal demand. The grain exports from United States and South America on the steady rise will also contribute to the growth of trade volume.

On the supply side, newbuilding orders for dry bulk carrier declined in 2015 and 2016 due to the downturn in the shipping market. Because of this, the newbuilding deliveries reached 38.4 million DWT (deadweight tonnage), which dropped by 19% from 47.2 million DWT in 2016. As the market returned to healthy level in 2017, the scrapping volume of the bulkers dropped to 14.3 million DWT from 29.3 million DWT of the previous year. The fleet supply growth was 2.9%, which is an increase compared to 2.2% of 2016. On the other hand, the fleet growth in 2018 will possibly be below 2.0%.

The GDP growth for all of 2017 was 3.6%, and the International Monetary Fund (IMF) has improved its growth forecasts for 2018 to 3.9% expecting the global economy to continue to recover. The growth of major world economies is expected to lead higher commodities demand with dry bulkers. However, newbuildings delivered in 2018 will be below 30million DWT as newbuilding orders have declined in 2016 and 2017. As such, the supply growth is expected to decrease. In 2018, the demand growth will outweigh fleet expansion like last year. Accordingly, earnings in the dry bulk market are expected to improve in 2018.

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

Not applicable.

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

Not applicable.

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

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)	
	Twelve months Ended 31 Dec. 2017.	Twelve months Ended 31 Dec. 2016.	Twelve months Ended 31 Dec. 2017.	Twelve months Ended 31 Dec. 2016.
PanOcean(America), Inc.	24,107 5)	-	22,725 1)	13,008 1)
Sunjin Co., Ltd.	-	-	3,428 2)	2,642 2)
Farmsco	-	-	6,268 2)	6,704 2)
Jeil Feed Company, Ltd.	-	340 3)	7,596 2)	6,344 2)
Harim Co., Ltd.	-	-	4,401 2)	2,608 2)
Jeil Holdings Co., Ltd.	-	717 4)	-	-
Total	24,107	1,057	44,419	31,306

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

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

3) Deposit for lease of a building.

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

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

5) Including provided performance guarantee and paid business commission for FY 2017

PART II -ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT

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

Not applicable

15. Reconciliations of K-IFRS with IFRS

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

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

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

Based on this interpretation, the operating profit (loss) of the Group for 2017 and 2016 shall be adjusted as below:

(In thousands of US dollars)

	The Group	
	2017	2016
Operating profit(loss) In K-IFRS	172,422	144,780
Adjustment :		
Gain on sale of vessels, property and equipment	3	3,399
Loss on sale of vessels, property and equipment	(1,729)	(7,428)
Gain on impairment of vessels, property and equipment	0	0
Loss on impairment of vessels, property and equipment	0	(114,554)
Gain on sale of Intangible assets	233	0
Loss on sale of Intangible assets	(11)	0
Gain (loss) on valuation of derivatives, net	2,814	1,628
Gain (loss) on derivative transactions, net	(568)	2,551
Gain (loss) on foreign currency translations, net	1,599	(1,276)
Gain (loss) on foreign currency transactions, net	(841)	1,769
Expense of provision and marine accident	(9,693)	12,132
Donations	(27)	(82)
Allowance for (reversal of) doubtful accounts	-	(1,500)
Other	1,154	(627)
Operating profit(loss) In IFRS	165,356	40,792