KS ENERGY LIMITED

An Integrated Energy Services Hub

FORGING AHEAD WITH CONFIDENCE

Annual Report 2017

Contents

Corporate Profile

A Globally Accredited and Integrated Oil & Gas Services Provider

KS Energy Limited (the "Company" and together with its subsidiaries and associated companies, the "Group") is an integrated services provider to the global oil and gas, marine and petrochemical industries. Headquartered in Singapore, the shares of the Company are traded on the Main Board of SGX-ST, part of the Singapore Exchange.

The core activities of the Group are capital equipment charter, the provision of drilling and rig management services, specialised engineering and fabrication, and the distribution of equipment and spares.

The Group's principal operating segment is held under its 80.09% owned subsidiary, KS Drilling Pte Ltd ("KS Drilling"). KS Drilling is an internationally accredited drilling and drilling rig management company, providing capital equipment, rig management and drilling services directly to major oil companies for their onshore and offshore production needs.

The Group's distribution business is held by its jointly controlled entity, KS Distribution Pte Ltd, ("KS Distribution") which represents more than 300 globally accredited brands and distributes more than 60,000 line items.

The Group's other operating segment is held under the wholly owned subsidiary, KS Fabrication and Engineering Pte Ltd, which provides customised engineering and fabrication services to a wide range of companies in the oil and gas industry with customers spanning from the Americas to Asia, through its subsidiary Globaltech Systems Engineering Pte Ltd.

KS Medstar 1

Chairman's Message

DEAR SHAREHOLDERS,

INTRODUCTION

On behalf of your Board of Directors, I am pleased to present you the Annual Report of KS Energy Limited and its subsidiaries (the "Group") for the financial year ended 31 December 2017 ("FY2017").

The financial year started with oil prices trading at around US$55 per barrel and it remained relatively stable for most of the year although it rose steadily to around US$65 by the end of FY2017. The rise in oil prices was mainly due to the coordinated policies among national agencies of various countries to address the oversupply in recent years and this resulted in increased activities in production and exploration during the year.

In addition, moderate growth in the global economy supported energy demand. Indeed, in January 2018, the International Monetary Fund ("IMF") reported that global output is estimated to have grown by 3.7 percent in 2017. In addition, IMF's global growth forecasts for 2018 and 2019 were revised upward by 0.2 percentage point to 3.9 percent.

As a result, FY2017 was a year of improving prospects for the oil and gas industry although the operating environment for our Group, as for every other industry player, remained challenging.

FINANCIAL PERFORMANCE

Revenue in FY2017 totalled $47.1 million, a significant increase compared to revenue of $35.1 million in FY2016. This increase was mainly due to the higher utilization of the fleet of on-shore and off-shore drilling rigs owned and operated by our Drilling business.

Lower non-recurring impairments or similar charges were incurred this year. Such expenses decreased from $53.6 million in FY2016 to $16.0 million in FY2017. Similarly, more non-recurring impairment releases or similar gains were recorded this year, increasing from $4.2 million in FY2016 to $27.1 million in FY2017.

Overall, the Group reduced its net loss after tax to $24.6 million in FY2017 from a net loss after tax of $126.3 million in FY2016. The net loss attributable to shareholders of the Company was $18.3 million for the year.

BOARD

Following the previous Annual General Meeting held on 27 April 2017, Mr. Soh Gim Teik was appointed Chairman of our Audit and Risk Management Committee ("ARMC") and Lead Independent Director, and Mr. Lawrence Stephen Basapa, independent director, was appointed Chairman of the Nominating Committee. Our three independent directors have now served on the Board between three to five years and their diverse experiences have significantly added to the Board's strength.

OUTLOOK

In the new financial year, although our industry's prospects appear to be more encouraging, the operating environment will remain challenging for all our business segments. The relatively low oil prices that have impacted the global oil and gas industry will continue to affect us. However, having previously experienced such cyclical downturns in this industry, I believe that in the long term the economic fundamentals remain positive for oil and gas service companies such as ours.

APPRECIATION

Our ability to cope with the past financial year's challenges would not have been possible without the outstanding efforts of our entire workforce. In FY2017, the executive teams worked determinedly to steer the business through these difficult times and many tough decisions were taken along the way.

On behalf of the Board I thank shareholders for continuing to support us, and I extend heartfelt gratitude to all our customers, employees, suppliers, bankers and business associates for their trust in us. I look forward to their continuing support in the new financial year.

Yours Sincerely,

Kris Wiluan
Chairman and
Chief Executive Officer
29 March 2018

KS Java Star

Operations Review

KS Java Star 2

KS DRILLING PTE. LTD.

2017 offered better opportunities for KS Drilling as we were encouraged by pockets of activity in various markets. We managed to secure contracts for our jack-ups and land rigs in Indonesia, Vietnam and Egypt. However, the issue of excess supply of rigs still rendered the market highly competitive for all drilling contractors. Day rates and contract durations remained lower and shorter than pre-downturn norms.

We remain focused on keeping operating and administrative cost bases low without compromising on safety and performance. As a result of our new contracts, key attention was placed on ensuring that start-ups and refurbishments were being carried out in a safe and effective yet cost-efficient manner. Through our strong technical expertise and discipline, we were able to successfully carry out the required start-up operations and meet our clients' stringent requirements within tight deadlines.

With the support of our financing partners, we also managed to secure additional facilities for working capital purposes. We will continue to work closely with our financing partners in a bid to optimise our financing structure and terms amidst a gradual market recovery.

In the spirit of partnership between KS Drilling and our rig-building partners, we have reached an agreement to further extend the delivery date of one of our newbuilds, KS Orient Star 2. In the meantime, we continue to actively engage stakeholders and actively market our newbuilds for potential contracts.

We were also able to achieve a satisfactory outcome in our appeal case involving the payment of customs import duty by PT Java Star Rig. The Indonesian customs court found that the importation of the rig was in accordance with the terms of the permit and was therefore exempted from import duty. We were thus able to recover the full amount of import duty and fines paid.

Towards the end of 2017, we have also obtained the ISO 19001 and OSHAS 18001 certifications. This is an endorsement of our commitment to quality and safety standards. We continue to focus on positioning ourselves for the eventual market recovery, and we are grateful for the support shown by our team and all of our stakeholders in this challenging period. We are cautiously optimistic that market outlook will improve and we will see an uptick in activity.

KS DRILLING FLEET:

	NAME OF RIG	TYPE OF RIG	LOCATION
1	KS Orient Star 2	Jack-Up Rig	China (yet to be delivered)
2	KS Java Star 3	Jack-Up Rig	China (yet to be delivered)
3	KS Java Star	Jack-Up Rig	Indonesia
4	KS Java Star 2	Jack-Up Rig	Vietnam
5	KS Medstar 1	Jack-Up Rig	Egypt
6	KS Discoverer 1	Land Rig	Kurdistan
7	KS Discoverer 3	Land Rig	Pakistan
8	KS Discoverer 4	Land Rig	Kurdistan
9	KS Discoverer 6	Land Rig	Indonesia
10	KS Discoverer 7	Land Rig	Indonesia
11	KS Discoverer 8	Land Rig	Indonesia
12	PPE 1	Workover Rig	Indonesia
13	PPE 2	Workover Rig	Indonesia
14	PPE 3	Workover Rig	Indonesia
15	PPE 4	Workover Rig	Indonesia


KS Java Star 3


KS Java Star


KS Discoverer 7

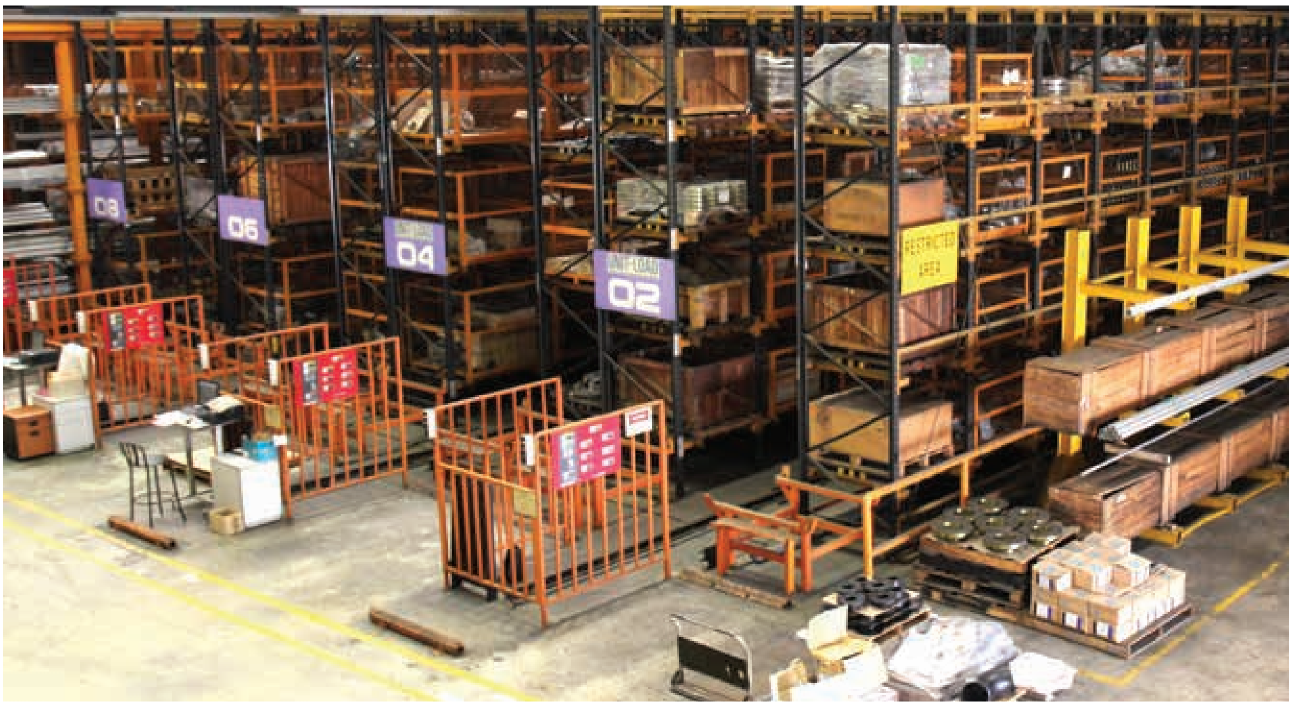
Operations Review

KS DISTRIBUTION PTE. LTD.

Revenue of KS Distribution Pte. Ltd. ("KSD", together with its subsidiaries, "KSD Group") declined from $174.9 million in FY2016 to $103.8 million in FY2017. The decrease in revenue was mainly attributed to continuing low oil prices in FY2017 which resulted in significant reduction and deferment of capital expenditure by major oil & gas companies and reduced operational activities of offshore marine companies. Consequently, the demand for our equipment, consumables and steel-related products also decreased, which resulted in lower sales across all business units of KSD Group in FY2017.

Gross profit of KSD Group declined from $34.8 million in FY2016 to $31.1 million in FY2017 in line with the decrease in revenue. However, gross profit margin improved in FY2017 due to increased proportion of higher-margin MRO ("Maintenance, Repair and Operations") sales.

Distribution and administrative expenses of KSD Group decreased in FY2017 due to tighter cost control measures and effective management of operational overheads. Reduction in staff costs and other administrative expenses were achieved by streamlining our organizational structure and optimizing manpower setup and operational resources.



Financial Review

OVERVIEW

For the full year ended 31 December 2017 ("FY2017"), the Group recorded consolidated revenue of $47.1 million (FY2016: $35.1 million). The $12.0 million increase in revenue was mainly due to the higher revenue from the Drilling segment which more than offset the lower revenue from the Engineering segment.

REVENUE

Drilling Business:

Revenue from the Drilling business increased $19.5 million, or 72.2%, from $27.0 million for FY2016 to $46.5 million for FY2017. The higher revenue resulted from higher fleet utilisation following the award of charter contracts in early FY2017. Revenue contribution from the Drilling business made up about 98.8% of the Group's consolidated revenue for FY2017.

Engineering Business:

Revenue from the Engineering business decreased $7.5 million, or 92.6%, from $8.1 million for FY2016 to $0.6 million for FY2017. The lower revenue resulted from the completion of projects during FY2016 and a lack of new project awards in FY2017. Revenue contribution from the Engineering business made up about 1.2% of the Group's consolidated revenue for FY2017.

GROSS LOSS

The gross loss of $19.5 million for FY2017 was $9.7 million, or 33.2%, smaller than the gross loss of $29.2 million reported for FY2016. The smaller gross loss in FY2017 was the net result of a $2.4 million increase in cost of sales from a $12.0 million increase in revenue. Included in cost of sales are the cost of goods sold, the cost of services provided, and certain fixed costs associated with our fleet of rigs such as depreciation which decreased by $4.3 million from $31.2 million in FY2016 to $26.9 million in FY2017. The lower depreciation charge in FY2017 was mainly due to the disposal of plant and equipment in FY2016.

The gross loss margin decreased from 83.2% in FY2016 to 41.4% in FY2017.

OTHER INCOME

Other income increased by $0.9 million from $0.6 million for FY2016 to $1.5 million for FY2017. This increase was mainly due to higher foreign exchange gains which increased by $1.4 million from $0 in FY2016 to $1.4 million in FY2017. The remaining items in Other income comprise income not directly related to the revenue generated from our day-to-day operations.

OPERATING EXPENSES AND DIRECT DEPRECIATION

Administrative expenses decreased $0.8 million from $19.4 million in FY2016 to $18.6 million in FY2017 mainly due to reduced staff costs.

Other Operating Expenses decreased $46.9 million from $56.4 million in FY2016 to $9.5 million in FY2017. The table below shows the main expense categories contributing to the $46.9 million decrease in Other Operating Expenses:

Expense	FY2017 $'000	FY2016 $'000	Change $'000
Impairment loss on intangible assets	–	727	(727)
Impairment loss on plant and equipment	–	11,329	(11,329)
Impairment loss on receivables and loans to a joint venture (net of reversal)	12,907	27,971	(15,064)
Loss on disposal of plant and equipment	3,054	13,539	(10,485)
Write-down of assets held for sale	1,811	1,441	370
Write-back of impairment loss on investment in joint venture	(10,004)	(4,211)	(5,793)
Foreign exchange loss	–	2,197	(2,197)

Included in the impairment loss on receivables and loans to a joint venture (net of reversal) is $12.4 million (FY2016: $27.9 million) which relates to a receivable due from our rig-owning joint venture and was necessary due to losses incurred by the joint venture.

FINANCE INCOME AND COSTS

Finance income increased by $17.5 million from $5.8 million in FY2016 to $23.3 million in FY2017. The increase is mainly due to a $17.1 million gain on redemption of convertible bonds recorded in FY2017. The remainder of the finance income is mainly derived from interest income on loans provided to a joint venture and additional loans were provided in FY2016.

Finance costs increased $2.0 million from $16.8 million in FY2016 to $18.8 million in FY2017 due to higher overall interest rates on higher average borrowings in FY2017.

SHARE OF RESULTS OF JOINT VENTURES

The Group's share of results from joint ventures increased $26.5 million from a loss of $10.1 million for FY2016 to a profit of $16.4 million for FY2017. The improvement was mainly due to a $30.4 million gain recorded in FY2017 following a court ruling (see the announcement by the Company dated 13 July 2017). The Group's share of results from KS Distribution Pte Ltd and its subsidiaries (the "KS Distribution Group") decreased $3.9 million from a loss of $10.1 million for FY2016 to a loss of $14.0 million for FY2017.

Financial Review

KS Discoverer 8

PPE Workover Rigs

LOSS BEFORE TAX

The Group's loss before tax decreased by $100.4 million from $125.6 million for the year ended 31 December 2016, to a $25.2 million for the year ended 31 December 2017.

Profitability by Business Segment:

	FY2017 $'000	FY2016 $'000	Change $'000
Drilling	(27,434)	(90,312)	62,878
Engineering	(761)	(410)	(351)
Distribution	(14,038)	(10,138)	(3,900)
Others	17,050	(24,723)	41,773
Consolidated Total	**(25,183)**	**(125,583)**	**100,400**

Drilling Business:

The Drilling business recorded a loss before tax of $27.4 million for FY2017, an improvement of $62.9 million over the $90.3 million loss recorded in FY2016. Losses were reduced due to a relatively better operating result, a decrease in impairment losses on plant and equipment, lower impairment losses on loans to a joint venture, lower depreciation charges and an increase in share of results from joint ventures.

Engineering Business:

The Engineering business recorded a loss before tax of $0.8 million for FY2017, compared to a loss before tax of $0.4 million in FY2016. The losses were higher due to lower gross profit offset against the lower of impairment charges on intangible assets and lower administrative expenses.

Distribution Business:

The Distribution business contributed a loss of $14.0 million for FY2017, compared to a $10.1 million loss for FY2016. Revenues earned by the Distribution business decreased from $174.9 million in FY2016 to $103.8 million in FY2017.

Others Segment:

The segment recorded a profit before tax of $17.1 million in FY2017, compared to a loss before tax of $24.7 million in FY2016. The improvement of $41.8 million was mainly due to the gain on the redemption of convertible bonds, a reduction of losses on the disposal of plant and equipment, higher write backs of impairment losses on a joint venture (Distribution Business), lower depreciation charges and a net foreign exchange rate gain on borrowings. Other costs reported in this segment include the finance costs on bonds issued by the Company and administrative expenses incurred in relation to overseeing of Group's operations.

RESULT ATTRIBUTABLE TO SHAREHOLDERS

The results attributable to owners of the Group for FY2017 was a loss of $18.3 million, which was lower by $89.2 million as compared to the prior year.

STATEMENT OF FINANCIAL POSITION REVIEW

The Group's total non-current assets decreased $75.3 million from $529.4 million as at 31 December 2016 to $454.1 million as at 31 December 2017.

Non-current assets mainly comprise plant and equipment in our Drilling business. The carrying value of the drilling rig fleet decreased by $53.9 million from $376.4 million as at 31 December 2016 to $322.5 million as at 31 December 2017 due to depreciation charges, disposals and foreign exchange impacts. The carrying value of assets under construction decreased by $7.8 million from $70.4 million as at 31 December 2016 to $62.6 million as at 31 December 2017 due to the disposals of surplus equipment and foreign exchange impacts.

The carrying value of joint ventures decreased $4.1 million from $42.8 million as at 31 December 2016 to $38.7 million as at 31 December 2017 mainly due to the Group's share of results from the joint ventures and write-backs of impairment losses on a joint venture. Joint ventures comprise the 55.35% equity interest in the KS Distribution Group, with a carrying amount of $38.7 million as at 31 December 2017.

Non-current amounts due from joint ventures decreased by $8.2 million from $35.7 million as at 31 December 2016 to $27.5 million as at 31 December 2017. The movement in the non-current amounts due from joint ventures is summarised below:

	$'000
Amount due from joint venture as at 31 December 2016	35,677
Add net interest charged on loan	5,545
Add impairment reversal	8,181
Less amount reclassified to current amounts due	(18,642)
Less foreign exchange impacts	(3,310)
Amount due from joint venture as at 31 December 2017	**27,451**

Total current assets increased $5.6 million from $36.7 million as at 31 December 2016 to $42.3 million as at 31 December 2017. The increase in current assets was mainly due to higher amounts due from joint ventures and trade receivables, offset by lower other assets. Amounts due from joint ventures increased $8.3 million due to the reclassification from non-current assets. Trade receivables increased $3.2 million from $8.3 million as at 31 December 2016 to $11.5 million as at 31 December 2017 due to the higher revenue following the commencement of charter contracts. Other current assets decreased $3.7 million from $16.8 million as at 31 December 2016 to $13.1 million as at 31 December 2017.

The carrying value of assets held for sale as at 31 December 2017 was $0.7 million (31 December 2016: $2.6 million) and relates to a drilling rig which is currently being marketed for sale.

The decrease in other current assets was mainly due to lower amounts under "value-added tax receivable", "withholding tax recoverable", "prepayments" and "sundry deposits" offset by the higher amounts of "advanced payments to suppliers, "other debtors" and "deferred operating expenses" as at 31 December 2017 compared to 31 December 2016. These balances mainly originate from our Drilling business and are routine in nature.

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

	FY2017 $'000	FY2016 $'000	Change $'000
Detailed breakdown:			
Sundry deposits	128	210	(82)
Withholding tax recoverable	1,480	3,892	(2,412)
Value-added tax receivable	4,865	8,358	(3,493)
Deferred operating expenses	2,768	2,396	372
Other debtors	1,832	1,289	543
Advanced payments to suppliers	1,594	–	1,594
Prepayments	481	618	(137)
Other Current Assets	**13,148**	**16,763**	**(3,615)**

Total liabilities decreased $34.9 million, or 7.3%, from $479.0 million as at 31 December 2016 to $444.1 million as at 31 December 2017. This was principally attributable to a $24.0 million decrease in total borrowings (including bank overdrafts) from $432.0 million as at 31 December 2016 to $408.0 million as at 31 December 2017 which was mainly due to foreign exchange impacts, and a $10.5 million decrease in the provision for losses from joint ventures which was previously recognised for tax commitments of the joint venture that the Group was obligated to pay.

Financial Review

Within current liabilities, trade and other payables increased $1.3 million from $26.0 million as at 31 December 2016 to $27.3 million as at 31 December 2017 due to the increase in operating costs following the commencement of charter contracts during the year. Current liabilities also decreased as bank overdrafts decreased by $3.4 million from $3.4 million as at 31 December 2016 to $0 as at 31 December 2017 and tax provisions decreased by $1.9 million from $9.9 million as at 31 December 2016 to $8.0 million as at 31 December 2017, mainly due to adjustments for the overprovision of tax in prior years.

As at 31 December 2017, the Group and Company were in a net current liability position (current liabilities exceeded current assets) of $2.5 million and $19.7 million respectively. As at 31 December 2016, the Group and Company were in a net current liability position (current liabilities exceeded current assets) of $88.2 million and $99.4 million respectively.

The Group's net gearing (defined as net borrowings to total equity) increased to 7.64 as at 31 December 2017 from 4.86 as at 31 December 2016. Similarly, the Group's debt ratio (defined as net borrowings to total assets) increased to 0.81 as at 31 December 2017 from 0.75 as at 31 December 2016.

The equity attributable to owners of the Company decreased $26.5 million from $57.0 million as at 31 December 2016 to $30.5 million as at 31 December 2017. The decrease was mainly due to the loss after tax and non-controlling interests during FY2017 and foreign exchange translation losses.

Capital Structure of the Group:

	FY2017 $'000	FY2016 $'000
Current Borrowings – Secured	9,236	10,682
Current Borrowings – Unsecured	100	74,862
Non-current Borrowings – Secured	383,727	343,124
Non-current Borrowings – Unsecured	15,000	–
Consolidated Total Borrowings	408,063	428,668
Cash and Cash Equivalents	8,455	5,320
Consolidated Net Borrowings	399,608	423,348
Shareholders' Equity	30,527	56,976
Non-controlling Interests	21,795	30,071
Total Equity	52,322	87,047
Net Gearing (Debt/Equity)	**7.64**	**4.86**

Secured current borrowings decreased $1.5 million from $10.7 million as at 31 December 2016 to $9.2 million as at 31 December 2017 and secured non-current borrowings increased $40.6 million from $343.1 million as at 31 December 2016 to $383.7 million as at 31 December 2017. The increase in secured borrowings was mainly due to a new issue of $65.5 million secured fixed rate bonds due in 2020 and changes in foreign exchange rates as secured bank loans are denominated in foreign currencies.

Unsecured current borrowings decreased $74.8 million from $74.9 million as at 31 December 2016 to $0.1 million as at 31 December 2017 due to the redemption of the 2013 Bonds, the 2015 Bonds and loans from a related party.

Unsecured non-current borrowings increased from $0 as at 31 December 2016 to $15.0 million as at 31 December 2017 due to the drawdown of unsecured credit facilities during FY2017.

STATEMENT OF CASH FLOWS REVIEW

As at 31 December 2017, cash and cash equivalents amounted to $8.5 million (31 December 2016: $5.3 million), of which unpledged cash and cash equivalents amounted to $6.8 million (31 December 2016: $2.4 million).

CASH FLOW FROM OPERATING ACTIVITIES

Operating activities incurred a net cash outflow of $9.6 million for FY2017. The net cash outflow from operating activities comprised a cash outflow of $12.1 million arising due to operating losses before changes in working capital and a cash outflow of $0.3 million arising due to income taxes paid; offset with a cash inflow of $2.8 million arising due to changes in working capital.

CASH FLOW FROM INVESTING ACTIVITIES

The net cash flow from investing activities amounted to an inflow of $9.4 million for FY2017. This was mainly attributable to a decrease in non-trade net receivables from joint ventures which generated a cash inflow of $10.4 million and the proceeds from the disposal of plant and equipment which generated a cash inflow of $1.4 million; offset with the acquisition of plant and equipment which incurred cash outflow of $2.4 million.

CASH FLOW FROM FINANCING ACTIVITIES

The net cash flow from financing activities amounted to an inflow of $4.9 million for FY2017. The aggregate repayment of bank loans during FY2017 amounted to $3.0 million and the aggregate proceeds from new bank loans during FY2017 totalled $15.0 million. A net cash outflow of $0.4 million was used to repay a loan from a related party. Interest paid during FY2017 generated a cash outflow of $8.5 million. A reduction of deposits pledged generated a cash inflow of $1.2 million during FY2017.

Financial **Highlights**

	2017	2016	2015	2014 Restated*	2013 Restated*
FOR THE YEAR ($'000)					
Revenue	47,144	35,091	91,951	227,330	161,770
Gross (Loss)/Profit	(19,521)	(29,209)	(39,714)	58,353	29,826
Gross Profit excluding rig depreciation	7,373	1,978	20,161	113,331	66,622
EBITDA (defined below)	27,812	(26,343)	(12,734)	128,615	105,901
Earning Before Interest and Tax ("EBIT")	(6,412)	(108,768)	(241,242)	68,090	18,864
(Loss)/Profit after Tax	(24,559)	(126,318)	(260,432)	46,411	512
(Loss)/Profit attributable to owners of the Company	(18,295)	(107,487)	(229,642)	30,128	23
Operating Cash (Outflow)/Inflow	(9,634)	(13,399)	19,954	53,864	41,395
Capital Expenditure	2,407	1,319	9,166	288,724	97,627
AT YEAR END ($'000)					
Current assets	42,290	36,671	61,785	163,069	124,855
Non-current assets	454,109	529,416	608,203	758,941	565,470
Total assets	496,399	566,087	669,988	922,010	690,325
Current liabilities	44,740	124,868	411,637	174,048	131,289
Non-current liabilities	399,337	354,172	47,577	302,906	173,820
Total liabilities	444,077	479,040	459,214	476,954	305,109
Net assets	52,322	87,047	210,774	445,056	385,216
Net tangible assets	52,205	86,727	209,527	440,894	380,801
Equity attributable to owners of the Company	30,527	56,976	162,210	370,652	328,985
Cash and cash equivalents	8,455	5,320	19,422	78,210	43,166
KEY RATIOS					
Gross Profit Margin excluding rig depreciation (%)	15.6%	5.6%	21.9%	49.9%	41.2%
EBITDA Margin (%)	59.0%	-75.1%	-13.8%	56.6%	65.5%
EBIT Margin (%)	-13.6%	-310.0%	-262.4%	30.0%	11.7%
Net Profit Margin (%)	-52.1%	-360.0%	-283.2%	20.4%	0.3%
Current Ratio (times)	0.95	0.29	0.15	0.94	0.95
Net Debt to Equity Ratio (times)	7.6	4.9	1.7	0.8	0.5
Net Assets Value Per Share (cents/share)	5.9	11.1	31.5	72.3	64.1

* The Group has now ceased reclassifying rig depreciation and direct rig costs from "cost of sales" to "other operating expenses" during off-charter periods

EBITDA is defined as EBIT excluding depreciation, amortisation and impairment charges and any profit or loss on disposal of non current assets including the Group's share of EBITDA recorded in joint ventures and associated companies.

Corporate Data

BOARD OF DIRECTORS

Executive:

KRIS WILUAN
(Chairman and Chief Executive Officer)

RICHARD JAMES WILUAN

Non-Executive and Independent:

SOH GIM TEIK
(Lead Independent Director)

LAWRENCE STEPHEN BASAPA

CHEW CHOON SOO

AUDIT & RISK MANAGEMENT COMMITTEE

SOH GIM TEIK *(Chairman)*

LAWRENCE STEPHEN BASAPA

CHEW CHOON SOO

NOMINATING COMMITTEE

LAWRENCE STEPHEN BASAPA
(Chairman)

KRIS WILUAN

SOH GIM TEIK

CHEW CHOON SOO

REMUNERATION COMMITEE

CHEW CHOON SOO *(Chairman)*

SOH GIM TEIK

LAWRENCE STEPHEN BASAPA

SECRETARY

LAI KUAN LOONG, VICTOR

REGISTERED OFFICE

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Fax: + 65 6577 4618
Website: www.ksenergy.com.sg
Company Registration No: 198300104G

THE REGISTRAR OF SHARE, BOND AND WARRANT

Tricor Barbinder Share Registration Services
(a division of Tricor Singapore Pte Ltd)
80 Robinson Road #02-00
Singapore 068898

AUDITORS

KPMG LLP
Certified Public Accountants
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581
Partner-in-charge: Kenny Tan Choon Wah
Year of appointment: 2015

PRINCIPAL BANKERS

DBS Bank Ltd
Oversea-Chinese Banking Corporation Limited
PT Bank Mandiri (Persero) Tbk
Standard Chartered Bank
The Hong Kong and Shanghai Banking Corporation Limited
United Overseas Bank Limited

KS Medstar 1

Board Of Directors

MR KRIS WILUAN

Chairman and Chief Executive Officer

MR KRIS WILUAN is the Chairman and Chief Executive Officer of the Company. He is also a member of its Nominating Committee.

Mr Wiluan is the founder of Citramas Group, a diversified group of companies that he started in 1980 which now have a work-force of more than 3,000 employees in Batam. The Citramas Group's business activities include oilfield equipment manufacturing, shipping and logistics, infrastructure development comprising of industrial estate, digital park and ferry terminal, the leisure business including marina, golf course and resorts, studio for animation and film production. He is also the President Commissioner of PT Citra Tubindo Tbk which is listed in Indonesia and PT Citra Bonang, a Jakarta-based manufacturer and distributor of industrial chemicals and food products.

A graduate from London University with a BSc Honours Degree in Mathematics and Computer Science, Mr Wiluan was awarded "CEO of the Year" by Bisnis Indonesia in 2007 and in the following year, he was named "The Best CEO 2008" by SWA magazine. In 2009, he was awarded "Entrepreneur of the Year" by Ernst & Young Indonesia, representing Indonesia in the EY Global Entrepreneur Hall of Fame. Mr Wiluan also received "Asia's Most Influential Cover Personalities Awards" from Fortune Times in 2015.

MR RICHARD JAMES WILUAN

Executive Director

MR RICHARD JAMES WILUAN was appointed as Executive Director of the Company on 1 May 2014. He is also a Director of KS Distribution Pte Ltd.

Mr Richard Wiluan is the President Director of Indonesian public-listed PT Citra Tubindo Tbk – a manufacturer of tubular products for the oil and gas industry whose shares are quoted on the Jakarta and Surabaya Stock Exchanges, and 35 other subsidiaries with activities spanning different countries in the ASEAN region.

Prior to joining the Group, he worked as a consultant in a European management consulting firm, focusing on restructuring solutions for multinational manufacturing companies.

Mr Richard Wiluan holds a BA (Honours) in Economics from the University of Nottingham.

Board Of Directors

MR SOH GIM TEIK

Lead Independent Director

MR SOH GIM TEIK was appointed as an Independent Director and subsequently the Lead Independent Director of the Company on 1 May 2015 and 27 April 2017, respectively. He is also the Chairman of the Audit and Risk Management Committee and a member of the Remuneration and Nominating committees of the Company.

Mr Soh advises corporations through his firm, Finix Corporate Advisory LLP, and has extensive experience in corporate governance, finance and strategic management.

Mr Soh is a member of the Institute of Singapore Chartered Accountants (ISCA) and a Fellow of the Singapore Institute of Directors (SID). Presently, he is a board member of the SID and serves in its Governing Council as 2nd Vice Chairman. He was named the Best CFO of the Year at the inaugural Singapore Corporate Awards in 2006 in the mid-cap category.

Besides serving as an independent director on the boards of SGX listed companies, he is also a director and audit committee chairperson or member in a number of charitable and non-profit organisations.

Mr Soh graduated from the National University of Singapore in 1978 with a Bachelor of Accountancy Degree.

MR LAWRENCE STEPHEN BASAPA

Independent Director

MR LAWRENCE STEPHEN BASAPA was appointed as Independent Director of the Company on 1 June 2013. He is also the Chairman of Nominating Committee and a member of the Audit and Risk Management and Remuneration committees of the Company.

Mr Basapa worked initially in journalism, covering such fields as Asian industrial developments for newspapers and international magazines. He then entered the hydrocarbons industry, working mainly for a multinational energy and petrochemicals conglomerate, which he served in various capacities in Asia Pacific and the USA for more than 20 years. He was also an Independent Director of SSH Corporation Limited from October 2005 until it was delisted pursuant to the integration of the distribution business of KS Energy Limited in 2010.

Mr Basapa also is a trustee of three property-based estates in Singapore, and has personal interests in horticulture and property in Thailand.

Mr Basapa has a BA in Economics and Political Science from the (then) University of Singapore, and did postgraduate studies in management with universities in Boston and San Diego.

MR CHEW CHOON SOO

Independent Director

MR CHEW CHOON SOO was appointed as Independent Director on 1 November 2014. He is also the Chairman of Remuneration Committee and a member of Audit and Risk Management and Nominating committees of the Company.

Mr Chew has extensive experience in the Executive Search and Assessment Industry. During his 23 year tenure at Russell Reynolds Associates, he served in various senior capacities, including Co-head of Asia Pacific, Financial Services Leader and Managing Partner of the Singapore operations. Prior to this, Mr Chew spent 7 years in Banking.

Mr Chew has a BSc (Hons) in Economics and Accounting from Bristol University, UK, and holds a MBA in Finance from The Wharton School of the University of Pennsylvania, USA.

Key Management

MR SAMUEL PAUL OLIVER CAREW-JONES

Group Chief Financial Officer

Mr Carew-Jones has been with KS Energy since 2009 and was our Director of Treasury prior to his appointment as Group CFO in October 2012. He had over fourteen years' experience in the finance sector before joining KS Energy, including nine years in the banking industry with a major financial institution in Europe and the United States and four years as an auditor in London.

Mr Carew-Jones qualified as a chartered accountant in the United Kingdom in 1999 and graduated in 1995 with a bachelor's degree in Physics from Imperial College London.

MR JUMEIDI DIRWAN ALEXANDER

Chief Executive Officer of KS Drilling Pte. Ltd.

Mr Alexander was appointed as the CEO of KS Drilling Pte. Ltd ("KSDR") on 1 September 2013. He is responsible for leading the development and execution of KSDR's long and short terms plans in accordance with its strategy. He is also responsible for all day-to-day management decisions. He acts as a direct liaison between the Board and management of KSDR. Mr Alexander has been in the drilling industry for the past 20 years with a track record of successes in rig operations management. He started his career as a Trainee Engineer with Transocean/Schlumberger Sedco Forex in 1996. Prior to joining KSDR in December 2012, he was with Vantage Drilling where he last held the position of Director of Operations.

Mr Alexander graduated from the Institute Teknologi Bandung of Indonesia in 1996 with a Bachelor's Degree in Electrical Engineering, majoring in Computer Engineering, and further completed the Stanford-National University of Singapore Executive Program in 2012.

MS DIANA LENG

Chief Financial Officer of KS Drilling Pte. Ltd.

Ms Diana Leng has been with KS Energy since 2007. Prior to her appointment as CFO and Director of KS Drilling Pte Ltd in 2010, Ms Leng was the Director of Treasury of KS Energy Ltd. Ms Leng has over 17 years of executive experience within the Banking and Oil & Gas sectors, with a proven track record in the areas of treasury, corporate finance, mergers and acquisitions, equity and capital market activities, and strategic and corporate support.

Ms Leng started her career with a global financial institution from the Netherlands where she gained experience in banking, insurance and asset management internationally.

Ms Leng holds a Master of Science in International Business from Maastricht University.

MR NICHOLAS LAURENT FOURNIER

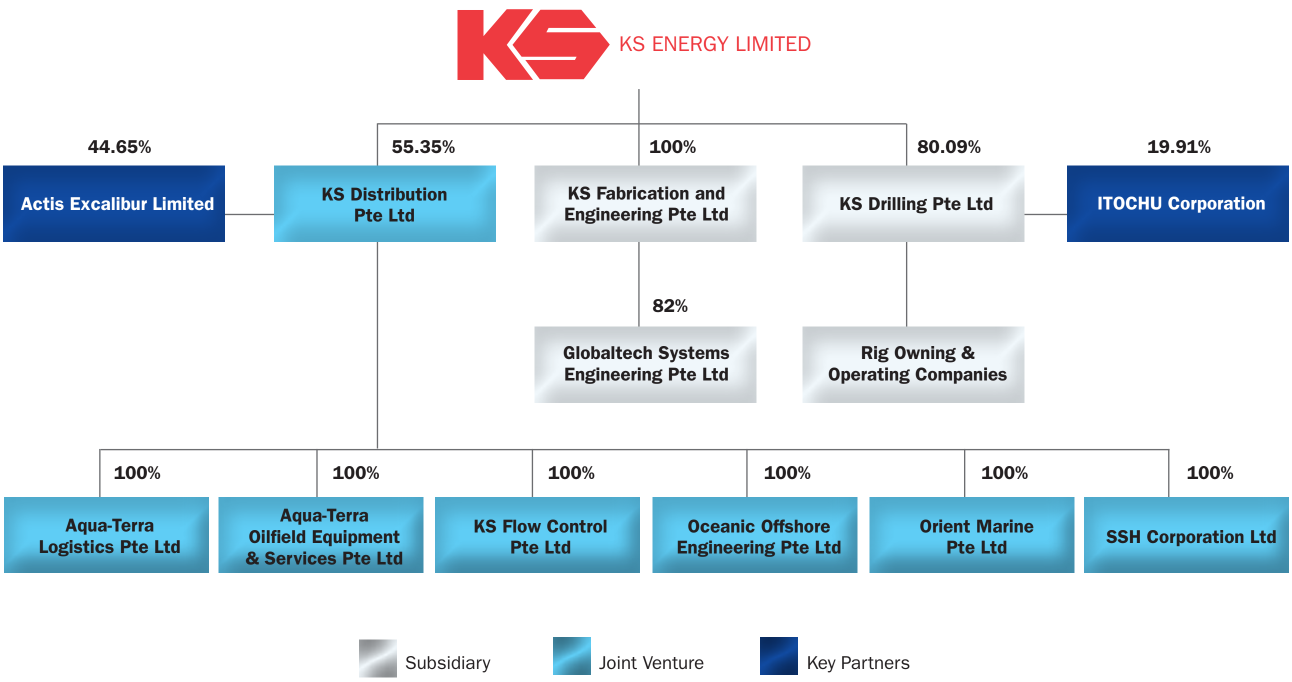
Chief Operating Officer of KS Drilling Pte. Ltd.

Mr Fournier was appointed as the COO of KS Drilling Pte. Ltd ("KSDR") on the 1 September 2013. He is responsible for strategic business planning, implementation and KSDR operations management. Mr Fournier has been in the drilling industry for the past 20 years with a track record of successes in rig operations management. He started his career as Operations Engineer with Transocean/Schlumberger Sedco Forex and prior joining KSDR has held various managerial positions with Transocean as Rig Manager, Operations Manager, Human Resources director and Indonesia General Manager.

Mr Fournier graduated from the University of Compiegne in 1994 with a Bachelor Degree in Mechanical Engineering and in 1995 with an officer rank (Lieutenant) from the French Army.

KS Energy Group's **Global Network**

KS Energy **Group Structure**



Properties Owned By The Group

Details of properties owned by the Group as at 31 December 2017 are as follows:

DESCRIPTION/LOCATION	GROSS FLOOR AREA	TENURE OF LAND/LAST VALUATION DATE
Leasehold Property 17 Jurong Port Road Singapore 619092	20,835 sqm	60 years from 1 June 1967 13 January 2016
Leasehold Property 19 Jurong Port Road Singapore 619093	30,304 sqm	60 years from 1 June 1967 13 January 2016

KS Drilling Offices

SINGAPORE
KS DRILLING PTE. LTD.
19 Jurong Port Road
Singapore 619093
Tel: +65 6577 4600
Fax: +65 6577 4619
www.ksdrilling.com

INDONESIA
PT. ATLANTIC OILFIELD SERVICES/PT. PETRO PAPUA ENERGI
World Trade Center 5
Wisma Metropolitan 11th Floor
Jl. Jend. Sudirman Kav. 29-31
Jakarta 12920 Indonesia
Tel: +62 21 525 6242/6353
Fax: +62 21 525 4327/0308

PT. PETRO PAPUA ENERGI
(Batam Branch)
Komp. Citranusa Niaga
Jl. Mas Surya Negara II Kaw.
Industri Terpadu Blok A2 No. 2
Baru Besar, Nongsa
Kota Batam Kepulauan Riau
Tel: +62 778 711778
Fax: +62 778 711322

PAKISTAN
ATLANTIC ONSHORE SERVICES B.V. – PAKISTAN BRANCH
G-14, B-55 ISE Towers
Jinnah Avenue, Islamabad
44000 Pakistan
Tel: +92 512 895512 – 13 (Ext. 106)
Fax: +92 512 895514

KURDISTAN
ATLANTIC ONSHORE SERVICES B.V. – KURDISTAN BRANCH
ERBIL OFFICE
Office House No. 240/9/29
Ashte Street, Ankawa – Erbil
Kurdistan Iraq
Mobile: +964 750 818 3326/ +964 771 370 1337

EGYPT
KS DRILLING EGYPT INC.
22, Beirut Street
8th Floor Apt 13 Heliopolis
11341 Cairo Egypt
Tel: +20 22 256 5004/5/6
Fax: +20 22 256 5014

VIETNAM
KS DRILLING OPERATING COMPANY LTD
c/o Vietubes Corp Ltd.
3rd Floor, Office Building
Dong Xuyen Industrial Zone
Rach Dua Ward, Vung Tau
City Ba Ria – Vung Tau Province
Vietnam
Tel: +84 64 3815358/3815335

KS Distribution **Offices**

SINGAPORE
KS DISTRIBUTION PTE. LTD.
19 Jurong Port Road
Singapore 619093
Tel: +65 6265 6088
Fax: +65 6661 5511
www.ksdistribution.com.sg

SSH CORPORATION LTD.
19 Jurong Port Road
Singapore 619093
Tel: +65 6265 6088
Fax: +65 6265 6151

AQUA-TERRA LOGISTICS PTE. LTD.
19 Jurong Port Road
Singapore 619093
Tel: +65 6536 1003
Fax: +65 6532 4033

AQUA-TERRA OILFIELD EQUIPMENT & SERVICES PTE. LTD.
19 Jurong Port Road
Singapore 619093
Tel: +65 6319 4666
Fax: +65 6268 4455

KS FLOW CONTROL PTE. LTD.
19 Jurong Port Road
Singapore 619093
Tel: +65 6415 0808
Fax: +65 6415 0809

OCEANIC OFFSHORE ENGINEERING PTE. LTD./KS MARINEHUB PTE. LTD.
27 Penjuru Lane
Annex Block #03-01
Singapore 609195
Tel: +65 6262 6662
Fax: +65 6898 1728

ORIENT MARINE PTE LTD
19 Jurong Port Road
Singapore 619093
Tel: +65 6319 4666
Fax: +65 6268 4455

CHINA
KS DISTRIBUTION (SHANGHAI) LTD./ KS EQUIPMENT (SHANGHAI) LTD./ RAYMONDS SUPPLY (SHANGHAI) CO., LTD.
Rm 1EF, East Hope Plaza
No. 1777, The Century Avenue
Pudong New District,
Shanghai 200122, P.R. China
Tel: +86 21 2024 6273
Fax: +86 21 3406 0190

RAYMONDS SUPPLY (SHENZHEN) CO., LTD.
Room 305, Building A, Hai Bing Garden
Xing Hua Road, Shekou,
Shenzhen 518067, P.R. China
Tel: +86 755 2668 3577
Fax: +86 755 2669 6873

DALIAN FTZ SIN SOON HUAT INTERNATIONAL TRADE CO., LTD.
Rm 1008, Lee Wan Hotel
No 8, Minzhu Square, Zhongshan District
Dalian 116001, P.R. China
Tel: +86 411 8256 2263
Fax: +86 411 8256 3361

HONG KONG
RAYMONDS SUPPLY COMPANY LIMITED
Block A, Unit 11,
G/F Shatin Industrial Centre
5-7 Yuen Shun Circuit
Shatin, N.T. Hong Kong
Tel: +852 2637 2828
Fax: +852 2649 3118

INDONESIA
PT KSD INDONESIA
PT SURYASARANA HIDUPJAYA
PT AT OCEANIC OFFSHORE
(Jakarta Head Office)
Kompleks Rukan Puri Mutiara
Blok A26-27, Jl. Griya Utama Sunter,
Jakarta Utara 14350, Indonesia
Tel: +62 21 6531 4266
Fax: +62 21 6531 4267

(Batam Branch)
Kawasan Industri Terpadu Kabil
Jl. Mas Surya Negara No. 2
Batam 29467, Indonesia
Tel: +62 778 807 0039
Fax: +62 778 807 0029

PT AT OCEANIC OFFSHORE
(Pekanbaru Branch)
Jalan Paus Ujung No. 8D,
Marpoyan Damai Tengkareng Tengah,
Pekanbaru Riau 28282, Indonesia
Tel: +62 778 807 0039
Fax: +62 778 807 0029

MALAYSIA
KS DISTRIBUTION (MALAYSIA) SDN. BHD.
Suite No. 4.5, Level 4, Menara Pelangi,
No. 2, Jalan Kuning Taman Pelangi
80400 Johor Bahru, Malaysia
Tel: +607 513 7763

THAILAND
KS DISTRIBUTION (THAILAND) LIMITED
393 DKJ Building 1st floor,
Sukhonthasawat Road,
Kwaeng Ladprao, Khet Ladprao,
Bangkok 10230, Thailand
Tel: +66 2578 2988 (6 Lines)
Fax: +66 2578 2358

VIETNAM
KS DISTRIBUTION (VIETNAM) COMPANY LIMITED
2nd floor Resco Tower,
94-96 Nguyen Du Street,
Ben Nghe Ward, District 1
Ho Chi Minh City, Vietnam
Tel: +84 28 3822 7306
Fax: +84 28 3822 7310

(Vung Tau Branch)
No. 42, 30/4 Road, Ward 9
Vung Tau City, Vietnam
Tel: +84 254 3510587
Fax: +84 254 3510589

QATAR
AQUA-TERRA MIDDLE EAST
P.O. Box 37691
#208, 2nd Floor
Retaj Business Center
B Ring Road
Doha, Qatar
Tel: +974 4458 3578
Fax: +974 4458 3112

Corporate Social Responsibility and Employee Volunteerism

KS Energy Limited (the "Company" and together with its subsidiaries, "KSE Group") strives to conduct its business in a manner that is socially responsible and environmentally sustainable. Employees are constantly reminded to be responsible citizens with regard to the environment, and strongly encouraged to make every conscientious effort to conserve energy as well as reduce wastage. Mindful of our impact to society, employee volunteerism is also strongly encouraged and the Company strives to play its part in the corporate giving and philanthropy. The Company's continuing commitment to meet to contribute to a better society and cleaner environment forms the pillar to our Corporate Social Responsibility ("CSR") initiatives.

PEOPLE DEVELOPMENT THROUGH COMMUNITY ENGAGEMENT

It is indeed our responsibility and privilege to be in a position to contribute to the well-being of the communities in which we operate. As a Group whose business spans several regions, we leverage on our network and resources to engage the community through economic, environmental, and social efforts. We endeavor to project KSE as a credible and reliable business partner to customers and principals, while also fostering staff dedication in giving back to the community. All these initiatives actualize the Group's philosophy on CSR.

Our employee volunteerism programme with TOUCH Centre for Independent Living (TCIL), a special needs service group of TOUCH Community Services, started in 2015. We collaborated in card-making sessions as well as a bowling tournament, which inspired greater mutual understanding and fostered new friendships.

In 2017, the Company invited our friends from TCIL over to KSD Singapore's premises for an event involving two concurrent craft workshops, making birthday cards and building terrariums together with our employees. Such activities not only provide all participants with

Corporate Social Responsibility and Employee Volunteerism

much enjoyment, they also put the handmade craft into practical use. The birthday cards made are given to all employees on their birthdays, together with a gift voucher, through their respective supervisors, or Heads of Departments. Over the span of 3 years, we have made more than 900 cards.

Through group volunteering, we allow room for employees to build confidence and develop skills. For the 4th consecutive year, employees of KSE Group participated in the Race Against Cancer, an event organized by the Singapore Cancer Society, and which aims to create awareness and raise funds for those battling the disease.

Whether it is setting aside time in their busy schedules, or putting their physical limits to the test, we are proud that our employees have shown great willingness in their support for community engagement.

Corporate Governance **Statement**

KS Energy Limited (the "Company" and together with its subsidiaries, as defined by the Companies Act, Cap. 50, the "Group") is committed to maintaining high standards of corporate governance in conducting the Group's business and believes that strengthening corporate transparency through sound corporate policies, business practices and internal controls would enable the Company to safeguard its assets and interests while it strives to achieve its objectives and attain sustainable growth and value for its shareholders. This report describes the Company's corporate governance practices with specific reference to the Code of Corporate Governance 2012 (the "Code"), where applicable. Other than the deviations which are explained in this statement, the Company has complied with the principles of the Code. The Board of Directors (the "Board") and Management have taken steps to align the Group's governance framework with the guidelines of the Code, where they are applicable, relevant and practicable to the Group.

BOARD OF DIRECTORS

Principle 1: Board's Conduct of its Affairs

The Board has the duty to protect and enhance the long-term value of the Company and achieve sustainable growth of the Group. It sets the overall strategic direction of the Company and oversees the proper conduct of the business, performance and affairs of the Group. Board members are expected to act in good faith and exercise independent judgement in the best interests of the Group.

Apart from its fiduciary duties under the law, the principal functions of the Board include:

a) Setting values and standards (including ethical standards) of the Group and ensuring obligations to shareholders and other stakeholders are understood and met;

b) Identifying key stakeholder groups and recognising that their perceptions affect the Group's reputation;

c) Providing entrepreneurial leadership, approving corporate policies and strategies to ensure that the necessary financial and human resources are in place for the Group to achieve its objectives;

d) Establishing goals for Management, monitoring and reviewing Management's performance against such goals and reviewing the operational and financial performance of the Group;

e) Overseeing the processes for evaluating the adequacy and effectiveness of internal controls and risk management, including financial, operational, information technology and compliance risk areas, identified by the Audit and Risk Management Committee ("ARMC"), that need to be strengthened, and the ARMC's recommendations on actions to be taken to address and monitor the areas of concern;

f) Approve the annual budget, key operational matters, including major acquisition, divestment and funding proposals of the Group;

g) Approving the release of the financial results announcements, the audited financial statements of the Group and material transactions announcements on a timely basis;

h) Approving all Board appointments/re-appointments and appointments of key management as well as evaluating their performance and review their remuneration packages; and

i) Assuming responsibility for the corporate governance framework of the Group.

Corporate Governance **Statement**

The Board will consider sustainability issues such as environmental and social factors as part of its strategic formulation in line with the guidelines of the Code.

To facilitate effective management and assist the Board in discharging its duties, certain functions of the Board have been delegated to various Board Committees, namely the ARMC, the Nominating Committee ("NC") and the Remuneration Committee ("RC"). Each Board Committee has specific functions enumerated in its respective Terms of References and reports and makes recommendations to the Board on matters under its purview. The ultimate responsibility and final decision on all matters, however, lies with the Board. In addition, the Group has an established written internal policy on the types of transactions or activities and financial authorisation limits that require Board approval. The transactions that require board approval include transactions of material and price sensitive nature, major acquisitions, divestments and funding proposals of the Group.

The Board conducts scheduled meetings on a quarterly basis. These meetings are scheduled in advance to facilitate each individual Director's planning. Ad-hoc meetings are convened when required to address any significant issues that may arise in-between the scheduled meetings. Where physical meetings are not possible, timely communication with members of the Board and Board Committees can be achieved through electronic means and circulation of written resolutions for approval by the Board or relevant Board Committees. The Company's Constitution (the "Constitution") provides for Board meetings to be conducted by way of telephonic, video conferencing or any other electronic means of communication.

Directors are welcome to request for further explanation, briefings or discussions on any aspect of the Group's operations or business from Management. When required, Board members meet to exchange views outside the formal environment of Board meetings.

The attendance of the Directors at meetings of the Board and Board Committees as well as the number of such meetings during the year ended 31 December 2017 is set out in the table below:

Name of Director	**Board**	**ARMC**	**NC**	**RC**
Mr Kris Wiluan	6	–	1	–
Mr Richard James Wiluan	5	–	–	–
Mr Lim Ho Seng[(1)]	2	2	1	3
Mr Wong Meng Yeng[(2)]	2	1	1	3
Mr Soh Gim Teik[(3)]	5	5	1	5
Mr Lawrence Stephen Basapa[(4)]	6	5	1	5
Mr Chew Choon Soo[(5)]	6	5	–	5
Total No. of meeting(s) held in 2017	**6**	**5**	**1**	**5**

(1) Retired as an Independent Director at the last Annual General Meeting held on 27 April 2017, and therefore stepped down as the Chairman of the ARMC and member of the RC and NC with effect from 27 April 2017.

(2) Retired as an Independent Director at the last Annual General Meeting held on 27 April 2017, and therefore stepped down as the Chairman of the NC and member of the ARMC and RC with effect from 27 April 2017.

(3) Re-designated as Chairman of ARMC in place of Mr Lim Ho Seng.

(4) Re-designated as Chairman of NC in place of Mr Wong Meng Yeng.

(5) Appointed as member of NC with effect from 27 April 2017.

Corporate Governance **Statement**

Principle 2: Board Composition and Guidance

The Board of Directors comprises the following:

Name	Date of appointment	Date of last re-election/ re-appointment
Executive Directors		
Mr Kris Wiluan	2 May 2006	29 April 2016
Mr Richard James Wiluan	1 May 2014	27 April 2017
Independent Directors		
Mr Soh Gim Teik[1]	1 May 2015	29 April 2016
Mr Lawrence Stephen Basapa	1 June 2013	29 April 2016
Mr Chew Choon Soo	1 November 2014	27 April 2017

(1) Mr Soh Gim Teik was appointed as the Lead Independent Director on 27 April 2017.

There is a strong independent element on the Board with the Independent Directors making up at least half of the Board. As at the financial year ended 31 December 2017 ("FY2017"), three of the five Directors of the Company are Independent Directors. The Company does not have any alternate Director.

The Independent Directors contribute to the Board process by monitoring and reviewing Management's performance against goals and objectives. The Independent Directors, including the Lead Independent Director, have discussions amongst themselves regularly, without the presence of Management. If required and necessary, the Lead Independent Director will provide such feedback to the Chairman after such discussions. Their views and opinions provide alternate perspectives to the Group's business. When challenging Management's proposals or decisions constructively, they bring independent judgement to bear on business activities and transactions involving conflicts of interest and other complexities.

The size and composition of the Board is reviewed on an ongoing basis to facilitate effective decision making and to ensure alignment of the needs of the Group. As a team, the core competencies of the Board include areas of oil and gas industry knowledge, legal, accounting, finance, business and management experience. The Board, taking into account the scope and nature of the Group's operations, is of the view that the current size of the Board is not large as to be unwieldy and is considered to be appropriate to provide the balance and diversity of skills, experience and knowledge of the Group.

Whilst the current Board does not have gender diversity, this is an important aspect of the NC's consideration, should there be any proposed new appointment(s) of member to the Board. New Directors, if any, will continue to be selected based on objective criteria set as part of the process for appointment of new Directors.

The duties and responsibilities of the Independent Directors are clearly set out in their respective letters of appointment.

Corporate Governance **Statement**

Each Director is responsible for his own training needs and may access a training budget provided by the Company to keep abreast of developments in law, regulations, accounting and industry practices and changes in technology as they relate to the Company.

The Company has orientation programmes for newly-appointed Directors to familiarise themselves with the Group's senior management, culture, business, governance and best practices. No new Director was appointed during FY2017. The Directors are also encouraged to attend courses or seminars conducted by professionals (including the Singapore Institute of Directors courses) to keep abreast with developments in corporate, financial, legal and other compliance requirements for companies listed on the Singapore Exchange Securities Trading Limited ("SGX-ST"). During FY2017, the Independent Directors and senior Management had attended courses and seminars in relation to the Audit, Nominating and Remuneration Committees' Essentials; the SGX Sustainability Reporting Guide, CFO Innovation Asia Forum and the Singapore Offshore Finance Forum conducted by the Singapore Institute of Directors, the Institute of Singapore Chartered Accountants, CFO Innovation and Marine Money Offshore, respectively. On an ongoing basis, the Board is updated on any amendments and new requirements of the SGX-ST and other statutory and changes to regulatory requirements which may have an important bearing on the Company and the Directors' obligations to the Company, from time to time, or during Board meetings by the Company Secretary or at separate seminars on the amendments and requirements of the SGX-ST and other statutory and regulatory changes which may have an important bearing on the Company and the Directors' obligations to the Company from time to time.

Key information regarding the Directors, such as academic and professional qualifications, Board Committees served on, directorships or chairmanships both present and those held over the last three years in other listed companies, and other principal commitments, are disclosed on pages 12 to 14 of this Annual Report. The shareholdings or interests of the Directors in the Company, if any, are set out under the Directors' Statement in this Annual Report.

Principle 3: Chairman and Chief Executive Officer ("CEO")

The Board is of the opinion that there is a strong independent element on the Board to enable the exercise of independent and objective judgment on the corporate affairs of the Group. The Independent Directors of the Company make up a majority of the Board. There are therefore adequate safeguards and checks in place to ensure that the process of decision-making by the Board is based on collective decision of the Directors, without any concentration of power or influence residing in any individual. The Board, with the concurrence of the NC, believes that vesting the roles of both Chairman and CEO in the same person who is knowledgeable in the business of the Group provides strong and consistent leadership, thus allowing for more effective planning and execution of long-term business strategies. As such, there is no need for the role of the Chairman and the CEO to be separated. The NC will review the need to separate the roles from time to time and make its recommendations accordingly.

The Chairman and CEO, Mr Kris Wiluan, plays an instrumental role in developing the business of the Group and provides the Group with strong leadership and vision. He is responsible for *inter alia* the following:

- the operational and strategic policies of the Group;
- setting the meeting agenda of Board meetings and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues;
- leading the other Board members and encouraging constructive relations within the Board and between the Board and Management;

Corporate Governance **Statement**

- facilitating the effective contribution of Independent Directors in particular;
- promoting a culture of openness and debate at the Board;
- promoting high standards of corporate governance; and
- maintaining effective communication with shareholders of the Company.

He ensures that Board meetings are held at least quarterly and ensures that Board members are provided with complete, adequate and timely information. The Company endeavors to send Board papers to Directors at least 3 working days in advance for Directors to be adequately apprised of matters to be discussed at meetings. Members of the management team are invited to attend Board meetings as and when necessary to provide additional insight on matters to be discussed.

The Executive Chairman and CEO's performance and appointment to the Board are reviewed periodically by the NC and his remuneration package is reviewed by the RC. Both the NC and RC are chaired by Independent Directors.

The NC also assessed the contribution and performance of the Executive Chairman and CEO in FY2017. The results of the completed questionnaires are collated and the findings of the performance evaluations are tabled for discussion by the NC and the Board, with comparatives from the previous year's results, where applicable.

Feedback on results of performance evaluation of the Executive Chairman and CEO was reviewed by the NC and based on the review, the Executive Chairman and CEO performed his duties and contributed to the Group effectively for FY2017.

Lead Independent Director ("LID")

Mr Soh Gim Teik was appointed the LID on 27 April 2017. The appointment of LID is also in line with Guideline 3.3 of the Code. As the LID, Mr Soh is the principal liaison to address shareholders' concerns, for which direct contact through normal channels of the Executive Chairman and CEO or Chief Financial Officer ("CFO") has failed to resolve or for which such contact is inappropriate. He can also facilitate periodic meetings with the other Independent Directors on Board matters, when necessary, and provides his feedback to the Executive Chairman after such meetings. His other specific roles as LID are as follows:

a) act as liaison between the Independent Directors and the Executive Chairman and CEO and lead the Independent Directors to provide non-executive perspectives in circumstances where it would be inappropriate for the Executive Chairman to serve in such capacity and to contribute a balanced viewpoint to the Board;

b) advise the Executive Chairman and CEO of the Board as to the quality, quantity and timeliness of the information submitted by Management that is necessary or appropriate for the Independent Directors to effectively and responsibly perform their duties; and

c) assist the Board and Company officers in better ensuring compliance with and implementation of corporate governance.

Corporate Governance **Statement**

BOARD COMMITTEES

Principle 4: Board Membership

Nominating Committee

The NC comprises the following members:

Mr Lawrence Stephen Basapa – Chairman*	(Independent Director)
Mr Soh Gim Teik	(Lead Independent Director)
Mr Chew Choon Soo**	(Independent Director)
Mr Kris Wiluan	(Executive Director)

* Re-designated as Chairman of NC in place of Mr Wong Meng Yeng with effect from 27 April 2017.

** Appointment as a NC member in place of Mr Lim Ho Seng with effect from 27 April 2017.

The functions of the NC include the following:

a) review and recommend to the Board the structure, size and composition of the Board and the Board Committees;

b) identify, review and recommend candidates for appointment to the Board and Board Committees, as well as to senior Management positions in the Company;

c) evaluate the effectiveness of the Board as a whole and assess the contribution by each Director to the effectiveness of the Board;

d) determine annually, on a discretionary basis, whether or not a Director is independent, bearing in mind the definition and criteria set forth in the Code and any other salient factors;

e) in respect of a Director who has multiple board representations on various companies, to decide whether or not such Director is able to and has been adequately carrying out his duties as a Director, having regard to competing time commitments; and

f) make recommendations to the Board on the appointment or re-election of the Directors to the Board at the Company's Annual General Meetings ("AGMs"), having regard to the Directors' contributions and performance.

The NC had adopted the Code's definition and criteria for independence. Each Independent Director is required to submit a Confirmation of Independence form annually, for the NC's review.

During the year, the NC had reviewed the independence of the Independent Directors according to the criteria set out in the Code and is of the view that Messrs Lawrence Stephen Basapa, Soh Gim Teik and Chew Choon Soo are independent.

Corporate Governance **Statement**

None of the above Independent Directors are related to, and none of them have any relationship with, the Company, its related corporations, its 10% shareholders, or its officers or are in any circumstances that could interfere, or be reasonably perceived to interfere, with the exercise of their independent business judgement with a view to the best interests of the Company. The Board having considered the recommendations of the NC had concurred with the NC's assessment.

In selecting prospective new Directors to the Board, the NC will take into consideration the current Board size and mix, identify the required skills, experience and competencies necessary to enable the Board to fulfil its responsibilities. Prospective candidates are sourced through an extensive network of contacts or where required, external executive search professionals are engaged. Candidates are rigorously reviewed by the NC based on key attributes *inter alia* such as integrity, commitment and competencies and ability to carry out his duties as a Director (in particular where the Director holds multiple directorships and has principal commitments). The NC will thereafter submit its recommendation to the Board. All candidates are carefully evaluated by the Board to ensure that the recommendations are objective and well supported.

A Director with multiple board representations is expected to ensure that sufficient time and attention is given to the affairs of the Company. To allow for flexibility, there will not be a fixed maximum number of listed company board representations which Directors may hold. The NC is of the view that the number of directorships a Director can hold and his principal commitments should not be prescriptive as the time commitment for each board membership will vary. The NC will review the number of listed company board representations which each Director holds on an annual basis or from time to time when the need arises. The NC, having considered the confirmations received from the Independent Directors, is of the view that the other board representations and principal commitments of the Independent Directors do not hinder them from carrying out their duties to the Company. The NC is satisfied that sufficient time and attention have been accorded by these Independent Directors to the affairs of the Company. The Board concurred with the NC's views.

In accordance with the provisions of the Company's Constitution, one-third of the Directors will retire by rotation and are subject to re-election at every AGM. New Directors appointed during the year will retire and submit themselves for re-election at the following AGM.

Messrs Soh Gim Teik and Lawrence Stephen Basapa are retiring by rotation pursuant to Article 91 of the Company's Constitution. Messrs Soh Gim Teik and Lawrence Stephen Basapa have expressed their consents to seek re-election as Directors of the Company at the forthcoming AGM.

The NC, having considered the attendance and participation of the aforesaid Directors at Board and Board Committee meetings and in particular, their contributions to the business and operations of the Company as well as Board processes, had recommended their nomination for re-election at the forthcoming AGM. The Board had accepted the NC's recommendation.

Principle 5: Board Performance

The NC has in place an annual Board performance evaluation to assess the effectiveness of the Board and to facilitate discussion to enable the Board to discharge its duties more effectively. The annual Board performance evaluation is carried out by means of a questionnaire relating to the size and composition of the Board, information flow to the Board, Board procedures and accountability, matters concerning CEO/senior Management and standards of conduct of Board members being completed by each Director. The NC also assessed the contribution and performance of each Director in FY2017.

Corporate Governance **Statement**

In line with the guidelines of the Code, annual performance evaluation exercises were also conducted for the Board Committees in FY2017. The performance evaluation process for the ARMC, NC and RC similarly involved the use of questionnaires being completed by Board Committee members relating to the following matters:

(i) ARMC – Membership and appointments, meetings, training and resources, financial reporting, internal financial controls and risk management systems, IA process, external audit process, whistle-blowing, relationship with the Board and communication with shareholders.

(ii) NC – Membership and appointments, meetings, training and resources, reporting, process for selection and appointment of new Directors, nomination of Directors for re-election, independence of Directors, Board performance evaluation, succession planning, Director who has multiple board representation, standards of conduct and communication with shareholders.

(iii) RC – Membership and appointments, meetings, training and resources, remuneration framework, reporting, standards of conduct and communication with shareholders.

The NC appointed an external party to assist the Board and Board Committees in conducting the Board evaluation and appraisal process for the Board, the Board Committees and the contribution of each Director, to ensure objectivity and transparency in the process.

The results of the completed questionnaires of the Board, its Board Committees and Directors performance are collated and the findings of the performance evaluations; are tabled for discussion by the NC (where applicable) and the Board, with comparatives from the previous year's results, where applicable.

The aim of the evaluation of the Board and Board Committees was to review the effectiveness of the Board as a whole and each of the Board Committees and provide an opportunity to obtain constructive feedback from the Directors on whether the Board/respective Board Committee's procedures and processes had allowed them to discharge their duties effectively. Members of the Board and Board Committees are encouraged to propose changes to enhance effectiveness of the Board as a whole and the respective Board Committees. The NC and the respective Board Committees would continue to evaluate the process for such reviews and their effectiveness from time to time.

In discussing the results of the Board performance evaluation for FY2017, Board members were able to identify areas for improving the effectiveness of the Board. The NC will continue to evaluate the process for such review from time to time.

The NC, in considering the contribution of each Director to the effectiveness of the Board, had reviewed:

a) the skills and contributions of the Directors;

b) attendance and participation of the Directors at Board and Board Committee meetings;

c) the competing time commitments of Directors with multiple board representations; and

d) the independence of Independent Directors, where applicable.

Corporate Governance **Statement**

The NC was generally satisfied with the overall rating for FY2017 results of the Board performance evaluation which indicated areas of strengths and those that could be improved further. No significant problems were identified. The NC had discussed the results with Board members who agreed to work on those areas that could be improved further.

Feedback from evaluation of the Board Committees were reviewed separately by the respective Board Committees before being submitted to the Board for discussion and determining areas for improvement and enhancement of each Board Committee's effectiveness and overall contribution to the Board.

Feedback on results of performance evaluation of each Director was reviewed by the NC and based on the review, each Director is contributing to the overall effectiveness of the Board.

Principle 6: Access to Information

Management provides the Directors with monthly management reports, information, background and explanatory notes pertaining to areas such as budget, forecasts, funding positions and quarterly financial statements of the Group. In addition, all relevant information on material events and transactions are circulated to Directors as and when they arise. In respect of budgets, any material variance between the projections and actual results would also be disclosed and explained.

The Executive Chairman and CEO sits on the board of the Group's key businesses, KS Distribution Pte. Ltd. and KS Drilling Pte. Ltd. He is an important link between the Board and the boards of the key businesses. He keeps Board members apprised of key developments affecting the Group as well as any material transactions. All Board members have direct access to senior Management and the Company Secretaries. The appointment and removal of the Company Secretaries is a matter reserved for the Board.

The Company Secretaries' responsibilities include ensuring that:

a) Board procedures are followed;

b) applicable requirements of the Companies Act, Cap. 50 and the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST Listing Manual") are complied with; and

c) there is adequate and timely information flow between senior Management and Non-executive Directors prior to meetings and on an ongoing basis.

All Board members also have separate and independent access to senior Management and are aware that they, whether as a group or individually, in the furtherance of their duties, can take independent professional advice, if necessary, at the Company's expense. The appointment of such independent professional advisor is subject to approval by the Board.

Corporate Governance **Statement**

Remuneration Committee

Principle 7: Procedures for Developing Remuneration Policies
Principle 8: Level and Mix of Remuneration
Principle 9: Disclosure on Remuneration

The RC comprises the following members:

Mr Chew Choon Soo – Chairman	(Independent Director)
Mr Soh Gim Teik	(Lead Independent Director)
Mr Lawrence Stephen Basapa	(Independent Director)

The functions of the RC include the following:

a) recommend to the Board base salary level, benefits and incentive programs, and identify components of salary which can best be used to focus Management staff on achieving corporate objectives;

b) approve the structure of compensation programmes (including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind) for Directors and key management personnel to ensure that the programme is competitive and sufficient to attract, retain and motivate key management personnel of the required quality to run the Group successfully;

c) review, on an annual basis, the compensation packages of the Executive Chairman and CEO, the Executive Director, key management personnel and any employees related to the Directors of the Company;

d) review the remuneration of the Non-Executive Directors, taking into account factors such as their effort, time spent and responsibilities and that they are not overly-compensated to the extent that their independence may be compromised; and

e) function as the committee referred to in the KS Energy Employee Share Option Scheme and the KS Energy Performance Share Plan and having all the powers set out in both schemes.

The Company's remuneration package comprises a base/fixed salary component and a variable bonus component that is linked to the Company/Group and individual performances.

The RC will review the Company's obligations arising in the event of a termination of the Executive Directors' and key management personnel's contracts of service and the need to adopt provisions allowing the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstance of misstatement of financial results or of misconduct resulting in financial loss to the Company.

Disclosure on Directors' Remuneration

In setting the remuneration packages of Executive Directors, the RC takes into account the respective performances of the Group and of the individual. In its deliberation, the RC takes into consideration, remuneration packages and employment conditions within the industry and benchmarked against comparable companies.

Corporate Governance **Statement**

The structure of fees paid to the Independent Directors is as follows:

	Basic Fee (S$) per annum	Standard number of meeting(s) per annum
Board Lead Independent Director Independent Director	 $52,000 $40,000	4
ARMC Chairman Member	 $20,000 $10,000	5
NC Chairman Member	 $10,000 $5,000	2
RC Chairman Member	 $10,000 $5,000	2

If a Director occupies a position for part of the financial year, the fee payable will be prorated accordingly.

Attendance Fee

In addition, an Independent Director will be paid an attendance fee of $1,000 for each additional Board or Board Committee meeting which he attended in that financial year.

The Chairman of each Board Committee is compensated for additional responsibilities that may be assigned to him. Directors' fees are tabled for approval by the shareholders of the Company as a lump sum payment at the AGM of the Company.

The RC is of the view that the current remuneration of the Independent Directors is appropriate, taking into account factors such as effort and time expended and responsibilities. Other than Directors' fees, the Independent Directors do not receive any other form of remuneration from the Company. The RC had recommended the payment of Directors' fees of S$271,333.00 for FY2017. This recommendation had been endorsed by the Board and will be tabled at the Company's AGM for shareholders' approval.

In FY2017, the RC carried out an annual review of the Chairman and key management personnel's remuneration packages to ensure that their remuneration commensurate with their performance, giving due regard to the performance criteria set out in the Group's remuneration framework for key management personnel and the financial performance and business needs of the Group. The RC had also reviewed the Group's remuneration framework for key management personnel to further align performance with the variables in the compensation structure, as well as to include contractual non-compete and confidentiality provisions.

The service agreements of the Executive Directors and key management personnel of the Company contains contractual provisions which allow the Company to reclaim incentive components of remuneration from Executive Directors and/or key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company.

Corporate Governance **Statement**

The Company has a share option scheme and a share-based incentive plan (i.e. the KS Energy Employee Share Option Scheme and KS Energy Performance Share Plan (the "Plan"), collectively referred to as the "Schemes"). The Company had not granted any share option or share award pursuant to the Schemes during FY2017. Details of both Schemes are disclosed on pages 47 to 49 of the Directors' Statement.

For FY2017, the RC was satisfied with the Chairman's and key management personnel's remuneration packages and recommended the same for Board approval. The Board concurred with the RC's recommendations.

No remuneration consultants were engaged in FY2017. The RC members or Directors did not participate in any decision concerning their own remuneration.

The following table shows a breakdown (in percentage terms) of Directors' remuneration for FY2017, falling within broad bands:

	Breakdown of the Director's remuneration						
	No. Of Directors	Fee (%)	Salary & CPF (%)	Bonus & CPF (%)	Other Benefits (%)	Shares (%)	Total (%)
Above S$750,000 to S$1 million	1						
Mr Kris Wiluan*(1)	–	–	96%	–	4%	–	100%
Above S$500,000 to S$750,000	–	–	–	–	–	–	–
Above S$250,000 to S$500,000	–	–	–	–	–	–	–
S$250,000 & Below	6						
Mr Richard James Wiluan		8%	92%	–	–	–	100%
Mr Lim Ho Seng*(2)		100%	–	–	–	–	100%
Mr Wong Meng Yeng*(3)		100%	–	–	–	–	100%
Mr Soh Gim Teik*(4)		100%	–	–	–	–	100%
Mr Lawrence Stephen Basapa*(5)		100%	–	–	–	–	100%
Mr Chew Choon Soo*(6)		100%	–	–	–	–	100%

*(1) The remuneration paid includes remuneration paid to the Director by KS Distribution Pte. Ltd. ("KSD"), a subsidiary of the Company, as defined under the Companies Act, Cap 50, but treated by the Company as a joint venture in the consolidated financial statements in accordance with Singapore Financial Reporting Standards.

*(2) Retired as an Independent Director at the last Annual General Meeting held on 27 April 2017, and therefore stepped down as the Chairman of the ARMC and member of the RC and NC with effect from 27 April 2017.

*(3) Retired as an Independent Director at the last Annual General Meeting held on 27 April 2017, and therefore stepped down as the Chairman of the NC and member of the ARMC and RC with effect from 27 April 2017.

*(4) Re-designated as Chairman of ARMC in place of Mr Lim Ho Seng with effect from 27 April 2017.

*(5) Re-designated as Chairman of NC in place of Mr Wong Meng Yeng with effect from 27 April 2017.

*(6) Appointed as Member of NC in place of Mr Lim Ho Seng with effect from 27 April 2017.

Corporate Governance **Statement**

The remuneration of the Group's top five (5) key management personnel, who are not Directors of the Company for FY2017 falls within the following remuneration bands:

Remuneration Bands	No. of Executives	Fee (%)	Salary & CPF (%)	Bonus & CPF (%)	Other Benefits (%)	Shares (%)	Total (%)
Above S$500,000 to S$750,000	2	–	90%	–	10%	–	100%
Above S$250,000 to S$500,000	2	–	91%	–	9%	–	100%
S$250,000 & Below	1	–	93%	–	7%	–	100%

For confidentiality reasons, the Company is not disclosing each individual Director's remuneration and the performance criteria used to determine the remuneration packages of the Executive Chairman and CEO, Executive Director and key management personnel. The remuneration and names of key management personnel are also not disclosed given the competitiveness, hiring pressure and disadvantages that this might bring. In aggregate, the total remuneration paid to the top 5 key management personnel in FY2017 was S$2,563,091 (FY2016: 2,532,476.00) which included remuneration paid by KSD, a subsidiary of the Company, as defined under Section 5 of the Companies Act, Cap 50, but treated by the Company as a joint venture in the consolidated financial statements in accordance with Singapore Financial Reporting Standards, FRS 111, and by KSDR, a subsidiary of the Company, as defined under the Companies Act, Cap. 50.

One key management personnel who is related to but not an immediate family member of the Chairman and CEO was within the remuneration band of S$250,000 to S$500,000. Save as disclosed, none of the employees who are immediate family members of a Director or the CEO received more than S$50,000 in remuneration for the FY2017.

Principle 10: Accountability

The Board is responsible for providing a balanced and understandable assessment of the Group's performance, financial position and prospects. On a monthly basis, Management provides Board members with management accounts and reports. Reports on the Group's financial position and competitive conditions of the industry in which the Group operates are provided on a quarterly basis.

Relevant information on material events and transactions are reviewed by the Board, as and when they arise. The Board is updated on amendments/requirements of the Singapore Exchange Securities Trading Limited ("SGX-ST") and other statutory and regulatory requirements from time to time.

In line with the SGX-ST Listing Manual requirements, negative assurance confirmation statements were issued by the Board to accompany the Group's quarterly financial results announcements, confirming to the best of the Board's knowledge that nothing had come to the Board's attention which could render the Company's results announcements to be false or misleading. The Company is not required to issue negative assurance confirmation statements for its full year results announcements.

Corporate Governance **Statement**

Audit and Risk Management Committee

Principle 11: Risk Management and Internal Controls

The ARMC, through the assistance of internal and external auditors, reviews and reports to the Board at least annually on the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls, established by Management. In addition, the Board reviews and determines the Group's level of risk tolerance and risk polices, and oversees the design, implementation and monitoring of the risk management and internal control systems. In assessing the effectiveness of internal controls, the ARMC ensures primarily that key objectives are met, material assets are properly safeguarded, fraud or errors in the accounting records are prevented or detected, accounting records are accurate and complete, and reliable financial information is prepared in compliance with applicable internal policies, laws and regulations.

Since FY2012, the Group has an Enterprise Risk Management ("ERM") Framework (the "ERM Framework"), which governs the risk management process in the Group. Through this ERM Framework, risk capabilities and competencies are continuously enhanced. The ERM Framework also enables the identification, prioritisation, assessment, management and monitoring of key risks and associated key controls to the Group's business. The ownership of these risks lies with the respective business and corporate executive heads with stewardship residing with the Board. The key risks of the Group are deliberated by Management and reported to the ARMC on a quarterly basis. The ARMC reviews the adequacy and effectiveness of the ERM Framework against leading practices in risk management and vis-à-vis the external and internal environment in which the Group operates.

Complementing the ERM Framework is a group-wide system of internal controls, which includes the documented policies and procedures, proper segregation of duties, approval procedures and authorities, as well as checks-and-balances built into the business processes. The Group has in place a risk management process that requires business units to assess the effectiveness of their internal controls. In addition, to ensure that internal controls and risk management processes are adequate and effective, the ARMC is assisted by various independent professional service providers. Any material non-compliance or lapses in internal controls together with corrective measures recommended by internal and external auditors are reported to and reviewed by the ARMC. The adequacy and effectiveness of the measures taken by Management in response to the recommendations made by the internal and external auditors is also reviewed by the ARMC.

The Board has received assurance from the CEO and CFO that, as at 31 December 2017:

(a) the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and

(b) the Group's risk management and internal control systems were adequate and effective to address key financial, operational, compliance and information technology risks. The Group CEO and the Group CFO have obtained similar assurance from the business unit heads in the Group.

Opinion on Adequacy and Effectiveness of the Group's Internal Controls

Based on the review of the key risks identified through the ERM process, and the internal controls established and maintained by the Group, work performed by the internal and external auditors, reviews performed by Management and the ARMC; and the aforesaid assurances from the CEO and CFO, the Board, with the concurrence of the ARMC, is of the opinion, pursuant to Rule 1207(10), that the Group's internal controls, addressing financial, operational, compliance and information technology risks, and risk management systems, were adequate and effective as at 31 December 2017.

Corporate Governance **Statement**

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

Principle 12: Audit and Risk Management Committee

The ARMC comprises the following members:

Mr Soh Gim Teik – Chairman*	(Lead Independent Director))
Mr Lawrence Stephen Basapa	(Independent Director)
Mr Chew Choon Soo	(Independent Director)

* Re-designated as Chairman of ARMC in place of Mr Lim Ho Seng, who has retired as Director of the Company and stepped down as the ARMC Chairman at the last AGM held on 27 April 2017.

The Board is of the view that the ARMC members are appropriately qualified. At least 2 of them, including the ARMC Chairman, having the necessary recent and relevant accounting and/or related financial management expertise or experience as the Board interprets such qualifications to discharge their responsibilities. None of the ARMC members were former partners or directors of the Company's external auditors, KPMG LLP, within the last twelve months or hold any financial interest in the external auditors.

The ARMC meets at least four times a year and as and when required to carry out its duties. The ARMC performs the following functions:

a) reviews with the external auditors, their audit plan, evaluation of the accounting controls, audit reports and any matters which the external auditors wish to discuss;

b) reviews with the internal auditors, their audit plan and reports, the adequacy of the internal audit procedures and their evaluation of the effectiveness of the overall internal control systems, including financial, operational and compliance controls and risk management;

c) reviews the quarterly and annual financial statements, including announcements to shareholders and the SGX-ST prior to submission to the Board for approval, so as to ensure the integrity of the Company's financial statements;

d) reviews the internal control procedures to ensure co-ordination between the internal and external auditors, any significant findings and recommendations of the external and internal auditors and related management response including co-operation and assistance given by Management to the internal and external auditors;

e) reviews interested person transactions ("IPTs") to ensure that internal control and review procedures are adhered to;

f) conducts annual reviews of the cost effectiveness of the audit, independence and objectivity of the external auditors, including the value of non-audit services provided by the external auditors, to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors before confirming their re-nomination;

Corporate Governance **Statement**

g) appointment or re-appointment of the internal and external auditors and matters relating to resignation or dismissal of the auditors;

h) arrangements by which staff of the Group or members of the public may in confidence, raise concerns about possible improprieties in financial reporting or, other matters;

i) potential conflicts of interests, if any;

j) advises the Board on the Company's overall risk tolerance and strategy;

k) advises the Board on the current risk exposures and future risk strategy of the Company;

l) in relation to risk assessments:

   (i) keeps under review the Company's overall risk assessment processes that inform the Board's decision making;

   (ii) reviews regularly and approve the parameters used in these measures and the methodology adopted; and

   (iii) sets a process for the accurate and timely monitoring of large exposures and certain risk types of critical importance;

m) reviews the Company's capability to identify and manage new risk types;

n) before a decision to proceed is taken by the Board, advises the Board on proposed strategic transactions, focusing in particular on risk aspects and implications for the risk tolerance of the company, and taking independent external advice where appropriate and available;

o) reviews reports on any material breaches of risk limits and the adequacy of proposed action;

p) provides advice to the RC on risk weightings to be applied to performance objectives incorporated in executive remuneration;

q) monitors the independence of risk management functions throughout the organisation;

r) reviews promptly all relevant risk reports on the Company;

s) reviews and monitors Management's responsiveness to the findings; and

t) conducts such other reviews and undertakes projects as may be requested by the Board, reports to the Board its findings from time to time on matters arising and requiring the ARMC's attention and generally undertakes such other functions and duties as may be required by statute or the SGX-ST Listing Manual (as amended thereto from time to time).

Corporate Governance **Statement**

The Company has in place a Whistle-blowing Policy to provide an accessible channel through which employees and any other persons of the Group may report and raise in good faith and in confidence, any concerns about possible improprieties, fraudulent activities, or malpractices within the Group in a responsible and effective manner. The objective of the Whistle-blowing Policy is to facilitate independent investigation of such matters and for appropriate follow-up action. This policy was updated in FY2017. Reports can be made verbally or in writing to any member of the ARMC whose contact numbers and email addresses are stated in the said policy. External parties may access the Whistle-blowing Policy which is available on the corporate website at http://www.ksenergy.com.sg. An independent investigation of the matters raised would be conducted and appropriate follow-up action would be undertaken. There were no whistle-blowing reports received in FY2017.

The ARMC has full authority to commission investigations and review findings into matters when alerted of any suspected fraud, irregularity, failure of internal controls or infringement of any law that may likely have a material impact on the Group's operating results. It also has full access to and co-operation from Management and full discretion to invite any Director or executive officer to attend its meetings as well as reasonable resources to enable it to discharge its function properly.

The ARMC meets with the Group's internal and external auditors and Management to review accounting, auditing and financial reporting matters so as to ensure that an effective system of control is maintained in the Group. In FY2017, the ARMC:

(i) held 5 meetings;

(ii) reviewed the quarterly and full-year financial statements and, considered both the external and internal audit plans;

(iii) reviewed the adequacy of internal control procedures and transactions with Interested Persons;

(iv) met with both the internal and external auditors, without the presence of Management, to obtain feedback on Management's co-operation in the audits and on other matters that may warrant the ARMC's attention. Both the internal and external auditors had confirmed that they had access to and received full co-operation and assistance from Management and no restrictions were placed on the scope of their audits;

(v) undertook a review of all non-audit services provided by the external auditors and is of the opinion that the nature and provision of such services would not affect the independence and objectivity of the external auditors. The external auditors have affirmed their independence in this respect. The following fees amounting to S$1,094,000*[(1)] (FY2016: S$1,320,000) were approved:

Audit fees	S$911,000 (FY2016 S$1,113,000)
Non-audit fees*[(2)]	S$183,000 (FY2016 S$207,000)

*(1) The total fees of S$1,094,000 approved for payment include fees payable by KSD to the Company's auditors, who are also the external auditors of KSD, treated by the Company as a joint venture in the consolidated financial statements in accordance with Singapore Financial Reporting Standards.

*(2) Non-audit fees were mainly in respect of corporate tax compliance services.

Corporate Governance **Statement**

(vi) confirmed that the Company has complied with Rule 712 of the SGX-ST Listing Manual in that KPMG LLP is registered with the Accounting and Corporate Regulatory Authority; The ARMC was satisfied that the resources and experience of KPMG LLP, the audit engagement partner and his team assigned to the audit of the Group were adequate to meet their audit obligations, given the size, nature, operations and complexity of the Group;

(vii) confirmed that the Company has complied with Rule 715 of the SGX-ST Listing Manual in relation to the appointment of the same auditing firm based in Singapore to audit the accounts of the Company, all its Singapore-incorporated subsidiaries and a significant foreign subsidiary. The Group's jointly controlled entities, subsidiaries and associates are disclosed under Notes 15 and 17 of the Notes to the Financial Statements on pages 92 to 98 and 99 to 104 respectively of this Annual Report.

(viii) In the review of the financial statements, the ARMC has discussed with management the accounting principles that were applied and their judgment of items that might affect the integrity of the financial statements. The following significant matters impacting the financial statements were discussed with management and the external auditor and were reviewed by the ARMC:

Significant Matters	How the ARMC reviewed these matters and what decisions were made
Going concern assumption	The ARMC considered the basis of assessment of the continuing use of the going concern assumption for the preparation of the financial statements, specifically looking at operating cash flow projections, upcoming loan repayments and financing for known capital commitments. The ARMC reviewed the reasonableness of cash flow forecasts and assessed the current status for each material component, together with alternative plans. The going concern assumption was also an area of focus for the external auditor. The external auditor had included this item as a separate section 'Material uncertainty relating to going concern' in its audit report for the financial year ended 31 December 2017. Refer to pages 51 and 52 of this Annual Report.
Impairment test of property, plant and equipment – rigs	The ARMC considered the approach and methodology applied to the valuation model in assessing the valuation of cash generating units ("CGU"). The ARMC reviewed the reasonableness of cash flow forecasts, long-term growth rate and discount rate used in the valuation model. The valuation of rigs was also an area of focus for the external auditor. The external auditor had included this item as a key audit matter in its audit report for the financial year ended 31 December 2017. Refer to page 53 of this Annual Report.

Corporate Governance **Statement**

Significant Matters	How the ARMC reviewed these matters and what decisions were made
Investments in joint ventures, provision for loss from joint venture and impairment losses on loan to joint venture	The ARMC considered the approach and methodology applied to the valuation of investments in joint ventures and the assessment of the recoverability of the loans to joint ventures by reference to their individual assets and liabilities. The valuation of joint ventures and amounts due from joint venture, the evaluation of obligations and the adequacy of disclosures were areas of focus for the external auditor. The external auditor had included these items as a key audit matter in its audit report for the financial year ended 31 December 2017. Refer to page 54 of this Annual Report.

The ARMC, with the concurrence of the Board, had recommended the re-appointment of KPMG LLP as auditors for the ensuing year at the forthcoming AGM based on their performance and quality of their audit.

The external auditors and/or the CFO will keep the AC abreast of changes to accounting standards and issues, if any, which have a direct impact on the financial statements through updates and/or reports from time to time, where applicable or relevant. In addition, the AC is entitled to seek clarification from Management, the external auditors and/or internal auditor or seek independent professional advice, or attend relevant seminars at the Company's expense from time to time to apprise themselves of accounting standards/financial updates.

Principle 13: Internal Audit

The Company engaged independent audit firm, BDO LLP as its internal auditors to support its in-house internal audit team for the Company and KS Drilling Pte. Ltd. and its Group. All internal audit reports with be submitted to the ARMC directly for review before submitting their final reports to the Board for approval, on quarterly basis. The role of the internal auditors is to support the ARMC in ensuring that the Group maintains a sound system of internal controls by highlighting weaknesses in the current process, ascertaining that operations were conducted in accordance with established policies and procedures and to identify areas for improvement, where controls can be strengthened. The ARMC reviews the adequacy and effectiveness of the internal auditors to ensure that they are sufficiently resourced and able to perform their function effectively and objectively.

For FY2017, the ARMC was satisfied that the resources and experience of BDO LLP, the internal audit engagement partners and their teams assigned to the internal audit of the Group were adequate to meet their internal audit obligations. The internal auditor is required to apply and has confirmed that the standards applied meet the equivalent of the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

During the year under review, the internal auditors had reviewed key processes to test the effectiveness of internal controls within the Group. In addition, the external auditors have, during the course of their audit, tested the operating effectiveness of certain controls over the Group's financial reporting process. Any lapses in compliance or internal controls together with corrective measures are reported to the ARMC. No material issues or lapses in internal controls were raised by the internal auditor in the course of the audit. The ARMC reviews the internal and external auditors' comments and findings and ensure that there are adequate internal controls in the Group and follow up on actions implemented.

Corporate Governance **Statement**

Management had provided additional assurance in respect of the Company's financial statements as at 31 December 2017, that:

(i) the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances;

(ii) nothing had come to Management's attention which might render the financial results of the Group as at 31 December 2017 to be false or misleading in any material aspect;

(iii) Management was aware of their responsibilities for establishing, maintaining and evaluating the effectiveness of the risk management and internal control systems of the Company; and

(iv) there were no known significant deficiencies in the risk management and internal controls systems relating to the preparation and reporting of financial data as at 31 December 2017 and that Management was not aware of any fraud.

SHAREHOLDERS RIGHTS AND RESPONSIBILITIES

Principle 14: Shareholders Rights
Principle 15: Communication with Shareholders
Principle 16: Conduct of Shareholder Meetings

The Company strives for timeliness and transparency in its disclosures to shareholders and the public and does not practise selective disclosure so as to facilitate the exercise of ownership rights of the shareholders,. All information on the Company's developments and initiatives, especially any price-sensitive information, are disseminated via SGXNET followed by a news release, where appropriate. Results and annual reports are announced or issued within the stipulated timelines prescribed by the SGX-ST.

The Company currently holds analyst briefings upon request following the release of its quarterly financial results. Communications with shareholders, analysts and fund managers are handled by a dedicated investor relation consultant.

The Company also regularly updates its corporate website http://www.ksenergy.com.sg through which shareholders are able to access information on the Group. The website provides the Group's business profile, corporate announcements, press releases and other relevant information.

The Board has also taken steps to solicit and understand the views of the shareholders through general meetings. At general meetings of the Company, shareholders are given the opportunity to express their views and ask questions regarding the Company and the Group. The Board welcomes questions from shareholders who may ask questions or seek clarification either informally or formally before or at the general meetings. The Annual Report is despatched to shareholders, together with the Notice of AGM, explanatory notes or a circular on items of special business, at least 14 days before the meeting for ordinary resolutions and 21 days before the meeting for special resolutions. There are separate resolutions on each distinct issue. Resolutions passed at the general meetings are voted by poll. The Company currently employs paper polling as electronic polling is not practical and cost-effective. Shareholders were also informed of the rules, including the voting procedures, that govern the shareholders' general meetings.

Corporate Governance **Statement**

All shareholders of the Company are encouraged to attend the general meetings to ensure a high level of accountability and to stay informed of the Group's strategy and goals. Shareholders may vote in person or in absentia by way of proxy forms deposited, in person or by mail, at the registered address of the Company at least 48 hours before the meetings.

All Directors, if available, and the Chairman of each Board Committee are present at the shareholders' meetings to address questions which are within the purview of the respective Board Committees. The external auditors and key management personnel of the Company are present to address shareholders' queries about the conduct and the preparation and content of the auditors' report.

Minutes of the AGM and/or Extraordinary General Meeting will be made available to shareholders upon their request.

Other than communicating with shareholders at general meetings, the shareholders may contact the Company's CFO on any investor relations matters through various means set out in the corporate website. The contact details are as follows:

Tel : +65 6577 4600
Fax : +65 6577 4618
Email : mail@ksenergy.com.sg

The Company does not have a policy on payments of dividends. The form, frequency and amount of dividends declared each year will take into consideration the Group's profit growth, cash position, positive cash generated from operations, projected capital requirements for business growth and other factors as the Board may deem appropriate.

For FY2017, the Board did not recommend payment of dividends, as the Company is in a loss position.

SECURITIES TRANSACTIONS

The Company has developed a practice governing dealings in the securities of the Company by directors, management and staff. All directors, management and staff of the Company are reminded, on a quarterly basis, that it is an offence under the laws of Singapore to be dealing in the securities of the Company while in possession of material unpublished price-sensitive information. They are also, on the same quarterly basis, notified to refrain from dealing in the securities of the Company during the period commencing two (2) weeks before the announcement of the Company's financial statements for the first and third quarter of its financial year, and one (1) month before the announcement of the Company's half year and full year financial statements, as the case may be, and ending on the date of the announcement of the relevant results.

The directors, management and staff of the Company are discouraged from dealing in the securities of the Company on short term considerations and reminded that they should, at all times, be mindful of the laws of Singapore prohibiting insider trading.

The Company has complied with Rule 1207(19) of the SGX-ST Listing Manual.

MATERIAL CONTRACTS

Other than as disclosed below and in Note 27 of Financial Statements on pages 122 to 124, there were no other material contracts entered into by the Company and its subsidiaries involving the interest of the Executive Chairman and CEO, Director or controlling shareholder, which were either subsisting at the end of the financial year or, if not then subsisting, entered into since the end of the previous financial year.

Corporate Governance **Statement**

INTERESTED PERSON TRANSACTIONS

The Group has established procedures to manage and capture any transactions with interested persons and report them in a timely manner to the ARMC. Business units are required to be familiar with the IPT mandate as well as the internal policy and procedure, and report interested person transactions to the company for review and approval by the ARMC. The Group maintains a register of the company's interested person transactions in accordance with the requirements of the SGX-ST Listing Manual.

When a potential conflict of interest arises, the Director concerned does not participate in discussions and refrains from exercising any influence over other members of the Board.

Interested person transactions are reviewed by BDO LLP, the independent internal audit firm engaged by the Company. Their internal audit reports are submitted to the ARMC directly for review on a quarterly basis.

The ARMC and the Board have reviewed the proposed renewal of mandates for IPTs with PT DWI Sumber Arca Waja Group and PT KS Drilling Indonesia to be tabled for shareholders' approval at the forthcoming AGM. Details of the proposed renewal of IPT mandates are set out in the Appendix to the Notice of AGM.

Interested person transactions carried out during the financial year which fall under Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited (SGX-ST) are as follows:

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)
PT Dwi Sumber Arca Waja, its subsidiaries and its associates ("DSAW Group")		
• Provision of goods and services to and from the DSAW Group		SGD326,086
• Interest on loan from Pacific One Energy Limited	SGD266,866	
PT KS Drilling Indonesia and its subsidiaries ("JVC Group")		
• Expected additional interest income on Additional Loan(1)	SGD1,168,594	
• Expected additional interest income on Financing(2)		SGD3,562,016
• Injection of shareholders' loans pursuant to the Financing provided by KS Drilling to JVC Group(2)		SGD353,509

Corporate Governance **Statement**

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)
Additional information pursuant to the JVC IPT Mandate:		
• *Injection of funds by KS Drilling to JVC Group*		*USD319,761*
• *Total outstanding amount due from JVC Group on Additional Loan including accrued interest thereon as at the end of the period*(1)	*USD8,029,847*	
• *Total outstanding amount due from JVC Group for rig management fees and other services as at the end of the period*	*USD514,348*	
• *Total outstanding amount due from JVC Group including loan principal, accrued interest and guarantee fees as at the end of period*(2)		*USD45,690,207*

(1) On 22 January 2016, PT Java Star Rig ("**PT JSR**", 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 arose between KS Drilling as creditor and PT JSR as debtor (the "**Additional Loan**"). The Additional Loan has been charged to PT JSR at an interest rate of 7.0% per annum (please refer to the announcement dated 1 March 2016 for more details) and the principal amount outstanding as at 31 December 2017 was US\$6.2 million.

(2) With reference to the IPT Mandate approved by shareholders at the EGM held on 7 December 2012 and the Circular dated 22 November 2012, which was reapproved by shareholders at the AGM held on 27 April 2017, the Group provided funding for the purchase of Rigs and Equipment which has been provided by way of shareholder guarantees and shareholder loans (the "**Financing**") to JVC Group. The shareholder loans provided under such Financing by KS Drilling Pte Ltd ("**KS Drilling**"), an 80.09% subsidiary of the Company, to PT JSR, accrue interest at a rate of 7% per year and the principal amount outstanding as at 31 December 2017 was US\$37.7 million which has been used to finance the acquisition of the jack-up rig named "KS Java Star" and additional equipment required by the rig. Included in the US\$37.7 million balance is US\$0.3 million that has been advanced during the current financial year to 31 December 2017.

FINANCIAL CONTENTS

Directors' **Statement**

We submit this annual report to the members of the Company, together with the audited financial statements for the financial year ended 31 December 2017.

In our opinion:

(a) the financial statements set out on pages 58 to 145 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

Directors

The directors in office at the date of this statement are as follows:

Kris Wiluan
Richard James Wiluan
Soh Gim Teik
Lawrence Stephen Basapa
Chew Choon Soo

Directors' interests

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the "Act"), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

	Direct interest			Deemed interest		
Name of director and corporation in which interests are held	**Holdings at the beginning of the year**	**Holdings at the end of the year**	**Holdings at 21 January 2018**	**Holdings at the beginning of the year**	**Holdings at the end of the year**	**Holdings at 21 January 2018**
KS Energy Limited						
Ordinary shares fully paid						
Kris Wiluan	–	–	–	308,281,662	308,281,662	308,281,662
Richard James Wiluan	–	–	–	308,281,662	308,281,662	308,281,662
Lawrence Stephen Basapa	50,000	50,000	50,000	–	–	–
Warrant shares[#1 #2]						
Kris Wiluan	–	–	–	–	18,500,000	18,500,000
Richard James Wiluan	–	–	–	–	18,500,000	18,500,000

Directors' Statement

Name of director and corporation in which interests are held	Direct interest: Holdings at the beginning of the year	Direct interest: Holdings at the end of the year	Direct interest: Holdings at 21 January 2018	Deemed interest: Holdings at the beginning of the year	Deemed interest: Holdings at the end of the year	Deemed interest: Holdings at 21 January 2018
Secured bonds[#1 #2]						
Kris Wiluan	–	–	–	–	$18,500,000	$18,500,000
Richard James Wiluan	–	–	–	–	$18,500,000	$18,500,000
Convertible bonds[#1]						
Kris Wiluan	–	–	–	$15,000,000	–	–
Richard James Wiluan	–	–	–	$15,000,000	–	–
PT Global System Engineering						
Kris Wiluan (5% shares)	–	–	–	12,500	12,500	12,500
PT Atlantic Oilfield Services						
Kris Wiluan (4.9% shares)	–	–	–	49,000	49,000	49,000
PT Java Star Rig						
Kris Wiluan (4.9% shares)	–	–	–	49,000	49,000	49,000
PT KS Drilling Indonesia						
Kris Wiluan (51% shares)	–	–	–	510,000	510,000	510,000
PT AT Oceanic Offshore						
Kris Wiluan (0.6% shares)	–	–	–	15,000	15,000	15,000
PT KSD Indonesia						
Kris Wiluan (0.08% shares)	–	–	–	1,000	1,000	1,000

#1 Refer to Note 22 to the accompanying financial statements.

#2 Pacific One Energy Limited holds an aggregate S$18,500,000 in principal amount of secured bonds and 18,500,000 warrants pursuant to the issue of S$65,500,000 fixed rate secured bonds due 2020 by the Company on 8 December 2017.

By virtue of Section 7 of the Act, Kris Wiluan and Richard James Wiluan are deemed to have interests in the shares of the Company and all its subsidiaries at the beginning and at the end of the financial year.

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning of the financial year or at the end of the financial year.

Directors' **Statement**

Except as disclosed in Note 26 to the accompanying financial statements, neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

During the financial year, the Company and/or its related corporations have in the normal course of business entered into transactions with parties which are affiliated to the directors, being related parties and parties in which some of the directors are deemed to have an interest, with the directors having disclosed their interests in such transactions pursuant to Section 156 of the Companies Act, Chapter 50. Such transactions may comprise sale and purchase of goods, operating lease arrangements, consultancy services and/or other transactions carried out on normal commercial terms and in the normal course of business of the Company and/or its related corporations. However, the directors have neither received nor become entitled to receive any benefit arising out of these transactions other than those to which they may be entitled as directors and members of these corporations.

Except as disclosed above and for salaries, bonuses and fees and those benefits that are disclosed in this statement and in Note 27 to the accompanying financial statements, since the end of the last financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial interest.

Share options

The KS Energy Employee Share Option Scheme (the "Scheme") and KS Energy Performance Share Plan (the "Plan") were approved at the Company's Extraordinary General Meeting held on 2 July 2009. The Plan contemplates the award of fully-paid shares to Participants after performance targets have been met and is targeted at key employees who are in the best position to drive the growth of the Company through superior performance while the Scheme is targeted at employees of the Group in general and is meant to be more of a "loyalty" driven time-based incentive scheme. Details of the Scheme and Plan are outlined in the Company's circular dated 16 June 2009.

Both the Scheme and the Plan are administered by the Remuneration Committee (the "Committee"), comprising:

Chew Choon Soo (Chairman)	(Independent Director)
Soh Gim Teik	(Lead Independent Director)
Lawrence Stephen Basapa	(Independent Director)

Other information regarding the Scheme and the Plan is set out below:

(a) During the financial year, the Company did not grant any award. In 2015, the Company granted Awards pursuant to the Plan to eligible participants (including the Group's key management personnel). The Awards were granted at the closing market price of the Company's shares on 6 March 2015, the Award Date, which was $0.375. No Share Awards are granted to the Company's Directors, controlling shareholders and their associates. The aggregate number of Shares comprised in Awards vested to the directors and employees of the parent company and its subsidiaries since the commencement of the Plan to the end of the Financial Year under review was 2,669,000.

Directors' Statement

Name of Plan Participant	Total number of shares comprised in Awards under the Plan during the financial year under review (Including terms)	Aggregate number of shares comprised in Awards vested to such Participant since commencement of Plan to the end of the financial year under review	Aggregate number of shares comprised in Awards issued since commencement of Plan to the end of the financial year under review	Aggregate number of shares comprised in Awards which have not been released as at the end of the financial year under review
Samuel Paul Oliver Carew – Jones	–	134,000	134,000	–
Liew Yoon Sam	–	134,000	134,000	–
Ong Eng Seng	–	400,000	400,000	–
Adam Paul Brunet	–	1,000,000	1,000,000	–
Diana Leng	–	867,000	867,000	–
Au Cheen Kuan	–	134,000	134,000	–

(b) Subject to the absolute discretion of the Committee, options/shares may be granted, under the Scheme/Plan, to the Group's employees, executive directors and non-executive directors provided that certain criteria are met. Subject to the absolute discretion of the Committee, Controlling Shareholders and their Associates who meet certain criteria are eligible to participate in the Scheme/Plan, provided that the participation of each Controlling Shareholder or his Associate and each grant of an option/a share to any of them may only be effected with the specific prior approval of Shareholders in general meeting by a separate resolution.

(c) The aggregate number of ordinary shares over which options/shares may be granted on any date under the Scheme/Plan, when added to the number of ordinary shares issued and/or issuable in respect of:

- all options granted under the Scheme;
- all contingent award of ordinary shares granted pursuant to the rules of the Plan; and
- all ordinary shares in the capital of the Company, options or awards granted under any other share option or share scheme of the Company then in force;

shall not exceed 15% of the total number of issued ordinary shares, excluding treasury shares, in the capital of the Company on the day preceding the relevant date of grant.

Furthermore, the aggregate number of ordinary shares over which options/shares may be granted under the Scheme/Plan to Controlling Shareholders and their Associates shall not exceed 25% of the ordinary shares available under the Scheme/Plan, and the number of ordinary shares over which options/shares may be granted under the Scheme/Plan to each Controlling Shareholder or his Associate shall not exceed 10% of the ordinary shares available under the Scheme.

Directors' **Statement**

(d) The Scheme/Plan shall continue to be in force at the discretion of the Committee, subject to a maximum period of ten years commencing on the date on which the Scheme/Plan is adopted by shareholders of the Company in general meeting, provided that the Scheme/Plan may continue beyond the aforesaid period of time with the approval of shareholders of the Company in general meeting and of any relevant authority which may then be required.

(e) The subscription price of the options shall be fixed by the Committee at its absolute discretion at:

- the Market Price, determined by reference to the price equal to the average of the last dealt prices for a Share, as determined by reference to the daily official list or other publication published by the SGX-ST for five consecutive market days immediately preceding the offer date of that option, rounded up to the nearest whole cent in the event of fractional prices;

- or at a discount to the Market Price, the quantum of such discount to be determined by the Committee at its absolute discretion, provided that the maximum discount shall not exceed 20% of the Market Price and is approved by shareholders of the Company in general meeting in a separate resolution.

(f) Options granted with the Exercise Price set at the Market Price may be exercised at any time after the first anniversary of the date of grant, provided that the option shall be exercised before the tenth anniversary of the date of grant or such earlier date as may be determined by the Committee, failing which the unexercised option shall immediately be null and void.

(g) Options granted with the Exercise Price set at a discount to the Market Price may be exercised at any time after the second anniversary of the date of grant, provided that the option shall be exercised before the tenth anniversary of the date of grant or such earlier date as may be determined by the Committee, failing which the unexercised option shall immediately be null and void.

During the financial year, there were:

(i) no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or its subsidiaries; and

(ii) no shares issued by virtue of any exercise of options to take up unissued shares of the Company or its subsidiaries.

As at the end of the financial year, there were no unissued shares of the Company or its subsidiaries under option.

Audit and Risk Management Committee

The members of the Audit and Risk Management Committee ("ARMC") during the year and at the date of this statement are:

Soh Gim Teik (Chairman)	(Lead Independent Director)
Lawrence Stephen Basapa	(Independent Director)
Chew Choon Soo	(Independent Director)

The ARMC performs the functions specified in Section 201B of the Act, the SGX Listing Manual and the Code of Corporate Governance.

Directors' **Statement**

The ARMC held five meetings since the last directors' statement. In performing its functions, the ARMC met with the Company's external and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The ARMC also reviewed the following:

- assistance provided by the Company's officers to the internal and external auditors;
- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and
- interested person transactions (as defined in Chapter 9 of the SGX Listing Manual).

The ARMC has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings.

The ARMC has reviewed the level of audit and non-audit fees and is satisfied with the independence and objectivity of the external auditors as required under Section 206 (1A) of the Act and has recommended to the Board of Directors that the auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

In appointing our auditors for the Company, subsidiaries and significant associated companies, we have complied with Rules 712 and 715 of the SGX Listing Manual.

Auditors

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Kris Wiluan
Director

Soh Gim Teik
Director

29 March 2018

Independent **Auditors' Report**

Members of the Company
KS Energy Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of KS Energy Limited (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 58 to 145.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the '*Auditors' responsibilities for the audit of the financial statements'* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to:

- Note 2.1 to the financial statements which indicates that the Group incurred a net loss of $24,559,000 during the year ended 31 December 2017 and, as of that date, the Group's and the Company's current liabilities exceed current assets by $2,450,000 and $19,706,000 respectively; and

- Note 30 to the financial statements which indicates that the Group has a capital commitment of $253,014,000 for an asset under construction due for delivery on 31 December 2018.

Independent **Auditors' Report**

As explained therein, the financial statements have been prepared on a going concern basis, the validity of which is premised on the favourable resolution of the following:

(i) The ability to secure a short term loan of $5,500,000 from a financial institution, so as to meet the debt obligations due within the next twelve months; and

(ii) The Group's ability to complete the financing arrangement for the capital obligation of $253,014,000 for an asset under construction due for delivery (the new build contract) on 31 December 2018.

These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern if the fund raising plans as mentioned above were not timely executed to meet the Group's debt obligations as and when they fall due.

If for any reason the Group is unable to continue as a going concern, it could have an impact on the Group's classification of assets and liabilities, and the ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the financial statements. Further, should the Group subsequently decide not to complete the new build contract, this would result in an adjustment on the carrying value of the asset under construction. The financial statements do not include any adjustments relating to the recoverability and classification of the reported asset amounts or the amounts and classification of liabilities. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the '*Material uncertainty related to going concern*' section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Independent **Auditors' Report**

<table>
<tr><td colspan="2">Impairment test of plant and equipment – rigs (2017: $385 million, 2016: $447 million)
(Refer to Note 18 to the financial statements)</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The continuing low utilisation of rigs due to sluggish demand for rig charter contracts made it likely that some of the Group's rigs may be impaired. At 31 December 2017, the accumulated impairment losses recognised were $64,852,000.

The amount of the impairment was assessed by the Group using a value in use model to derive the net present value of the cash flows expected to be generated by chartering services. The output of the model is sensitive to the assumptions used, including but not limited to timing of deployment of rigs. The resulting recoverable amounts could vary significantly depending on the key input assumptions made.

Such value in use model was also extended to the Group's assets under construction, which have been subject to deferred delivery.</td><td>We assessed the Group's determination of each rig's recoverable amount based on its value in use calculation. We assessed the methodology and the appropriateness of the key assumptions used by management.

We performed a sensitivity analysis over changes in key assumptions and considered the range of possible recoverable amounts.

We considered whether the disclosures about the outcome of the impairment assessment based on the key assumptions made reflect the risks inherent in those assumptions.</td></tr>
<tr><td colspan="2">Our findings</td></tr>
<tr><td colspan="2">The value in use model has been appropriately applied to each oil rig, being an individual cash-generating unit.

The assumed charter rates and the timing of deployment of rigs and, in particular, for those that are currently off-hire, are highly judgemental. Changes in these assumptions and estimates may result in material adjustments to the rigs' recoverable amounts and additional impairment losses may need to be recorded in future periods, as disclosed in Note 18.

The value in use calculations of the assets under construction are premised on the Group taking delivery of the assets under construction, according to terms mutually agreed with the shipyards as of the date of this report. As indicated in our separate section under the heading 'Material uncertainty related to going concern', no funding arrangement has been secured for the assets under construction as of the date of this report. The recoverability of the carrying value of assets under construction is highly sensitive to the eventual contract performance.</td></tr>
</table>

Independent **Auditors' Report**

<table>
<tr><td colspan="2">Investments in joint ventures (2017: $39 million, 2016: $43 million), provision for loss from joint venture (2017: $Nil, 2016: $10 million) and impairment losses on loan to joint venture (2017: $12 million, 2016: $27 million) (Refer to Note 15 and Note 16 to the financial statements)</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group holds significant investments in joint ventures – PT KS Drilling Indonesia (PTKSDI) and KS Distribution Pte Ltd (KSD). The current market conditions in which these investments operate are challenging.

The Group has accounted for its share of losses of KSD amounting to $14,038,000. At the reporting date, the Group assessed the recoverable amount of KSD to be $38,746,000, which is arrived based on the expected fair value less costs to sell. Accordingly, $10,004,000 was written-back on the impairment losses previously recognised on the investment in KSD.

In the case of PTKSDI, the Group ceased recognising its share of losses, since the Group's carrying value in PTKSDI had been reduced to $Nil. The Group further determined that it is necessary to recognise additional impairment losses with respect to the loan extended to PTKSDI by reference to the net realisable assets of PTKSDI at the reporting date.

During the year, in assessing the Group's obligation to make payments on behalf of PTKSDI, the Group reversed the provision of $30,474,000 made in prior years as a subsidiary of PTKSDI received a favourable court ruling dismissing the customs duties, fines and related taxes assessed by a foreign tax authority.</td><td>We considered the appropriateness of the Group's application of the equity accounting method and impairment approach on its investees. We inspected the joint venture agreements to ascertain if the Group has an obligation to fund the investees' operations. We also evaluated facts and circumstances, leading to any additional provision or reversal of previously recognised provision.

We also considered the adequacy of the Group's disclosure in respect of the impairment test assessment on the carrying amounts of the investments in joint ventures and the loan to joint venture.</td></tr>
<tr><td colspan="2">Our findings</td></tr>
<tr><td colspan="2">We found the carrying value of the investments in PTKSDI and KSD, together with the loan to PTKSDI, net of additional impairment losses recorded, to be appropriate, having considered the prevailing market conditions and financial health of these equity-accounted investees.

We found the Group's assessment of its extent of obligation (if any) towards its joint ventures to be appropriate.</td></tr>
</table>

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report except for the Chairman's message, Operations review, Financial review, Financial highlights, Corporate data, Corporate social responsibility and employee volunteerism, Corporate governance statement, etc (the Reports) which are expected to be made available to us after that date.

Independent **Auditors' Report**

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent **Auditors' Report**

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent **Auditors' Report**

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Kenny Tan Choon Wah.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
29 March 2018

Consolidated Statement of **Profit or Loss**

YEAR ENDED 31 DECEMBER 2017

	Note	Group 2017 $'000	Group 2016 $'000
Revenue	4	**47,144**	35,091
Cost of sales		**(66,665)**	(64,300)
Gross loss		**(19,521)**	(29,209)
Other income		**1,494**	554
Administrative expenses		**(18,580)**	(19,398)
Other operating expenses		**(9,533)**	(56,381)
Results from operating activities		**(46,140)**	(104,434)
Finance income	5	**23,292**	5,804
Finance costs	5	**(18,771)**	(16,815)
Share of results of joint ventures (net of tax)		**16,436**	(10,138)
Loss before tax	6	**(25,183)**	(125,583)
Tax credit/(expense)	7	**624**	(735)
Loss for the year		**(24,559)**	(126,318)
Loss attributable to:			
Owners of the Company		**(18,295)**	(107,487)
Non-controlling interests		**(6,264)**	(18,831)
Loss for the year		**(24,559)**	(126,318)
Earnings per share:			
Basic earnings and diluted earnings per share (cents)	8	**(3.55)**	(20.85)

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of **Comprehensive Income**

YEAR ENDED 31 DECEMBER 2017

	2017 $'000	2016 $'000
Loss for the year	**(24,559)**	(126,318)
Other comprehensive (expense)/income		
Items that will not be reclassified to profit or loss:		
Defined benefit plan remeasurements	–	75
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences – foreign operations	**(10,488)**	2,516
Other comprehensive (expense)/income for the year, net of tax	**(10,488)**	2,591
Total comprehensive expense for the year	**(35,047)**	(123,727)
Total comprehensive expense attributable to:		
Owners of the Company	**(26,771)**	(105,234)
Non-controlling interests	**(8,276)**	(18,493)
Total comprehensive expense for the year	**(35,047)**	(123,727)

The accompanying notes form an integral part of these financial statements.

Statements of **Financial Position**

AS AT 31 DECEMBER 2017

	Note	Group 2017 $'000	Group 2016 $'000	Company 2017 $'000	Company 2016 $'000
Current assets					
Cash and cash equivalents	9	**8,455**	8,754	**549**	290
Amounts due from subsidiaries	10	**–**	–	**221**	222
Amounts due from joint ventures	13	**8,306**	1	**1**	–
Trade receivables	11	**11,481**	8,289	**–**	–
Contract work in progress	12	**9**	20	**–**	–
Inventories		**222**	240	**–**	–
Other assets	13	**13,148**	16,763	**70**	76
Asset held for sale	14	**669**	2,604	**–**	–
		42,290	36,671	**841**	588
Non-current assets					
Joint ventures	15	**38,746**	42,780	**38,746**	42,780
Amounts due from joint ventures	13	**27,451**	35,677	**–**	–
Subsidiaries	17	**–**	–	**92,583**	122,297
Plant and equipment	18	**386,046**	448,446	**114**	333
Intangible assets and goodwill	19	**117**	320	**–**	–
Other assets	13	**617**	968	**–**	301
Deferred tax assets	23	**1,132**	1,225	**–**	–
		454,109	529,416	**131,443**	165,711
Total assets		**496,399**	566,087	**132,284**	166,299
Current liabilities					
Bank overdraft	9	**–**	3,434	**–**	–
Trade and other payables	20	**27,295**	25,966	**1,270**	3,430
Amounts due to joint ventures	20	**78**	44	**64**	32
Amounts due to subsidiaries	21	**–**	–	**19,213**	20,529
Provision for current tax		**8,031**	9,880	**–**	1,182
Financial liabilities	22	**9,336**	85,544	**–**	74,862
		44,740	124,868	**20,547**	100,035
Non-current liabilities					
Trade and other payables	20	**555**	540	**–**	–
Financial liabilities	22	**398,727**	343,124	**70,514**	–
Deferred tax liabilities	23	**55**	12	**55**	–
Provision for loss from joint venture	16	**–**	10,496	**–**	–
		399,337	354,172	**70,569**	–
Total liabilities		**444,077**	479,040	**91,116**	100,035
Net assets		**52,322**	87,047	**41,168**	66,264
Equity attributable to owners of the Company					
Share capital	24	**359,973**	359,973	**359,973**	359,973
Equity reserve	25	**18,007**	17,685	**18,007**	17,685
Treasury shares	25	**(26,365)**	(26,365)	**(26,365)**	(26,365)
Foreign currency translation reserve	25	**(17,521)**	(9,045)	**–**	–
Other reserve	25	**(3,750)**	(3,750)	**–**	–
Accumulated losses		**(299,817)**	(281,522)	**(310,447)**	(285,029)
		30,527	56,976	**41,168**	66,264
Non-controlling interests		**21,795**	30,071	**–**	–
Total equity		**52,322**	87,047	**41,168**	66,264

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of **Changes in Equity**

YEAR ENDED 31 DECEMBER 2017

Group	Share capital $'000	Equity reserve $'000	Treasury shares $'000	Foreign currency translation reserve $'000	Other reserve $'000	Accumulated losses $'000	Total attributable to owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2017	**359,973**	**17,685**	**(26,365)**	**(9,045)**	**(3,750)**	**(281,522)**	**56,976**	**30,071**	**87,047**
Total comprehensive expense for the year									
Loss for the year	–	–	–	–	–	(18,295)	(18,295)	(6,264)	(24,559)
Other comprehensive income/(expense)									
Exchange differences on translation of financial statements of foreign operations, and monetary items which form part of net investment in foreign operations	–	–	–	(8,476)	–	–	(8,476)	(2,012)	(10,488)
Warrants issued during the year	–	322	–	–	–	–	322	–	322
Total other comprehensive income/(expense)	–	322	–	(8,476)	–	–	(8,154)	(2,012)	(10,166)
Total comprehensive income/(expense) for the year	–	322	–	(8,476)	–	(18,295)	(26,449)	(8,276)	(34,725)
At 31 December 2017	**359,973**	**18,007**	**(26,365)**	**(17,521)**	**(3,750)**	**(299,817)**	**30,527**	**21,795**	**52,322**

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of **Changes in Equity**

YEAR ENDED 31 DECEMBER 2017

Group	Share capital $'000	Equity reserve $'000	Treasury shares $'000	Foreign currency translation reserve $'000	Other reserve $'000	Accumulated losses $'000	Total attributable to owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2016	359,973	17,685	(26,365)	(11,238)	(3,750)	(174,095)	162,210	48,564	210,774
Total comprehensive expense for the year									
Loss for the year	–	–	–	–	–	(107,487)	(107,487)	(18,831)	(126,318)
Other comprehensive income/(expense)									
Exchange differences on translation of financial statements of foreign operations, and monetary items which form part of net investment in foreign operations	–	–	–	2,193	–	–	2,193	323	2,516
Defined benefit plan remeasurements	–	–	–	–	–	60	60	15	75
Total other comprehensive income/(expense)	–	–	–	2,193	–	60	2,253	338	2,591
Total comprehensive income/(expense) for the year	–	–	–	2,193	–	(107,427)	(105,234)	(18,493)	(123,727)
At 31 December 2016	359,973	17,685	(26,365)	(9,045)	(3,750)	(281,522)	56,976	30,071	87,047

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of **Cash Flows**

YEAR ENDED 31 DECEMBER 2017

	Group	
	2017	**2016**
	$'000	**$'000**
Cash flows from operating activities		
Loss before tax	**(25,183)**	(125,583)
Adjustments for:		
Amortisation of intangible assets	**187**	222
Depreciation of plant and equipment	**27,531**	32,115
Impairment loss on plant and equipment	**–**	11,329
Impairment loss on intangible assets and goodwill	**–**	727
Impairment loss on trade receivables	**720**	27
Impairment loss on loan to a joint venture	**12,352**	27,944
Realised profit from sales to joint venture	**–**	(506)
Loss on disposal of plant and equipment	**3,054**	13,539
Loss on liquidation of subsidiaries	**–**	431
Write-down of asset held for sale	**1,811**	1,441
Write-back of impairment loss on investment in joint venture	**(10,004)**	(4,211)
Write-back of impairment loss on non-trade receivables	**(165)**	–
Finance income	**(23,292)**	(5,804)
Finance costs	**18,771**	16,815
Plant and equipment written off	**–**	24
Share of results of joint ventures, net of tax	**(16,436)**	10,138
Unrealised foreign exchange gain	**(1,428)**	–
	(12,082)	(21,352)
Changes in:		
– contract work in progress	**11**	884
– trade receivables	**(4,824)**	14,753
– other assets	**2,660**	(847)
– trade and other payables	**4,867**	(6,008)
Cash used in operating activities	**(9,368)**	(12,570)
Taxes paid	**(266)**	(829)
Net cash used in operating activities	**(9,634)**	(13,399)
Cash flows from investing activities		
Proceeds arising from/(to) non-trade net receivables with joint ventures	**10,372**	(27,761)
Interest received	**46**	194
Acquisition of plant and equipment	**(2,407)**	(1,319)
Acquisition of intangible assets	**–**	(20)
Proceeds from disposal of plant and equipment	**1,401**	1,644
Refund of deposit paid	**–**	6,719
Net cash from/(used in) investing activities	**9,412**	(20,543)

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of **Cash Flows**

YEAR ENDED 31 DECEMBER 2017

	Note	Group 2017 $'000	Group 2016 $'000
Cash flows from financing activities			
Repayment of bills payable		**–**	(814)
Decrease in deposits pledged		**1,233**	642
Interest paid on borrowings		**(8,453)**	(10,340)
Interest paid on convertible bonds		**–**	(1,503)
Proceeds from bank loans		**15,000**	62,932
Repayment of bank loans		**(2,971)**	(43,377)
Loan from related parties		**494**	13,302
Repayment of loan from related parties		**(394)**	–
Payment of transaction costs of bank loans		**(55)**	(55)
Net cash from financing activities		**4,854**	20,787
Net increase/(decrease) in cash and cash equivalents		**4,632**	(13,155)
Cash and cash equivalents at beginning of the year		**2,409**	15,869
Effect of exchange rate fluctuations on cash held in foreign currencies		**(264)**	(305)
Cash and cash equivalents at end of the year	9	**6,777**	2,409

Material non-cash transaction during the year:

The Group successfully restructured its outstanding convertible bonds on 8 December 2017 which were settled via simultaneous redemption of convertible bonds and issuance of secured bonds. No proceeds were paid or received in relation to this transaction (see Note 22).

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 29 March 2018.

1 DOMICILE AND ACTIVITIES

KS Energy Limited (the "Company") is incorporated in the Republic of Singapore and has its registered office at No. 19 Jurong Port Road, Singapore 619093.

The principal activities of the Company are those of investment holding and the provision of management services. The principal activities of the subsidiaries are set out in Note 17 to the financial statements.

The financial statements of the Group as at and for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interests in equity-accounted investees.

The immediate and ultimate holding companies of the Group are Pacific One Energy Limited and Rija Holdings Limited respectively.

2 BASIS OF PREPARATION

2.1 Going concern basis of accounting

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations as and when they fall due within the next twelve months.

The Group has recognised a loss after tax of $24,559,000 (2016: $126,318,000) for the year ended 31 December 2017 and as at that date, the Group's and the Company's current liabilities exceed current assets by $2,450,000 and $19,706,000 (2016: $88,197,000 and $99,447,000) respectively. Improving the net current liability position of the Group and Company is a key concern for the Company. The financial statements for the year ended 31 December 2017 are 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 the (i) Group's operating activities, and (ii) financing plans.

(i) Operating activities

Although the Group expects the overall operating environment to remain challenging, it anticipates to generate positive cash flows from existing rig charter contracts and prospective rig charter contracts. The operating cash flow forecast is derived from the chartering cash flow forecast – existing and prospective rig charter contracts, the forecast for other operating costs and the forecast for changes in working capital which are continuously reviewed by management.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

2 **BASIS OF PREPARATION** (CONTINUED)

2.1 **Going concern basis of accounting** (Continued)

(ii) Financing plans

The Group is seeking an additional short term loan of $5,500,000 from a financial institution to meet its working capital requirements during FY2018. This plan, together with the operating activities is expected to allow the Group to meet its current obligations as and when they fall due.

The Group has a capital obligation of $253.0 million for an asset under construction due on 31 December 2018; and another capital obligation of $226.2 million for another asset under construction due on 31 December 2019 (the "new build contracts"). The Group plans to seek the necessary financing closer to the dates of delivery to meet these capital obligations.

In view of the continuing credit facilities being made available to the Group, for at least another twelve months from the reporting date, and together with the financing plans, management of the Group believes that the continuing use of the going concern assumption in the preparation of the financial statements is appropriate.

Notwithstanding the above cash flow analysis, management acknowledges that there remain uncertainties over the ability of the Group to generate the necessary cash flows to meet its debt obligations. These uncertainties include:

- The eventual conclusion and timing of execution of several rig charter contracts currently subject to on-going negotiations with prospective customers; and
- The successful implementation of the financing plans.

The above-mentioned conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. However, as described above, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for at least another twelve months from the balance sheet date.

If for any reason the Group is unable to continue as a going concern, it could have an impact on the Group's classification of assets and liabilities and the ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the financial statements. As the Group also plans to raise the necessary funding for the new build contracts, there is no adjustment considered for the carrying value of the assets under construction of $62,634,000 as at 31 December 2017. Should the Group decide subsequently to discontinue the new build contracts, adjustment to the carrying values of these rigs may be required.

2.2 **Statement of compliance**

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards ("FRS").

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

2 BASIS OF PREPARATION (CONTINUED)

2.3 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise stated below.

2.4 Functional and presentation currency

These financial statements are presented in Singapore dollars, which is the Company's functional currency. All financial information presented in Singapore dollars has been rounded to the nearest thousand, unless otherwise stated.

2.5 Use of estimates and judgements

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

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

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in Note 2.1 – going concern basis of accounting.

Information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements and that have a significant risk of resulting in a material adjustment within the next financial year are described in the following notes:

- Note 7 – estimation of provisions for current and deferred taxation;
- Note 15 – assumptions of recoverable amounts relating to interests in joint ventures;
- Note 17 – assumptions of recoverable amounts relating to investments in and loans to subsidiaries;
- Note 18 – useful lives, residual values and assumptions of recoverable amounts relating to plant and equipment;
- Note 19 – assumptions of recoverable amounts relating to goodwill and other intangible assets; and
- Note 28 – assessment of the recoverability of trade receivables.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

2 BASIS OF PREPARATION (CONTINUED)

2.5 Use of estimates and judgements (Continued)

Measurement of fair values

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

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised 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 in 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 categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (with Level 3 being the lowest).

Further information about the assumptions made in measuring fair values is included in Note 28 – Financial risk management.

2.6 Change in accounting policies

Revised standards

The Group has applied the following amendments for the first time for the annual period beginning on 1 January 2017:

- *Disclosure Initiative (Amendments to FRS 7)*;
- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to FRS 12)*; and
- *Clarification of the scope of FRS 112 (Improvements to FRSs 2016)*

Other than the amendments to FRS 7, the adoption of these amendments did not have any impact on the current and prior period and is not likely to affect the future periods.

Disclosure Initiative (Amendments to FRS 7)

From 1 January 2017, as a result of amendments to FRS 7, the Group has provided additional disclosure in relation to the changes in liabilities arising from financing activities for the year ended 31 December 2017. Comparative information has not been presented (see Note 22).

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

3.1 Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method in accordance with FRS 103 *Business Combinations* as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group measures goodwill at the date of acquisition as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree,

over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date and included in the consideration transferred. If the contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets at the acquisition date. The measurement basis taken is elected on a transaction-by-transaction basis. All other non-controlling interests are measured at acquisition-date fair value, unless another measurement basis is required by FRSs.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

Business combinations (Continued)

When share-based payment awards (replacement awards) are exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose, comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any gain/loss arising is recognised directly in equity.

Subsidiaries

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

The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

– Joint operations – when the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement. The Group accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

– Joint ventures – when the Group has rights only to the net assets of the arrangements, rather than rights to its assets and obligations for its liabilities.

The Group accounts for its investments in joint ventures using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of joint ventures, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

When the Group's share of losses exceeds its interest in a joint venture, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation to fund the investee's operations or has made payments on behalf of the investee.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore the carrying amounts of assets and liabilities are not changed and goodwill is not recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the adjustment to non-controlling interests and the fair value of consideration paid is recognised directly in equity and presented as part of equity attributable to owners of the Company.

Transactions eliminated on consolidation

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

Accounting for subsidiaries and joint ventures by the Company

Investments in subsidiaries and joint ventures are stated in the Company's statement of financial position at cost less accumulated impairment losses.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

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 on which the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for the following differences which are recognised in other comprehensive income arising on the retranslation of:

- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or

- qualifying cash flow hedges to the extent the hedge is effective.

Foreign operations

The assets and liabilities of foreign operations, excluding goodwill and fair value adjustments arising on acquisition, are translated to Singapore dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Singapore dollars at exchange rates at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the exchange rates at the reporting date. For acquisitions prior to 1 January 2005, the exchange rates at the date of acquisition were used.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in a joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve in equity.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Plant and equipment

Recognition and measurement

Items of plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the asset to a working condition for its intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the cost of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Subsequent costs

The cost of replacing a component of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

Disposals

Gain or loss arising on disposal of an item of plant and equipment is determined by comparing the net proceeds from disposal with the carrying amount of plant and equipment, and is recognised net within "Other income" or "Other operating expenses" in profit or loss on the date of disposal.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Plant and equipment (Continued)

Depreciation (Continued)

No depreciation is provided on assets under construction. Depreciation on other plant and equipment is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Depreciation is recognised from the date that the plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives are as follows:

–	Plant and machinery	3 to 10 years
–	Rigs and other related assets	5 to 30 years
–	Renovation, furniture and fittings	2 to 10 years
–	Office equipment	2 to 8 years
–	Motor vehicles	3 to 10 years

Dry docking cost is considered a separate component of the rig and is separately depreciated over the period between dry dockings, or from acquisition until the next dry docking. The amortisation periods range from 3 to 5 years.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3.4 Intangible assets

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see Note 3.1.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

Goodwill is tested for impairment as described in Note 3.6.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Intangible assets (Continued)

Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated based on the cost of the asset, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

– Computer software	1 to 3 years
– Other intangible assets	5 years

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

3.5 Financial instruments

Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises 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, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

3 **SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

3.5 **Financial instruments** (Continued)

Non-derivative financial assets (Continued)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and trade and other receivables (excluding prepayments and tax recoverables).

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair values, and are used by the Group in the management of its short-term commitments. For the purpose of statement of cash flows, pledged deposits are excluded whilst bank overdrafts that are repayable on demand and that form an integral part of the Group’s cash management are included in cash and cash equivalents.

Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. Financial liabilities for contingent consideration payable in a business combination are recognised at the acquisition date. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method. These financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

Share capital

Ordinary shares

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

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in non-distributable equity reserve.

Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds denominated in Singapore dollar that can be converted to share capital at the option of the holder, where the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest rate method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest and gains and losses related to the financial liability component are recognised in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognised on conversion.

Intra-group financial guarantees

Financial guarantees are financial instruments issued by the Group that requires the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument.

Intra-group financial guarantees are accounted for in the Company's financial statements as insurance contracts. A provision is recognised based on the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date. The provision is assessed by reviewing individual claims and tested for adequacy by comparing the amount recognised and the amount that would be required to settle the guarantee contract.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss, including an interest in a joint venture, is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event(s) has occurred after the initial recognition of the asset, and that the loss event(s) has an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amounts of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is revised through profit or loss.

Joint ventures

An impairment loss in respect of a joint venture is measured by comparing the recoverable amounts of the investment with its carrying amount in accordance with the policy described below. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Impairment (Continued)

Non-financial assets

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. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in that equity accounted investee may be impaired.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. A write-down on cost is made when the cost is not recoverable or if the selling prices have declined below cost.

3.8 Contract work in progress

Contract work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less recognised losses, allowance for foreseeable losses and net of progress billings, and are presented as part of "Contract work in progress" (as an asset) or as "Progress claims in excess of contract work in progress" (as a liability) in the statement of financial position as applicable. Contract cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. Allowance is made where applicable for any foreseeable losses on uncompleted contracts as soon as the loss becomes probable.

3.9 Non-current asset held for sale

Non-current asset that is highly probable to be recovered primarily through sale rather than through continuing use, is classified as held for sale. Immediately before classification as held for sale, the asset, is remeasured in accordance with the Group's accounting policies. Thereafter, the asset, is generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment losses.

3.10 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Employee benefits (Continued)

Defined benefit plans (Continued)

The discount rate is the yield at the reporting date on high quality corporate bonds. For currencies for which there is no deep market in such high quality corporate bonds, the Group uses market yields (at the end of the reporting period) on government bonds with maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised 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. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements of the net defined benefit liability comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all expenses related to defined benefit plans in employee benefits expense in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

The grant date fair value of equity-settled share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Provision

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.12 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made.

Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Chartering revenue

Rig charter income is recognised on a time apportionment basis in accordance with the terms and conditions of the charter agreement.

Mobilisation fees are recognised over the estimated duration of the contract. Incremental cost of mobilisation is deferred and recognised over the estimated duration of the contracts. To the extent that cost exceeds revenue, it is expensed as incurred.

Rendering of services

Revenue from rendering of services is recognised when the related services have been rendered.

Contract revenue

Contract revenue and costs are recognised in profit or loss using the percentage of completion method, measured by the proportion of costs incurred to-date to the estimated total costs for each contract. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable and contract costs are recognised in profit or loss as an expense in the period in which they are incurred.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Revenue (Continued)

Contract revenue (Continued)

Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Dividend income

Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

3.13 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease payments made.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and

- the arrangement contains a right to use the asset(s).

3.14 Finance income and finance costs

Finance income comprises interest income on fixed and cash deposits with banks, interest income on loans and receivables and mark to market gains on derivative financial instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

Finance costs comprise interest expense on borrowings, unwinding of the discount and transaction costs on convertible bonds and fair value losses on derivative financial instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest rate method, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use or sale.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and joint ventures to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Notes to the **Financial Statements**

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share 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 year, adjusted for own shares held. Diluted earnings per share 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 bonds, warrants and employee share options.

3.17 Segment reporting

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

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and tax assets and liabilities.

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

4 REVENUE

	Group	
	2017	**2016**
	$'000	**$'000**
Chartering revenue	**42,907**	25,343
Rendering of services	**3,816**	2,013
Contract revenue	**116**	7,530
Sale of goods	**305**	205
	47,144	35,091

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

5 FINANCE INCOME AND FINANCE COSTS

	Group	
	2017	**2016**
	$'000	**$'000**
Recognised in profit or loss		
Finance income:		
– Interest income on fixed and cash deposits with banks	**46**	22
– Interest income on loans and receivables	**6,146**	5,782
– Gain on redemption of convertible bonds (refer to Note 22)	**17,100**	–
	23,292	5,804
Finance costs:		
– Interest expense on:		
– Bills payable to banks	**–**	(5)
– Bank loans	**(12,790)**	(10,407)
– Convertible bonds	**(2,953)**	(3,156)
– Secured bonds	**(48)**	–
– Related party loans	**(13)**	(75)
– Accretion expense of redemption premium payable on convertible bonds at maturity	**(2,631)**	(3,172)
– Accretion expense of redemption premium payable on secured bonds at maturity	**(329)**	–
– Amortisation of discount on secured bonds	**(7)**	–
	(18,771)	(16,815)

The above finance income and finance costs include the following interest income and expense in respect of assets and liabilities not at fair value through profit or loss:

	Group	
	2017	**2016**
	$'000	**$'000**
– Total interest income on financial assets	**23,292**	5,804
– Total interest expense on financial liabilities	**(18,771)**	(16,815)

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

6 LOSS BEFORE TAX

The following items have been charged in arriving at loss before tax for the year:

	Group	
	2017	**2016**
	$'000	**$'000**
Included in Other income:		
Foreign exchange gain	**1,430**	–
Included in Other operating expenses:		
Write-back of impairment loss on investment in joint venture	**10,004**	4,211
Impairment loss on trade receivables	**(720)**	(27)
Impairment loss on loan to a joint venture	**(12,352)**	(27,944)
Impairment loss on plant and equipment	**–**	(11,329)
Impairment loss on intangible assets and goodwill	**–**	(727)
Write-back of impairment loss on non-trade receivables	**165**	–
Realised profit from sales to joint venture	**–**	506
Amortisation of intangible assets	**(187)**	(222)
Depreciation of plant and equipment	**(27,531)**	(32,115)
Plant and equipment written off	**–**	(24)
Foreign exchange loss	**–**	(2,197)
Loss on disposal of plant and equipment	**(3,054)**	(13,539)
Loss on liquidation of subsidiaries	**–**	(431)
Write-down of asset held for sale	**(1,811)**	(1,441)
Included in Administrative expenses:		
Audit and other attestation fees paid and payable to:		
– auditors of the Company	**(237)**	(214)
– other auditors	**(206)**	(269)
Non-audit fees paid and payable to:		
– auditors of the Company	**(40)**	(50)
– other auditors	**(223)**	(331)
Operating lease expenses	**(790)**	(1,693)
Employee benefit expense (see below)	**(23,879)**	(24,325)
Employee benefit expense[a]:		
Staff costs	**(23,499)**	(24,074)
Contributions to defined contribution plans, included in staff costs	**(380)**	(251)
	(23,879)	(24,325)

[a] Employee benefit expense related to rig operations are charged to cost of sales.

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YEAR ENDED 31 DECEMBER 2017

7 TAX (CREDIT)/EXPENSE

	Group	
	2017	**2016**
	$'000	**$'000**
Tax expense recognised in profit or loss		
Current tax expense		
Current year	**885**	750
Over provision of tax in respect of prior years	**(1,552)**	(77)
	(667)	673
Deferred tax expense		
Origination and reversal of temporary differences	**55**	62
Over provision of tax in respect of prior years	**(12)**	–
	43	62
Total tax (credit)/expense	**(624)**	735
Reconciliation of effective tax rate		
Loss before tax	**(25,183)**	(125,583)
Share of results of joint ventures (net of tax)	**(16,436)**	10,138
Loss before tax excluding share of results of joint ventures	**(41,619)**	(115,445)
Tax calculated using Singapore tax rate of 17% (2016: 17%)	**(7,075)**	(19,626)
Effect of different tax rates in other countries	**7,298**	5,657
Income not subject to tax	**(11,221)**	(1,255)
Expenses not deductible for tax purposes	**6,731**	13,185
Deferred tax assets on tax losses not recognised	**5,207**	2,858
Over provision of tax in respect of prior years	**(1,564)**	(77)
Others	**–**	(7)
	(624)	735

The Group is subject to income tax in several jurisdictions. Significant judgement is required to determine the capital allowances, the types and rates of taxes payable, deductibility of certain expenses, and taxability of certain income. There are many transactions during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax based on estimates of whether taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the provision for current tax and deferred tax provisions in the period in which such determination is made.

Notes to the **Financial Statements**

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8 EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2017 was based on the loss attributable to ordinary shareholders of $18,295,000 (2016: loss of $107,487,000), and a weighted-average number of ordinary shares outstanding of 515,601,000 (2016: 515,601,000), calculated as follows:

	Group	
	2017	2016
	$'000	$'000
Basic earnings and diluted earnings per share is based on:		
(a) Loss attributable to ordinary shareholders	**(18,295)**	(107,487)
(b) Number of ordinary shares in issue at beginning and end of the year, representing weighted-average number of ordinary shares	**515,601,215**	515,601,215
Basic earnings and diluted earnings per share (cents)	**(3.55)**	(20.85)

As at 31 December 2017, the Company has 65,500,000 warrants outstanding (31 December 2016: Nil).

The outstanding warrants at 31 December 2017 and outstanding convertible bonds at 31 December 2016 were excluded from the diluted weighted-average number of ordinary shares calculation as their effect would have been anti-dilutive.

9 CASH AND CASH EQUIVALENTS

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Cash and bank balances	**6,077**	8,011	**549**	290
Fixed deposits with banks	**2,378**	743	**–**	–
	8,455	8,754	**549**	290
Bank overdrafts used for cash management purposes	**–**	(3,434)	**–**	–
Deposits pledged	**(1,678)**	(2,911)	**–**	–
Cash and cash equivalents in the consolidated statement of cash flows	**6,777**	2,409	**549**	290

The deposits pledged represent bank balances of subsidiaries pledged as security to obtain banking facilities as disclosed in Note 22.

The weighted-average effective interest rates per annum relating to fixed deposits with banks at the reporting date for the Group and the Company are at the range from 1.00% to 1.30% (2016: 1.38%) and Nil (2016: Nil) respectively. Interest rates are repriced at intervals of one to six months.

The Group's and the Company's exposure to interest rate risk, foreign currency risk, and sensitivity analysis for cash and cash equivalents are disclosed in Note 28.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

10 AMOUNTS DUE FROM SUBSIDIARIES

	Company	
	2017	**2016**
	$'000	**$'000**
Non-trade	**20,200**	21,769
Impairment losses	**(19,979)**	(21,547)
Loans and receivables	**221**	222

The amounts due from subsidiaries, which are mainly denominated in United States dollars, are unsecured and repayable on demand. These amounts are interest-free except for amounts of $673,000 (2016: $21,322,000) which bear fixed interest at 1.00% to 3.14% (2016: 1.00% to 3.14%) per annum.

The Company's exposures to credit risk and currency risk, and impairment losses related to amounts due from subsidiaries, are disclosed in Note 28.

11 TRADE RECEIVABLES

	Group	
	2017	**2016**
	$'000	**$'000**
Trade receivables from third parties	**11,757**	10,725
Impairment losses	**(4,651)**	(7,641)
	7,106	3,084
Accrued revenue	**4,375**	5,205
Loans and receivables	**11,481**	8,289

Trade receivables denominated in currencies other than the Company's functional currency are mainly denominated in United States dollars.

The Group's and the Company's exposure to credit risk and currency risk, impairment losses related to trade receivables, are disclosed in Note 28.

12 CONTRACT WORK IN PROGRESS

	Group	
	2017	**2016**
	$'000	**$'000**
Costs and attributable profits	**9**	20
Progress billings	**–**	–
	9	20
Comprising:		
Contract work in progress	**9**	20

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

13 OTHER ASSETS AND AMOUNTS DUE FROM JOINT VENTURES

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Current				
Loans and receivables				
Non-trade amounts due from joint venture (note a)	**2**	1	**1**	–
Loan to a joint venture (note c)	**8,304**	–	**–**	–
Amounts due from joint ventures	**8,306**	1	**1**	–
Deposits	**128**	210	**45**	46
Staff loans and advances	**64**	90	**–**	–
Other receivables	**4,536**	3,595	**2**	7
	4,728	3,895	**47**	53
Total loans and receivables	**13,034**	3,896	**48**	53
Tax recoverables	**6,345**	12,250	**23**	23
Advanced payments to supplier	**1,594**	–	**–**	–
Prepayments	**481**	618	**–**	–
Other assets	**13,148**	16,763	**70**	76
	21,454	16,764	**71**	76
Non-current				
Loans and receivables				
Non-trade amounts due from joint venture (note b)	**13,732**	9,404	**–**	–
Loan to a joint venture (note c)	**50,476**	74,493	**–**	–
	64,208	83,897	**–**	–
Impairment losses	**(36,757)**	(48,220)	**–**	–
Total loans and receivables	**27,451**	35,677	**–**	–
Tax recoverables	**617**	667	**–**	–
Others	**–**	301	**–**	301
	28,068	36,645	**–**	301
Total loans and receivables	**40,485**	39,573	**48**	53

(a) These relate to payments on behalf of a joint venture and the amounts are interest free, unsecured and repayable on demand.

(b) These relate to interest receivable from and payments on behalf of a joint venture. The amount is interest free, unsecured and repayable on demand, except for interest receivable of $9,542,000 (2016: $6,472,000), which bears interest at 7% per annum.

(c) The loan to a joint venture is unsecured, bears interest at 7% (2016: 7%) per annum and repayable on demand.

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YEAR ENDED 31 DECEMBER 2017

13 OTHER ASSETS AND AMOUNTS DUE FROM JOINT VENTURES (CONTINUED)

In (b) and (c), the Group has assessed the repayment dates and has classified an amount of $8,304,000 as "Current", and the remaining $64,208,000 as "Non-current" according to the expected manner of realisation.

At 31 December 2017, the impairment loss on loan to a joint venture amounted to $36,757,000 (2016: $48,220,000) (Refer to Note 16 for details of the write-back).

The Group's and the Company's exposure to credit risk and foreign currency risk, and impairment losses related to other assets, are disclosed in Note 28.

14 ASSET HELD FOR SALE

At the reporting date, the asset held for sale was stated at fair value less costs to sell. Impairment losses of $1,811,000 (2016: $1,441,000) for write-down of the asset held for sale to the lower of its carrying amount and its fair value less costs to sell have been included in "Other operating expenses".

15 JOINT VENTURES

The following tables summarise the financial information of the joint ventures, adjusted for any differences in accounting policies and fair value adjustments. The tables also reconcile the summarised financial information to the carrying amount of the Group's interest in the joint ventures, which is accounted for using the equity method.

	KS Distribution Pte Ltd and its subsidiaries $'000	PT KS Drilling Indonesia and its subsidiary $'000
Group		
2017		
Percentage of interest	**55.35%**	**49.00%**
Assets and liabilities		
Non-current assets	**33,620**	**32,291**
Cash and cash equivalents	**28,319**	**9,213**
Current assets, excluding cash and cash equivalents	**88,552**	**322**
Loan due to shareholder	**–**	**(58,780)**
Other non-current liabilities	**–**	**(1,005)**
Current financial liabilities	**1**	**–**
Current trade and other payables	**(17,050)**	**(15,751)**
Other current liabilities	**(617)**	**–**
Non-controlling interests	**(608)**	**(67)**
Net assets/(liabilities)	**132,217**	**(33,777)**

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15 JOINT VENTURES (CONTINUED)

	KS Distribution Pte Ltd and its subsidiaries $'000	PT KS Drilling Indonesia and its subsidiary $'000	Total $'000
Group[a]			
2017			
Percentage of interest	55.35%	49.00%	
Group's share of net assets	73,182	(34,373)	38,809
Impairment of loan to joint venture (refer to Note 13)	–	36,757[b]	36,757
Impairment of investment	(34,436)	–	(34,436)
Unrealised profit	–	(2,384)	(2,384)
Carrying amounts in the statement of financial position	38,746	–	38,746
Results			
Revenue	103,838	–	
Depreciation and amortisation	(3,289)	(5,464)	
Interest income	132	133	
Interest expense	–	(6,161)	
Other expenses	(54,097)	–	
(Loss)/Profit before tax	(24,346)	17,677	
Tax expense	(1,760)	–	
(Loss)/Profit after tax	(26,106)	17,677	
Other comprehensive expense	(1,282)	–	
Total comprehensive (expense)/income	(27,388)	17,677	
Total comprehensive income attributable to owners of the Company	(25,363)	17,677[c]	
Group's share of total comprehensive income	(14,038)	30,474	16,436
Group's share of results of joint ventures (net of tax)	(14,038)	30,474[c]	16,436
Group's interest in net assets of investee at beginning of the year	42,780	–	42,780
Group's share of total comprehensive income	(14,038)	–	(14,038)
Write-back of impairment	10,004	–	10,004
Carrying amount of interest in investee at end of the year	38,746	–	38,746

a The other joint venture has not been included as its balances at the reporting date are less than $1,000.

b Share of losses of the joint venture exceeds the Group's interest in the joint venture and the carrying amount of the joint venture is stated at $Nil. Separately the Group recognised an impairment loss on the loan receivable from the joint venture.

c The profit from the joint venture includes $30,474,000 of write-back of a loss liability, and $12,797,000 of operating losses for the year. The write-back has been recognised as share of results of joint ventures as the Group had previously recognised a provision for its obligation to extend payments to this joint venture (see Note 16). The operating losses of $12,797,000 has not been recognised, since the carrying amount of this joint venture is already at $Nil.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

15 JOINT VENTURES (CONTINUED)

	KS Distribution Pte Ltd and its subsidiaries $'000	PT KS Drilling Indonesia and its subsidiary $'000	Other individually immaterial joint ventures $'000	Total $'000
Group				
2016				
Percentage of interest	55.35%	49.00%		
Assets and liabilities				
Non-current assets	37,470	40,667		
Cash and cash equivalents	28,374	109		
Current assets, excluding cash and cash equivalents	117,915	1,948		
Non-current trade and other payables	–	(10,498)		
Loan due to shareholder	–	(74,493)		
Other non-current liabilities	(1)	(1,087)		
Current financial liabilities	(1,440)	–		
Current trade and other payables	(22,773)	(11,552)		
Other current liabilities	(730)	–		
Non-controlling interests	(1,322)	(72)		
Net assets/(liabilities)	157,493	(54,978)		
Group's share of net assets	87,172	(55,627)	–	31,545
Other adjustments	48	–	–	48
Impairment of loan to joint venture (refer to Note 13)	–	48,220[a]	–	48,220
Impairment of investment	(44,440)	–	–	(44,440)
Unrealised profit	–	(3,089)	–	(3,089)
Classified as non-current liabilities	–	10,496[b]	–	10,496
Carrying amounts in the statement of financial position	42,780	–	–	42,780
Results				
Revenue	174,872	–		
Depreciation and amortisation	(4,294)	(7,390)		
Interest income	50	–		
Interest expense	(818)	(5,943)		
Other expenses	(54,197)	–		
Loss before tax	(20,154)	(28,011)		
Tax expense	1,630	61		
Loss after tax	(18,524)	(27,950)		
Other comprehensive income	(56)	–		
Total comprehensive income	(18,580)	(27,950)		

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YEAR ENDED 31 DECEMBER 2017

15 JOINT VENTURES (CONTINUED)

	KS Distribution Pte Ltd and its subsidiaries $'000	PT KS Drilling Indonesia and its subsidiary $'000	Other individually immaterial joint ventures $'000	Total $'000
Group				
2016				
Percentage of interest	55.35%	49.00%		
Total comprehensive income attributable to owners of the Company	(18,316)	(27,950)		
Group's share of total comprehensive income	(10,138)	–[a]	–	(10,138)
Group's share of results of joint ventures (net of tax)	(10,138)	–	–	(10,138)
Group's interest in net assets of investee at beginning of the year	48,707	–	3,744	52,451
Group's share of total comprehensive income	(10,138)	–	–	(10,138)
Investment write-off	–	–	(418)	(418)
Unrealised profit	–	506	–	506
Other adjustments	–	(506)[a]	(3,224)	(3,730)
Translation difference	–	–	(102)	(102)
Write-back of impairment	4,211	–	–	4,211
Carrying amount of interest in investee at end of the year	42,780	–	–	42,780

a Share of losses of the joint venture exceeds the Group's interest in the joint venture and the carrying amount of the joint venture is stated at $Nil. The Group stopped equity accounting for its share of losses of the joint venture in 2016 but recorded further obligations to make payments on behalf of the joint venture. In addition, the Group recognised an impairment loss on the loan receivable from the joint venture.

b At 31 December 2016, the Group recognised an obligation to make payments on behalf of a joint venture. This obligation was discharged during the year ended 31 December 2017 when the joint venture no longer needs to incur a loss liability previously assessed.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

15 JOINT VENTURES (CONTINUED)

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Investment in joint ventures	**116,082**	130,120	**176,000**	176,000
Impairment losses	**(77,336)**	(87,340)	**(137,254)**	(133,220)
	38,746	42,780	**38,746**	42,780

Impairment

Management evaluates whether there is any objective evidence that the Group's and the Company's investments in joint ventures are impaired and determines the amount of impairment loss based on the recoverable amounts of the joint ventures. For impairment testing, each joint venture is a separate CGU.

The changes in impairment losses in respect of the Group's and Company's investments in joint ventures during the year are as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
At 1 January	**87,340**	91,551	**133,220**	127,292
Impairment losses recognised	**–**	–	**4,034**	5,928
Amounts written back	**(10,004)**	(4,211)	**–**	–
At 31 December	**77,336**	87,340	**137,254**	133,220

Group

The balance of impairment losses includes an amount of $42,900,000 recognised as goodwill at the time of restructuring in 2010.

In 2017, management assessed the recoverable amount of KS Distribution Pte Ltd and its subsidiaries to be $38,746,000 (2016: $42,780,000), which is arrived based on the expected fair value less costs to sell. Based on the above assessment, management wrote back $10,004,000 (2016: $4,211,000) of impairment, classified as "Other operating expenses", following additional losses equity-accounted for during the year.

Company

Management adopted the same basis as above to assess recoverable amounts of the Company's investment in this joint venture. Based on this assessment, management recognised an impairment loss of $4,034,000 (2016: $5,928,000) in "Other operating expenses".

Fair value hierarchy

The non-recurring fair value measurement has been categorised as a Level 3 fair value based on the inputs to the valuation technique.

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YEAR ENDED 31 DECEMBER 2017

15 JOINT VENTURES (CONTINUED)

Sources of estimation uncertainty

The Group maintains impairment allowance at a level considered adequate to provide for potential non-recoverability of the carrying value of its investments in joint ventures. The level of allowance is evaluated on the basis of factors that affect the recoverability of the investments. These factors include the basis of indicative valuation provided by external parties, but also factors not limited to the activities and financial position of the entities and prevailing market conditions. The Group reviews and identifies balances that are to be impaired on a regular basis. The amount and timing of recorded expenses for any period would differ if there are changes to judgements or estimates. An increase in the impairment losses would increase the reported loss and decrease the carrying value of the investments in joint ventures.

Details of the joint ventures are as follows:

Name of joint ventures	Principal activities	Country of incorporation	Ownership interest 2017	Ownership interest 2016
			%	%
KS Distribution Pte. Ltd[1,2] and its subsidiaries	Trading of hydraulic products, hardware products, tools and equipment and provision of design engineering and fabrication of system equipment for industrial applications to the marine and oil and gas industries	Singapore	**55**	55
FODE-AOS Operating Company Limited[4]	Dormant	Nigeria	**40**	40
PT KS Drilling Indonesia[3,4]	Investment holding	Indonesia	**49**	49
PT Java Star Rig, subsidiary of PT KS Drilling Indonesia[3,4,5]	Ownership and leasing of equipment and provision of services to the oil and gas industry	Indonesia	**47**	47

1 The Group owns more than half of the equity interests in the entity, but it has only joint control over the entity, established by contractual agreement which requires unanimous consent over decisions about relevant activities. Consequently, the Group does not consolidate its investment in this entity.

2 Audited by KPMG LLP, Singapore.

3 Audited by other member firms of KPMG International.

4 Interests held by KS Drilling Pte Ltd and its subsidiaries.

5 Arising from a contractual agreement, the Group is entitled to a proportion of profits or losses for specific projects or rigs based on the proportion of funding that the Group has provided. The Group has assessed and concluded that it continues to have joint control over this entity and has recognised its share of the beneficial interest in the entity's earnings in accordance with the contractual agreement.

A joint venture is considered significant as defined under rule 718 of the SGX Listing Manual if the Group's share of its net tangible assets represents 20% or more of the Group's consolidated net tangible assets, or if the Group's share of its pre-tax profits accounts for 20% or more of the Group's consolidated pre-tax profits.

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YEAR ENDED 31 DECEMBER 2017

15 JOINT VENTURES (CONTINUED)

Commitments

In respect of the Group's interest in the joint ventures, one joint venture leases offices and warehouses for 30 years with future minimum lease payments under non-cancellable operating leases amounting to $11,825,000 (2016: $15,993,000), of which the Group's share of commitment is $6,545,000 (2016: $8,852,000).

16 PROVISION FOR LOSS FROM JOINT VENTURE

	Group	
	2017	**2016**
	$'000	**$'000**
At 1 January	**10,496**	29,884
Reclassification to impairment losses on loan to joint venture (Note 13)	**–**	(20,089)
Reversal of provision	**(9,928)**	–
Translation difference	**(568)**	701
At 31 December	**–**	10,496

In 2015, a subsidiary of a joint venture, namely PT Java Star Rig ("PT JSR"), had received a notice from the Ministry of Finance of the Republic of Indonesia – Directorate General Customs and Excise that the importation of a rig of PT JSR was not in accordance with certain terms of the importation permit and customs duty exemption facility issued by the Indonesian Investment Coordinating Board and therefore not exempted from import duty. Accordingly, the Group made a provision of $29,884,000 and the joint venture filed an appeal at the Indonesian customs court. This provision represents an obligation for the Group to make this payment, and related tax assessments, on behalf of PT JSR. In 2016, a sum of $20,089,000 was paid by the Group by way of an extension of loan to the joint venture. This was subsequently reclassified to provision for impairment losses on loans to joint venture (refer to Note 28).

During the year, the Indonesian customs court issued its decision in writing accepting the appeal filed by PT JSR, and PT JSR is due to recover the full amount previously paid. As PT JSR no longer needs to incur the loss liability, and its related tax payments, the Group reversed the provision for loss from joint venture of $9,928,000 and provision for impairment losses on loans to joint venture of $20,546,000.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

17 SUBSIDIARIES

	Company 2017 $'000	Company 2016 $'000
Unquoted shares, at cost	**225,659**	225,659
Loans to subsidiaries	**105,208**	113,840
	330,867	339,499
Impairment losses	**(238,284)**	(217,202)
	92,583	122,297

The loans to subsidiaries are mainly denominated in United States dollars, are unsecured and interest-free. The settlement of these loans is neither planned nor likely to occur in the foreseeable future. These loans form part of the Company's net investment in the subsidiaries and are stated at cost less accumulated impairment losses.

Impairment

The change in impairment losses in respect of investments in and loans to subsidiaries during the year is as follows:

	Company 2017 $'000	Company 2016 $'000
At 1 January	**217,202**	143,396
Impairment losses recognised	**29,714**	71,413
Impairment losses utilised	**–**	(211)
Translation differences	**(8,632)**	2,604
At 31 December	**238,284**	217,202

The impairment test on the investment in a subsidiary was triggered because of the poor financial performance of the subsidiary caused by the oil crisis. Management assessed the recoverable amount of the subsidiary to be $92,583,000 (2016: $122,297,000), which is arrived based on the recoverable amount of the net assets owned by the subsidiary. Accordingly, the Company recognised an impairment loss on investment in the subsidiary of $29,714,000 (2016: $71,413,000) in "Other operating expenses". These net assets reported in the books of the subsidiary comprise predominantly oil rigs whose recoverable amounts were determined using the value in use approach as described in Note 18.

Sources of estimation uncertainty

The Company maintains impairment allowance at a level considered adequate to provide for potential non-recoverability of the investments in and loans to subsidiaries. The level of allowance is evaluated on the basis of factors that affect the recoverability of the investments and loans. These factors include, but are not limited to, the activities and financial position of the entities and market conditions. The Company reviews and identifies balances that are to be impaired on a regular basis. The amount and timing of recorded expenses for any period would differ if there are changes in judgement or estimates. An increase in the impairment losses would decrease the Company's profit and decrease the carrying value of the investments in and/or loans to subsidiaries.

Notes to the Financial Statements

YEAR ENDED 31 DECEMBER 2017

17 SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities	Country of incorporation	Ownership interest 2017 %	Ownership interest 2016 %
KS Fabrication and Engineering Pte. Ltd.[1]	Investment holding	Singapore	**100**	100
Subsidiary of KS Fabrication and Engineering Pte. Ltd.				
Globaltech Systems Engineering Pte. Ltd.[1]	Provision of engineering design, project management, procurement and supply of custom-built system equipment for the marine, offshore oil & gas, petrochemical, refinery and power generation industries	Singapore	**82**	82
Subsidiary of Globaltech Systems Engineering Pte. Ltd.				
PT Globaltech Systems Engineering	Provision of engineering design, project management, procurement and supply of custom-built system equipment for the marine, offshore oil & gas, petrochemical, refinery and power generation industries	Indonesia	**78**	78
KS Drilling Pte. Ltd.[1]	Investment holding	Singapore	**80**	80
Subsidiaries of KS Drilling Pte. Ltd.				
KSAM2 Petrodrill Offshore Inc.	Ownership and chartering of jack up rigs and provision of services for oil and gas industry	British Virgin Islands	**80**	80
KS Discoverer 1 Pte. Ltd.[1]	Ownership and leasing of equipment and provision of services to the oil and gas industry	Singapore	**80**	80
KS Discoverer 2 Pte. Ltd.[1]	Ownership and leasing of equipment and provision of services to the oil and gas industry	Singapore	**80**	80
KS Discoverer 3 (HK) Limited[3]	Ownership and leasing of equipment and provision of services to the oil and gas industry	Hong Kong	**80**	80
KS Discoverer 4 Pte. Ltd.[1]	Ownership and leasing of equipment and provision of services to the oil and gas industry	Singapore	**80**	80
KS Discovery (HK) Limited[3]	Investment holding	Hong Kong	**80**	80

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17 SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Principal activities	Country of incorporation	Ownership interest 2017	2016
			%	%
Subsidiaries of KS Discovery (HK) Limited				
QIM Ventures Limited[2]	Ownership and leasing of jack up rigs and provision of services to the oil and gas industry	Cyprus	**80**	80
KS Drilling Egypt Inc.[2]	Provision of services for oil and gas industry	Egypt	**80**	80
KS Drilling EMEA Limited[2]	Provision of rig management and support services to the oil and gas industry	Cyprus	**80**	80
Subsidiaries of KS Drilling EMEA Limited				
Atlantic Oilfield Services Europe B.V.[2]	Development of business prospects in the onshore/ offshore/marine industries and management of accommodation-platforms	Netherlands	**80**	80
Atlantic Onshore Services B.V.[2]	Development of business prospects in the onshore/ offshore/marine industries and management of accommodation-platforms/ rigs	Netherlands	**80**	80
KS Drilling Operating Company Ltd[2]	Trading and leasing of equipment and provision of services to the oil and gas industry	British Virgin Islands	**80**	80
KS Rig Invest Pte Ltd[1]	Investment holding	Singapore	**80**	80
Subsidiaries of KS Rig Invest Pte Ltd				
KS Rig Invest One Pte Ltd	Dormant	Singapore	**80**	80
KS Rig Invest Two Pte Ltd	Dormant	Singapore	**80**	80
KS Rig Invest Three Ltd[1]	Ownership and leasing of equipment and provision of services to the oil and gas industry	British Virgin Islands	**80**	80
KS Rig Invest Five Ltd	Ownership and leasing of equipment and provision of services to the oil and gas industry	British Virgin Islands	**80**	80
KS Rig Invest Six Ltd	Ownership and leasing of equipment and provision of services to the oil and gas industry	British Virgin Islands	**80**	80

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17 SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Principal activities	Country of incorporation	Ownership interest 2017	Ownership interest 2016
			%	%
Subsidiary of KS Rig Invest Six Ltd				
KS Investar Corporation	Ownership and leasing of equipment and provision of services to the oil and gas industry	British Virgin Islands	**80**	80
KS Drilling Arabia	Provision of onshore and offshore oil and gas drilling, maintenance and technical support services	Saudi Arabia	**48**	48
PT Atlantic Oilfield Services[2]	Ownership and leasing of equipment and provision of services to the oil and gas industry	Indonesia	**76**	76
PT Petro Papua Energi[2]	Ownership and leasing of equipment and provision of services to the oil and gas industry	Indonesia	**72**	72
KS Resources Pte Ltd	Dormant	Singapore	**100**	100
S&E Cumford (Thailand) Ltd	Dormant	Thailand	**100**	100
Sphinx Frontier Ltd.	Investment holding	British Virgin Islands	**100**	100
Subsidiary of Sphinx Frontier Ltd.				
Atlantic Rotterdam Limited	Provision of rig rental, rig management and support services to the oil and gas industry	Bermuda	**100**	100

1 KPMG LLP, Singapore are the auditors of all significant Singapore-incorporated subsidiaries and KS Rig Invest Three Ltd.
2 Audited by other member firms of KPMG International.
3 Audited by Cheer Link CPA Limited

The remaining foreign incorporated subsidiaries are not considered significant in accordance with Rule 718 of the SGX-ST Listing Manual. For this purpose, a subsidiary is considered significant as defined under the SGX Listing Manual if its net tangible assets represent 20% or more of the Group's consolidated net tangible assets, or if its pre-tax profits account for 20% or more of the Group's consolidated pre-tax profits.

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17 **SUBSIDIARIES** (CONTINUED)

Non-controlling interests in subsidiaries

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations.

	KS Drilling Pte Ltd and its subsidiaries $'000	Globaltech Systems Engineering Pte Ltd and its subsidiary $'000	Total $'000
2017			
NCI percentage	20%	18%	
Non-current assets	434,332	48	434,380
Current assets	44,863	1,803	46,666
Non-current liabilities	(328,768)	–	(328,768)
Current liabilities	(36,210)	(2,342)	(38,552)
Net assets/(liabilities)	114,217	(491)	113,726
Net assets attributable to NCI	21,440	355	21,795
Revenue	46,567	576	47,143
Loss after tax	(27,934)	(751)	(28,685)
Other comprehensive expense	(10,472)	(23)	(10,495)
Total comprehensive expense	(38,406)	(774)	(39,180)
Attributable to NCI:			
– Loss	(6,131)	(133)	(6,264)
– Other comprehensive expense	(2,012)	–	(2,012)
Total comprehensive expense	(8,143)	(133)	(8,276)
Cash flows used in operating activities	(3,840)	(1,490)	(5,330)
Cash flows from/(used in) investing activities	9,054	(7)	9,047
Cash flows (used in)/from financing activities, before dividends to NCI	(687)	854	167
Net increase/(decrease) in cash and cash equivalents	4,527	(643)	3,884

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17 SUBSIDIARIES (CONTINUED)

	KS Drilling Pte Ltd and its subsidiaries $'000	Globaltech Systems Engineering Pte Ltd and its subsidiary $'000	Total $'000
2016			
NCI percentage	20%	18%	
Non-current assets	505,198	84	505,282
Current assets	38,363	4,013	42,376
Non-current liabilities	(354,159)	(12)	(354,171)
Current liabilities	(36,702)	(3,816)	(40,518)
Net assets	152,700	269	152,969
Net assets attributable to NCI	29,578	493	30,071
Revenue	27,041	8,050	35,091
(Loss)/Profit after tax	(91,135)	308	(90,827)
Other comprehensive income	1,736	17	1,753
Total comprehensive expense	(89,399)	325	(89,074)
Attributable to NCI:			
– (Loss)/Profit	(18,890)	59	(18,831)
– Other comprehensive expense	338	–	338
Total comprehensive expense	(18,552)	59	(18,493)
Cash flows (used in)/from operating activities	(8,316)	725	(7,591)
Cash flows used in investing activities	(30,656)	(62)	(30,718)
Cash flows from/(used in) financing activities, before dividends to NCI	29,163	(1,508)	27,655
Net decrease in cash and cash equivalents	(9,809)	(845)	(10,654)

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18 PLANT AND EQUIPMENT

	Plant and machinery $'000	Rigs and other related assets $'000	Renovation, furniture and fittings $'000	Office equipment $'000	Motor vehicles $'000	Total $'000
Group						
Cost						
At 1 January 2016	5,191	868,983	3,559	1,462	405	879,600
Additions	–	1,273	6	40	–	1,319
Write-off	–	(217)	(574)	(381)	–	(1,172)
Disposals	(2,667)	(126,419)	–	–	(153)	(129,239)
Translation differences	254	15,315	13	6	5	15,593
Refund of deposit paid	–	(6,719)	–	–	–	(6,719)
At 31 December 2016	2,778	752,216	3,004	1,127	257	759,382
At 1 January 2017	**2,778**	**752,216**	**3,004**	**1,127**	**257**	**759,382**
Additions	**–**	**2,391**	**7**	**9**	**–**	**2,407**
Disposals	**–**	**(6,829)**	**–**	**–**	**–**	**(6,829)**
Translation differences	**(211)**	**(56,843)**	**(42)**	**(23)**	**(20)**	**(57,139)**
At 31 December 2017	**2,567**	**690,935**	**2,969**	**1,113**	**237**	**697,821**
Accumulated depreciation and impairment losses						
At 1 January 2016	2,705	368,480	2,928	1,353	243	375,709
Depreciation charge for the year	547	31,187	266	70	45	32,115
Impairment losses	–	11,329	–	–	–	11,329
Write-off	–	(219)	(549)	(380)	–	(1,148)
Disposals	(1,809)	(112,136)	–	–	(111)	(114,056)
Translation differences	249	6,707	15	9	7	6,987
At 31 December 2016	1,692	305,348	2,660	1,052	184	310,936
At 1 January 2017	**1,692**	**305,348**	**2,660**	**1,052**	**184**	**310,936**
Depreciation charge for the year	**333**	**26,894**	**232**	**41**	**31**	**27,531**
Disposals	**–**	**(2,374)**	**–**	**–**	**–**	**(2,374)**
Translation differences	**(141)**	**(24,097)**	**(42)**	**(23)**	**(15)**	**(24,318)**
At 31 December 2017	**1,884**	**305,771**	**2,850**	**1,070**	**200**	**311,775**
Carrying amounts						
At 1 January 2016	2,486	500,503	631	109	162	503,891
At 31 December 2016	1,086	446,868	344	75	73	448,446
At 31 December 2017	**683**	**385,164**	**119**	**43**	**37**	**386,046**

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YEAR ENDED 31 DECEMBER 2017

18 PLANT AND EQUIPMENT (CONTINUED)

	Renovation, furniture and fittings $'000	Office equipment $'000	Total $'000
Company			
Cost			
At 1 January 2016 and 31 December 2016	2,420	637	3,057
Additions	–	2	2
At 31 December 2017	**2,420**	**639**	**3,059**
Accumulated depreciation			
At 1 January 2016	1,869	633	2,502
Depreciation charge for the year	219	3	222
At 31 December 2016	2,088	636	2,724
Depreciation charge for the year	220	1	221
At 31 December 2017	**2,308**	**637**	**2,945**
Carrying amounts			
At 1 January 2016	551	4	555
At 31 December 2016	332	1	333
At 31 December 2017	**112**	**2**	**114**

Assets under construction

In 2011 and 2014, the Group entered into two contracts for the construction and delivery of two jack-up drilling rigs, "Rig 1" and "Rig 2".

At 31 December 2017, rigs and other related assets include assets under construction with total costs capitalised of $62,634,000 (2016: $70,446,000), being $18,800,000 for Rig 1 due for delivery in December 2018; and $43,800,000 for Rig 2 due for delivery in December 2019 (see Note 30 for details of the capital commitments). No borrowing costs were capitalised for assets under construction in 2017 (2016: $Nil).

The depreciation charge of the Group is recognised in the following line items of the statement of profit or loss:

	2017 $'000	2016 $'000
Cost of sales	**26,894**	31,187
Other operating expenses	**637**	928
	27,531	32,115

Notes to the **Financial Statements**

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18 PLANT AND EQUIPMENT (CONTINUED)

The depreciation charge on rigs and other related assets was recorded in "Cost of sales". Depreciation charges on other categories of plant and equipment are presented as "Other operating expenses".

At 31 December 2017, the Group's rigs and other related assets with total carrying amount of $10,992,000 (2016: $13,012,000) are pledged as securities to secure a bank overdraft facility; and $300,703,000 (2016: $350,420,000) are pledged as securities to secure bank loans (see Note 22).

Impairment

Rigs

The Group evaluates, amongst other factors, the business outlook for the rig industry, including factors such as laws and regulations applicable to the assets, and changes in economic and market conditions. Indicators of possible impairment during the financial year include movements in oil prices, extended periods of idle time and/or inability to contract specific assets or groups of assets.

For the purposes of assessing impairment, each rig is treated as a separate CGU. Management assessed the recoverable amounts of the rigs based on their value in use calculated using the following key assumptions:

- Charter rates considered the fall in contract rates close to the reporting date (the "base rate"), geopolitical and economic conditions of the locations of the rigs and customer offers received. The assumed day rates thereafter are expected to increase 3.0% (2016: 3.5 – 5.0%) per annum from the base rate;

- Utilisation rates of 85 – 90% (2016: 85 – 90%) were used in the cash flow computation, upon deployment of rigs, ranging from beginning of FY18 (2016: beginning of FY17) to twelve months (2016: eighteen months) from the reporting date;

- Pre-tax discount rates of 9.89 – 17.15% (2016: 9.66 – 16.61%) were estimated based on weighted average cost of capital for similar assets and adjusted for country risk and asset-specific risk premiums; and

- Projection period from 4 to 26 years (2016: 5 to 27 years) that reflect the remaining economic useful lives of the rigs.

Based on the above assessment, no impairment loss was recognised in the current year (2016: Impairment losses of $11,329,000 were included in "Other operating expenses"). At 31 December 2017, the accumulated impairment losses amount to $64,852,000 (2016: $70,174,000). The movement in the balance was due to the fluctuations in foreign exchange rates.

Notes to the **Financial Statements**

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18 PLANT AND EQUIPMENT (CONTINUED)

Sources of estimation uncertainty

Depreciation of plant and equipment

Plant and equipment are depreciated on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly based on the factors that include asset utilisation, internal technical evaluation, technological changes, environmental and anticipated use of the assets in order to determine the amount of depreciation expense to be recorded during any reporting period. Changes in the expected level of use of the assets and the technological changes could impact the economic useful lives and the residual values of the assets, therefore future depreciation charges could be revised. Any changes in the economic useful lives could impact the depreciation charges and consequently affect the Group's results.

Impairment

In estimating the recoverable amounts of the rigs using value in use, the Group assumed post-contractual renewal rates and prospective charter rates to increase 3%, and at utilisation rates of 85 – 90% throughout the cash flow periods when the rigs are deployed. The assumed charter rates, as well as the timing of deployment of the rigs, however, continue to be subject to estimation uncertainties that may result in material adjustments on the rigs' recoverable amounts in future periods.

The recoverable amounts of the rigs are sensitive to changes in the prospective charter rate and timing of deployment of the rigs. Assuming all other assumptions remain constant, a decrease of 5% in prospective charter rates would have increased the impairment loss by approximately $2,647,000. Similarly, a delay in deployment of the rigs by three months would have increased the impairment loss by approximately $463,000.

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19 INTANGIBLE ASSETS AND GOODWILL

	Goodwill $'000	Computer software $'000	Other intangible assets $'000	Total $'000
Group				
Cost				
At 1 January 2016	6,899	1,336	2,293	10,528
Additions	–	20	–	20
Translation differences	145	16	54	215
At 31 December 2016	7,044	1,372	2,347	10,763
Translation differences	(479)	(69)	(178)	(726)
At 31 December 2017	**6,565**	**1,303**	**2,169**	**10,037**
Accumulated amortisation				
At 1 January 2016	6,172	816	2,293	9,281
Amortisation charge during the year	–	222	–	222
Impairment	727	–	–	727
Translation differences	145	14	54	213
At 31 December 2016	7,044	1,052	2,347	10,443
Amortisation charge during the year	–	187	–	187
Translation differences	(479)	(53)	(178)	(710)
At 31 December 2017	**6,565**	**1,186**	**2,169**	**9,920**
Carrying amounts				
At 1 January 2016	727	520	–	1,247
At 31 December 2016	–	320	–	320
At 31 December 2017	**–**	**117**	**–**	**117**

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions or CGUs which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in Note 31.

Sources of estimation uncertainty

Management uses judgement to determine the potential future cash flows from the continuing use of groups of CGUs containing goodwill. Any significant changes in the business environment and estimates can affect the carrying values of the acquired goodwill. The level of allowance is evaluated by the Group on the basis of factors that affect the recoverable amounts of the acquired goodwill. These factors include, but are not limited to, the activities and financial positions of the entities and market factors. The Group reviews and identifies balances that are to be impaired on a regular basis, or at least annually. The amount and timing of recorded expenses for any period would differ if there were changes to the judgement or estimates.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

19 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

Other intangible assets

The amortisation charge of other intangible assets is recognised in profit or loss under "Other operating expenses".

The carrying amount of the intangible assets is amortised on a straight-line basis over the remaining useful life of each intangible asset. Management reviews and revises the estimation of the remaining useful life of intangible assets at the end of each financial year. Any changes in the useful life of intangible assets would impact the amortisation charges and consequently affect the Group's results.

20 TRADE AND OTHER PAYABLES AND AMOUNTS DUE TO JOINT VENTURES

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Current				
Trade payables:				
– Third parties	**8,483**	7,113	**–**	–
– Joint ventures	**1**	1	**–**	–
– Related parties	**13**	–	**–**	–
	8,497	7,114	**–**	–
Non-trade payables:				
– Joint ventures	**77**	43	**64**	32
– Related parties	**3**	176	**–**	–
	80	219	**64**	32
Accrued operating expenses	**17,237**	13,590	**774**	806
Other payables	**1,559**	5,087	**496**	2,624
	18,876	18,896	**1,334**	3,462
	27,373	26,010	**1,334**	3,462
Non-current				
Other payables	**555**	540	**–**	–

The amounts due to related parties and the non-trade amounts due to joint ventures are unsecured, interest-free and are repayable on demand.

Trade and other payables denominated in currencies other than the Company's functional currency relate mainly to those denominated in the United States dollar.

The Group's and the Company's exposures to liquidity risk, foreign currency risk and interest rate risk are disclosed in Note 28.

Notes to the **Financial Statements**

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21 AMOUNTS DUE TO SUBSIDIARIES

	Company	
	2017	2016
	$'000	$'000
Current non-trade payables	**19,213**	20,529

The amounts due to subsidiaries, which are mainly denominated in United States dollars, are unsecured, interest bearing and repayable on demand. An amount of $17,887,000 (2016: $19,436,000) at 31 December 2017 bearing variable interest at COF + 1% (2016: COF + 1% to 3%) and an amount of $1,326,000 (2016: $1,093,000) at 31 December 2017 bearing fixed interest of 4.75% (2016: variable rate from LIBOR + 3.00%) per annum.

The Company's exposures to liquidity risk, foreign currency risk and interest rate risk are disclosed in Note 28.

22 FINANCIAL LIABILITIES

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Current				
Secured bank loans	**9,236**	10,682	**–**	–
Convertible bonds	**–**	61,560	**–**	61,560
Short term borrowings from a shareholder	**–**	13,302	**–**	13,302
Short term borrowings from a related party	**100**	–	**–**	–
	9,336	85,544	**–**	74,862
Non-current				
Secured bank loans	**318,213**	343,124	**–**	–
Secured bonds	**65,514**	–	**65,514**	–
Unsecured bank loans	**15,000**	–	**5,000**	–
	398,727	343,124	**70,514**	–
Total financial liabilities	**408,063**	428,668	**70,514**	74,862

At 31 December 2017, the Group's rigs and other related assets with a carrying amount of $10,992,000 (2016: $13,012,000) are pledged as securities to secure a bank overdraft facility and $300,703,000 (2016: $350,420,000) are pledged as securities to secure bank loans (refer to Note 18).

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22 FINANCIAL LIABILITIES (CONTINUED)

Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings are as follows:

	Nominal interest rate	Year of maturity	2017 Face value $'000	2017 Carrying amount $'000	2016 Face value $'000	2016 Carrying amount $'000
Group						
Convertible bonds	6%	2017	**–**	**–**	62,790	61,560
Secured bonds	1.15% – 3.00%	2020	**78,483**	**65,514**	–	–
Bank loans (secured)	(COF + 1 – 3%) 6.25%	2022 – 2023	**324,900**	**327,449**	354,734	353,806
Bank loans (unsecured)	4.75% – 5.00%	2019 – 2023	**15,000**	**15,000**	–	–
Short term borrowings from a shareholder	0%	2017	**–**	**–**	13,302	13,302
Short term borrowings from a related party	2%	2018	**100**	**100**	–	–
			418,483	**408,063**	430,826	428,668
Company						
Convertible bonds	6%	2017	**–**	**–**	62,790	61,560
Secured bonds	1.15% – 3.00%	2020	**78,483**	**65,514**	–	–
Bank loans (unsecured)	5%	2019	**5,000**	**5,000**	–	–
Short term borrowings from a shareholder	0%	2017	**–**	**–**	13,302	13,302
			83,483	**70,514**	76,092	74,862

The interest rates for the above bank borrowings are repriced at one month (2016: one to three months).

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22 FINANCIAL LIABILITIES (CONTINUED)

The following are the expected contractual undiscounted cash outflows of financial liabilities, including interest payments and excluding the impact of netting agreements:

		Cash outflows			
	Carrying amount $'000	Contractual cash flows $'000	Within 1 year $'000	After 1 year but within 5 years $'000	After 5 years $'000
Group					
2017					
Non-derivative financial liabilities					
Fixed interest rate loans	**15,027**	**16,524**	**752**	**15,668**	**104**
Variable interest rate loans	**328,573**	**375,314**	**16,444**	**200,983**	**157,887**
Secured bonds	**65,562**	**82,511**	**836**	**81,675**	**–**
Short term borrowings from a related party	**100**	**101**	**101**	**–**	**–**
Trade and other payables*	**26,729**	**26,729**	**26,174**	**555**	**–**
	435,991	**501,179**	**44,307**	**298,881**	**157,991**
2016					
Non-derivative financial liabilities					
Variable interest rate loans	354,435	413,196	17,739	171,288	224,169
Convertible bonds	64,016	69,071	69,071	–	–
Short term borrowings from a shareholder	13,377	13,377	13,377	–	–
Trade and other payables*	23,390	23,390	22,852	538	–
Bank overdraft	3,434	3,434	3,434	–	–
	458,652	522,468	126,473	171,826	224,169
Company					
2017					
Non-derivative financial liabilities					
Fixed interest rate loans	**5,003**	**5,356**	**253**	**5,103**	**–**
Secured bonds	**65,562**	**82,511**	**836**	**81,675**	**–**
Trade and other payables*	**908**	**1,334**	**1,334**	**–**	**–**
Amounts due to subsidiaries	**19,588**	**19,213**	**19,213**	**–**	**–**
	91,061	**108,414**	**21,636**	**86,778**	**–**
2016					
Non-derivative financial liabilities					
Convertible bonds	64,016	69,071	69,071	–	–
Short term borrowings from a shareholder	13,377	13,377	13,377	–	–
Trade and other payables*	898	898	898		
Amounts due to subsidiaries	20,562	20,562	20,562	–	–
	98,853	103,908	103,908	–	–

* The accrued interest payable included under "Other payables" in Note 20 is reclassified to the individual interest-bearing borrowings for the purpose of this liquidity table.

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YEAR ENDED 31 DECEMBER 2017

22 FINANCIAL LIABILITIES (CONTINUED)

The maturity analysis shows the undiscounted cash flows of the Group's and the Company's financial liabilities on the basis of their earliest possible contractual maturity.

Maturity of financial liabilities (excluding finance lease liabilities) are payable as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Payable:				
– Within 1 year	**36,709**	114,988	**20,547**	98,853
– After 1 year but within 5 years	**252,187**	141,322	**70,514**	–
– After 5 years	**147,095**	202,342	**–**	–
Total	**435,991**	458,652	**91,061**	98,853

The Group's and the Company's exposure to interest rate risk and foreign currency risk and sensitivity analysis for financial liabilities are disclosed in Note 28.

Refinancing of bank loans

KS Drilling and its subsidiaries (KS Drilling)

KS Drilling has a secured bank loan with carrying value of US$113,937,000 (equivalent to $152,334,000) (2016: US$112,924,000 (equivalent to $163,367,000)) at 31 December 2017.

As at 31 December 2016, under the terms of the facility agreement, the loan was repayable within the next year. However, as the Group had the unconditional right at 31 December 2016 to refinance the loan, a portion of this loan has been classified as non-current according to the repayment schedule of the refinancing arrangement. On 10 January 2017 this loan refinancing was completed and the loan was amended to be repayable in tranches over the next 7 years.

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22 FINANCIAL LIABILITIES (CONTINUED)

KS Rig Invest Three Ltd

KS Rig Invest Three Ltd has a secured bank loan with carrying value of US$117,131,000 (equivalent to $156,604,000) (2016: US$116,153,000 (equivalent to $168,038,000)) at 31 December 2017.

As at 31 December 2016, under the terms of the facility agreement, the loan was repayable in tranches within the next 5 years. However, as the Group had the unconditional right at 31 December 2016 to refinance the loan, a portion of this loan has been classified as non-current according to the repayment schedule of the refinancing arrangement. On 10 January 2017 this loan refinancing was completed and the loan was amended to be repayable in tranches over the next 7 years.

Convertible bonds

	Group and Company	
	2017	**2016**
	$'000	**$'000**
At 1 January	**61,560**	58,388
Accretion expense of redemption premium payable on convertible bonds at maturity	**2,631**	3,172
Redemption of 2013 Convertible bonds and 2015 Convertible bonds	**(64,191)**	–
At 31 December	**–**	61,560

2013 Convertible bonds

In 2013, the Company issued 6% convertible bonds with a principal amount of $45,000,000 originally due in 2016 (the "2013 Convertible bonds").

The amount classified as equity of $8,288,000 in relation to the 2013 Convertible bonds issue is net of attributable transaction costs of $864,000. The deferred tax recognised directly in equity in respect of the 2013 Convertible bonds amounted to $382,000.

2015 Convertible bonds

On 19 November 2015, the Company issued 6% convertible bonds with a principal amount of $7,500,000 originally due in 2016 (the "2015 Convertible bonds").

In 2015, the amount classified as equity of $113,000 in relation to the 2015 Convertible bonds issue is net of attributable transaction costs of $31,000. The deferred tax recognised in equity in respect of the 2015 Convertible bonds amounted to $24,000.

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22 FINANCIAL LIABILITIES (CONTINUED)

Bonds restructuring

On 8 December 2017, the Group completed a bonds redemption, loan settlement, bonds issue and warrants issue in a simultaneous transaction (the "Transaction") with the holders of the 2013 Convertible bonds and 2015 Convertible bonds (collectively the "Lenders"). As part of the Transaction:

- The Lenders agreed to waive the payment of the accrued interest and redemption premium of $17,100,000 under the terms of the convertible bonds.
- Existing convertible bonds were redeemed at their aggregate principal amount of $52.5 million.
- In addition, borrowings with an aggregate principal amount of $13.0 million included under current financial liabilities were settled.
- An aggregate $65.5 million bonds ("2017 Secured bonds") and an aggregate 65.5 million warrants were issued.
- No proceeds were paid or received in relation to this Transaction.

The waiver of $17,100,000 was recognised as a gain on redemption of convertible bonds in finance income.

Back-end payment

Further to commercial discussions with one of the Lenders, the Company entered into an agreement whereby the amount of accrued interest and redemption premium payable that were waived by this lender as part of the Transaction would need to be paid to said lender as a back-end payment, upon the satisfaction of certain conditions. These conditions were not met as at the reporting date and no liability has been recognised in this respect (see Note 29).

Secured bonds

	Group and Company 2017 $'000
At 1 January	–
Issue of new Secured bonds	65,500
Fair value of warrants issued recognised as a discount on bonds payable	(322)
Amortisation of discount	7
Accretion expense of redemption premium payable on secured bonds at maturity	329
At 31 December	65,514

The 2017 Secured bonds are repayable on 8 December 2020. The face value of the 2017 Secured bonds, which includes the redemption premium payable at maturity, is $78,483,000.

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YEAR ENDED 31 DECEMBER 2017

22 **FINANCIAL LIABILITIES** (CONTINUED)

Secured bonds (Continued)

The main terms of the issuance are as follows:

(a) The 2017 Secured bonds were issued at a price of 100% along with 65,500,000 warrants, each with the right to subscribe 1 share at the price of $0.045 cents per share.

(b) The subscription 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 8 December 2020, subject to customary closed periods.

(c) Unless previously redeemed or purchased and cancelled, the 2017 Secured bonds will be redeemed by the Company at 119.82% of their principal amount together with unpaid accrued interest thereon on the maturity date on 8 December 2020. Secured bondholders have right to extend the maturity to 8 December 2021 subject to redemption by the Company at 125.90% of their principal amount together with unpaid accrued interest thereon.

(d) The 2017 Secured bonds bear coupons at the rate from 1.15% – 3.00% per annum, payable on a semi-annual basis, with an initial coupon payment date on 8 June 2018. In case of extension of maturity, Secured bonds will bear coupons at the rate of 4.00% per annum.

(e) The yield-to-maturity is approximately 8.38% per annum, calculated on a semi-annual basis.

(f) Secured bonds are secured by a share charge in respect of shares in KS Drilling Pte Ltd and a negative pledge.

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YEAR ENDED 31 DECEMBER 2017

22 FINANCIAL LIABILITIES (CONTINUED)

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities					Equity	
	Bank overdrafts $'000	Other loans and borrowings $'000	Short term borrowings from a shareholder/ related party $'000	Convertible bonds $'000	Secured bonds $'000	Equity reserve $'000	Total $'000
At 1 January 2017	3,434	353,806	13,302	61,560	–	17,685	449,787
Changes from financing cash flows							
Proceeds of bank loans	–	15,000	–	–	–	–	15,000
Repayment of bank loans	–	(2,971)	–	–	–	–	(2,971)
Loan from related parties	–	–	494	–	–	–	494
Repayment of loan from related parties	–	–	(394)	–	–	–	(394)
Payment of transaction costs	–	(55)	–	–	–	–	(55)
Total changes from financing cash flows	–	11,974	100	–	–	–	12,074
The effect of changes in foreign exchange rates	–	(23,331)	(302)	–	–	–	(23,633)
Other changes							
Redemption of Convertible bonds	–	–	(13,000)	(52,500)	–	–	(65,500)
Issue of Secured bonds	–	–	–	–	65,178	322	65,500
Change in bank overdraft	(3,434)	–	–	–	–	–	(3,434)
Finance income	–	–	–	(11,691)	–	–	(11,691)
Finance costs	–	–	–	2,631	336	–	2,967
	(3,434)	–	(13,000)	(61,560)	65,514	322	(12,158)
At 31 December 2017	–	342,449	100	–	65,514	18,007	426,070

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23 DEFERRED TAX

Movements in deferred tax assets and liabilities (prior to offsetting of balances) during the year are as follows:

Group	At 1 January 2016 $'000	Recognised in profit or loss (Note 7) $'000	Recognised in equity $'000	Exchange differences $'000	At 31 December 2016 $'000	Recognised in profit or loss (Note 7) $'000	Recognised in equity $'000	Exchange differences $'000	At 31 December 2017 $'000
Deferred tax assets									
Tax losses	32	–	–	–	32	–	–	–	**32**
Plant and equipment	926	156	–	28	1,110	–	–	(93)	**1,017**
Employee benefits	384	(275)	(26)	–	83	–	–	–	**83**
	1,342	(119)	(26)	28	1,225	–	–	(93)	**1,132**
Deferred tax liabilities									
Intangible assets	12	–	–	–	12	(12)	–	–	**–**
Convertible bonds	57	(57)	–	–	–	–	–	–	**–**
Secured bonds	–	–	–	–	–	55	–	–	**55**
	69	(57)	–	–	12	43	–	–	**55**

Deferred tax liabilities of the Company are attributable to the following:

	Company 2017 $'000	Company 2016 $'000
Deferred tax liabilities		
Secured bonds	**55**	–

Deferred tax assets have not been recognised in respect of the following items:

	Group 2017 $'000	Group 2016 $'000	Company 2017 $'000	Company 2016 $'000
Tax losses	**107,101**	67,396	**121**	1,383

The tax losses are subject to agreement by the tax authorities and compliance with tax regulations in the respective countries in which certain subsidiaries operate. The deductible temporary differences do not expire under current tax legislations. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which certain subsidiaries of the Group can utilise the benefits.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

24 SHARE CAPITAL

	Company	
	2017	**2016**
	No. of shares	**No. of shares**
Fully paid ordinary shares, with no par value:		
At 31 December	**515,601,215**	515,601,215

Capital management

The Board of Directors manages capital to ensure entities in the Group will be able to continue as a going concern to safeguard returns for shareholders.

The Board of Directors reviews the capital structure on a regular basis. Capital consists of total shareholders' equity (including non-controlling interests), bank loans and bonds. The Group is required to maintain gearing below certain thresholds in order to comply with covenants in loan agreements with banks and financial institutions and bond subscription agreements.

Based on the reviews, the Group aims to balance its overall capital structure through the issue of new shares and new debt or the redemption of existing debt.

The Group monitors capital using a net debt to equity gearing ratio. As at 31 December 2017, this ratio is 7.64 (2016: 4.86).

25 RESERVES

Equity reserve

The equity reserve relates to the fair value of warrants issued by the Company in 2009 and lapsed in 2011 amounting to $16,429,000, the equity component of 2010 Convertible bonds, 2013 Convertible bonds and 2015 Convertible bonds based on the value of the embedded option to convert the liability component of the convertible bonds into equity of the Company as at the date of issue of the convertible bonds, amounting to $8,401,000, and the fair value of warrants issued by the Company in 2017 amounting to $322,000. In 2015, Company issued 2,669,000 treasury shares and the loss on issue of shares were recorded in equity reserve.

The equity reserve comprises the following:

	2017	**2016**
	$'000	**$'000**
Fair value of warrants issued in 2009	**16,429**	16,429
Fair value of share options embedded in 2010 Convertible bonds	**6,493**	6,493
Fair value of share options embedded in 2013 Convertible bonds	**1,795**	1,795
Fair value of share options embedded in 2015 Convertible bonds	**113**	113
Loss on issue of treasury shares in 2015	**(7,145)**	(7,145)
Fair value of warrants issued in 2017	**322**	–
	18,007	17,685

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

25 RESERVES (CONTINUED)

Treasury shares

Treasury shares comprise the cost of the Company's shares held by the Group.

Foreign currency translation reserve

The foreign currency translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Company, as well as from the translation of foreign currency loans which form part of the Group's net investment in foreign operations.

Other reserve

Other reserve comprises the gain on dilution of interests in subsidiaries without loss of control which occurred in previous years.

Dividends

No dividend has been declared or proposed by the Company in respect of the financial years ended 31 December 2017 and 31 December 2016.

26 EMPLOYEE COMPENSATION BENEFITS

Under the terms of the KS Energy Employee Share Option Scheme (the "Scheme") and KS Energy Performance Share Plan (the "Plan"), subject to the absolute discretion of the Remuneration Committee (the "Committee"), options/shares may be granted, to the Group's employees, executive directors and non-executive directors provided that certain criteria are met. Subject to the absolute discretion of the Committee, Controlling Shareholders and their Associates who meet certain criteria are eligible to participate in the Scheme/Plan, provided that the participation of each Controlling Shareholder or his Associate and each grant of an option/a share to any of them may only be effected with the specific prior approval of Shareholders in general meeting by a separate resolution.

The aggregate number of ordinary shares over which options/shares may be granted on any date under the Scheme/Plan, when added to the number of ordinary shares issued and/or issuable in respect of:

- all options granted under the Scheme;
- all contingent award of ordinary shares granted pursuant to the rules of the Plan; and
- all ordinary shares in the capital of the Company, options or awards granted under any other share option or share scheme of the Company then in force;

shall not exceed 15% of the total number of issued ordinary shares, excluding treasury shares, in the capital of the Company on the day preceding the relevant date of grant.

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26 EMPLOYEE COMPENSATION BENEFITS (CONTINUED)

Furthermore, the aggregate number of ordinary shares over which options/shares may be granted under the Scheme/Plan to Controlling Shareholders and their Associates shall not exceed 25% of the ordinary shares available under the Scheme/Plan, and the number of ordinary shares over which options/shares may be granted under the Scheme/Plan to each Controlling Shareholder or his Associate shall not exceed 10% of the ordinary shares available under the Scheme.

The Scheme/Plan shall continue to be in force at the discretion of the Committee, subject to a maximum period of ten years commencing on the date on which the Scheme/Plan is adopted by shareholders of the Company in general meeting, provided that the Scheme/Plan may continue beyond the aforesaid period of time with the approval of shareholders of the Company in general meeting and of any relevant authority which may then be required.

The subscription price of the options shall be fixed by the Committee at its absolute discretion at:

- the Market Price, determined by reference to the price equal to the average of the last dealt prices for a Share, as determined by reference to the daily official list or other publication published by the SGX for five consecutive market days immediately preceding the offer date of that option, rounded up to the nearest whole cent in the event of fractional prices; or

- at a discount to the Market Price, the quantum of such discount to be determined by the Committee at its absolute discretion, provided that the maximum discount shall not exceed 20% of the Market Price and is approved by shareholders of the Company in general meeting in a separate resolution.

Options granted with the Exercise Price set at the Market Price may be exercised at any time after the first anniversary of the date of grant, provided that the option shall be exercised before the tenth anniversary of the date of grant or such earlier date as may be determined by the Committee, failing which the unexercised option shall immediately be null and void.

Options granted with the Exercise Price set at a discount to the Market Price may be exercised at any time after the second anniversary of the date of grant, provided that the option shall be exercised before the tenth anniversary of the date of grant or such earlier date as may be determined by the Committee, failing which the unexercised option shall immediately be null and void.

No options have been granted since the commencement of the Scheme. 2,669,000 treasury shares have been issued due to vesting of shares pursuant to the KS Energy Performance Share plan in 2015.

27 RELATED PARTIES

Key management personnel compensation

Key management personnel are directors and those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The amounts stated below for key management compensation are for all the executive directors and other key management personnel.

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YEAR ENDED 31 DECEMBER 2017

27 **RELATED PARTIES** (CONTINUED)

Key management personnel compensation (Continued)

Key management personnel compensation comprised:

	Group	
	2017	**2016**
	$'000	**$'000**
Short-term employee benefits	**3,210**	3,237
Post-employment benefits	**60**	60
	3,270	3,297

Comprise amounts paid or payable to:

	Group	
	2017	2016
	$'000	$'000
Directors of the Company	**951**	1,070
Other key management personnel	**2,319**	2,227
	3,270	3,297

The related parties referred throughout the financial statements are entities in which directors of the Company have control or significant influence and a close family member of a director.

Other related party transactions

	Group	
	2017	2016
	$'000	$'000
Transactions with other companies* in which directors of the Company have control or significant influence, including transactions with close family member of a director		
Purchase of goods	**(6)**	(182)
Professional fees	**(26)**	(97)
Operating lease expense	**–**	(1)
Interest expense	**(2)**	(75)
Office expense	**(5)**	–
Acquisition of plant and equipment	**(259)**	–
Advanced payments to suppliers	**(87)**	–

* Excludes transactions with joint ventures which has been provided below

Notes to the **Financial Statements**

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27 **RELATED PARTIES** (CONTINUED)

Other related party transactions (Continued)

	Group	
	2017	**2016**
	$'000	**$'000**
Transactions with joint ventures		
Purchase of goods	**–**	(47)
Interest income	**6,144**	5,925
Operating lease expense	**(348)**	(414)
Office expense	**(1)**	(13)

There are no transactions with companies in which other key management personnel have control or significant influence.

28 **FINANCIAL RISK MANAGEMENT**

Overview

The Group has exposure to the following risks:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing those risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit and Risk Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Risk Management Committee is assisted in its oversight role by Internal Auditors. The Internal Auditors undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

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28 **FINANCIAL RISK MANAGEMENT** (CONTINUED)

Financial instruments by category

The carrying amounts of financial instruments and their categories are as follows:

	Note	Loans and receivables $'000	Other financial liabilities $'000	Total $'000
Group				
2017				
Assets				
Cash and cash equivalents	9	**8,455**	**–**	**8,455**
Trade receivables	11	**11,481**	**–**	**11,481**
Other assets	13	**40,485**	**–**	**40,485**
		60,421	**–**	**60,421**
Liabilities				
Bank overdraft	9	**–**	**–**	**–**
Trade and other payables	20	**–**	**27,928**	**27,928**
Financial liabilities	22	**–**	**408,063**	**408,063**
		–	**435,991**	**435,991**
2016				
Assets				
Cash and cash equivalents	9	8,754	–	8,754
Trade receivables	11	8,289	–	8,289
Other assets	13	39,573	–	39,573
		56,616	–	56,616
Liabilities				
Bank overdraft	9	–	3,434	3,434
Trade and other payables	20	–	26,550	26,550
Financial liabilities	22	–	428,668	428,668
		–	458,652	458,652

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28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial instruments by category (Continued)

	Note	Loans and receivables $'000	Other financial liabilities $'000	Total $'000
Company				
2017				
Assets				
Cash and cash equivalents	9	**549**	**–**	**549**
Amounts due from subsidiaries	10	**221**	**–**	**221**
Other assets	13	**48**	**–**	**48**
		818	**–**	**818**
Liabilities				
Trade and other payables	20	**–**	**1,334**	**1,334**
Amounts due to subsidiaries	21	**–**	**19,213**	**19,213**
Financial liabilities	22	**–**	**70,514**	**70,514**
		–	**91,061**	**91,061**
2016				
Assets				
Cash and cash equivalents	9	290	–	290
Amounts due from subsidiaries	10	222	–	222
Other assets	13	53	–	53
		565	–	565
Liabilities				
Trade and other payables	20	–	3,462	3,462
Amounts due to subsidiaries	21	–	20,529	20,529
Financial liabilities	22	–	74,862	74,862
		–	98,853	98,853

Credit risk

Credit risk is the risk of financial loss resulting from the failure of a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and amounts due from joint ventures.

The carrying amount of financial assets in the statement of financial position represents the Group's and the Company's respective maximum exposure to credit risk, before taking into account any collateral held. The Group and the Company do not hold any collateral in respect of its financial assets.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

28 **FINANCIAL RISK MANAGEMENT** (CONTINUED)

Credit risk (Continued)

Trade receivables, amounts due from joint ventures and loan to joint venture

The Group has a credit policy in place which establishes credit limits for customers and monitors their balances on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Investments and transactions involving derivative financial instruments are allowed only with counterparties who have sound credit ratings.

At 31 December 2017, the Group has concentration of credit risk in three (2016: three) major trade debtors representing approximately 64% (2016: 67%) of total trade receivables. There is no separate concentration of credit risk in amounts due from joint ventures as the current and non-current balances in Note 13 represents the entire amounts due from the individual joint venture. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

The Group does not require collateral in respect of trade receivables, amounts due from joint ventures and loan to joint venture.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables, amounts due from joint ventures and loan to joint venture. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The allowance account in respect of trade receivables, amounts due from joint venture and loan to joint venture is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

Cash and fixed deposits are placed with banks and approved financial institutions.

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28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to credit risk

The maximum exposure to credit risk for loans and receivables at the reporting date by business segments was:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Loans and receivables				
Drilling	**58,110**	52,382	**–**	–
Engineering	**1,699**	3,878	**–**	–
Others	**612**	356	**818**	565
	60,421	56,616	**818**	565

The Group's top three most significant customers account for $7,356,000 (2016: $5,541,000) of the trade receivables carrying amount at 31 December 2017. The Group's customers are internationally dispersed. Other than this, the Group also has significant concentration of credit risk in a joint venture. The Group's historical experience in the collection of accounts receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's loans and receivables.

Impairment losses

The ageing of loans and receivables (excluding cash and cash equivalents) that were not impaired as at 31 December is:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Group				
Not past due	**13,546**	9,302	**221**	222
Past due 0 – 30 days	**101**	–	**–**	–
Past due 31 – 120 days	**1,620**	–	**–**	–
Past due more than 120 days	**942**	2,115	**–**	–
	16,209	11,417	**221**	222

The Group and the Company believe that the unimpaired amounts are still collectible in full, based on historic payment behaviour and analysis of customer credit risk, including underlying customers' credit ratings, when available.

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28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Impairment losses (Continued)

The change in impairment loss in respect of amounts due from subsidiaries, trade receivables, amounts due from joint ventures, and loan to joint venture during the year is as follows:

	Group		Company	
	Individual impairments $'000	Collective impairments $'000	Individual impairments $'000	Collective impairments $'000
At 1 January 2016	(7,765)	–	(11,180)	–
Impairment loss recognised	(27,971)	–	(9,749)	–
Write-back of allowance for impairment loss	–	–	127	–
Allowance utilised	644	–	–	–
Reclass from provision for losses from joint ventures	(20,089)	–	–	–
Translation differences	(680)	–	(745)	–
At 31 December 2016	(55,861)	–	(21,547)	–
Impairment loss recognised	**(12,187)**	**–**	**(64)**	**–**
Write-back of allowance for impairment loss	**20,546**	**–**	**357**	**–**
Allowance written off	**2,470**	**–**	**–**	**–**
Others	**–**	**–**	**(166)**	**–**
Translation differences	**3,624**	**–**	**1,441**	**–**
At 31 December 2017	**(41,408)**	**–**	**(19,979)**	**–**

Allowance for doubtful receivables

Management uses judgement to determine the allowance for doubtful receivables which are supported by historical write-off, credit history of the customers and repayment records. The Group reviews its allowance for doubtful receivables monthly. Balances which are overdue are reviewed individually for collectibility. Accounts balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Actual results could differ from estimates.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

The management of liquidity and funding is primarily carried out centrally by the treasury department for project companies and locally by other Group entities. The Group requires its operating entities to maintain adequate liquidity positions and to manage its liquidity profiles of their assets, liabilities and commitments with the objective of ensuring that their cash flows are balanced appropriately and that all their anticipated obligations can be met when due. The Group adapts its liquidity and funding risk management framework in response to changes in the mix of business that it undertakes, and to changes in the nature of the markets in which it operates. The Group has continuously monitored the impact of recent market events on the Group's liquidity position and has changed behavioural assumptions where justified. The liquidity and funding risk management framework will continue to evolve as the Group assimilates knowledge from the recent market events.

Refer to Note 22 for the expected contractual undiscounted cash outflows of financial liabilities of the Group and the Company at the reporting date.

The directors are of the opinion that the Group and the Company are able to meet their obligations for the next financial year as and when they fall due having regard to the following:

(i) The directors have carried out a review of the cash flow forecasts of the Group and the Company for the next twelve months ending 31 December 2018 prepared by management. Based on such forecasts, the directors have concluded that adequate liquidity exists to finance the requirements of the Group and the Company for the next financial year. In reviewing the cash flow forecasts, the directors have considered the cash requirements of the Group and the Company as well as other key factors, including the ability of the Group to generate sufficient cash flows to satisfy the Group's and the Company's future working capital needs, which may impact the operations of the Group and the Company during the next financial year. The directors are of the opinion that the assumptions which are included in the cash flow forecasts are reasonable; and

(ii) The Group and Company have adequate financial arrangements and continually monitor funding facilities to ensure adequate funds are available to meet the funding needs of the Group and the Company.

Refer to Note 2.1 for management's assessment on the appropriateness of the continuing use of the going concern assumption in the preparation of the financial statements.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group's exposure to changes in interest rates relates primarily to its interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Group on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement in interest rates.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk (Continued)

Profile

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments, as reported to the management, was as follows:

	Group Nominal amount		Company Nominal amount	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Fixed rate instruments				
Financial assets	**33,943**	33,488	**39**	54
Financial liabilities	**(93,583)**	(62,790)	**(83,483)**	(62,790)
	(59,640)	(29,302)	**(83,444)**	(62,736)
Variable rate instruments				
Financial assets	**6,077**	1,143	**549**	290
Financial liabilities	**(324,900)**	(351,300)	**–**	–
	(318,823)	(350,157)	**549**	290

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting dates would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the end of the financial year would have increased/(decreased) profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017 and 2016.

	Group Profit before tax		Company Profit before tax	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
	$'000	**$'000**	**$'000**	**$'000**
31 December 2017				
Variable rate instruments	**(3,188)**	**3,188**	**5**	**(5)**
31 December 2016				
Variable rate instruments	(3,502)	3,502	3	(3)

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings, including inter-company sales, purchases and inter-company balances, that are denominated in currencies other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily the United States dollar and the Euro.

In respect of other monetary assets and liabilities held in currencies other than the functional currencies of respective entities, the Group ensures that the net exposure is kept to an acceptable level by buying currencies at spot rates, where necessary, to address short term imbalances.

The summary of quantitative data about the Group and Company's exposure to currency risks as provided to the management of the Group based on its risk management policy is as follows:

	Singapore dollar $'000	US dollar $'000	Euro $'000	Others $'000	Total $'000
Group					
2017					
Cash and cash equivalents	743	5,892	4	1,816	8,455
Trade and other receivables	277	50,119	1	1,569	51,966
Trade and other payables	(2,366)	(16,459)	(128)	(8,975)	(27,928)
Financial liabilities	(80,615)	(327,448)	–	–	(408,063)
Net financial assets/ (liabilities)	(81,961)	(287,896)	(123)	(5,590)	(375,570)
Less: Net financial (assets)/ liabilities denominated in the respective entities' functional currencies	71,597	287,855	–	202	359,654
	(10,364)	(41)	(123)	(5,388)	(15,916)

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency risk (Continued)

	Singapore dollar $'000	US dollar $'000	Euro $'000	Others $'000	Total $'000
Group					
2016					
Cash and cash equivalents	654	5,358	9	2,733	8,754
Trade and other receivables	426	44,582	–	2,854	47,862
Trade and other payables	(5,971)	(13,892)	(163)	(6,524)	(26,550)
Financial liabilities	(70,159)	(361,943)	–	–	(432,102)
Net financial assets/ (liabilities)	(75,050)	(325,895)	(154)	(937)	(402,036)
Less: Net financial (assets)/ liabilities denominated in the respective entities' functional currencies	74,737	322,973	–	356	398,066
	(313)	(2,922)	(154)	(581)	(3,970)
Company					
2017					
Cash and cash equivalents	**445**	**104**	**–**	**–**	**549**
Trade and other receivables	**48**	**–**	**–**	**–**	**48**
Inter-company balances	**218**	**(19,210)**	**–**	**–**	**(18,992)**
Trade and other payables	**(888)**	**(446)**	**–**	**–**	**(1,334)**
Financial liabilities	**(70,514)**	**–**	**–**	**–**	**(70,514)**
Net financial assets/ (liabilities)	**(70,691)**	**(19,552)**	**–**	**–**	**(90,243)**
Less: Net financial (assets)/ liabilities denominated in the Company's functional currency	**70,691**	**–**	**–**	**–**	**70,691**
	–	**(19,552)**	**–**	**–**	**(19,552)**
2016					
Cash and cash equivalents	195	92	3	–	290
Trade and other receivables	53	–	–	–	53
Inter-company balances	259	(20,566)	–	–	(20,307)
Trade and other payables	(3,381)	(81)	–	–	(3,462)
Financial liabilities	(70,160)	(4,702)	–	–	(74,862)
Net financial assets/ (liabilities)	(73,034)	(25,257)	3	–	(98,288)
Less: Net financial (assets)/ liabilities denominated in the Company's functional currency	73,034	–	–	–	73,034
	–	(25,257)	3	–	(25,254)

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

A 10% strengthening of the Singapore dollar, as indicated below, against the foreign currencies at 31 December would have increased/(decreased) the profit before tax by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact on forecasted sales and purchases.

The analysis is performed on the same basis as 2016, as indicated below:

	Group		Company	
	Profit before tax		Profit before tax	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
US dollar	**4**	292	**1,955**	2,526
Euro	**12**	15	**–**	–
Others	**539**	58	**–**	–

A weakening of the Singapore dollar against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Determination of fair values

Fair values

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017 and 2016.

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments of the Group and the Company at the reporting date.

Bonds

The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible bonds, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

Interest-bearing bank loans

The carrying value of interest-bearing loans that reprice at every six months interval is assumed to approximate their fair values. The carrying values of the term loans also approximate their fair values as they are subject to floating interest rates which in turn approximate the current market interest rate for similar loans at reporting date.

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YEAR ENDED 31 DECEMBER 2017

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Determination of fair values (Continued)

Loan to a joint venture

The carrying amount of loan to a joint venture approximates its fair value since the prevailing market interest rate continues to approximate the effective interest rate.

Other financial assets and liabilities

The carrying amounts of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values because of the short period to maturity. All other financial assets and liabilities are discounted to determine the fair values.

Fair value of all financial assets and financial liabilities is measured based on unobservable market data (Level 3 inputs).

29 CONTINGENT LIABILITIES

Company

Financial guarantees

The Company issues financial guarantees on behalf of its subsidiaries. There are no terms and conditions attached to the financial guarantee contracts that would have a material effect on the amount, timing and certainty of the Company's future cash flows. Estimates of the Company's obligations arising from financial guarantee contracts may be affected by future events, which cannot be predicted with certainty. The assumptions made may vary from actual experience so that the actual liability may vary considerably from the best estimates.

Financial guarantees given to banks to secure banking facilities provided to:

	2017 $'000	2016 $'000
Subsidiaries	**227,259**	245,837

As at 31 December 2017, $157,564,000 (2016: $165,031,000) of the banking facilities was utilised. The Company does not consider it probable that a claim will be made against the Company under the guarantee.

The periods in which the financial guarantees will expire are as follows:

	2017 $'000	2016 $'000
Within 1 year	**3,230**	8,837
After 1 year but within 5 years	**5,000**	–
After 5 years	**219,029**	237,000
	227,259	245,837

29 CONTINGENT LIABILITIES (CONTINUED)

Company (Continued)

Back-end payment

Upon the satisfaction of certain conditions as stipulated in an agreement with a bondholder dated 1 August 2017 and as disclosed in the circular to shareholders dated 12 October 2017, the Company would have an obligation to pay the bondholder a back-end payment up to an amount of $10,361,500. As some of the conditions include sale of assets and other events which are not being contemplated as at the reporting date, the Company does not consider it probable that any payment will be made.

30 COMMITMENTS

Capital commitments

As at 31 December, the capital commitments of the Group and Company to acquire plant and equipment (refer to Note 18) are as follows:

	Group	
	2017	**2016**
	$'000	**$'000**
Rig 1	**253,014**	273,774
Rig 2	**226,220**	244,782
	479,234	518,556

	Group	
	2017	**2016**
	$'000	**$'000**
Within 1 year	**253,014**	244,782
After 1 year but within 5 years	**226,220**	273,774
	479,234	518,556

The delivery dates of the contracts were originally 23 September 2016 for Rig 1 and 7 February 2014 for Rig 2. Several revisions were negotiated subsequently and the current delivery dates are 31 December 2018 for Rig 1 and 31 December 2019 for Rig 2.

The Company does not have any capital commitments at the reporting date (2016: $Nil).

Operating lease commitments

Where the Group and Company are the lessees:

The Group and Company lease office premises and medical equipment. The leases are negotiated for an average term of 1 to 3 years at prevailing market terms, with no renewal or purchase options.

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YEAR ENDED 31 DECEMBER 2017

30 COMMITMENTS (CONTINUED)

Operating lease commitments (Continued)

Where the Group and Company are the lessees: (Continued)

At the reporting dates, the Group and Company are committed to future minimum lease payments under non-cancellable operating leases as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Within 1 year	**185**	451	**7**	166
After 1 year but within 5 years	**28**	66	**28**	–
	213	517	**35**	166

Where the Group is a lessor:

The Group leases out its rigs. The leases are negotiated for an average term of 1 to 3 years at prevailing market terms. At the reporting dates, the minimum lease payments under non-cancellable operating leases are as follows:

	Group	
	2017	**2016**
	$'000	**$'000**
Within 1 year	**23,115**	21,490
After 1 year but within 5 years	**–**	14,970
	23,115	36,460

31 OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- **Drilling:** Includes provision of drilling and rig management services to the oil and gas industry
- **Engineering:** Includes engineering design and project management services, as well as other oil and gas related services.
- **Distribution**: Includes the sale and distribution of steel pipes and plates, hydraulic products and valves, wire ropes and slings, oilfield equipment and consumables, to the oil & gas, offshore & marine, petrochemical and other related industries. The results from this reportable segment is accounted for using the equity method.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

31 OPERATING SEGMENTS

Information about reportable segments

Business segments	Drilling 2017 $'000	Drilling 2016 $'000	Engineering 2017 $'000	Engineering 2016 $'000	Distribution* 2017 $'000	Distribution* 2016 $'000	Others** 2017 $'000	Others** 2016 $'000	Inter-segment Adjustments 2017 $'000	Inter-segment Adjustments 2016 $'000	Total 2017 $'000	Total 2016 $'000
External revenues	**46,568**	27,041	**576**	8,050	**–**	–	**–**	–	**–**	–	**47,144**	35,091
Inter-segment revenues	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total revenue	**46,568**	27,041	**576**	8,050	**–**	–	**–**	–	**–**	–	**47,144**	35,091
Finance income	**6,188**	5,828	**4**	5	**–**	–	**17,108**	150	**(8)**	(179)	**23,292**	5,804
Finance costs	**(11,773)**	(9,793)	**(10)**	(14)	**–**	–	**(6,996)**	(7,187)	**8**	179	**(18,771)**	(16,815)
Reportable segment loss before income tax	**(57,908)**	(90,312)	**(761)**	(410)	**–**	–	**17,050**	(24,723)	**–**	–	**(41,619)**	(115,445)
Share of results of joint ventures	**30,474**	–	**–**	–	**(14,038)**	(10,138)	**–**	–	**–**	–	**16,436**	(10,138)
Consolidated loss before tax	**(27,434)**	(90,312)	**(761)**	(410)	**(14,038)**	(10,138)	**17,050**	(24,723)	**–**	–	**(25,183)**	(125,583)
Income tax	**(498)**	(821)	**11**	(8)	**–**	–	**1,111**	94	**–**	–	**624**	(735)
Other material non-cash items:												
Depreciation of plant and equipment	**27,279**	30,234	**31**	46	**–**	–	**221**	1,835	**–**	–	**27,531**	32,115
Amortisation of intangible assets	**175**	189	**12**	33	**–**	–	**–**	–	**–**	–	**187**	222
Impairment loss/(Write-back) for receivables	**12,352**	27,944	**–**	27	**–**	–	**(165)**	–	**–**	–	**12,187**	27,971
Impairment loss on rigs	**–**	11,329	**–**	–	**–**	–	**–**	–	**–**	–	**–**	11,329
Impairment loss on goodwill	**–**	–	**–**	727	**–**	–	**–**	–	**–**	–	**–**	727
Loss on disposal of non-core asset	**–**	–	**–**	–	**–**	–	**–**	13,073	**–**	–	**–**	13,073
Write-back of impairment loss on investment in joint venture	**–**	–	**–**	–	**–**	–	**(10,004)**	(4,211)	**–**	–	**(10,004)**	(4,211)

* The results from Distribution segment are accounted for using the equity method since it is a joint venture. Refer to Note 15 for financial information on the joint venture, KS Distribution Pte Ltd.

** Included in the results of other business segments is a loss on disposal of an accommodation rig amounting to $Nil (2016: a loss on disposal of an accommodation rig amounting to $13,073,000).

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31 OPERATING SEGMENTS (CONTINUED)

Information about reportable segments (Continued)

Business segments	Drilling		Engineering		Distribution		Others		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets and liabilities										
Reportable segment assets	**454,004**	517,028	**1,768**	4,097	**–**	–	**749**	957	**456,521**	522,082
Investment in joint ventures	**–**	–	**–**	–	**38,746**	42,780	**–**	–	**38,746**	42,780
Deferred tax assets	**1,132**	1,225	**–**	–	**–**	–	**–**	–	**1,132**	1,225
Total assets	**455,136**	518,253	**1,768**	4,097	**38,746**	42,780	**749**	957	**496,399**	566,087
Reportable segment liabilities	**361,393**	386,734	**2,171**	3,548	**–**	–	**72,427**	78,866	**435,991**	469,148
Provision for tax	**3,459**	4,126	**2**	2	**–**	–	**4,570**	5,752	**8,031**	9,880
Deferred tax liabilities	**–**	–	**–**	12	**–**	–	**55**	–	**55**	12
Total liabilities	**364,852**	390,860	**2,173**	3,562	**–**	–	**77,052**	84,618	**444,077**	479,040
Other segment information										
Capital expenditure	**2,398**	1,273	**7**	46	**–**	–	**2**	–	**2,407**	1,319

* The results from Distribution segment are accounted for using the equity method since it is a joint venture. Refer to Note 15 for financial information on the joint venture, KS Distribution Pte Ltd.

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YEAR ENDED 31 DECEMBER 2017

31 OPERATING SEGMENTS (CONTINUED)

Information about reportable segments (Continued)

Geographical segments

	Revenue		Other non-current assets		Capital expenditure	
	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000
Singapore	–	1,628	39,011	43,493	9	46
The People's Republic of China	–	–	62,634	70,711	759	916
Kurdistan	19	91	19,575	26,888	–	–
Egypt	9,341	10,998	24,066	31,861	–	357
Pakistan	1,451	4,166	10,755	13,679	–	–
Vietnam	11,983	4	209,144	235,048	–	–
Indonesia	23,846	11,790	88,924	107,736	1,639	–
Malaysia	192	590	–	–	–	–
Other countries	312	5,824	–	–	–	–
	47,144	35,091	454,109	529,416	2,407	1,319

Major customers

During the financial year, the Group had five (2016: five) customers in drilling and engineering segment that individually contributed 5% or more of the Group's revenue. Revenue from these customer accounts amounted to $40,158,000 (2016: $33,411,000).

32 SUBSEQUENT EVENTS

On 1 January 2018, the Group entered into an option agreement with a shareholder of a joint venture, PT KS Drilling Indonesia ("PT KSDRI"), giving the Group an option to purchase 20,000 shares of PT KSDRI, representing 2% of total voting rights. Pursuant to the option agreement, which confers onto the Group potential voting rights of 51% of PT KSDRI, the Group has determined it has control over PT KSDRI from 1 January 2018 and will begin recognising PT KSDRI as a subsidiary from that date.

33 FULL CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND ADOPTION OF NEW STANDARDS

Applicable to 2018 financial statements

In December 2017, the Accounting Standards Council (ASC) issued the Singapore Financial Reporting Standards (International) (SFRS(I)). SFRS(I) comprises standards and interpretations that are equivalent to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) at 31 December 2017 that are applicable for annual period beginning on 1 January 2018. Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore, will apply SFRS(I) with effect from annual periods beginning on or after 1 January 2018.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

33 FULL CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND ADOPTION OF NEW STANDARDS (CONTINUED)

Applicable to 2018 financial statements (Continued)

The Group's financial statements for the financial year ending 31 December 2018 will be prepared in accordance with SFRS(I). As a result, this will be the last set of financial statements prepared under the current FRS.

In adopting the new framework, the Group will be required to apply the specific transition requirements in SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)*.

In addition to the adoption of the new framework, the Group will also concurrently apply the following SFRS(I)s, interpretations of SFRS(I)s and requirements of SFRS(I)s which are mandatorily effective from the same date.

- SFRS(I) 15 *Revenue from Contracts with Customers* which includes the clarifications to IFRS 15 *Revenue from Contracts with Customers* issued by the IASB in April 2016;
- SFRS(I) 9 *Financial Instruments* which includes the amendments to IFRS 4 Insurance Contracts – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* issued by the IASB in September 2016;
- requirements in SFRS(I) 2 *Share-based Payment* arising from the amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions* issued by the IASB in June 2016;
- requirements in SFRS(I) 1-40 *Investment Property* arising from the amendments to IAS 40 – *Transfers of Investment Property* issued by the IASB in December 2016;
- requirements in SFRS(I) 1 arising from the amendments to IFRS 1 – *Deletion of short-term exemptions for first-time adopters* issued by the IASB in December 2016;
- requirements in SFRS(I) 1-28 *Investments in Associates and Joint Ventures* arising from the amendments to IAS 28 – *Measuring an associate or joint venture at fair value* issued by the IASB in December 2016; and
- SFRS(I) INT 22 *Foreign Currency Transactions and Advance Consideration*.

The Group does not expect the application of the above standards and interpretations to have a significant impact on the financial statements, except for SFRS(I) 9.

Summary of quantitative impact

The Group is currently finalising the transition adjustments. The following reconciliation provides an estimate of the expected impacts on initial application of SFRS(I) 1 and SFRS(I) 9 on the Group's financial position as at 31 December 2017 and 1 January 2018.

Notes to the **Financial Statements**

33 FULL CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND ADOPTION OF NEW STANDARDS (CONTINUED)

Summary of quantitative impact (Continued)

Consolidated statement of financial position

	31 December 2017			1 January 2018	
	Current framework $'000	SFRS(I) 1 $'000	SFRS(I) framework $'000	SFRS(I) 9 $'000	SFRS(I) framework $'000
Assets					
Trade receivables	11,481	–	11,481	(34)	11,447
Equity					
Foreign currency translation reserve	(17,521)	9,045	(8,476)	–	(8,476)
Accumulated losses	(299,817)	(9,045)	(308,862)	(34)	(308,896)

SFRS(I) 1

When the Group adopts SFRS(I) in 2018, the Group will apply SFRS(I) 1 with 1 January 2017 as the date of transition for the Group and the Company. SFRS(I) 1 generally requires that the Group applies SFRS(I) on a retrospective basis, as if such accounting policy had always been applied. If there are changes to accounting policies arising from new or amended standards effective in 2018, restatement of comparatives may be required because SFRS(I) 1 requires both the opening balance sheet and comparative information to be prepared using the most current accounting policies. SFRS(I) 1 provides mandatory exceptions and optional exemptions from retrospective application, but these are often different from those specific transition provisions in individual FRSs applied to the FRS financial statements. Except as described below, the Group does not expect the application of the mandatory exceptions and the optional exemptions in SFRS(I) 1 to have any significant impact on the financial statements.

Foreign currency translation reserve (FCTR)

The Group considers that restating FCTR to comply with SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates* may not be practicable as certain acquisitions and disposals were transacted at dates that preceded the statutory record keeping periods.

The Group plans to elect the optional exemption in SFRS(I) 1 to reset its cumulative FCTR for all foreign operations to $Nil at the date of transition, and reclassify the cumulative FCTR of $9,045,000 as at 1 January 2017 determined in accordance with FRS at that date to accumulated losses. After the date of transition, any gain or loss on disposal of any foreign operations will exclude translation differences that arose before the date of transition.

The Group expects the cumulative FCTR to decrease by $9,045,000 and accumulated losses to increase by the same amount as at 31 December 2017.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

33 FULL CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND ADOPTION OF NEW STANDARDS (CONTINUED)

SFRS(I) 9

SFRS(I) 9 contains new requirements for classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements.

Changes in accounting policies resulting from the adoption of SFRS(I) 9 will generally be applied by the Group retrospectively, except as described below.

- The Group plans to take advantage of the exemption in SFRS(I) 1 allowing it not to restate comparative information in the 2018 SFRS(I) financial statements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SFRS(I) 9 are recognised in accumulated losses and reserves as at 1 January 2018.

- The following assessments have to be made on the basis of facts and circumstances that existed at 1 January 2018.

  – The determination of the business model within which a financial asset is held.

  – The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The expected impact on adoption of SFRS(I) 9 are described below. The information below reflects the Group's expectation of the implications arising from changes in the accounting treatment, however, the actual tax effect may change when the transition adjustments are finalised.

Impairment

SFRS(I) 9 replaces the current 'incurred loss' model with a forward-looking expected credit loss ("ECL") model. The new impairment model will apply to financial assets measured at amortised cost or fair value through other comprehensive income, except for investments in equity instruments, and certain loan commitments and financial guarantee contracts.

Under SFRS(I) 9, loss allowances of the Group will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; or

- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group plans to apply the simplified approach and record lifetime ECL on all trade receivables and any contract assets arising from the application of SFRS(I) 15. The Group expects an increase in impairment for trade receivables of $34,000 as at 1 January 2018. The Company expects no significant increase in impairment of trade receivables.

The Group is currently finalising the testing of its expected credit loss model and the quantum of the final transition adjustments may be different upon finalisation.

33 FULL CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND ADOPTION OF NEW STANDARDS (CONTINUED)

Applicable to financial statements for the year 2019 and thereafter

The following new SFRS(I), amendments to and interpretations of SFRS(I) are effective for annual periods beginning after 1 January 2018:

Applicable to 2019 financial statements

- SFRS(I) 16 *Leases*
- SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*
- *Long-term Interests in Associates and Joint Ventures* (Amendments to SFRS(I) 1-28)
- *Prepayment Features with Negative Compensation* (Amendments to SFRS(I) 9)

Mandatory effective date deferred

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture Amendments to SFRS(I) 10 and SFRS(I) 1-28

The Group is still in the process of assessing the impact of the new SFRS(I)s, amendments to and interpretations of SFRS(I)s on the financial statements. The Group's preliminary assessment of SFRS(I) 16, which is expected to have a more significant impact on the Group, is as described below.

SFRS(I) 16

SFRS(I) 16 replaces existing lease accounting guidance. SFRS(I) 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted if SFRS(I) 15 is also applied. SFRS(I) 16 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use ("ROU") assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Group plans to adopt the standard when it becomes effective in 2019 and expects to apply the standard using the modified retrospective approach. The Group also expects the ROU assets recognised at date of initial application to be equal to their lease liabilities.

The Group is likely to elect the practical expedient not to reassess whether a contract contains a lease at the date of initial application, 1 January 2019. Accordingly, existing lease contracts that are still effective on 1 January 2019 continue to be accounted for as lease contracts under SFRS(I) 16. The Group has performed a preliminary assessment of the impact on its financial statements based on its existing operating lease arrangements (refer to note 30).

Until 2018, the approximate financial impact of the standard is unknown due to factors that impact calculation of lease liabilities such as discount rate, expected term of leases including renewal options and exemptions for short-term leases. The Group will continue to assess its portfolio of leases to calculate the impending impact of transition to the new standard.

Notes to the **Financial Statements**

YEAR ENDED 31 DECEMBER 2017

33 FULL CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND ADOPTION OF NEW STANDARDS (CONTINUED)

The Group as lessee

The Group expects its existing operating lease arrangements to be recognised as ROU assets with corresponding lease liabilities under SFRS(I) 16. The operating lease commitments on an undiscounted basis amount to approximately 0.04% of the consolidated total assets and 0.05% of consolidated total liabilities, and approximately 0.03% of the Company's total assets and 0.04% of the Company's total liabilities. Under the new standard, remaining lease payments of the operating leases will be recognised at their present value discounted using appropriate discount rate. In addition, the nature of expenses related to those leases will now change as SFRS(I) 16 replaces the straight-line operating lease expense with depreciation charge of ROU assets and interest expense on lease liabilities.

The Group as lessor

SFRS(I) 16 substantially carries forward the current existing lessor accounting requirements. Accordingly, the Group continues to classify its leases as operating leases, and to account for them using the existing operating lease accounting models. However, SFRS(I) 16 requires more extensive disclosures to be provided by a lessor.

SHAREHOLDERS' **INFORMATION**

AS AT 21 MARCH 2018

Class of shares	:	Ordinary shares
Issued and fully paid-up capital	:	S$361,629,700.55
Number of Shares issued	:	515,601,215 (excluding Treasury Shares)
Number of Treasury Shares (Percentage)	:	8,639,000 (1.68%)
Voting rights (excluding Treasury Shares)	:	One vote per share

The Company does not hold any subsidiary holdings.

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS AS AT 21 MARCH 2018

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	% OF SHAREHOLDERS	NO. OF SHARES	% OF SHAREHOLDING
1 – 99	165	2.54	5,747	0.00
100 – 1,000	2,015	30.98	1,283,384	0.25
1,001 – 10,000	3,057	47.00	12,872,630	2.50
10,001 – 1,000,000	1,253	19.26	52,564,112	10.19
1,000,001 – and above	14	0.22	448,875,342	87.06
TOTAL	**6,504**	**100.00**	**515,601,215**	**100.00**

Note: The percentage is calculated based on 515,601,215 Shares (excluding 8,639,000 shares held as Treasury Shares) as at 21 March 2018.

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%(1)	Deemed Interest	%(1)
Pacific One Energy Limited	308,281,662(2)	59.79	–	–
Dubai Transport Company LLC	50,751,948(3)	9.84		
Rija Holdings Limited	–	–	308,281,662(2)	59.79
Kris Wiluan	–	–	308,281,662(2)	59.79
Richard James Wiluan	–	–	308,281,662(2)	59.79
Abdulla Mohammed Saleh	–	–	50,751,948(3)	9.84
Ahmad Abdulrahim Baker	–	–	50,751,948(3)	9.84
AMSAF Investment LLC	–	–	50,751,948(3)	9.84

Notes:

(1) The percentage of shareholding is calculated based on 515,601,215 issued shares (excluding 8,639,000 Treasury Shares) as at 21 March 2018.

(2) Rija Holdings Limited ("Rija"), which is the holding company of Pacific One Energy Limited ("Pac One"), is controlled by Mr Kris Wiluan and Mr Richard James Wiluan. By virtue of Section 4 of the Securities and Futures Act, Rija, Mr Kris Wiluan and Mr Richard James Wiluan are deemed interested in the 308,281,662 shares held by Pac One.

(3) Dubai Transport Company LLC ("DTC") is controlled by Mr Abdulla Mohammed Saleh, AMSAF Investment LLC ("AMSAF") and Mr Ahmad Abdulrahim Baker. By virtue of Section 4 of the Securities and Futures Act, Mr Abdulla Mohammed Saleh, AMSAF and Mr Ahmad Abdulrahim Baker are deemed interested in the 50,751,948 shares held by DTC.

SHAREHOLDERS' **INFORMATION**

AS AT 21 MARCH 2018

LIST OF TWENTY (20) LARGEST SHAREHOLDERS AS AT 21 MARCH 2018

(As Recorded in the Depository Register as at 21 March 2018)

	NAME OF SHAREHOLDER	NO. OF SHARES	% OF SHARES
1	PACIFIC ONE ENERGY LIMITED	308,281,662	59.79
2	DUBAI TRANSPORT COMPANY LLC	50,751,948	9.84
3	CITIBANK NOMINEES SINGAPORE PTE LTD	46,536,097	9.03
4	RAFFLES NOMINEES (PTE) LTD	18,820,000	3.65
5	DBS NOMINEES PTE LTD	8,204,903	1.59
6	LIM GEOK SENG	2,416,000	0.47
7	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	2,155,272	0.42
8	PHILLIP SECURITIES PTE LTD	2,058,780	0.40
9	SUNFIELD PTE LTD	2,018,500	0.39
10	CGS-CIMB SECURITIES (SINGAPORE) PTE LTD	1,861,730	0.36
11	SAMUEL PAUL OLIVER CAREW-JONES	1,594,000	0.31
12	NG HWEE KOON	1,505,000	0.29
13	UOB KAY HIAN PTE LTD	1,471,950	0.29
14	SUM CHEE WOH	1,199,500	0.23
15	OCBC NOMINEES SINGAPORE PRIVATE LTD	974,581	0.19
16	TAN KAY TOH OR YU HEA RYEONG	957,500	0.19
17	TAN CHAI PENG	797,600	0.15
18	KAM TEOW CHONG	778,742	0.15
19	MAYBANK KIM ENG SECURITIES PTE LTD	701,634	0.14
20	CHU CHOY HAR	631,000	0.12
	TOTAL:	**453,716,399**	**88.00**

Note: The percentage of shareholding is calculated based on 515,601,215 Shares (excluding 8,639,000 shares held as Treasury Shares) as at 21 March 2018.

COMPLIANCE WITH RULE 723 OF THE SGX-ST LISTING MANUAL

Based on information available and to the best knowledge of the Company as at 21 March 2018, approximately 22.91% of the ordinary shares of the Company are held by the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

SHAREHOLDERS' **INFORMATION**

AS AT 21 MARCH 2018

INFORMATION ON SECURITIES

S$65,500,000 IN AGGREGATE PRINCIPAL AMOUNT OF FIXED RATE SECURED BONDS ("S$65.5 MILLION BONDS")

Bondholders	Name of Subscriber	Aggregate Principal Amount of Bonds subscribed
	(i) Oversea-Chinese Banking Corporation Limited ("**Subscriber A**");	S$30.0 Million
	(ii) Pacific One Energy Limited ("**Subscriber B**");	S$18.5 Million
	(iii) Ms Hedy Wiluan ("**Subscriber C**"); and	S$9.5 Million
	(iv) TAEL One Partners Ltd, acting in its capacity as General Partner of The Asian Entrepreneur Legacy One, L.P. ("**Subscriber D**").	S$7.5 Million
	(Subscriber A, B, C and D collectively referred to as the "**Bondholders**" or "**Subscribers**")	

Issue Size: S$65,500,000 in principal amount of the S$65.5 Million Bonds issued.

Issue Price: 100% of the principal amount of the S$65.5 Million Bonds.

Issue Date: 8 December 2017

Interest:

(a) From and including 8 December 2017 to, but excluding 8 December 2018, 1.15% per annum of the principal amount outstanding of the Bonds;

(b) From and including 8 December 2018 but excluding 8 December 2019, 2.0% per annum of the principal amount outstanding of the Bonds

(c) From and including 8 December 2019 to but excluding 8 December 2020, the Maturity Date, 3.0% per annum of the principal amount outstanding of the Bonds; and

(d) Subject to the exercise of the Extension Right, from and including the Extended Maturity Date, 4.0 % per annum of the principal amount outstanding of the Bonds.

Yield-to-maturity: 8.1% per annum (without taking into account effect of free Warrants and based on the Maturity date) and 8.2% per annum (without taking into account effect of free Warrants and based on the Extended Maturity Date)

Maturity Date: 8 December 2020, or the extended maturity date of 8 December 2021 (the "Extended Maturity Date") at the options of the Bondholders

Final Redemption: On Maturity Date: 119.82%
On Extended Maturity Date: 125.90%

SHAREHOLDERS' **INFORMATION**

AS AT 21 MARCH 2018

INFORMATION ON SECURITIES (CONTINUED)

Security:	Share Charge over the Charged Asset, being 80.09% of the equity interest of KS Drilling Pte. Ltd.
Other:	65,500,000 bonus Warrants issued for the Subscribers.

For more information on the S$65.5 Million Bonds, please refer to the Company's Announcements dated 26 May 2017, 1 August 2017, 29 September 2017. 11 October 2017, 27 October 2017 and 8 December 2017, and Circular to Shareholders dated 12 October 2017.

65,500,000 MILLION NON-LISTED BONUS WARRANTS

Warrantholders	**Name of Subscriber**	**Number of Warrants**
	(v) Oversea-Chinese Banking Corporation Limited ("**Subscriber A**");	30.0 Million
	(vi) Pacific One Energy Limited ("**Subscriber B**");	18.5 Million
	(vii) Ms Hedy Wiluan ("**Subscriber C**"); and	9.5 Million
	(viii) TAEL One Partners Ltd, acting in its capacity as General Partner of The Asian Entrepreneur Legacy One, L.P. ("**Subscriber D**").	7.5 Million
	(Subscriber A, B, C and D collectively referred to as the "**Warrantholders**" or "**Subscribers**")	
Number of Warrants:	65.5 million non-listed Warrants, each Warrant carrying the right to subscribe for one (1) new Ordinary Share at the Exercise Price	
Issue Price:	The Warrants issued free to the Subscribers	
Issue Date:	8 December 2017	
Exercise Price:	S$0.045 in respect of each Warrant, being a premium of approximately 5.0% to the volume weighted average price of the Shares traded on the SGX-ST for the last 20 days immediately prior to 26 Mary 2017, such date being the date that the Warrant Subscription Agreements were originally made. The Exercise Price was agreed based on arm's length negotiations between the Subscribers and the Company and was based on commercial considerations made by the Company.	

SHAREHOLDERS' **INFORMATION**

AS AT 21 MARCH 2018

INFORMATION ON SECURITIES (CONTINUED)

Exercise Period:	The period commencing on 8 December 2017 and expiring at 5.00 p.m. (Singapore time) on the third (3rd) anniversary of the Issue Date (the "Expiration Date") or such later expiration date as may be determined in accordance with the terms and conditions of the Warrants (the "Exercise Period") If the maturity date of any Bonds is extended by any Subscribers in its capacity of holder of such Bonds in accordance with the terms and conditions of the Bonds, the original Expiration Date of the Warrants held by such Subscribers shall automatically be extended by the same number of days. For the avoidance of doubt, any extension of the Expiration Date of the Warrants shall be effective to extend the Expiration Date of only the Warrants held by such Subscriber and not the Warrants held by any other Subscribers.
Shares to be issued pursuant to the exercise of the Warrants:	The maximum number of Warrant Shares to be allotted and issued by the Company, pursuant to the full exercise of the Warrants, is 65.5 million Warrant Shares, representing approximately 12.70% of the existing issued share capital of the Company, and representing approximately 11.27% of the enlarged issued share capital of the Company on a diluted basis. The Warrant Shares will upon issue and allotment, rank *pari passu* in all respects with the then existing shares, except that they will not be entitled to participate in any dividends, rights, allotments or other distributions where the record date is before the date of issue and allotment of the Warrant Shares.

Notice of **Annual General Meeting**

KS ENERGY LIMITED
(Company Registration No. 198300104G)
(Incorporated in the Republic of Singapore with limited liability)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of KS Energy Limited (the "**Company**") will be held at 19 Jurong Port Road, Singapore 619093 on Thursday, 26 April 2018 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company for the year ended 31 December 2017 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors of the Company retiring pursuant to Article 91 of the Constitution of the Company:

   Mr Soh Gim Teik **(Resolution 2)**
   Mr Lawrence Stephen Basapa **(Resolution 3)**
   [See Explanatory Note (i)]

3. To approve the payment of Directors' fees of S$271,333.00 for the year ended 31 December 2017 (FY2016: S$381,667.00). **(Resolution 4)**

4. To re-appoint KPMG LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 5)**

5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. **Share Issue Mandate**

   That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the Directors of the Company be authorised and empowered to:

   (i) issue shares in the Company ("**Shares**") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

Notice of **Annual General Meeting**

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

(notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro-rata basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares (excluding treasury shares and subsidiary holdings) shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

    (i) new shares arising from the conversion or exercise of any convertible securities;

    (ii) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and

    (iii) any subsequent bonus issue, consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company; and

(4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force (i) until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of such convertible securities.

[See Explanatory Note (ii)] **(Resolution 6)**

Notice of **Annual General Meeting**

7. **Authority to allot and issue shares under the KS Energy Employee Share Option Scheme and KS Energy Performance Share Plan**

That pursuant to Section 161 of the Companies Act, Cap. 50, authority be and is hereby given to the Directors of the Company to allot and issue from time to time such number of shares in the Company as may be required to be issued pursuant to the exercise of options granted by the Company under the KS Energy Employee Share Option Scheme ("**KSE ESOS**") and/or such number of fully paid shares in the Company as may be required to be issued pursuant to the vesting of awards under the KS Energy Performance Share Plan ("**KSE PSP**"), provided always that the aggregate number of shares to be issued pursuant to the options to be granted under the KSE ESOS and the vesting of awards granted or to be granted under KSE PSP shall not exceed fifteen percent (15%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time.
[See Explanatory Note (iii)] **(Resolution 7)**

8. **Proposed Renewal of the Shareholders' Mandate for Interested Person Transactions with PT DWI Sumber Arca Waja Group**

That for the purposes of Chapter 9 of the Listing Manual of the SGX-ST:

(a) approval be given for the renewal of the mandate for the Company, its subsidiaries and associated companies or any of them to enter into any of the transactions falling within the categories of interested person transactions ("**IPT**") set out in the Appendix to the Notice of Annual General Meeting dated 11 April 2018 (the "**Appendix**") with any party who is of the class or classes of interested persons described in the Appendix, provided that such transactions are carried out in accordance with the review procedures of the Company for IPT set out in the Appendix (the "**DSAW IPT Mandate**");

(b) the DSAW IPT Mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier;

(c) the Audit and Risk Management Committee ("**ARMC**") of the Company and/or any member of the ARMC be and is hereby authorised to take such action as it and/or he deems proper in respect of such procedures and/or to modify or implement such procedures as may be necessary to take into consideration any amendment to Chapter 9 of the Listing Manual of the SGX-ST which may be prescribed by the SGX-ST from time to time; and

(d) authority be given to the Directors and/or any of them to complete and do all such acts and things (including executing all such documents as may be required) as they and/or he may consider necessary, desirable, expedient or in the interest of the Company to give effect to the DSAW IPT Mandate as they and/or he may think fit.

[See Explanatory Note (iv)] **(Resolution 8)**

Notice of **Annual General Meeting**

9. **Proposed Renewal of the Shareholders' Mandate for Interested Person Transactions with PT KS Drilling Indonesia and/or its subsidiaries**

That for the purposes of Chapter 9 of the Listing Manual of the SGX-ST:

(a) approval be given for the renewal of the mandate for the Company, its subsidiaries and associated companies or any of them to enter into any of the transactions falling within the categories of IPT set out in the Appendix with any party who is of the class or classes of interested persons described in the Appendix, provided that such transactions are carried out in accordance with the review procedures of the Company for IPT set out in the Appendix (the "**JVC IPT Mandate**");

(b) the JVC IPT Mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier;

(c) the ARMC of the Company and/or any member of the ARMC be and is hereby authorised to take such action as it and/or he deems proper in respect of such procedures and/or to modify or implement such procedures as may be necessary to take into consideration any amendment to Chapter 9 of the Listing Manual of the SGX-ST which may be prescribed by the SGX-ST from time to time; and

(d) authority be given to the Directors and/or any of them to complete and do all such acts and things (including executing all such documents as may be required) as they and/or he may consider necessary, desirable, expedient or in the interest of the Company to give effect to the JVC IPT Mandate as they and/or he may think fit.

[See Explanatory Note (v)] **(Resolution 9)**

By Order of the Board

Lai Kuan Loong, Victor
Secretary
Singapore, 11 April 2018

Notice of **Annual General Meeting**

Explanatory Notes on Resolutions to be passed:

(i) Mr Soh Gim Teik will, upon re-election as a Director of the Company, remain as the Lead Independent Director, Chairman of the Audit and Risk Management Committee and a member of the Nominating Committee and the Remuneration Committee, and will be considered independent.

Mr Lawrence Stephen Basapa will, upon re-election as a Director of the Company, remain as the Chairman of the Nominating Committee and a member of the Audit and Risk Management Committee and the Remuneration Committee, and will be considered independent.

(ii) The Ordinary Resolution 6 in item 6 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to allot and issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares and subsidiary holdings) will be calculated based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

(iii) The Ordinary Resolution 7 proposed in item 7 above, if passed, will empower the Directors of the Company, to allot and issue shares in the Company pursuant to the exercise of options outstanding under the KSE ESOS and/or vesting of awards granted pursuant to the KSE PSP, provided that the aggregate number of shares issued pursuant to the KSE ESOS and the KSE PSP does not exceed fifteen percent (15%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time.

(iv) The Ordinary Resolution 8 proposed in item 8 above, if passed, will authorise the IPT pursuant to the DSAW IPT Mandate as described in the Appendix and recurring in the year and will empower the Directors and/or any of them to do all acts necessary to give effect to the DSAW IPT Mandate. This authority will, unless previously revoked or varied by the Company at a general meeting, expire at the conclusion of the next Annual General Meeting of the Company.

(v) The Ordinary Resolution 9 proposed in item 9 above, if passed, will authorise the IPT pursuant to the JVC IPT Mandate as described in the Appendix and recurring in the year and will empower the Directors and/or any of them to do all acts necessary to give effect to the JVC IPT Mandate. This authority will, unless previously revoked or varied by the Company at a general meeting, expire at the conclusion of the next Annual General Meeting of the Company.

Notice of **Annual General Meeting**

Notes:

1. (a) A member who is not a relevant intermediary, is entitled to appoint one or two proxies to attend and vote at the Annual General Meeting (the "**Meeting**").

   (b) A member who is a relevant intermediary, is entitled to appoint more than two proxies to attend and vote at the Meeting, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member. Where such member appoints more than two proxies, the appointments shall be invalid unless the member specifies the number of shares in relation to which each proxy has been appointed.

   "**Relevant intermediary**" has the meaning ascribed to it in Section 181 of the Companies Act, Cap. 50.

2. A proxy need not be a member of the Company.

3. If the appointer is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

4. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 19 Jurong Port Road, Singapore 619093 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, Listing Rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

KS ENERGY LIMITED

(Company Registration No. 198300104G)
(Incorporated In the Republic of Singapore)

IMPORTANT:
1. A relevant intermediary may appoint more than two proxies to attend the Annual General Meeting and vote (please see note 4 for the definition of "relevant intermediary").
2. For investors who have used their CPF monies to buy the Company's shares, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
3. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

PROXY FORM

(Please see notes overleaf before completing this Form)

I/We, ____ NRIC/Passport No.: ________________

of ____

being a member/members of KS Energy Limited (the "Company"), hereby appoint:

Name	**NRIC/Passport No.**	**Proportion of Shareholdings**	
		No. of Shares	**%**
Address			

and/or (delete as appropriate)

Name	**NRIC/Passport No.**	**Proportion of Shareholdings**	
		No. of Shares	**%**
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as *my/our *proxy/proxies to vote for *me/us on *my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held at 19 Jurong Port Road, Singapore 619093 on Thursday, 26 April 2018 at 10.00 a.m. and at any adjournment thereof. *I/We direct *my/our *proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the *proxy/proxies will vote or abstain from voting at *his/her/their discretion, as *he/she/they will on any other matter arising at the Meeting and at any adjournment thereof.

If you wish to exercise all your votes "For" or "Against", tick [√] within the box provided. Alternatively, please indicate the number of votes as appropriate.

No.	**Resolutions relating to:**	**For**	**Against**
1	Directors' Statement and Audited Financial Statements for the year ended 31 December 2017		
2	Re-election of Mr Soh Gim Teik as a Director		
3	Re-election of Mr Lawrence Stephen Basapa as a Director		
4	Approval of Directors' fees amounting to S$271,333.00 for year ended 31 December 2017		
5	Re-appointment of KPMG LLP as Auditors		
6	Share Issue Mandate		
7	Authority to allot and issue shares under the KS Energy Employee Share Option Scheme and KS Energy Performance Share Plan		
8	Proposed Renewal of the Shareholders' Mandate for Interested Person Transactions with PT DWI Sumber Arca Waja Group		
9	Proposed Renewal of the Shareholders' Mandate for Interested Person Transactions with PT KS Drilling Indonesia and/or its subsidiaries		

*Delete where inapplicable

Dated this __________ day of ________________ 2018

Total number of Shares in:	**No. of Shares**
(a) CDP Register	
(b) Register of Members	

____

Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. A member who is a relevant intermediary entitled to attend the meeting and vote is entitled to appoint more than two proxies to attend and vote instead of the member, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member. Where such member appoints more than two proxies, the appointments shall be invalid unless the member specifies the number of Shares in relation to which each proxy has been appointed.

   "Relevant intermediary" means:

   (a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;

   (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or

   (c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

5. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 19 Jurong Port Road, Singapore 619093 not less than 48 hours before the time appointed for the Meeting.

7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

9. An investor who buys shares using Central Provident Fund monies ("CPF Investor") and/or Supplementary Retirement Scheme monies ("SRS Investor") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

General:
The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

PERSONAL DATA PRIVACY:
By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 11 April 2018.

AFFIX POSTAGE STAMP

The Company Secretary
KS ENERGY LIMITED
19 JURONG PORT ROAD
SINGAPORE 619093

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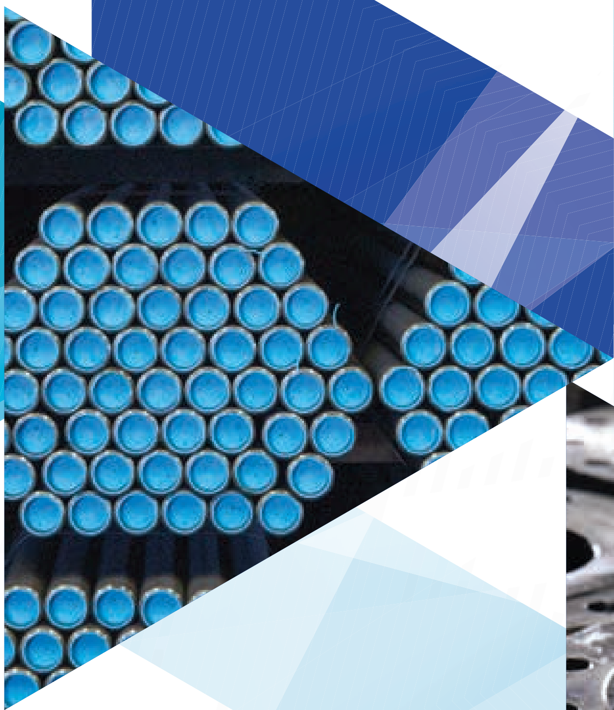

KS ENERGY LIMITED
An Integrated Energy Services Hub

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