KS ENERGY LIMITED
An Integrated Energy Services Hub

RESPONSE TO SGX-ST'S QUERIES ON THE COMPANY'S UNAUDITED FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

The Board of Directors of KS Energy Limited (the "**Company**", together with its subsidiaries, the "**Group**") would like to respond to the questions raised by the SGX-ST on 31 March 2017 in relation to the Company's unaudited Financial Statement and Dividend Announcement for the financial year ended 31 December 2016 ("**FY2016**") announced on 24 February 2017 (the "**Announcement**") as follows:

SGX-ST's question:

1. Page 13: Operating Expenses

   Other operating expenses decreased $56.6 million from $113.5 million in FY2015 to $56.9 million in FY2016, mainly due to a net $38.0 million decrease in **impairment losses on plant and equipment**, a net decrease in impairment losses on joint ventures of $52.9 million and a net decrease in impairment losses on intangible assets and goodwill of $2.4 million offset against a net increase in allowance for doubtful non-trade receivables of $27.9 million, an increase in losses on disposal of plant and equipment of $13.4 million and an increase in write down of $1.4 million on assets held for sale.

   SGX: a) Is the Board satisfied with the reasonableness of the methodologies used to determine the values of the impairment losses on plant and equipment?
   b) Has the Board obtained any independent professional advice such as opinions from an international accounting firm?

Company's response to question 1:

Further to the Announcement, the Company wishes to provide additional comments as follows:

1. (a) We refer to page 13 of the Announcement and the explanation for the decrease in other operating expenses, due, in part, to a net $38.0 million decrease in impairment losses on plant and equipment. As provided on page 2 of the Announcement, the impairment loss on plant and equipment was $11.33 million for FY2016 and $49.37 million for FY2015.

   Items of plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

   The Audit and Risk Management Committee had reviewed the assumptions and methodologies used to determine the recoverable amount, together with the external auditors. The Board is therefore satisfied with the reasonableness of the methodologies used to determine the values of the impairment losses on plant and equipment; and

(b) As mentioned in part (a) above, the Board has obtained independent professional advice from the Company's auditor, KPMG LLP as part of the statutory audit process, which is an international accounting firm.

<u>SGX-ST's question:</u>

2. <u>Page 14: Statement of Financial Position Review</u>

Within non-current assets, amounts due from joint ventures decreased by $10.4 million to $35.7 million as at 31 December 2016 from $46.1 million as at 31 December 2015. During FY2016 the Group advanced loans to a **joint venture** to fund loan repayments that had been guaranteed by the Group and a customs bond obligation (more details of the customs bond obligation were announced by the Company on 1 March 2016). These additional loans, and interest charged on them, increased the amounts due from joint ventures by $37.8 million. However due to losses within the joint venture, an impairment loss of $27.9 million has been recorded against the amounts due from the joint venture. In addition, a provision for losses of $20.1 million booked in FY2015 and relating to the same joint venture has been allocated against the amounts due. These adjustments have reduced the carrying amount of the amounts due from joint ventures as at 31 December 2016 down to $35.7 million.

SGX: a) What is the name of this JV?
b) What is the Company's interest in this JV?
c) What is the amount due from this JV as at 31 December 2016?

<u>Company's response to question 2:</u>

2. (a) The name of the JV is PT Java Star Rig;

(b) The Company's 80.09%-owned subsidiary, KS Drilling Pte Ltd, holds an effective equity interest of 47.0% in the issued share capital of the JV. The Company therefore holds an ultimate equity interest of 37.28% in the issued share capital of the said JV; and

(c) The amount due from the JV to KS Drilling Pte Ltd as at 31 December 2016 was S$83.9 million. However, the net balance of S$35.7 million is after an allowance for impairment of S$48.2 million.

<u>SGX-ST's question:</u>

3. <u>Page 15: Statement of Financial Position Review – Financing Plans</u>

The Group plans to refinance the **convertible bonds** and seeks additional working capital facilities to cover any cash shortfalls during FY2017. These plans, together with the operating activities and asset divestment plans are expected to allow the Group to meet the $85.5 million of current borrowings as and when they fall due.

SGX: a) Please provide details of these convertible bonds.

Company's response to question 3:

3. Please see details of the convertible bonds below:

2013 Convertible Bonds

In 2013, the Company issued 6.00% convertible bonds with a principal amount of $45,000,000 originally due in 2016 ("2013 Convertible Bonds").

The main terms of the issuance are as follows:

a) The 2013 Convertible Bonds were issued at a price of 100% and are convertible into 54.217 million shares of the Company at an initial conversion price of $0.83 per share.

b) The conversion right may be exercised at the option of the bondholder, at any time until the date falling seven days prior to the original maturity date, on or about 21 March 2016, subject to customary closed periods.

c) Unless previously redeemed, converted or purchased and cancelled, the 2013 Convertible Bonds will be redeemed by the Company at 121.75% of their principal amount together with unpaid accrued interest thereon on the extended maturity date on 21 June 2017 (the original maturity date was 21 March 2016).

d) The 2013 Convertible Bonds bear interest at the rate of 6.00% per annum, payable on a semi-annual basis.

e) The yield-to-maturity is approximately 11% per annum, calculated on a semi-annual basis.

f) The 2013 Convertible Bonds become repayable on demand if there is a change of control of the Company or if the Company's shares are de-listed or suspended from trading for a period equal to or exceeding 20 trading days.

Extension of maturity

The Group has obtained agreement from bondholders to extend the maturity date of the 2013 Convertible Bonds to 21 June 2017.

2015 Convertible Bonds

On 19 November 2015, the Company issued $7.5 million of 6.0% convertible bonds originally due in 2016 (the "2015 Convertible Bonds").

The main terms of the issuance are as follows:

a) The 2015 Convertible Bonds were issued at a price of 100% and are convertible into 26.786 million shares of the Company at an initial conversion price of $0.28 per share.

b) The conversion right may be exercised at the option of the bondholder, at any time until the date falling seven days prior to the maturity date, on or about 21 September 2016, subject to customary closed periods.

c) Unless previously redeemed, converted or purchased and cancelled, the 2015 Convertible Bonds will be redeemed by the Company at 104.194% of their principal amount together with unpaid accrued interest thereon on the maturity date on 21 September 2016.

d) The 2015 Convertible Bonds bear interest at the rate of 6.00% per annum, payable on a semi-annual basis, with an initial coupon payment date on 21 March 2016.

e) The yield-to-maturity is approximately 11% per annum, calculated on a semi-annual basis.

f) The 2015 Convertible Bonds become repayable on demand if there is a change of control of the Company or if the Company's shares are de-listed or suspended from trading for a period equal to or exceeding 20 trading days.

On 21 September 2016, the 2015 Convertible Bonds were not settled. The Company is negotiating with the bondholders to restructure the 2013 Convertible Bonds and the 2015 Convertible Bonds. The bondholders have not called for settlement of either the 2013 Convertible Bonds or the 2015 Convertible Bonds.

The audited financial statements for FY2016 were approved by the Board of Directors and the audit report was signed by KPMG LLP on 31 March 2017. Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Company released an announcement regarding the emphasis of matter by independent auditors on 31 March 2017.

BY ORDER OF THE BOARD
KS ENERGY LIMITED

Victor Lai Kuan Loong
Company Secretary

5 April 2017

For more information on KS Energy Limited, please visit our website at
www.ksenergy.com.sg