

Financial Statement and Dividend Announcement for the Period Ended 30 June 2016

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENT OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group (2nd Quarter) 3 months ended			Group (Year-to-date) 6 months ended		
	30.06.2016	30.06.2015	Increase/ (Decrease)	30.06.2016	30.06.2015	Increase/ (Decrease)
	\$'000	\$'000 Restated*		\$'000	\$'000 Restated*	
Revenue	12,866	20,808	(38.2%)	21,715	55,899	(61.2%)
Cost of sales	(17,858)	(35,252)	(49.3%)	(37,982)	(71,498)	(46.9%)
Gross loss	(4,992)	(14,444)	(65.4%)	(16,267)	(15,599)	4.3%
Other income	44	1,132	(96.1%)	217	1,286	(83.1%)
Administrative expenses	(5,546)	(7,133)	(22.2%)	(10,829)	(14,354)	(24.6%)
Other operating expenses	(16,017)	(5,371)	198.2%	(17,660)	(6,855)	157.6%
Results from operating activities	(26,511)	(25,816)	2.7%	(44,539)	(35,522)	25.4%
Finance income	1,463	709	106.3%	2,786	1,402	98.7%
Finance costs	(5,026)	(4,970)	1.1%	(10,175)	(9,874)	3.0%
Share of results of joint ventures (net of tax)	(4,923)	(41)	11907.3%	(11,048)	4,036	N/M
Loss before tax	(34,997)	(30,118)	16.2%	(62,976)	(39,958)	57.6%
Income tax (expense)/ credit	(246)	493	N/M	(482)	420	N/M
Loss for the period	(35,243)	(29,625)	19.0%	(63,458)	(39,538)	60.5%
Results attributable to:						
Owners of the Company	(31,453)	(25,217)	24.7%	(55,189)	(33,706)	63.7%
Non-controlling interests	(3,790)	(4,408)	(14.0%)	(8,269)	(5,832)	41.8%
Loss for the period	(35,243)	(29,625)	19.0%	(63,458)	(39,538)	60.5%

* In 2015, the Group ceased reclassifying rig depreciation and direct rig costs from "cost of sales" to "other operating expenses" during off-charter periods.

N/M – Not Meaningful

See paragraph 8 for more explanation on the income statement review

1(a)(i) Profit/(Loss) for the period is arrived at after crediting/(charging):-

	Group (2nd quarter)			Group (Year-to-date)		
	<u>3 months ended</u>		Increase/ (Decrease)	<u>6 months ended</u>		Increase/ (Decrease)
	<u>30.06.2016</u>	<u>30.06.2015</u>		<u>30.06.2016</u>	<u>30.06.2015</u>	
	\$'000	\$'000		\$'000	\$'000	
Amortisation of intangible assets	(56)	(134)	(58.2%)	(114)	(261)	(56.3%)
Depreciation of plant and equipment	(7,638)	(12,694)	(39.8%)	(17,215)	(24,955)	(31.0%)
Impairment loss on plant and equipment	-	(3,856)	N/M	-	(3,856)	N/M
Additional write down of assets held for sale	(1,441)	-	N/M	(1,441)	-	N/M
Finance costs on convertible bonds	(1,522)	(1,461)	4.2%	(3,288)	(3,196)	2.9%
Interest expense on borrowings	(3,504)	(3,509)	(0.1%)	(6,887)	(6,678)	3.1%
Foreign exchange (loss)/gain	(354)	101	N/M	(230)	946	N/M
Loss on disposal of plant and equipment	(13,073)	-	N/M	(13,073)	-	N/M
Plant and equipment written off	1	-	N/M	-	-	N/M
Loss on liquidation of subsidiaries	(431)	-	N/M	(431)	-	N/M
Adjustments for under or overprovision of tax in respect of prior years	-	626	N/M	(90)	569	N/M

N/M – Not Meaningful

See paragraph 8 for more explanation on the income statement review

1(b) 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.

	Group		Company	
	30.06.2016 \$'000	31.12.2015 \$'000	30.06.2016 \$'000	31.12.2015 \$'000
Current Assets				
Cash and cash equivalents	17,581	19,422	2,533	2,916
Amounts due from subsidiaries	-	-	256	1,164
Amounts due from joint ventures	5	441	4	22
Trade receivables	15,647	22,795	-	-
Contract work-in-progress	220	904	-	-
Inventories	224	235	-	-
Other assets	12,454	13,959	72	89
Assets held for sale	2,429	4,029	-	-
	48,560	61,785	2,865	4,191
Non-Current Assets				
Joint ventures	45,988	52,451	48,707	49,125
Amounts due from joint ventures	75,306	46,128	-	-
Subsidiaries	-	-	156,256	193,121
Plant and equipment	444,981	503,891	444	555
Intangible assets and goodwill	1,123	1,247	-	-
Other assets	3,067	3,144	301	301
Deferred tax assets	1,281	1,342	-	-
	571,746	608,203	205,708	243,102
Total assets	620,306	669,988	208,573	247,293
Current Liabilities				
Trade and other payables	31,434	28,418	1,628	1,844
Amounts due to joint venture	230	4,090	32	3,700
Amounts due to subsidiaries	-	-	18,923	7,236
Provision for current tax	8,859	10,418	1,182	1,234
Financial liabilities	237,964	368,711	73,084	69,022
	278,487	411,637	94,849	83,036
Non-Current Liabilities				
Trade and other payables	1,800	1,754	-	-
Financial liabilities	165,042	15,870	-	4,950
Deferred tax liabilities	35	69	23	57
Provision for loss from joint ventures	36,389	29,884	-	-
	203,266	47,577	23	5,007
Total liabilities	481,753	459,214	94,872	88,043
Net assets	138,553	210,774	113,701	159,250
Equity Attributable to Owners of the Company:				
Share capital	359,973	359,973	359,973	359,973
Equity reserve	17,685	17,685	17,685	17,685
Treasury shares	(26,365)	(26,365)	(26,365)	(26,365)
Foreign currency translation reserve	(18,074)	(11,238)	-	-
Other reserve	(3,750)	(3,750)	-	-
Accumulated losses	(229,284)	(174,095)	(237,592)	(192,043)
	100,185	162,210	113,701	159,250
Non-controlling interests	38,368	48,564	-	-
Total equity	138,553	210,774	113,701	159,250

See paragraph 8 for more explanation on the balance sheet review

1(b) (i) Aggregate amount of group's borrowings and debt securities

Amount repayable in one year or less, or on demand

	Group 30.06.2016	Group 31.12.2015
	\$'000	\$'000
Secured	164,880	298,875
Unsecured	73,084	69,836
Total	<u>237,964</u>	<u>368,711</u>

Amount repayable after one year

	Group 30.06.2016	Group 31.12.2015
	\$'000	\$'000
Secured	165,042	10,920
Unsecured	-	4,950
Total	<u>165,042</u>	<u>15,870</u>

Included in unsecured loans repayable within one year as at 30 June 2016 is an amount of \$12,985,000 relating to a loan from a related party (31 December 2015: \$0).

Details of the collaterals:

Secured borrowings are generally bank loans secured on plant and equipment and pledge of cash deposits in the borrowing companies. Unsecured borrowings include convertible bonds issued by the Company.

1(c) **A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding year.**

	Group (6 months ended)	
	<u>30.06.2016</u>	<u>30.06.2015</u>
	\$'000	\$'000
<u>Operating activities</u>		
Loss before tax	(62,976)	(39,958)
Adjustments for:		
Amortisation of intangible assets	114	261
Depreciation of plant and equipment	17,215	24,955
Impairment loss on plant and equipment	-	3,856
Loss on disposal of plant and equipment	13,073	-
Loss on liquidation of subsidiaries	431	-
Additional write down of assets held for sale	1,441	-
Interest income	(2,786)	(1,402)
Interest expense	6,887	6,678
Finance cost on convertible bonds	3,288	3,196
Share of results of joint ventures	11,048	(4,036)
Operating loss before changes in working capital	<u>(12,265)</u>	<u>(6,450)</u>
Changes in working capital:		
Inventories and contract work-in-progress	684	(163)
Trade receivables	6,438	37,618
Other current assets	2,394	8,186
Trade and other payables	(1,081)	(22,355)
Cash (used in)/generated from operations	<u>(3,830)</u>	<u>16,836</u>
Tax paid	<u>(1,903)</u>	<u>(2,227)</u>
Cash flows (used in)/generated from operating activities	<u>(5,733)</u>	<u>14,609</u>
<u>Investing activities</u>		
(Increase)/decrease in non-trade receivables with joint ventures and related parties	(29,564)	600
Dividends received	-	4,017
Interest received	172	1,401
Payments for purchase of plant and equipment	(859)	(4,715)
Proceeds from disposal of plant and equipment	1,089	-
Refund of deposit paid	6,720	-
Payments for purchase of intangible assets	(9)	(58)
Cash flows (used in)/generated from investing activities	<u>(22,451)</u>	<u>1,245</u>
<u>Financing activities</u>		
Decrease in non-trade payables with joint ventures and related parties	-	(32)
Loans from related parties	12,985	-
Proceeds from bills payable to bank	-	191
Repayment of bills payable to bank	(814)	(472)
Decrease in deposits pledged	1,198	2,882
Interest paid on borrowings	(5,263)	(6,737)
Interest paid on convertible bonds	(1,503)	(1,605)
Repayment of finance lease liabilities	-	(5)
Proceeds from bank loans	63,108	12,350
Repayment of bank loans	(43,446)	(41,763)
Repayment of convertible bonds, excluding interest	-	(18,445)
Cash flows generated from/(used in) financing activities	<u>26,265</u>	<u>(53,636)</u>
Net decrease in cash and cash equivalents	<u>(1,919)</u>	<u>(37,782)</u>
Cash and cash equivalents at beginning of the period	15,869	64,363
Effect of exchange rate changes on balances held in foreign currencies	1,276	418
Cash and cash equivalents at end of the period	<u>15,226</u>	<u>26,999</u>
Cash and cash equivalents at end of the period includes the following:		
Cash and cash equivalents	17,581	37,964
Deposits pledged	(2,355)	(10,965)
Cash and cash equivalents at end of the period	<u>15,226</u>	<u>26,999</u>

See paragraph 8 for explanation on the statement of cash flow review

1(d) Statement of Comprehensive Income

	Group (Year-to-date)		Increase/ (Decrease)
	6 months ended		
	30.06.2016	30.06.2015	
	\$'000	\$'000	%
Loss attributable to:			
Owners of the Company	(55,189)	(33,706)	63.7
Non-controlling interests	(8,269)	(5,832)	41.8
Loss for the period	(63,458)	(39,538)	60.5
Other comprehensive (expense)/income for the period:			
Foreign currency translation differences on translation of financial statements of foreign subsidiaries	(8,763)	7,128	N/M
Other comprehensive (expense)/income for the period	(8,763)	7,128	N/M
Total comprehensive expense for the period	(72,221)	(32,410)	122.8
Total comprehensive expense attributable to:			
Owners of the Company	(62,025)	(27,955)	121.9
Non-controlling interests	(10,196)	(4,455)	128.9
Total comprehensive expense for the period	(72,221)	(32,410)	122.8

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

Group	Share capital	Equity reserve	Treasury shares	Foreign currency translation reserve	Share based compensation reserve	Other reserve	Accumulated losses/(profits)	Total attributable to owners of the Company	Non-controlling Interests	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2016	359,973	17,685	(26,365)	(11,238)	-	(3,750)	(174,095)	162,210	48,564	210,774
Loss for the period	-	-	-	-	-	-	(55,189)	(55,189)	(8,269)	(63,458)
Other comprehensive expense										
Exchange differences on translation of financial statements of foreign operations, and monetary items which form part of net investment in foreign operations	-	-	-	(6,836)	-	-	-	(6,836)	(1,927)	(8,763)
Total other comprehensive expense	-	-	-	(6,836)	-	-	-	(6,836)	(1,927)	(8,763)
Total comprehensive expense for the period	-	-	-	(6,836)	-	-	(55,189)	(62,025)	(10,196)	(72,221)
At 30 June 2016	359,973	17,685	(26,365)	(18,074)	-	(3,750)	(229,284)	100,185	38,368	138,553
At 1 January 2015	359,973	24,717	(34,510)	(31,353)	-	(3,750)	55,575	370,652	74,404	445,056
Loss for the period	-	-	-	-	-	-	(33,706)	(33,706)	(5,832)	(39,538)
Other comprehensive expense										
Exchange differences on translation of financial statements of foreign operations, and monetary items which form part of net investment in foreign operations	-	-	-	5,751	-	-	-	5,751	1,377	7,128
Total other comprehensive income	-	-	-	5,751	-	-	-	5,751	1,377	7,128
Total comprehensive expense for the period	-	-	-	5,751	-	-	(33,706)	(27,955)	(4,455)	(32,410)
Transactions with owners of the Company, recognised directly in equity										
Contributions by and distributions to owners of the Company										
Share based payment transactions	-	-	-	-	438	-	-	438	-	438
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	135	135
Total contributions by and distributions to owners of the Company	-	-	-	-	438	-	-	438	135	573
At 30 June 2015	359,973	24,717	(34,510)	(25,602)	438	(3,750)	21,869	343,135	70,084	413,219

<u>Company</u>	Share capital	Equity reserve	Treasury shares	Share based compensation reserve	Accumulated losses	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2016	359,973	17,685	(26,365)	-	(192,043)	159,250
Loss for the period	-	-	-	-	(45,549)	(45,549)
Total comprehensive expense for the period	-	-	-	-	(45,549)	(45,549)
At 30 June 2016	359,973	17,685	(26,365)	-	(237,592)	113,701
At 1 January 2015	359,973	24,717	(34,510)	-	(47,026)	303,154
Profit for the period	-	-	-	-	166	166
Total comprehensive expense for the period	-	-	-	-	166	166
Share based payment transactions	-	-	-	438	-	438
Total contributions by and distributions to owners of the Company	-	-	-	438	-	438
At 30 June 2015	359,973	24,717	(34,510)	438	(46,860)	303,758

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 well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, 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.

There was no change in the Company's issued and paid-up capital for the period from 1 January 2016 to 30 June 2016.

As at 30 June 2016, the number of ordinary shares in issue was 524,240,215 of which 8,639,000 were held by the Company as treasury shares (31 December 2015: 524,240,215 ordinary shares of which 8,639,000 were held as treasury shares).

Convertible Bonds

On 26 March 2010, the Company issued \$50 million of 3.0% convertible bonds with a maturity in March 2015 (the "2015 Bonds"). On 14 May 2010, the Company issued \$57 million additional 2015 Bonds. The 2015 Bonds were initially convertible into 66,875,000 fully-paid ordinary shares of the Company at an initial conversion price of \$1.60 per new share.

On 26 March 2013, the Company redeemed \$90 million in principal amount of the 2015 Bonds. The Company fully redeemed the remaining \$17 million face value of 2015 Bonds at maturity on 26 March 2015.

On 21 March 2013, the Company issued \$45 million of 6.0% convertible bonds with a maturity in March 2016 (the "2016 Bonds"). As at 30 June 2016, the Company has \$45 million face value of 2016 Bonds outstanding which are convertible into 54,216,720 fully-paid ordinary shares of the Company at a conversion price of \$0.83 per new share. On 15 March 2016 and 20 June 2016, the Company announced that it had entered into supplemental trust deeds relating to the 2016 Bonds pursuant to which the maturity date of the 2016 Bonds had been extended to 21 September 2016 and the redemption price payable on the amended maturity date, unless previously redeemed, converted or purchased and cancelled, has been increased to 117.70% of the face value.

On 19 November 2015, the Company issued \$7.5 million of 6.0% convertible bonds with a maturity in September 2016 (the "September 2016 Bonds"). As at 30 June 2016, the Company has \$7.5 million face value of September 2016 Bonds outstanding which are convertible into 26,785,710 fully-paid ordinary shares of the Company at a conversion price of \$0.28 per new share.

As at 30 June 2016, the convertible bonds outstanding are convertible into 81,002,430 fully-paid ordinary shares of the Company (31 December 2015: 81,002,430 ordinary shares).

KS Energy Performance Share Plan (the "Plan")

As at 30 June 2016, there were no outstanding shares issued under the Plan which was approved by the shareholders of the Company on 2 July 2009. On 6 March 2015, pursuant to Rule 704(29) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Company granted 2,669,000 share awards to senior management, pursuant to the Plan. The closing price of the Company's shares on the award date was \$0.375. All 2,669,000 share awards vested in December 2015.

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.

As at 30 June 2016, the share capital less treasury shares of the Company was 515,601,215 ordinary shares (524,240,215 issued ordinary shares less 8,639,000 treasury shares).

As at 31 December 2015, the share capital less treasury shares of the Company was 515,601,215 ordinary shares (524,240,215 issued ordinary shares less 8,639,000 treasury shares).

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

The movement of treasury shares is as follows:

As at 1 January 2016:	8,639,000 shares
Purchase of treasury shares:	Nil
As at 30 June 2016:	8,639,000 shares

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

The figures have not been audited or reviewed by the Company's auditors.

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.

Except as disclosed under item 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as those applied for the audited financial statements for the financial year ended 31 December 2015.

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.

In the current financial period, the Group adopted all the applicable new and revised Singapore Financial Reporting Standards ("FRSs") and related Interpretations ("INT FRSs") that are relevant to its operations and effective for annual periods beginning on 1 January 2016. The adoption of these new/revised FRSs and INT FRSs does not result in changes to the Group's accounting policies and has no material effect on the financial statements.

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.

	Group (2nd Quarter) 3 months ended		Group (Year-to-date) 6 months ended	
	<u>30.06.2016</u>	<u>30.06.2015</u>	<u>30.06.2016</u>	<u>30.06.2015</u>
Earnings per ordinary share:	Cents	Cents	Cents	Cents
(a) Based on weighted average number of ordinary shares in issue	-6.10	-4.92	-10.70	-6.57
(b) On a fully diluted basis	-6.10	-4.92	-10.70	-6.57

The basic and diluted earnings per share for the three months ended 30 June 2016 was calculated by dividing the loss attributable to shareholders of \$31,453,000 (30.06.2015: \$25,217,000) by the weighted average number of shares of 515,601,215 (30.06.2015: 512,932,215) in issue during the financial period.

The basic and diluted earnings per share for the six months ended 30 June 2016 was calculated by dividing the loss attributable to shareholders of \$55,189,000 (30.06.2015: \$33,706,000) by the weighted average number of shares of 515,601,215 (30.06.2015: 512,932,215) in issue during the financial period.

The earnings per share computation has taken into consideration the following:

- (i) The issue of 2,669,000 treasury shares under the Plan on 4th December 2015.
- (ii) The diluted earnings per share computations have not taken into consideration the effects of outstanding convertible bonds as they are anti-dilutive pursuant to para 41 of FRS 33.

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

- (a) current financial period reported on; and**
- (b) immediately preceding financial year**

	Group		Company	
	<u>30.06.2016</u>	<u>31.12.2015</u>	<u>30.06.2016</u>	<u>31.12.2015</u>
	Cents	Cents	Cents	Cents
Net asset value per ordinary share based on existing issued share capital as at the end of the period reported on	<u>19.4</u>	<u>31.5</u>	<u>22.1</u>	<u>30.9</u>

Net asset value per ordinary share is calculated by dividing the equity attributable to the owners of the Company (excluding non-controlling interests) of \$100,185,000 (31.12.2015: \$162,210,000) by the number of ordinary shares issued as at 30 June 2016 of 515,601,215 (31.12.2015: 515,601,215).

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.

INCOME STATEMENT REVIEW

Financial period ended 30 June 2016

	Group (2nd Quarter)			Group (Year-to-date)		
	<u>3 months ended</u>			<u>6 months ended</u>		
	<u>30.06.2016</u>	<u>30.06.2015</u>	<u>Change</u>	<u>30.06.2016</u>	<u>30.06.2015</u>	<u>Change</u>
Revenue by segment	\$'000	\$'000		\$'000	\$'000	
Drilling	10,374	18,311	(43.3%)	17,758	52,776	(66.4%)
Engineering	2,492	2,770	(10.0%)	3,957	2,867	38.0%
Corporate	-	-	N/M	-	797	N/M
Less: Inter-segment revenue	-	(273)	N/M	-	(541)	N/M
	<u>12,866</u>	<u>20,808</u>	<u>(38.2%)</u>	<u>21,715</u>	<u>55,899</u>	<u>(61.2%)</u>

Overview

The financial results reflect the continuing weak operating conditions across the oil and gas services sector.

Results for the three months ended 30 June 2016 ("Q2 2016")

Consolidated revenue was \$12.9 million in Q2 2016, a decrease of \$7.9 million, or 38.2%, below that of \$20.8 million reported for the three months ended 30 June 2015 ("Q2 2015") mainly due to lower revenue from the Drilling business following the completion of some charter contracts.

Consolidated loss after tax was \$35.2 million for Q2 2016 compared to consolidated loss after tax of \$29.6 million reported for Q2 2015. The larger loss after tax for Q2 2016 was mainly due to the \$13.1 million loss recorded on the disposal of plant and equipment during the quarter and a negative shift in results from joint ventures despite the lower costs in Q2 2016 compared to Q2 2015.

Results for the six months ended 30 June 2016 ("6M 2016")

Consolidated revenue was \$21.7 million in 6M 2016, a decrease of \$34.2 million, or 61.2%, below that of \$55.9 million reported for the six months ended 30 June 2015 ("6M 2015") mainly due to the lower revenue from the Drilling business following the completion of some charter contracts.

Consolidated loss after tax was \$63.5 million for 6M 2016 compared to consolidated loss after tax of \$39.5 million reported for 6M 2015. The loss after tax for 6M 2016 was mainly due to the \$13.1 million loss recorded on the disposal of plant and equipment during the period and a negative shift in results from joint ventures.

Revenue

Revenue from the Drilling business decreased \$7.9 million, or 43.3%, from \$18.3 million for Q2 2015 to \$10.4 million for Q2 2016 and decreased \$35.0 million, or 66.4%, from \$52.8 million for 6M 2015 to \$17.8 million for 6M 2016. The drop in revenue was mainly due to lower fleet utilisation in Q2 2016 and 6M 2016. Revenue contribution from the Drilling business made up about 80.6% of the Group's consolidated revenue for Q2 2016 and 81.8% for 6M 2016.

Revenue from the Engineering business decreased \$0.3 million, or 10.0%, from \$2.8 million for Q2 2015 to \$2.5 million for Q2 2016 but increased \$1.1 million, or 38.0%, from \$2.9 million for 6M 2015 to \$4.0 million for

6M 2016. Revenue contribution from the Engineering business made up about 19.4% of the Group's consolidated revenue for Q2 2016 and 18.2% for 6M 2016.

Revenue generated by the Group but not attributable to either the Drilling or the Engineering segment decreased by \$0.8 million, or 100.0%, from \$0.8 million for 6M 2015 to \$Nil for 6M 2016 following the completion of charter contracts.

Gross Loss

The Group's gross loss was \$5.0 million for Q2 2016, a decrease of \$9.4 million below that of \$14.4 million reported for Q2 2015. The smaller gross loss in Q2 2016 occurred due to the \$17.4 million decrease in cost of sales on the \$7.9 million drop in revenue. Cost of sales includes certain fixed costs associated with our fleet of rigs such as depreciation which decreased from \$12.7 million in Q2 2015 to \$7.6 million in Q2 2016.

The Group's gross loss was \$16.3 million for 6M 2016, an increase of \$0.7 million above that of \$15.6 million reported for 6M 2015. The slightly higher gross loss in 6M 2016 occurred as the decrease in revenue outpaced the decrease in cost of sales. Cost of sales includes certain fixed costs associated with our fleet of rigs such as depreciation which decreased from \$25.0 million in 6M 2015 to \$17.2 million in 6M 2016.

The lower depreciation charges in Q2 2016 and 6M 2016 compared to Q2 2015 and 6M 2015 are attributable to the disposal of plant and equipment in Q2 2016 and the impairment charges booked on plant and equipment during 2015.

The Group's gross loss margin increased from 27.9% in 6M 2015 to 74.9% in 6M 2016.

Other Income

Other income decreased from \$1.1 million for Q2 2015 to \$0.04 million for Q2 2016 and from \$1.3 million for 6M 2015 to \$0.2 million for 6M 2016. Other income mainly comprised income not directly related to the revenue generated from our day-to-day operations.

Operating Expenses

Administrative expenses decreased \$1.6 million from \$7.1 million in Q2 2015 to \$5.5 million in Q2 2016 mainly due to reduced staff costs. Similarly, administrative expenses decreased \$3.6 million, from \$14.4 million in 6M 2015 to \$10.8 million in 6M 2016, for the same reason.

Other operating expenses increased by \$10.6 million from \$5.4 million in Q2 2015 to \$16.0 million in Q2 2016 mainly due to a loss on disposal of plant and equipment of \$13.1 million in Q2 2016 compared to a loss on impairment of plant and equipment of \$3.9 million in Q2 2015. Other operating expenses increased \$10.8 million from \$6.9 million in 6M 2015 to \$17.7 million in 6M 2016, for the same reasons.

Finance Income and Costs

Finance income increased from \$0.7 million in Q2 2015 to \$1.5 million in Q2 2016 and increased from \$1.4 million in 6M 2015 to \$2.8 million 6M 2016. The finance income is mainly derived from interest income on loans provided to a joint venture and additional loans have been provided in Q1 2016.

Finance costs were unchanged at \$5.0 million in Q2 2016 but have increased \$0.3 million from \$9.9 million in 6M 2015 to \$10.2 million in 6M 2016 as borrowings have increased during 2016.

Share of results of Joint Ventures

The Group's share of results from joint ventures decreased \$4.9 million from a \$0.04 million loss for Q2 2015 to a \$4.9 million loss for Q2 2016. The loss in Q2 2016 is mainly due to losses recorded by the Distribution business and a jointly held drilling rig. The Group's share of results from KS Distribution improved by \$1.0 million from a loss of \$1.8 million for Q2 2015 to a loss of \$0.8 million for Q2 2016.

The Group's share of results from joint ventures decreased \$15.0 million from a \$4.0 million profit for 6M 2015 to an \$11.0 million loss for 6M 2016. The loss in 6M 2016 is mainly due to losses recorded by the Distribution business and a jointly held drilling rig. The Group's share of results from the KS Distribution Group decreased by \$3.2 million from a profit of \$0.5 million for 6M 2015 to a loss of \$2.7 million for 6M 2016.

Tax expense

The tax expense decreased from a credit of \$0.5 million in Q2 2015 to an expense of \$0.2 million in Q2 2016 and decreased from credit of \$0.4 million in 6M 2015 to an expense of \$0.5 million in 6M 2016. The tax credit in Q2 2015 and 6M 2015 was due to a maturing convertible bond.

Result Attributable to Shareholders

The result attributable to the owners of the Group slipped from a loss of \$25.2 million in Q2 2015 to a loss of \$31.5 million in Q2 2016 and from a loss of \$33.7 million in 6M 2015 to a loss of \$55.2 million in 6M 2016.

STATEMENT OF FINANCIAL POSITION REVIEW

The Group's total non-current assets decreased from \$608.2 million as at 31 December 2015 to \$571.7 million as at 30 June 2016. Non-current assets mainly comprise plant and equipment in our Drilling business. The carrying value of the rig fleet decreased from \$425.5 million as at 31 December 2015 to \$376.9 million as at 30 June 2016, due to depreciation charges, the disposal of plant and equipment and foreign exchange impacts.

The carrying value of joint ventures decreased 12.4% from \$52.5 million as at 31 December 2015 to \$46.0 million as at 30 June 2016 mainly due to the Group's share of results from the joint ventures and the liquidation of a joint venture. Joint ventures comprise the 55.35% equity interest in KS Distribution Pte Ltd, with a carrying amount of \$46.0 million as at 30 June 2016.

Within non-current assets, amounts due from joint ventures increased by \$29.2 million to \$75.3 million as at 30 June 2016 from \$46.1 million as at 31 December 2015. This increase was mainly due to the advance of additional loans during Q1 2016 totalling \$27.6 million to our joint venture company called PT Java Star Rig for it to settle a customs bond obligation and scheduled debt repayments. More details of the customs bond obligation were announced by the Company on 1 March 2016.

Total current assets decreased 21.4% from \$61.8 million as at 31 December 2015 to \$48.6 million as at 30 June 2016. The decrease in current assets was mainly due to lower trade receivables and lower cash and cash equivalents. Trade receivables decreased \$7.2 million from \$22.8 million as at 31 December 2015 to \$15.6 million as at 30 June 2016 due to lower revenues over the period. Cash and cash equivalents decreased \$1.8 million from \$19.4 million as at 31 December 2015 to \$17.6 million as at 30 June 2016.

The carrying value of assets held for sale as at 30 June 2016 was \$2.4 million (31 December 2015: \$4.0 million) and relates to a drilling rig which is currently under negotiation with a potential buyer.

The breakdown of "other current assets" is shown below:

	30.06.2016 \$'000	31.12.2015 \$'000	Movement \$'000
Detailed breakdown:			
Sundry Deposits	382	626	(244)
Withholding tax recoverable	1,888	2,841	(953)
Value-added tax receivable	6,851	7,915	(1,064)
Other debtors	2,699	1,298	1,401
Prepayments	634	1,279	(645)
Other Current Assets	12,454	13,959	(1,505)

The decrease in other current assets was mainly due to lower amount of “value-added tax receivable”, “withholding tax recoverable”, “prepayments” and “sundry deposits” offset with higher amounts under “other debtors” as at 30 June 2016 compared to 31 December 2015. These balances mainly originate from our Drilling business and are routine in nature.

Total liabilities increased \$22.6 million, or 4.9%, from \$459.2 million as at 31 December 2015 to \$481.8 million as at 30 June 2016. This was principally attributable to an \$18.4 million increase in total borrowings from \$384.6 million as at 31 December 2015 to \$403.0 million as at 30 June 2016.

Within current liabilities, amounts due to joint ventures reduced from \$4.1 million as at 31 December 2015 to \$0.2 million as at 30 June 2016 due to the liquidation of a joint venture in Q1 2016.

As at 30 June 2016, the Group and Company were in a net current liability position (current liabilities exceeded current assets) of \$229.9 million and \$92.0 million respectively. As at 31 December 2015, the Group and Company were in a net current liability position (current liabilities exceeded current assets) of \$349.9 million and \$78.8 million respectively. The net current liability position as at 31 December 2015 was significantly impacted by the reclassification of \$226.2 million of borrowings scheduled for repayment after 2016 but held as current liabilities as at 31 December 2015. As at 30 June 2016, a similar reclassification was not required following the receipt of a waiver for the breach of financial covenants from the lending institution.

Improving the net current liability position of the Group and Company is a key concern for the Company. As previously detailed in the announcement made by the Company on 30 March 2016 and in the 2015 Annual Report in respect of the financial statements for the period ended 31 December 2015, the financial statements for the period ended 30 June 2016 have also been prepared on a going concern basis, the validity of which is premised on the continuing availability of credit facilities to the Group for at least another twelve months from the reporting date, and the sufficiency of cash flows to be generated from (i) the Group’s operating activities, (ii) asset divestment plans and (iii) other financing plans.

i. Operating cash flow forecast

The Group expects to raise positive cash flows from existing rig charter contracts which include extended charters from renewal options to be exercised by the customers, and prospective rig charter contracts. The eventual conclusion and the timing of execution of several rig charter contracts are currently subject to on-going negotiations with prospective customers as well as the exercise of the renewal options by existing customers. The operating cash flow forecast are derived from the chartering cash flow forecast, the forecast for other operating costs and the forecast for changes in working capital.

ii. Assets divestment plans

The Group plans to divest certain non-core assets.

iii. Financing plans

The Group plans to refinance the \$45.0 million of 6.0% convertible bonds and the \$7.5 million of 6.0% convertible bonds maturing in September 2016 and the secured borrowings repayable in the next 12 months. These plans, together with the operating activities and asset divestment plans are expected to allow the Group to meet the \$238.0 million of current borrowings as and when they fall due. Other plans include a rights issue should there be a need for further funding to meet the Group's debt obligations as and when they fall due.

The Group's net gearing (defined as net borrowings to total equity) increased to 2.78 as at 30 June 2016 from 1.73 as at 31 December 2015. Similarly, the Group's debt ratio (defined as net borrowings to total assets) increased to 0.62 as at 30 June 2016 from 0.45 as at 31 December 2015.

The equity attributable to the owners of the Company decreased \$62.0 million from \$162.2 million as at 31 December 2015 to \$100.2 million as at 30 June 2016. The decrease was mainly due to the loss after tax and non-controlling interests during Q2 2016 and due to foreign exchange losses.

Secured current borrowings decreased \$134.0 million from \$298.9 million as at 31 December 2015 to \$164.9 million as at 30 June 2016 whereas secured non-current borrowings increased \$154.1 million from \$10.9 million as at 31 December 2015 to \$165.0 million as at 30 June 2016. As at 31 December 2015, \$226.2 million of borrowings scheduled for repayment after 2016 were held as current liabilities due to a breach of financial covenants. As at 30 June 2016, a waiver for the breach has been obtained from the lending institution so amounts scheduled for repayment after more than one year are classified as non-current liabilities as usual. Included within secured current borrowings as at 30 June 2016 is an amount of \$92.3 million which is due for repayment in early 2017.

Unsecured current borrowings increased from \$69.8 million as at 31 December 2015 to \$73.1 million as at 30 June 2016. The balance as at 30 June 2016 was principally due to an aggregate principal amount of \$45.0 million of 6.0% convertible bonds due in September 2016, an aggregate principal amount of \$7.5 million of 6.0% convertible bonds also due in September 2016 and \$13.0 million of loans from a related party.

Unsecured non-current borrowings decreased from \$5.0 million as at 31 December 2015 to \$Nil million as at 30 June 2016 due to the repayment of a corporate term loan during Q2 2016.

STATEMENT OF CASH FLOWS REVIEW

As at 30 June 2016, cash and cash equivalents amounted to \$17.6 million (30 June 2015: \$38.0 million), of which unpledged cash and cash equivalents amounted to \$15.2 million (30 June 2015: \$27.0 million).

Cash Flow from Operating Activities

Operating activities generated a net cash outflow of \$5.7 million for the six months ended 30 June 2016. The net cash flow from operating activities comprised a cash outflow of \$12.3 million arising due to an operating loss before changes in working capital; a cash inflow of \$8.4 million arising due to changes in working capital; and a cash outflow of \$1.9 million arising due to income taxes paid.

Cash Flow from Investing Activities

The net cash flow from investing activities amounted to an outflow of \$22.5 million for the six months ended 30 June 2016. This was attributable mainly to an increase in non-trade receivables from joint ventures and related parties which generated a cash outflow of \$29.6 million and the purchase of plant and equipment which generated a cash outflow of \$0.9 million. The refund of a deposit paid generated a cash inflow of \$6.7 million and the proceeds from the disposal of plant and equipment generated a cash inflow of \$1.1 million.

Cash Flow from Financing Activities

The net cash flow from financing activities amounted to an inflow of \$26.3 million for the six months ended 30 June 2016. The aggregate repayment of bank loans during 6M 2016 amounted to \$43.4 million and the

aggregate proceeds from new bank loans entered into during 6M 2016 totalled \$63.1 million. A net cash inflow of \$13.0 million was generated from the execution of loans from a related party, Pacific One Energy Limited, our majority shareholder. Interest paid on loans and convertible bonds during 6M 2016 generated a cash outflow of \$6.8 million. The reduction of deposits pledged generated a cash inflow of \$1.2 million in 6M 2016.

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

No forecast was made. However, the Group's performance for Q2 2016 was in line with the views expressed in a statement in Paragraph 10 of the Company's previous results announcement dated 13 May 2016.

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.

The outlook for the offshore services sector continues to be affected by the volatility of oil prices which has reduced the demand for the rigs and related services. However, the Group believes the long term economic fundamentals remain supportive for oil and gas services.

The Group seeks to manage our balance sheet to improve its financial position.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

No.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

No.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

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

Not applicable.

13. Interested persons transactions

The Group has the following interested person transactions (“IPT”) for the six months ended 30 June 2016:

Name of Interested Person	Aggregate value of all IPTs 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 IPTs conducted under shareholders’ mandates pursuant to Rule 920 during the financial year under review (excluding transactions less than \$100,000)
<p>PT Dwi Sumber Arca Waja, its subsidiaries and its associates (“DSAW Group”)</p> <ul style="list-style-type: none"> Provision of goods and services to and from the DSAW Group 	-	SGD 140,648
<p>PT KS Drilling Indonesia and its subsidiaries (“JVC Group”)</p> <ul style="list-style-type: none"> Shareholder loan provided for the settlement of the corporate guarantee extended in favour of banks in respect of import duty bond extended by JVC Group, including issuance fees * Interest on shareholder loan pursuant to the guarantee issued for custom bond on behalf of JVC Group. Injection of shareholders’ loan provided by KS Drilling to JVC Group Net injection of funds after repayment of interest , guarantee fees and shareholders’ loan provided by KS Drilling to JVC Group Interest bearing loans to JVC Group - Principal , accrued interest and unpaid guarantee fees as at end of period ** Corporate guarantees extended in favour of banks in respect of loan facilities extended to JVC Group - Principal and accrued interest in respect of the bank loan facilities as at end of period *** 	<p style="text-align: center;">SGD 15,340,216</p> <p style="text-align: center;">SGD 1,085,746</p> <p style="text-align: center;">-</p> <p style="text-align: center;">-</p> <p style="text-align: center;">USD 14,622,511</p> <p style="text-align: center;">-</p>	<p style="text-align: center;">-</p> <p style="text-align: center;">-</p> <p style="text-align: center;">SGD 8,717,040</p> <p style="text-align: center;">USD 7,634,130</p> <p style="text-align: center;">USD 40,752,462</p> <p style="text-align: center;">-</p>

* On 22 January 2016, PT Java Star Rig (a subsidiary of PT KS Drilling Indonesia) was notified that its appeal had been rejected, and the Ministry of Finance of the Republic of Indonesia – Directorate General Customs and Excise commenced the process to call upon the Customs Bond. The Insurer paid the amount due under the Customs Bond, and subsequently called on the Guarantee. The funds were disbursed pursuant to the Guarantee on 4 February 2016. As a result, a debt of US\$ 14,070,000 arose between KS Drilling as creditor and PT Java Star Rig as debtor. This debt would be charged to PT Java Star Rig at an interest rate of 7.0% per annum. (Please refer to the announcement dated 1 March 2016 for more details)

** With reference to the IPT Mandate approved by shareholders at the EGM held on 7 December 2012 and the Circular dated 22 November 2012, the Group provided financing to JVC Group by way of shareholder loans that accrues interest at the rate of 7% per year. The principal amount outstanding in respect of such shareholder loans from KS Drilling Pte Ltd (“KS Drilling”), an 80% subsidiary of the Company, to PT Java Star Rig, to finance the acquisition of the jack-up rig named “KS Java Star” was US\$51.4 million as at 30 June 2016. During the six months ending 30 June 2016 KS Drilling has advanced US\$21,879,923 to PT Java Star Rig.

*** In 2013, KS Drilling extended a corporate guarantee in favour of a bank lending to PT Java Star Rig for 100% of a bank loan facility to finance the jack-up rig named “KS Java Star”. The principal amount outstanding in respect of the bank loan facility has now been fully repaid.

14. Negative confirmation pursuant to Rule 705 (5)

Provided below.

15. Confirmation that the issuer has procured undertakings from all its directors and executive officers under Rule 720(1)

Pursuant to Rule 720(1) of the Listing Manual, the Company has procured undertakings from all its directors, the chief executive officer and the chief financial officer.

BY ORDER OF THE BOARD

Lai Kuan Loong Victor
Company Secretary
12 Aug 2016

NEGATIVE CONFIRMATION BY THE BOARD PURSUANT TO RULE 705(5)

We, Kris Wiluan and Lim Ho Seng, being Directors of KS Energy Limited (the "Company"), do hereby confirm on behalf of the directors of the Company that, to the best of their knowledge, nothing has come to the attention of the board of directors of the Company which may render the financial results for the period ended 30 June 2016 to be false or misleading in any material aspect.

On behalf of the Board of Directors

KRIS TAENAR WILUAN
Executive Chairman and Chief Executive Officer

LIM HO SENG
Director

Singapore, 12 August 2016