

**KARPOWER INTERNATIONAL B.V.  
AND ITS SUBSIDIARIES**

**SPECIAL PURPOSE CONSOLIDATED  
FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2018 AND  
INDEPENDENT AUDITOR'S REPORT**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of the Directors of Karpower International B.V.

### Report on the Audit of the Special Purpose Consolidated Financial Statements

#### Opinion

We have audited the special purpose consolidated financial statements of Karpower International B.V. (the "Company") and its subsidiaries (together the "Group"), which comprise the statement of special purpose consolidated statement of financial position as at 31 December 2018, and the special purpose consolidated statement of profit or loss and other comprehensive income, special purpose consolidated statement of changes in equity and special purpose consolidated statement of cash flows for the year then ended, and notes to the special purpose consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying special purpose consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibilities of Management and Those Charged with Governance for the Special Purpose Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the special purpose consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of special purpose consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose consolidated 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

# Deloitte.

## Auditor's Responsibilities for the Audit of the Special Purpose Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 ISAs 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 special purpose consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the special purpose consolidated 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.
- 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 auditor's report to the related disclosures in the special purpose consolidated 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 auditor's 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 special purpose consolidated financial statements, including the disclosures, and whether the special purpose consolidated 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 those charged with governance 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.

*DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.*

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.  
Member of DELOITTE TOUCHE TOMMATSU LIMITED

Istanbul, 6 May 2019

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**KARPOWER INTERNATIONAL B.V.****SPECIAL PURPOSE CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

<b>ASSETS</b>	<b>Notes</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Current assets</b>			
Cash and cash equivalents	6	219,315,058	48,989,672
Investments	6	2,530,975	8,398,413
Trade receivables	7	497,372,079	454,526,112
Due from related parties	20	18,038,868	147,748,783
Inventories	8	29,263,372	56,494,007
Prepaid expenses	9	51,869,751	46,660,748
Other current assets	10	109,742,433	65,899,010
<b>Total current assets</b>		<b>928,132,536</b>	<b>828,716,745</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	2,766,548,186	2,389,772,394
Intangible assets		65,228	51,233
Investments in associates	21	4,896,797	-
Prepaid expenses	9	19,836,150	358,345
Deferred tax assets	19	108,160	85,247
<b>Total non-current assets</b>		<b>2,791,454,521</b>	<b>2,390,267,219</b>
<b>Total assets</b>		<b>3,719,587,057</b>	<b>3,218,983,964</b>

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

# KARPOWER INTERNATIONAL B.V.

## SPECIAL PURPOSE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

LIABILITIES	Notes	31 December 2018	31 December 2017
<b>Current liabilities</b>			
Short term borrowings	12	51,139,047	225,470,081
Short term portion of long term borrowings	12	306,967,359	246,144,721
Trade payables	7	413,071,897	432,828,284
Due to related parties	20	20,598,273	330,577,905
Deferred income	9	14,320,648	19,803,189
Current income tax liabilities	19	11,596,064	6,661,989
Other current liabilities	10	31,334,668	49,650,798
<b>Total current liabilities</b>		<b>849,027,956</b>	<b>1,311,136,967</b>
<b>Non-current liabilities</b>			
Long term borrowings	12	989,134,516	513,064,400
Trade payables	7	-	95,422,122
Deferred income	9	27,513,861	-
Provisions for employment termination benefits		1,587,645	534,048
Deferred tax liabilities	19	388,109	612,665
<b>Total non-current liabilities</b>		<b>1,018,624,131</b>	<b>609,633,235</b>
<b>Total liabilities</b>		<b>1,867,652,087</b>	<b>1,920,770,202</b>
<b>EQUITY</b>			
Share capital	14	571,348,010	208,959,071
Other comprehensive income and expense that will not be reclassified to profit or loss			
- Revaluation fund	14	639,029,368	401,882,849
- Actuarial loss on employment termination benefits		26,920	-
Other comprehensive income and expense that may be reclassified to profit or loss			
- Currency translation reserve	2.1	(7,202,053)	(4,956,651)
Retained earnings		648,438,085	692,202,730
<b>Equity attributable to equity holders of the parent</b>		<b>1,851,640,330</b>	<b>1,298,087,999</b>
<b>Non-controlling interest</b>		<b>294,640</b>	<b>125,763</b>
<b>Total equity</b>		<b>1,851,934,970</b>	<b>1,298,213,762</b>
<b>Total liabilities and equity</b>		<b>3,719,587,057</b>	<b>3,218,983,964</b>

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

# KARPOWER INTERNATIONAL B.V.

## SPECIAL PURPOSE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

	Notes	1 January - 31 December 2018	1 January - 31 December 2017
<b>PROFIT OR LOSS</b>			
Revenue	15	1,228,768,987	965,813,056
Cost of sales (-)	15	(760,074,656)	(570,074,132)
<b>Gross profit</b>		<b>468,694,331</b>	<b>395,738,924</b>
General administrative expenses (-)	16	(34,308,698)	(31,908,173)
Selling and marketing expenses (-)	16	(14,279,897)	(13,567,676)
Other operating income	17	51,969,238	17,397,959
Other operating expenses (-)	17	(46,161,807)	(17,641,501)
Loss from investments accounted through equity method	21	(2,502)	-
<b>Operating profit</b>		<b>425,910,665</b>	<b>350,019,533</b>
Financial income	18	4,369,112	3,792,425
Financial expenses (-)	18	(86,244,956)	(61,833,831)
<b>Profit before taxes on income</b>		<b>344,034,821</b>	<b>291,978,127</b>
Taxes on income			
Current tax expense	19	(35,345,160)	(34,561,373)
Deferred tax expense	19	(378,564)	(484,781)
<b>Net profit for the year</b>		<b>308,311,097</b>	<b>256,931,973</b>
<b>Net profit for the year attributable to</b>			
Equity holders of the parent		308,142,220	256,807,210
Non-controlling interest		168,877	124,763
		<b>308,311,097</b>	<b>256,931,973</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial gain on employment termination benefits		26,920	-
Change in fair value of property, plant and equipment	11	224,648,234	191,762,356
<b>Items that may be reclassified to profit or loss</b>			
Currency translation differences		(2,245,402)	(4,254,680)
<b>Other comprehensive income</b>		<b>222,429,752</b>	<b>187,507,676</b>
<b>Total comprehensive income</b>		<b>530,740,849</b>	<b>444,439,649</b>
<b>Total comprehensive income attributable to</b>			
Equity holders of the parent		530,571,972	444,314,886
Non-controlling interest		168,877	124,763
		<b>530,740,849</b>	<b>444,439,649</b>

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

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**KARPOWER INTERNATIONAL B.V.**

**SPECIAL PURPOSE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018**  
(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

	Share capital	Actual gains	Other comprehensive income and expense that will not be reclassified to profit or loss		Currency translation reserve	Retained earnings	Attributable to equity holders the parent	Non- controlling interest	Total equity
			Revaluation fund	Other comprehensive income and expense that may be reclassified to profit or loss					
Balance at 1 January 2017	182,239,303	-	276,563,278	-	(701,971)	488,638,442	940,731,852	1,000	940,732,852
Capital increase	6,708,886	-	-	-	-	-	6,708,886	-	6,708,886
Impact of change in revaluation of registered capital	20,010,882	-	-	-	-	(20,010,882)	-	-	-
Dividend distribution (Note 14)	-	-	-	-	-	(93,666,825)	(93,666,825)	-	(93,666,825)
Transfer of depreciation of revalued powerships (Note 14)	-	-	(30,177,297)	-	-	30,177,297	-	-	-
Transfer of revaluation fund of assets sold to retained earnings (Note 14)	-	-	(30,265,488)	-	-	30,265,488	-	-	-
Total comprehensive income	-	-	191,762,356	-	(4,254,680)	256,807,210	444,314,886	124,763	444,439,649
Balance at 31 December 2018	208,959,871	-	401,882,849	-	(4,956,651)	692,202,738	1,298,087,999	125,763	1,298,213,762

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



# KARPOWER INTERNATIONAL B.V.

## SPECIAL PURPOSE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

	Share capital	Actuarial gains	Revaluation fund	Other comprehensive income and expense that will not be reclassified to profit or loss	Other comprehensive income and expense that may be reclassified to profit or loss	Currency translation reserve	Retained earnings	Attributable to equity holders the parent	Non-controlling interest	Total equity
<b>Balance at 31 December 2017</b>	<b>208,959,071</b>	-	<b>401,882,849</b>	-	(4,956,651)	-	<b>692,282,730</b>	<b>1,298,087,999</b>	<b>125,763</b>	<b>1,298,213,762</b>
<i>Adjustment of change in accounting policy (Note 2.4.b)</i>	-	-	-	-	-	-	(21,839,796)	(21,839,796)	-	(21,839,796)
<i>The effect of revaluation reserve reclassification (**)</i>	-	-	24,597,853	-	-	-	(24,597,853)	-	-	-
<b>Balance at 1 January 2018 - As restated</b>	<b>208,959,071</b>	-	<b>426,480,702</b>	-	<b>4,956,651</b>	-	<b>645,765,081</b>	<b>1,276,248,203</b>	<b>125,763</b>	<b>1,276,373,966</b>
Capital increase	382,399,821	-	-	-	-	-	-	382,399,821	-	382,399,821
Capital decrease (*)	(20,010,882)	-	-	-	-	-	20,010,882	-	-	-
Effects of transactions involving entities under common control (Note 1) (***)	-	-	-	-	-	-	(7,179,666)	(7,179,666)	-	(7,179,666)
Dividend distribution (Note 14)	-	-	-	-	-	-	(330,400,000)	(330,400,000)	-	(330,400,000)
Transfer of revaluation fund of assets sold to retained earnings (Note 14)	-	-	(12,099,568)	-	-	-	12,099,568	-	-	-
Total comprehensive income	-	26,920	224,648,234	-	(2,245,402)	-	308,142,220	530,571,972	168,877	530,740,849
<b>Balance at 31 December 2018</b>	<b>571,348,010</b>	<b>26,920</b>	<b>639,829,368</b>	-	<b>(7,202,053)</b>	-	<b>648,038,085</b>	<b>1,851,640,330</b>	<b>294,640</b>	<b>1,851,934,970</b>

(\*) In the current period, the Group management decided to reduce the number of shares of issue capital with decreasing the par value of the shares. Following the reduction of shares of capital, the amount of ordinary shares has become USD 624.84 per share (2017: USD 646.73 per share). (2017: The nominal value of the shares registered capital of the Company was converted from Euro into US Dollars by using the exchange rates at the date of respective capital increase in accordance with Dutch Law)

(\*\*) Group management has reviewed revaluation surplus and reclassified 24,597,853 USD recognized in retained earnings to revaluation surplus. 19,105,378 USD of the reclassified balance is the revaluation of a floating powerplant which was sold to a consolidated related party which was previously recognized in retained earnings. 5,492,475 USD relates to the impact of capitalized foreign currency differences on revaluation surplus in 2018. These reclassifications between equity items were considered immaterial and previous year financials are not restated accordingly.

(\*\*\*) Karadeniz Powership Osman Bey Company Limited and Kps Karadeniz Powership Company (Cyprus) Ltd had been consolidated in Karadeniz Holding A.S. previously. In the current period these companies are consolidated in Karpower International B.V. following the shares transfers. Accordingly, amounting of USD 7,179,666 recognised in retained earnings considering the effects realised between the entities under common control.

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

# KARPOWER INTERNATIONAL B.V.

## SPECIAL PURPOSE CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

	Notes	1 January - 31 December 2018	1 January - 31 December 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>77,827,643</b>	<b>414,931,426</b>
Profit for the year		308,311,097	256,931,973
Adjustments to reconcile profit for the year		247,928,684	192,519,191
Depreciation and amortization		134,304,056	109,352,281
Provision for employment termination benefits		1,144,582	338,597
Interest expense	18	71,549,447	51,301,412
Interest income	18	(1,677,843)	(1,879,115)
Provision/(reversal) for doubtful receivables	7	10,519,675	(37,032)
Gain on sale of support vessels	17	(3,634,957)	(1,603,106)
Tax provision	19	35,723,724	35,046,154
Changes in net working capital		(478,412,138)	(34,519,738)
Changes in due from/due to related parties		(185,181,153)	40,401,463
Changes in trade receivables		(53,051,338)	(261,473,491)
Changes in inventories		27,230,635	(1,841,814)
Changes in other current and non current assets and liabilities		(84,638,322)	(55,987,577)
Changes in prepaid expenses and deferred income		(37,048,902)	(50,245,165)
Changes in trade payables		(115,244,026)	325,952,478
Taxes paid	19	(30,411,085)	(31,286,321)
Employment termination benefit paid		(67,947)	(39,311)
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>(223,772,572)</b>	<b>(408,491,222)</b>
Proceeds from sale of property, plant and equipment		36,156,867	146,088,958
Purchases of property, plant and equipment and intangible assets		(260,897,578)	(679,628,910)
Change in blocked deposits		5,867,438	125,048,730
Capital paid in associates	21	(4,899,299)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>321,182,522</b>	<b>(23,809,181)</b>
Proceeds from bank borrowings	12	870,652,288	710,243,146
Repayments of bank borrowings	12	(514,886,284)	(601,958,687)
Capital increase	14	382,399,821	6,708,886
Interest paid (*)		(88,261,146)	(47,014,816)
Interest received	18	1,677,843	1,879,115
Dividend payment	14	(330,400,000)	(93,666,825)
<b>Net increase in cash and cash equivalents</b>		<b>175,237,593</b>	<b>(17,368,977)</b>
<b>Effects of unrealized exchange (loss)/gains on cash and cash equivalents</b>		<b>(4,912,207)</b>	<b>(2,405,058)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	6	<b>48,989,672</b>	<b>68,763,707</b>
<b>Cash and cash equivalents at the end of the year</b>	6	<b>219,315,058</b>	<b>48,989,672</b>

(\*) As of reporting date, the Group paid in the amount of USD 88,261,146 for borrowing cost which interest expenses of USD 58,252,951 realized on profit or loss statement and USD 30,008,195 arising from the capitalization on fixed assets (Note 11).

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

## KARPOWER INTERNATIONAL B.V.

### NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Having established in 2010, Karpower International B.V., (the "Company" or "Karpower BV"), is the holding company for the overseas operations of the Karadeniz Holding A.Ş. ("Karadeniz Holding"), which is the ultimate controlling party of the Company. The Company mainly provides administrative services and coordination for operations in foreign countries.

The Company is registered in the Netherlands and its registered address is De Lairesestraat 154, 1075 HL, Amsterdam.

As of 31 December 2018, total personnel number under payroll of the Group is 1,182 (2017:941).

The major subsidiaries of Karpower BV and their nature of operations are as follows:

Subsidiaries	Nature of business	Segment	Country	Currency
1 KPS Karadeniz Powership Company Cyprus Limited ("KPS Cyprus")	Operation of floating power plant	Energy	Cyprus	USD
2 Karpower International B.V. ("Karpower BV")	Holding Company	Energy	Netherlands	USD
3 Karpowership Iraq Company Limited ("Karpowership Iraq")	Floating power plant services	Energy	Marshall Islands	USD
4 Karpowership Lebanon Company Limited ("Karpowership Lebanon")	Floating power plant services	Energy	Marshall Islands	USD
5 Karpowership Lebanon Company Limited (Lebanon Branch) ("Karpowership Lebanon Branch")	Operation of floating power plant	Energy	Lebanon	USD
6 Karadeniz Powership Aysegül Sultan Company Limited ("Aysegül Sultan")	Floating power plant services	Energy	Isle of Man	USD
7 Karpowership Cyprus Company Limited (Karpowership Cyprus) (2)	Operation of floating power plant	Energy	Cyprus	USD
8 Karadeniz Powership Zeynep Sultan Company Limited ("Zeynep Sultan")	Floating power plant services	Energy	Isle of Man	USD
9 Karpower International DMCC ("International DMCC")	Floating power services	Energy	United Arab Emirates	USD
10 Powership Operation DMCC ("Operation DMCC")	Floating power services	Energy	United Arab Emirates	USD
11 Karpowership Osman Bey (2)	Maritime services	Energy	Marshall Islands	USD
12 Karpowership Ghana Company Limited (Karpowership Ghana)	Operation of floating power plant	Energy	Ghana	USD
13 Karpowership Osman Khan Company Limited ("Osman Khan")	Floating power plant services	Energy	Isle of Man	USD
14 Karpowership Qalkhan Bey Company ("Qalkhan Bey")	Project Company	Energy	Marshall Islands	USD
15 Karpowership Orhan Bey Company ("Orhan Bey")	Project Company	Energy	Marshall Islands	USD
16 Karpowership Yasin Bey Company ("Yasin Bey")	Project Company	Energy	Marshall Islands	USD
17 Karpowership Americas Company Limited ("KPS Americas")	Floating power plant services	Energy	Isle of Man	USD
18 PT Kar Powership Indonesia Company Limited ("PT Indonesia")	Operation of floating power plant	Energy	Indonesia	USD
19 Karpowership Asia Company Limited ("Karpowership Asia")	Floating power plant services	Energy	Singapore	USD
20 Karpowership Mozambique Company Limited ("Karpowership Mozambique MF")	Floating power plant services	Energy	Marshall Islands	USD
21 Karpowership Mozambique Company Limitada ("Karpowership Mozambique Limitada")	Operation of floating power plant	Energy	Mozambique	USD
22 Karmarine Karadeniz Denizcilik Ve Ticaret A.Ş. İstanbul Endüstri Ve Ticaret Serbest Bölge Şubesi	Machinery and spare parts trading	Energy	Turkey	TL
23 Karmarine Karadeniz Denizcilik Ve Ticaret A.Ş. ("Karmarine A.Ş.")	Machinery, spare parts trading and shipyard operations	Energy	Turkey	TL
24 Karadeniz Powership Ibrahim Bey Company ("Ibrahim Bey")	Construction of floating power plants	Energy	Marshall Islands	USD
25 Karadeniz Powership Mehmet Bey Company ("Mehmet Bey")	Construction of floating power plants	Energy	Marshall Islands	USD
26 Karadeniz Powership Eln Sultan Company ("Eln Sultan")	Construction of floating power plants	Energy	Marshall Islands	USD
27 Karadeniz Powership Orta Sultan Company ("Orta Sultan")	Construction of floating power plants	Energy	Marshall Islands	USD
28 Karadeniz Powership Deniz Sultan Company ("Deniz Sultan")	Project Company	Energy	Marshall Islands	USD
29 Karadeniz Powership Ebru Sultan Company ("Ebru Sultan")	Project Company	Energy	Marshall Islands	USD
30 Karpowership and Rauf Bey Company ("Rauf Bey")	Construction of floating power plants	Energy	Marshall Islands	USD

## KARPOWER INTERNATIONAL B.V.

### NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Subsidiaries	Nature of business	Segment	Country	Currency
31 Karadeniz Powership Esra Sultan Company ("Esra Sultan")	Project Company	Energy	Marshall Islands	USD
32 Karpowership Ghana Finance Services BV ("Ghana Finance")	Financing	Energy	Netherlands	USD
33 Karadeniz Powership Metin Bey Company ("Metin Bey")	Project Company	Energy	Marshall Islands	USD
34 Karadeniz Powership Korum Bey Company ("Korum Bey")	Floating power plant services	Energy	Marshall Islands	USD
35 Karpowership Latam Company ("Latam") <sup>(1)</sup>	Floating power plant services	Energy	England	GBP
36 Karpowership UK Ltd ("Karpowership UK") <sup>(1)</sup>	Floating power plant services	Energy	England	GBP
37 Karpowership UK Ports & Shore Power Limited ("Karpowership UK Ports & Shore") <sup>(1)</sup>	Floating power plant services	Energy	England	GBP
38 Karpowership UK OGP Limited ("Karpowership UK OGP") <sup>(1)</sup>	Floating power plant services	Energy	England	GBP
39 Karpowership Energy (Namibia) (Proprietary) ("Karpowership Namibia")	Floating power plant services	Energy	Namibia	NAD
40 Karpowership Indonesia Finance Services BV ("Indonesia Finance")	Financing	Energy	Netherlands	USD
41 Karadeniz Holdings Limited ("Karadeniz Holdings")	Holding Company	Energy	Malta	USD
42 Karpowership Panama Company, S. De R.L.	Floating power plant services	Energy	Panama	USD
43 Karpowership Indonesia 22 DMCC ("Indonesia 22")	Floating power plant services	Energy	United Arab Emirates	AED
44 Karpowership Bagan Company Limited ("Karpowership Bagan")	Floating power plant services	Energy	Myanmar	USD
45 Karadeniz Powership Kaya Bey Company ("Kaya Bey")	Floating power plant services	Energy	Marshall Islands	USD
46 Karpowership Indonesia 23 DMCC ("Indonesia 23")	Floating power plant services	Energy	United Arab Emirates	USD
47 Karpowership Indonesia 3 DMCC ("Indonesia 3")	Floating power plant services	Energy	United Arab Emirates	USD
48 Karpowership Indonesia 14 DMCC ("Indonesia 14")	Floating power plant services	Energy	United Arab Emirates	USD
49 Karpowership Indonesia 11 DMCC ("Indonesia 11")	Floating power plant services	Energy	United Arab Emirates	USD
50 Karpowership Orient Company Limited ("Orient")	Floating power plant services	Energy	Marshall Islands	USD
51 Karpowership 15 ("Karpowership 15")	Floating power plant services	Energy	United Arab Emirates	USD
52 Karpowership 24 ("Karpowership 24")	Floating power plant services	Energy	United Arab Emirates	USD
53 Kaya Bey (SL) Branch	Floating power plant services	Energy	Sierra Leone	SL
54 K.P. Korum Bey Branch	Floating power plant services	Energy	Gambia	GMD
55 Karpowership 15 Branch	Floating power plant services	Energy	Dubai	USD
56 Aytegin Sultan Branch	Floating power plant services	Energy	Dubai	USD
57 Karadeniz Powership Refik Sultan Company ("Refik Sultan")	Project Company	Energy	Marshall Islands	USD
58 Karadeniz Powership Subeyla Sultan Company ("Subeyla Sultan")	Project Company	Energy	Marshall Islands	USD
59 Karadeniz Powership Yurdanur Sultan Company ("Yurdanur Sultan")	Project Company	Energy	Marshall Islands	USD
60 Karpowership Latam Company Limited (Argentina Branch)	Floating power plant services	Energy	Argentina	USD
61 KarMol Powership	Holding Company	Energy	Malta	USD

- <sup>(1)</sup> These subsidiaries are controlled and consolidated by the Group, where the Directors have taken the exemption from having an audit of its financial statements for the year ended 31 December 2018. This exemption is taken in accordance with Companies Act s479A.
- <sup>(2)</sup> As of reporting date, these subsidiaries are consolidated in accordance with IFRS 3 "Effects of transactions involving entities under common control" (2017). These subsidiaries are consolidated under Karadeniz Holding A.Ş.).

Associates	Nature of business	Segment	Country	Currency
1 KarMol LNG <sup>(1)</sup>	Holding Company	Energy	Malta	USD
2 Mozambique FSRL ("Mozambique FSRL") <sup>(1)</sup>	FSRL services	Energy	Marshall Islands	USD

- <sup>(1)</sup> As of 31 December 2018, the corresponding portion of associate's current assets, non-current assets, short-term and long-term liabilities and shareholders' equity, which are consolidated with the equity method in accordance with IFRS 11.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)**

The Company and its major subsidiaries are referred to as the "Group" in the special purpose consolidated financial statements.

##### **Karkey**

Karkey signed a series of agreements with the Republic of Iraq Ministry of Electricity for the rental and operational service of floating power plants in Basrah since 2009. First contract was for a capacity of 250 MW based on two powerships. In continuation of this relationship, the most recent renewal of the agreement was signed for a capacity of 410MW, which ended in 2016. Karkey suspended its operations in Iraq on 19 October 2016. The Company owns land based power plant in Silopi (175 MW, heavy fuel oil).

##### **Karpowership Iraq**

Karpowership Iraq owned three floating power plants (KPS 5 Kaya Bey) and made them readily available to serve under Karkey's contract of 410 MW in Iraq. Karkey suspended the contract on 19 October 2016. Karpowership Iraq sold KPS 4 Rauf Bey floating power plant to Karkey on 23 June 2017, KPS 3 Doğan Bey floating power plant to Karpowership Indonesia 3 DMCC ("Dubai Multi Commodities Centre") on 4 January 2018.

##### **Karpowership Cyprus**

Karpowership Cyprus operated and maintained the floating power plants owned by Karpowership Iraq.

##### **Karpowership Lebanon**

Karpowership Lebanon has signed an agreement with the Republic of Lebanon Ministry of Energy and Water for and on behalf of Electricite du Liban ("EDL") on 13 July 2012 for Electricity Conversion Works using two floating power plants for a guaranteed minimum capacity of 270 MW for 3 years.

In accordance with this agreement, the first floating power plant started to operate on 31 March 2013 whereas the second one started to operate on 4 September 2013. On 13 July 2016, the addendum is made between EDL and Karpowership Lebanon for the contract extension of Energy Conversion Works. According to the addendum, guaranteed minimum capacity was increased to 370 MW via two power plants for twenty-four months commencing on 1 October 2016. On July 7 2018, a second addendum to the contract was signed between the relevant authorities and the Company to extend the term of the contract for thirty-six months commencing on 1 October 2018.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)**

##### **Karpowership Ghana**

The principal activity of the Company is to invest in and develop floating power plants used in electricity production for sale to related parties and to provide electricity generation services under a charter and electricity generation services contract.

On 19 December 2016, an amendment agreement was signed in relation to the Power Purchase Agreement (the "Agreement") for 225 MW for the Tema site in Ghana between Karpowership Ghana Company Limited (the "Charterer") and Electricity Company of Ghana Limited (the "Customer") dated 5 June 2014. The parties have agreed to increase the capacity to be provided under the Agreement from 225 MW to 450 MW.

In 2017, the Company completed the construction of floating power plant - Karadeniz Powership Osman Khan (the "Powership"). The commencement of commercial operations was achieved on 29 September 2017 when representatives of the Customer and an independent third party expert certified and approved the commissioning tests with generation capacity of 450 MWs. From October until December 2017, the Company, together with Karadeniz Powership Aysegul Sultan Company Limited, have supplied the required capacity with each operating at 225 MW.

##### **Aysegül Sultan**

The principal activity of the Company is to invest in and develop floating power plants used in electricity production for sale to related parties and to provide electricity generation services under electricity generation service contract.

On 6 January 2016, the Company has registered a branch (the "Branch") in Dubai Multi Commodities Centre ("DMCC"), Dubai, United Arab Emirates; Karadeniz Powership Aysegul Sultan Company Limited (DMCC Branch). The registered address of the Branch is Unit No: ALMAS-27-D1 ALMAS

Tower Plot No: JLT-PH1-A0 Jumeirah Lakes Towers, Dubai, United Arab Emirates.

##### **Karadeniz Holdings**

Karadeniz Holdings was established in 2016 in Malta. The principal activity of the company is to be holding company for the overseas operations of the certain Karadeniz Group companies and provide administrative services and coordination for operations in foreign countries.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)**

##### **PT Indonesia**

Indonesia is the Group's first project in South East Asia. The Group has been awarded a 540 MW tender by the state utility PT PLN ("Persero") to supply electricity in 5 different islands of the Indonesian Archipelago for 5 years.

For North Sulawesi on 4 December 2015, PT Indonesia entered into a contract with PT PLN Persero, a state owned power company in Indonesia, for the purpose of leasing marine vessel power plant, including generating capacity of 120 MW, electricity production and maintenance services for a period of 5 years. The first floating power plant of the project, KPS 11 Zeynep Sultan, has arrived to North Sulawesi, Manado and started operations in January 2016. An additional powership KPS 52 Nezih Bey has arrived to North Sulawesi, Manado and started operations under the KPS 11 Zeynep Sultan contract in September 2018.

For Kupang, second floating power plant, KPS 22 Gökhan Bey has arrived to Kupang, East Nusa Tenggara and started operations on 30 December 2016.

For Ambon, third floating power plant, KPS 23 Yasin Bey has arrived to Ambon and started operations on 1 April 2017.

For Medan, fourth floating power plant, KPS 14 Onur Sultan has arrived to Medan and started operations on 15 June 2017.

##### **Zeynep Sultan**

The principal activity of the Company is to invest in and develop floating power plants used in electricity production for sale to related parties and to provide electricity generation services under charter and electricity generation services contract.

In 2015, the Company completed the construction of floating power plant - Karadeniz Powership Zeynep Sultan (the "Powership"). In March 2016, the Company had finalised the terms of its bare boat agreement with a related party, PT Kar Powership Indonesia Company Limited ("PT Indonesia"), in respect of its Powership.

On 4 December 2015, PT Indonesia entered into a contract with PT PLN Persero (the "Customer"), a state owned power company in Indonesia, to provide electricity generation and maintenance services, including leasing a marine vessel power plant with a capacity to generate 120 Mega Watts ("MWs") for a period of 5 years.

In 2016, the Company's floating power plant arrived at the Manado Bay, Indonesia. The commencement of commercial operations was achieved on 28 January 2016 when representatives of the Customer and an independent third party expert certified and approved the commissioning tests with generation capacity of 107.25 MWs. On 27 June 2016, the second commercial operations was achieved with a capacity of 120 MWs.

On 23 October 2017, the Company transferred the Powership to Karpowership Indonesia 11 DMCC, a related party at a consideration of USD 106,300,000.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)**

##### **Indonesia 22 DMCC**

The principal activity of the Company is to invest in and develop floating power plants used in electricity production for sale to related parties and to provide electricity generation services under charter and electricity generation services contract.

On 13 December 2016, the Company acquired a powership; Karadeniz Powership Gokhan Bey (the "Powership"), from a related party. The Powership arrived at Kupang, Indonesia on 17 December 2016.

On 14 December 2016, the Company had finalised the terms of its Charter Agreement with a related party, PT Kar Powership Indonesia Company Limited ("PT Indonesia"), in respect of its Powership.

On 19 April 2016, PT Indonesia entered into a contract with PT PLN Persero ("the Customer"), a state owned power-company in Indonesia, to provide electricity generation and maintenance services, including leasing a marine vessel power plant with a capacity to generate 60 Mega Watts ("MWs") for a period of 5 years.

The commencement of commercial operations was achieved on 30 December 2016 when representatives of the customer, PT Indonesia and an independent third party expert certified and approved the commissioning tests with generation capacity of 55 MWs. On 15 March 2017, the second commercial operations was achieved with a capacity of 60 MWs.

##### **Indonesia 23 DMCC**

The principal activity of the Company is to invest in, and develop floating power plants used in electricity production for sale to related parties and to provide electricity generation services under a charter and electricity generation services contract.

On 21 April 2016, PT Indonesia entered into a contract with PT PLN Persero (the "Customer"), a state owned power company in Indonesia, to provide electricity generation and maintenance services, including leasing a marine vessel power plant with a capacity to generate 60 Mega Watts ("MWs") for a period of 5 years.

On 2 March 2017, the Company finalised the terms of its Charter Agreement with a related party, PT Kar Powership Indonesia Company Limited ("PT Indonesia") in respect of its Powership.

On 4 March 2017, the Company acquired a powership; Karadeniz Powership Yasin Bey (the "Powership"), from a related party. The Powership arrived at Ambon, Indonesia on 15 March 2017.

The commencement of commercial operations was achieved on 1 April 2017 when representatives of the customer, PT Indonesia and an independent third party expert certified and approved the commissioning tests with generation capacity of 54.1 MWs.



## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)**

##### **Indonesia 14 DMCC**

The principal activity of the Company is to provide electricity generation services under a charter and electricity generation services contract.

On 9 May 2017, the Company has acquired a powership; Karadeniz Powership Onur Sultan (the "Powership"), from a related party. The Powership arrived at Medan, Indonesia on 19 May 2017.

On 4 May 2017, the Company finalised the terms of its charter agreement with a related party, PT Kar Powership Indonesia Company Limited ("PT Indonesia"), in respect of its Powership. The agreement is effective from 30 May 2017, with a one-year term and is renewed automatically until 30 May 2022.

On 19 April 2016, PT Indonesia entered into a contract with PT PLN Persero (the "Customer"), a state owned power Company in Indonesia, to provide electricity generation and maintenance services, including leasing a marine vessel power plant with a capacity to generate 264 Mega Watts ("MWs") for a period of 5 years.

The commencement of commercial operations was achieved on 15 June 2017 when representatives of the customer, PT Indonesia and an independent third party expert certified and approved the commissioning tests with generation capacity of 264 MWs.

##### **Indonesia 11 DMCC**

The principal activity of the Company is to provide electricity generation services under charter and electricity generation services contract.

On 4 December 2015, PT Indonesia entered into a contract with PT PLN Persero (the "Customer"), a state owned power company in Indonesia to provide electricity generation and maintenance services, including leasing a marine vessel power plant with a capacity to generate 120 Mega Watts ("MWs") for a period of five (5) years.

On 23 October 2017, the Company has acquired a floating power plant; Karadeniz Powership Zeynep Sultan (the "Powership"), from a related party. On the same date, the Company entered into a charter agreement with its related party, PT Kar Powership Indonesia Company Limited ("PT Indonesia"), effective until 27 January 2021, in respect of its Powership.

##### **Indonesia 3 DMCC**

On 16 January 2017, the Company acquired a powership; Karadeniz Powership Dogan Bey, from a related party. Two additional floating power plants under construction; Karadeniz Powership Nezhir Bey and Karadeniz Powership Koray Bey were acquired on 20 April 2017 from another related party. In 2018, the construction of these three (3) powerships have been completed.

On 4 January 2018, the Company sold one of its powerships; Karadeniz Powership Dogan Bey, to Karadeniz Powership Kaya Bey Company Limited, a related party, at a consideration of USD 75,000,000.

On 9 March 2018, the Company acquired a powership; Karadeniz Powership Mehmet Bey, from Karadeniz Powership Mehmet Bey Company Limited, a related party, at a consideration of USD 78,300,000.

On 28 March 2018, the Company sold its newly-constructed powership; Karadeniz Powership Koray Bey, to Karadeniz Powership Koray Bey Company Limited, a related party, at a consideration of USD 31,500,000.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)**

##### **Karpower International DMCC**

The Company is primarily engaged in providing electricity generation services under electricity generation service contract, energy projects consultancy to related parties and sea transport of oil and petroleum products.

On 19 November 2015, the Company entered into a Triparty Power Purchase Agreement (the "Agreement") to provide electricity generation services by providing temporary electrical generation capacity by means of ship-mounted generating facilities for twenty-four months upon commencement, which would anchor in Nacala Bay, Mozambique. The Agreement is between the Company, ZESCO Limited (a company incorporated in Zambia) and Electricidade De Mozambique E.P. (a public company created by way of a decree under the laws of Republic of Mozambique).

Under the terms of the Agreement, ZESCO Limited (hereinafter referred to as "ZESCO") has contracted to charter 200 MWs of electricity generation capacity from the Company through Electricidade De Mozambique E.P. (hereinafter referred to as "EDM"). The commencement of commercial operations was achieved on 11 March 2016 when representatives of ZESCO, EDM, the Company and an independent third party expert certified and approved the commissioning tests in Nacala Bay, Mozambique, in accordance with the terms of the Agreement. As per certification, the Powership had a capacity of 108 megawatts.

In 2015, the Company had chartered the power generation capacity from Powership Operation DMCC, a related party, in respect of its powership; Karadeniz Irem Sultan (the "Powership"), to meet its obligations in the Agreement and Time Charter Support Vessel Contract.

On 11 March 2018, the term of the Agreement with Zesco and EDM has expired and accordingly the Company has entered into a Time Charter and Support Vessel Contract (the "contract") with EDM effective from 12 March 2018 for a period of 10 years. The company just is continuing the operation in Mozambique.

##### **Operation DMCC**

The principal activity of the Company is to invest in and develop floating power plants used in electricity production for sale to related parties and to provide electricity generation services under charter service contract and electricity generation services contract.

In 2016, the Company acquired a powership; Karadeniz Powership Irem Sultan (the "Powership"), from Karpowership Iraq which is a related party. The Powership arrived at Nacala Bay, Mozambique on 18 February 2016.

In the same year, the Company entered into a charter service contract with its related party, Karpower International DMCC (the "Charterer"), for a period of twelve (12) months which will be automatically renewed unless terminated by either party. Under the terms of the contract, the Company shall earn charter revenue based on the installed generation capacity of the Powership. The Powership will be operated by the Charterer for energy conversion services to supply electricity to its customer in Zambia pursuant to a Triparty Power Purchase Agreement signed on 26 November 2015 between the Charterer, ZESCO Limited and Electricidade De Mozambique E.P. ("EDM") which will be responsible for transmission of electricity from Nacala Bay to the customer in Zambia.

The commencement of commercial operations was achieved on 11 March 2016 in accordance with the terms of the Triparty Power Purchase Agreement. On 11 March 2018, the term of the Agreement has

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

expired and the Charterer has entered into a Time Charter and support vessel contract with EDM from 12 March 2018 for a period of 10 years.

#### **NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)**

##### **KPS Americas**

KPS Americas was established in 2014. The company owns support vessels and fuel tankers for fuel transfers to group companies. The principal activity of KPS Americas is to own, manage, rent and operate tankers and support vessels.

##### **Ghana Finance**

Ghana Finance was established in 2015 in the Netherlands to provide financing for the construction and operation of the floating power plants.

##### **Indonesia Finance**

Indonesia Finance was established in 2016 in the Netherlands to provide financing for the construction and operation of the floating power plants.

##### **Karpower Orient**

Karpower Orient was established in 2017. The company owns tankers for fuel transfers to group companies. The principal activity of the Karpower Orient is to own, manage, rent and operate tankers.

##### **Karpowership Asia**

Karpowership Asia was established in 2015 to develop new floating power plant projects in Asian region which consists of many countries and the world's highest rate of regional population.

##### **Karpower Latam**

Karpower Latam was established in 2016 to develop new floating power plant projects in Latin America Region. Although Karpowership Latam has not signed a floating power plant contract yet, negotiations with prospecting countries in Caribbean, Central America and South America continues.

##### **Karpowership UK**

Karpowership UK was established in 2016 to execute new business operations in the UK. Karpowership UK continues negotiations with the authorities to bring different sizes of floating power plants to different ports located in the UK.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)**

##### **Karmarine A.Ş.**

Having started its operations in 2008, Karmarine A.Ş. engages in rendering of various services and spare parts to maritime and energy sectors and especially operates in the activities of consultancy, organizational services and vessel administrative services in the construction process of floating power plants. Karmarine A.Ş. owns a shipyard in Yalova region. Karmarine A.Ş.'s branch Karmarine Desbaş commenced its operations on 29 March 2012 in Istanbul Industry and Trade Free Zone Founder and Operating Co. The branch deals with the activities of selling machinery, equipment and spare parts.

##### **Koray Bey**

The principal activity of the Company is to own and operate floating power plants used in electricity production for sale to related/third parties and to provide electricity generation services under a charter and electricity generation services contract.

On 28 March 2018, Karadeniz Powership Koray Bey Company Limited bought a newly-constructed powership; Karadeniz Powership Koray Bey, from, Karpowership Indonesia 3 DMCC a related party, at a consideration of USD 31,500,000.

Karpower International DMCC, a related party has signed the Power Purchase Agreement ("PPA") with the Gambia National Water and Electricity Company ("NAWEC") on 12 February 2018 for 30 MW floating power plant ("Powership") in Banjul to be operational for 24 months starting from Commercial Operation Date. On 20 April 2018, an Assignment and Novation Agreement was made between NAWEC, Karpower International DMCC and the Company. According to this agreement Karpower International DMCC transferred its rights, obligations and liabilities to the Company. The commencement of commercial operations was achieved on 30 April 2018.

On 8 May 2018, the Company has registered a branch (the "Branch") in Gambia; Karadeniz Powership Koray Bey Company Limited (Branch). The registered address of the Branch is Kanifing, Kanifing Municipality, The Gambia.

##### **Karmol LNG**

Karmol LNG Company Limited was established on 22 October 2018. The principal activity of the company is to be holding company for the FSRU (Floating Storage Regasification Unit) operations of the certain Karadeniz Group companies and provide administrative services and coordination for FSRU operations in foreign countries.

##### **Karmol Powership**

Karmol Powership Company Limited was established on 6 December 2018. The principal activity of the company is to be holding company of the ship Co. and operation Co. for the Mozambique contract.

##### **Kaya Bey**

The principal activity of the Company is to own and operate floating power plants used in electricity production for sale to related/third parties and to provide electricity generation services under a charter and electricity generation services contract.

On 4 January 2018, the Company bought a powership; Karadeniz Powership Doğan Bey (the "Powership"), from Karpowership Indonesia 3 DMCC, a related party, at a consideration of USD 75,000,000.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)**

##### **Kaya Bey (Continued)**

On 11 June 2018, the Company finalised the terms of its Utility Grid Infrastructure & Electricity Supply Agreement with Electricity Distribution and Supply Authority (EDSA), Ministry of Energy (MOE), and Ministry of Finance and Economic Development (MOF) of Sierra Leone Government (the "Customer") in respect of its Powership.

The Powership provides 30 MW for seven months and 15 MW for five months of each operational year. Duration of the contract is 24 months.

The commencement of commercial operations was achieved on 11 June 2018 in Freetown, Sierra Leone.

On 25 June 2018, the Company has registered a branch (the "Branch") in Sierra Leone; Karadeniz Powership Kaya Bey (SL) Limited. The registered address of the Branch is 17 Percival Street, 2nd Floor, Freetown.

On December 20th, 2018, the Company signed an addendum to the agreement dated June 11th, 2018, for capacity expansion. According to this addendum second powership will provide 20 MW for seven months and 15 MW for five months of each operational year.

On 20 December 2018, the Company signed Additional Capacity Agreement with the customer. KPS 53 Göktaş Bey has arrived to Sierra Leone and started operations on 31 March 2019 under this additional capacity agreement.

##### **Osman Khan**

The principal activity of the Company is to invest in and develop floating power plants used in electricity production for sale to related parties and to provide electricity generation services under a charter and electricity generation services contract.

On 19 December 2016, an amendment agreement was signed in relation to the Power Purchase Agreement (the "Agreement") for 225 MW for the Tema site in Ghana between Karpowership Ghana Company Limited (the "Charterer") and Electricity Company of Ghana Limited (the "Customer") dated 5 June 2014. The parties have agreed to increase the capacity to be provided under the Agreement from 225 MW to 450 MW.

In 2017, the Company completed the construction of floating power plant - Karadeniz Powership Osman Khan (the "Powership"). The commencement of commercial operations was achieved on 29 September 2017 when representatives of the Customer and an independent third party expert certified and approved the commissioning tests with generation capacity of 450 MWs.

#### **NOTE 2 - BASIS OF PRESENTATION OF SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**

##### **2.1 Basis of Presentation**

The special purpose consolidated financial statements of Karpower BV have been prepared in accordance with International Financial Reporting Standards (IFRS). Karpower BV and its foreign subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered. These special purpose consolidated financial statements in US Dollars ("USD") are based on the historical cost convention except for certain property plant and equipments (floating power plants) which are expressed at their fair values.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 2 - BASIS OF PRESENTATION OF SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

##### **2.1 Basis of Presentation (Continued)**

In line with the regulation in Nederland, the Company prepares its financial statements on a standalone basis. Accompanying "special purpose" consolidated financial statements are aimed to present the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the year then ended.

##### **Functional and Presentation Currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The special purpose consolidated financial statements are presented in USD, which is the presentation currency of the Group.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- Income and expenses for each income statement are translated at average exchange rates unless this average is not reasonable approximate of the cumulative effect of the prevailing on the transaction dates in which case income and expenses are translated at the rate on the dates of the transactions, and
- All resulting exchange differences are recognised as a separate component of equity (currency translation reserve), in other comprehensive income.

##### **2.2 Significant changes in the accounting policies**

Material changes in accounting policies are corrected, retrospectively; by restating the prior periods' special purpose consolidated financial statements. The accounting policies used in the preparation of these special purpose consolidated financial statements for the twelve-month period ended 31 December 2018 are consistent with those used in the preparation of special purpose financial statements for the twelve-month ended 31 December 2017.

##### **2.3 Comparative information and restatement of prior period financial statements**

In order to allow the determination of financial position and performance, the Group's special purpose consolidated financial statements are prepared in comparison with the previous period. In order to comply with the presentation of special purpose consolidated financial statements the current period when deemed necessary, comparative information is reclassified, and material differences are presented.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 2 - BASIS OF PRESENTATION OF SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

##### **2.4 Changes in International Accounting Standards and IFRS**

###### **New and amended IFRS Standards that are effective for the current year**

###### **Impact of initial application of IFRS 9 Financial Instruments**

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. As a result of the first-time adoption of IFRS 9, the cumulative effect due to the first time adoption of IFRS 9 by the Group is recognised in retained earnings as of 1 January 2018 and the comparatives haven't been restated accordingly.

Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

###### **(a) Classification and measurement of financial assets**

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 2 - BASIS OF PRESENTATION OF SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

##### **2.4 Changes in International Accounting Standards and IFRS (Continued)**

###### **New and amended IFRS Standards that are effective for the current year (Continued)**

###### **Impact of initial application of IFRS 9 Financial Instruments (Continued)**

###### **(a) Classification and measurement of financial assets (Continued)**

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

- the Group's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available-for-sale financial assets and were measured at cost due to significance to the Group's consolidated financial statements at each reporting date under IAS 39 have been designated as at FVTOCI. The directors of the Company made necessary assessments in accordance with IFRS 9. The application of IFRS 9 has had no impact on the measurement of the Group's financial assets.

- "Financial assets measured at amortised cost", are non-derivative assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Group's financial assets measured at amortised cost comprise "cash and cash equivalents" and "trade receivables and other receivables". Financial assets carried at amortised cost are measured at their fair value at initial recognition and by effective interest rate method at subsequent measurements. Gains and losses on valuation of non-derivative financial assets measured at amortised cost are accounted for under the consolidated statement of income.

None of the reclassifications of financial assets have had any impact on the Group's profit or loss, other comprehensive income or total comprehensive income in either year.



## KARPOWER INTERNATIONAL B.V.

### NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### NOTE 2 - BASIS OF PRESENTATION OF SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### 2.4 Changes in International Accounting Standards and IFRS (Continued)

##### New and amended IFRS Standards that are effective for the current year (Continued)

##### Impact of initial application of IFRS 9 Financial Instruments (Continued)

##### (b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on financial assets.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

##### Impairment

Financial assets measured at amortized cost will be subject to the impairment provisions of IFRS 9.

The Group applies the simplified approach to recognize lifetime expected credit losses for its trade receivables as required or permitted by IFRS 9. The effects of IFRS 9 transmission summarized as follows:

To measure the expected credit losses trade receivables based on credit risk characteristics. On that basis, the loss allowance as at 1 January 2018 was determined as follows for trade receivables.

1 January 2018	IFRS 9 effect
Statement of consolidation financial position	
Trade receivables	21,839,796
Deferred tax effect	-
<b>Total equity effect under IFRS 9</b>	<b>21,839,796</b>

The loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

The loss allowances increased by a further USD 21,839,796 to USD 32,455,031 for trade receivables during the twelve months to 31 December 2018.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of more than 3 months past due.

## KARPOWER INTERNATIONAL B.V.

### NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### NOTE 2 - BASIS OF PRESENTATION OF SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### 2.4 Changes in International Accounting Standards and IFRS (Continued)

New and amended IFRS Standards that are effective for the current year (Continued)

Impact of initial application of IFRS 9 Financial Instruments (Continued)

##### (c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

##### (d) Disclosures in relation to the initial application of IFRS 9

###### Impact of adoption

Adjustments arising from the new accounting policies are recognised as cumulative catch up adjustment in the opening retained earnings balance as of 1 January 2018.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Changes regarding the classification of financial assets and liabilities in terms of IFRS 9 are summarised below. Related changes in classification do not result in changes in measurement of the financial assets and liabilities.

Financial assets	Classification under IAS 39	Classification under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost
Trade receivables	Loans and receivables	Amortised cost
Due from related parties	Loans and receivables	Amortised cost
Financial investments	Available for sale	Fair value through OCI
Financial Liabilities	Classification under IAS 39	Classification under IFRS 9
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Borrowings	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost
Due to related parties	Loans and receivables	Amortised cost

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 2 - BASIS OF PRESENTATION OF SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

##### **2.4 Changes in International Accounting Standards and IFRS (Continued)**

###### **New and amended IFRS Standards that are effective for the current year (Continued)**

###### **Impact of application of IFRS 15 Revenue from Contracts with Customers**

###### **Impact on the Financial Statements**

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position.

The Group's accounting policies for its revenue streams are disclosed in detail in note 3 below. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group.

###### **Amendments to IFRS 2 Classification and Measurement of Share-Based Payment Transactions**

The amendments clarify the standard in respect of the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

###### **Amendments to IAS 40 Transfers of Investment Property**

The amendments to IAS 40:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

Amendments to IAS 40 have no impact on the Group's consolidated financial statements.

###### **Annual Improvements to IFRS Standards 2014–2016 Cycle**

- **IFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- **IAS 28:** Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Annual improvements to IFRS Standards 2014-2016 cycle have no impact on the Group's consolidated financial statements.

## KARPOWER INTERNATIONAL B.V.

### NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### NOTE 2 - BASIS OF PRESENTATION OF SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### 2.4 Changes in International Accounting Standards and IFRS (Continued)

##### New and amended IFRS Standards that are effective for the current year (Continued)

##### IFRS Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

IFRS Interpretation 22 has no impact on the Group's consolidated financial statements.

##### New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 16	Leases
IFRS 17	Insurance Contracts
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
IFRS 10 <i>Consolidated Financial Statements</i>	<i>Sale of Contribution of Assets between an Investor and its Associate or Joint Venture</i>
and IAS 28 (amendments)	<i>Plan Amendment, Curtailment or Settlement</i> <sup>1</sup>
Amendments to IAS 19 <i>Employee Benefits</i>	
Annual Improvements to IFRS Standards 2015–2017 Cycle	<i>Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs</i> <sup>1</sup>

<sup>1</sup> Effective from periods on or after 1 January 2019.

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 2 - BASIS OF PRESENTATION OF SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

##### **2.4 Changes in International Accounting Standards and IFRS (Continued)**

###### **New and revised IFRS Standards in issue but not yet effective (Continued)**

###### **IFRS 16 Leases**

###### **General impact of application of IFRS 16 Leases**

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

###### **Impact of the new definition of a lease**

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- *The right to obtain substantially all of the economic benefits from the use of an identified asset; and*
- *The right to direct the use of that asset.*

The Group continue to assess the potential effect of the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019.

###### **Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures**

This amendment clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

**KARPOWER INTERNATIONAL B.V.**

**NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS  
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(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

**NOTE 2 - BASIS OF PRESENTATION OF SPECIAL PURPOSE CONSOLIDATED  
FINANCIAL STATEMENTS (Continued)**

**2.4 Changes in International Accounting Standards and IFRS (Continued)**

**New and revised IFRS Standards in issue but not yet effective (Continued)**

***IFRS Interpretation 23 Uncertainty over Income Tax Treatments***

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

The Group evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

***IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

***Annual Improvements to IFRS Standards 2015–2017 Cycle***

*Annual Improvements to IFRS Standards 2015–2017 Cycle include amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements in when a party that participates in, but does not have joint control of, IAS 12 Income Taxes; income tax consequences of dividends in profit or loss, and IAS 23 Borrowing Costs in capitalized borrowing costs.*

***Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement***

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position).

The directors of the Group assess the possible impacts of the application of the amendments on the Group's consolidated financial statements.

## KARPOWER INTERNATIONAL B.V.

### NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### 3.1 Basis of consolidation

The special purpose consolidated financial statements include the accounts of the parent company, Karpower BV and its subsidiaries on the basis set out in sections below. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the special purpose consolidated financial statements and have been prepared in accordance with IFRS. The results of subsidiaries are recognized since the beginning of year.

##### *Subsidiaries*

Karpower BV controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Karpower BV has power over a subsidiary when Karpower BV has existing rights that give it the current ability to direct the relevant activities that significantly affect the subsidiary's returns. Power arises from rights and the existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Karpower BV controls another entity.

Subsidiaries, including the structured entities, are the companies controlled by the Group. The Group's control is provided by the ability to affect the variable returns through its power over the subsidiaries. Subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date that control ceases.

The balance sheets and statements of profit or loss of the subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Karpower BV and its subsidiaries is eliminated against the related equity. Intercompany transactions and balances between Karpower BV and its subsidiaries are eliminated on consolidation. The cost of, and the dividends arising from, shares held by Karpower BV in its subsidiaries are eliminated from equity and income for the year, respectively.

Financial statements of subsidiaries, associates and joint ventures that are operating in foreign countries are prepared in accordance with applicable laws and regulations in countries in which they are registered and required adjustments and reclassifications are reflected for the purpose of fair presentation in accordance with the Group's accounting policies.

If the Group companies' functional currency is different from its presentation currency, the functional currency is translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at average exchange rates; and all resulting exchange differences are recognised as a separate component of equity and statements of comprehensive income (currency translation reserve).

When a foreign operation is partially disposed of or sold, exchange differences recorded in equity are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

##### *Changes in ownership rates that do not result in control ceases in the subsidiaries*

Changes ownership interests in a subsidiary that do not result in losing control of the subsidiary are equity transactions. These transactions are the transactions that are made among shareholders. The difference between the net book value of the acquired assets of a subsidiary and the fair value of consideration paid for these assets are accounted for under equity. Gains or losses arising from the sale of non-controlling interests are presented under equity.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### *Disposal of a subsidiary*

If the Group loses control of a subsidiary, it recognizes any investment retained in the former subsidiary at its fair value when control is lost and any difference between the fair value and net book value of investment is accounted for as gain or loss. That fair value shall be regarded as the fair value on initial recognition of a financial asset, when appropriate, the cost on initial recognition of an investment in an associate or joint venture. Additionally, assets and liabilities that were previously recognized as other comprehensive income attributable to that subsidiary are accounted for as if those were disposed of the Group. This may result in a fact that these amounts previously recognized as other comprehensive income may be classified to profit or loss.

##### *Non-controlling interests*

The minority shares in the net assets and operating results of subsidiaries are separately classified in the special purpose consolidated balance sheets and statement of profit or loss as "non-controlling interests". Certain Karadeniz Family members and companies controlled by them have interests in the share capital of certain subsidiaries. In the special purpose consolidated financial statements, these interests of the Karadeniz Family members and companies controlled by them are treated as non-controlling interests and are not included in the Group's net assets and profits attributable to shareholders.

The Group applies a policy of treating transactions with non-controlling interests as transactions with owners of the parent. Regarding the purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to non-controlling interests are also accounted for under equity. For disposals to non-controlling interests, differences between any proceeds received and the relevant share of non-controlling interests are also accounted for under equity.

##### *Transactions involving entities under common control*

Legal mergers involving entities under Group's control are not considered within the scope of IFRS 3 - "Business Combinations" and no goodwill is recognized for such combinations in this regard. Additionally, transactions between entities subject to legal mergers are adjusted during preparation of special purpose consolidated financial statements. Assets and liabilities subject to business combination recognized at their carrying amounts for the accounting of share transfers between entities under common control. Business combinations involving entities under common control are accounted for using "Pooling of Interest Method". Applying this method, financial statements have been adjusted as if the acquisition was made as of the beginning of the relevant reporting period in which the common control was carried out and they are presented comparatively as of the beginning of the relevant reporting period. As a result of these transactions neither goodwill nor bargain purchase is recognized. The difference arising in the elimination of the carrying value of the investment held and share capital of the acquired company is directly accounted as "Effects of transactions involving entities under common control" under retained earnings.



## KARPOWER INTERNATIONAL B.V.

### NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Transactions involving entities under common control (continued)*

The table below sets out the major subsidiaries and shows the proportion of ownerships interest:

Subsidiaries	Direct and indirect ownership interest held by Karpower BV (%)		Proportion of effective interest (%)	
	2018	2017	2018	2017
1. Karpowership Iraq	100.00	100.00	100.00	100.00
2. Karpowership Lebanon	100.00	100.00	100.00	100.00
3. Karpowership Lebanon Branch	100.00	100.00	100.00	100.00
4. Ayşegül Sultan	100.00	100.00	100.00	100.00
5. Ayşegül Sultan Branch	100.00	100.00	100.00	100.00
6. Karpowership Cyprus	100.00	100.00	100.00	100.00
7. Zeynep Sultan	100.00	100.00	100.00	100.00
8. International DMCC	100.00	100.00	100.00	100.00
9. Operation DMCC	100.00	100.00	100.00	100.00
10. Karmarine A.Ş.	100.00	100.00	100.00	100.00
11. Karmarine Karadeniz Denizcilik ve Tic. A.Ş. İstanbul Endüstri ve Tic. Serbest Bölge Şubesi	100.00	100.00	100.00	100.00
12. Orhan Bey	100.00	100.00	100.00	100.00
13. Gökhan Bey	100.00	100.00	100.00	100.00
14. Yasin Bey	100.00	100.00	100.00	100.00
15. Osman Khan	100.00	100.00	100.00	100.00
16. Karpowership Ghana	100.00	100.00	100.00	100.00
17. Karpowership Americas	100.00	100.00	100.00	100.00
18. PT Indonesia	95.00	95.00	95.00	95.00
19. Karpowership Asia	100.00	100.00	100.00	100.00
20. Ghana Finance	100.00	100.00	100.00	100.00
21. Karpowership Namibia	100.00	100.00	100.00	100.00
22. Karpowership Panama Company, S. De. R.L	100.00	100.00	100.00	100.00
23. Mehmet Bey	100.00	100.00	100.00	100.00
24. Indonesia Finance	100.00	100.00	100.00	100.00
25. Orient	100.00	100.00	100.00	100.00

# KARPOWER INTERNATIONAL B.V.

## NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

### NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiaries (continued)	Direct and indirect ownership interest held by Karpower BV (%)		Proportion of effective interest (%)	
	2018	2017	2018	2017
26. Ebru Sultan	100.00	100.00	100.00	100.00
27. Refakat Sultan	100.00	100.00	100.00	100.00
28. Sühelya Sultan	100.00	100.00	100.00	100.00
29. Yurdanur Sultan	100.00	100.00	100.00	100.00
30. Rauf Bey	100.00	100.00	100.00	100.00
31. Metin Bey	100.00	100.00	100.00	100.00
32. Koray Bey	100.00	100.00	100.00	100.00
33. Latam	100.00	100.00	100.00	100.00
34. Karpowership UK	100.00	100.00	100.00	100.00
35. Karpowership UK GTP	100.00	100.00	100.00	100.00
36. Karpowership UK Ports & Shore	100.00	100.00	100.00	100.00
37. Karadeniz Holdings	100.00	100.00	100.00	100.00
38. Kaya Bey	100.00	100.00	100.00	100.00
39. Karpowership Bagan	100.00	100.00	100.00	100.00
40. Indonesia 3	100.00	100.00	100.00	100.00
41. Indonesia 11	100.00	100.00	100.00	100.00
42. Indonesia 14	100.00	100.00	100.00	100.00
43. Indonesia 22	100.00	100.00	100.00	100.00
44. Indonesia 23	100.00	100.00	100.00	100.00
45. Karpowership Mozambique	100.00	100.00	100.00	100.00
46. Karpowership Mozambique Limitada	99.50	99.50	99.50	99.50
47. İbrahim Bey	100.00	100.00	100.00	100.00
48. Ela Sultan	100.00	100.00	100.00	100.00
49. Orka Sultan	100.00	100.00	100.00	100.00
50. Deniz Sultan	100.00	100.00	100.00	100.00
51. Esra Sultan	100.00	100.00	100.00	100.00
52. Karpowership 15	100.00	100.00	100.00	100.00
53. Karpowership 24	100.00	100.00	100.00	100.00
54. K.Latam (Argent. Branch)	100.00	100.00	100.00	100.00
55. Kaya Bey (SL) Branch	100.00	100.00	100.00	100.00
56. Koray Bey Branch	100.00	100.00	100.00	100.00
57. K.P. Osman Bey	100.00	-	100.00	-
58. Karp. Iraq Branch	100.00	100.00	100.00	100.00
59. Mozambique FSRU	50.00	-	50.00	-
60. KarMol LNG	50.00	-	50.00	-
61. KarMol Powership	75.00	-	75.00	-

**NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### 3.2 Revenue

### Revenue

**The Group recognizes revenue when the goods or services is transferred to the customer and when performance obligation is fulfilled.**

**The Group recognizes revenue based on the following main principles:**

- a) Identification of customer contracts
- b) Identification of performance obligations
- c) Determination of transaction price in the contract
- d) Allocation of price to performance obligations
- e) Recognition of revenue when the performance obligations are fulfilled.

The Group recognized revenue from its customers only when all of the following criteria are met:

- a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
- b) Group can identify each party's rights regarding the goods or services to be transferred,
- c) Group can identify the payment terms for the goods or services to be transferred;
- d) The contract has commercial substance,
- e) It is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

**At the contract inception date, the Group evaluates the goods and services committed to be provided to the customer based on the contract and identifies each commitment as a separate performance obligation. In addition to that, the Group determines whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time.**

Revenue from the sale and delivery of electricity is measured at the fair value of the consideration received or receivable. The estimated value of the electricity supplied but not invoiced to the customers is considered for the measurement of revenue.

### **Electricity sales**

Revenues are recognized on an accrual basis at the time deliveries are made, the amount of revenue can be measured reliably at the fair value of considerations received or receivable. Net sales represent the invoiced value of goods sold less sales returns and commission, and exclude sales taxes.

### ***Floating power plant rent income***

As described in Note 1, the Group signed agreements for electricity sales through operating floating power plants. Such agreements are classified as operating leases and rental assets have been classified under property, plant and equipment in the consolidated balance sheet and rent income generated for the rental period is reflected to the special purpose consolidated statement of profit or loss within the context of the rental agreements.

**KARPOWER INTERNATIONAL B.V.**

**NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.2 Revenue (Continued)**

Revenue recognized in accordance with IAS 18 until 31 December 2017.

*Sale of goods*

Trading income is recognized on an accrual basis at the time when risk is transferred, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group at the fair value of considerations received or receivable.

*System usage fees*

System usage fees which are paid to the electricity distributor companies and collected from the customers are added on sales and cost of sales, respectively, without having any effect on gross and net profit.

**3.3 Related parties**

Parties are considered related to the Group if;

- (a) directly, or indirectly through one or more intermediaries, the party
  - (i) controls, is controlled by, or is under common control with the Group (this includes parent, subsidiaries and fellow subsidiaries);
  - (ii) has an interest in the Group that gives it significant influence over the Group; or
  - (iii) has joint control over the Group;
- (b) the party is an associate of the Group;
- (c) the party is a joint venture in which the Group is a venturer;
- (d) the party is member of the key management personnel of the Group as its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);

A related party transaction is a transfer of resources, services or obligation between related parties, regardless of whether a price is charged.

For the purpose of these special purpose consolidated financial statements, shareholders, key management personnel and members of Board of Directors, in each case together with their families and companies controlled by or affiliated with them are considered and referred to as related parties (Note 20).

## KARPOWER INTERNATIONAL B.V.

### NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 3.4 Property, plant and equipment

Property, plant and equipment, other than floating powerplants are stated at cost less accumulated depreciation and accumulated impairment, if any. Floating power plants are carried at fair value less accumulated depreciation using the revaluation method. The fair values of floating power plants are determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The Group used the "cost approach" method for valuation of the floating power plants (Note 11).

Depreciation is calculated on a straight-line basis over the estimated useful lives. The estimated useful lives are as follows:

	Years
Land improvements	3-11
Floating power plants	5-50
Motor vehicles	4-8
Furniture and fixtures	5-10

Increases in the fair values arising on the revaluation of property, plant and equipment are credited to the revaluation reserve in equity, net of applicable deferred income tax. Any decrease in the fair value of certain assets that eliminated the fair value increases previously recognised are directly debited to revaluation funds in the equity. In case that there exist further declines in the fair value, the fair value decreases are directly accounted for under special purpose consolidated statement of profit or loss.

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with their carrying amounts and consideration received are included in the related income and expense accounts, as appropriate.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset.

Expenses for ordinary repair of property, plant and equipment are charged to the special purpose consolidated statement of profit or loss. They are, however, capitalized in exceptional cases if they result in an enlargement or substantial improvement of the respective assets. Major overhaul expenditure, including replacement spares and labor costs, is capitalized and amortized over the average expected life between major overhauls.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **3.5 Intangible assets**

Intangible assets include rights and computer software. They are recorded at acquisition cost and acquired software certificates are amortized on a straight-line basis over their estimated useful lives for a period not exceeding 5 years from the date of acquisition.

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset less the costs of disposal.

##### **3.6 Foreign currency transactions**

Transactions in foreign currencies during the period have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated at the exchange rates prevailing at the balance sheet date. Exchange gains or losses arising on the settlement and translation of foreign currency items have been included in the special purpose consolidated statement of profit or loss.

##### **3.7 Impairment of assets**

At each reporting date, the Group assesses whether there is any indication that an asset other than deferred tax asset and financial assets at fair value may be impaired. When an indication of impairment exists, the Group estimates the recoverable values of such assets. Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. An impairment loss is recognized immediately in profit or loss. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets.

An impairment loss recognized in prior period for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount cannot be higher than the previously recognized impairment loss and shall not exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized as income in the special purpose consolidated financial statements.

##### **3.8 Provisions, contingent assets and liabilities**

Provisions are recognized when the Group has a present legal constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate shall be a pre-tax rate and shall not reflect risks for which future cash flow estimates have been adjusted.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **3.8 Provisions, contingent assets and liabilities (Continued)**

A possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group have not been recognized in the special purpose consolidated financial statements and treated as contingent liabilities and assets (Note 10 and 13).

##### **3.9 Financial assets**

Financial assets include short-term liquid assets with original maturities of more than 3 months and restricted bank deposits.

##### **3.10 Financial instruments**

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

##### **Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

The Group classifies its financial assets as (a) Business model used for managing financial assets, (b) financial assets subsequently measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss based on the characteristics of contractual cash flows. The Company reclassifies all financial assets effected from the change in the business model it uses for the management of financial assets. The reclassification of financial assets is applied prospectively from the reclassification date. In such cases, no adjustment is made to gains, losses (including any gains or losses of impairment) or interest previously recognized in the financial statements.

## KARPOWER INTERNATIONAL B.V.

### NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 3.10 Financial Instruments (Continued)

###### Financial assets (Continued)

###### Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset; the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met.

##### (i) Amortised cost and effective interest method

Interest income on financial assets carried at amortized cost is calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. This income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset:

(a) Credit-impaired financial assets when purchased or generated. For such financial assets, the Company applies the effective interest rate on the amortized cost of a financial asset based on the loan from the date of the recognition in the financial statements.

(b) Non-financial assets that are impaired at the time of acquisition or generation but subsequently become a financial asset that has been impaired. For such financial assets, the Company applies the effective interest rate to the amortized cost of the asset in the subsequent reporting periods.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI.



## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **3.10 Financial instruments (Continued)**

###### **Financial assets (Continued)**

###### **Classification of financial assets (Continued)**

###### **(ii) Equity instruments designated as at FVTOCI**

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not to be reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

###### **Foreign exchange gains and losses**

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically,

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss; Other exchange differences are recognised in other comprehensive income;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated)

#### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **3.10 Financial instruments (Continued)**

###### **Financial assets (Continued)**

###### **Impairment of financial assets**

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group utilizes a simplified approach for trade receivables, contract assets and lease receivables that does not have significant financing component and calculates the allowance for impairment against the lifetime ECL of the related financial assets.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

###### **Measurement and recognition of expected credit losses**

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

###### **Derecognition of financial assets**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **3.10 Financial instruments (Continued)**

###### **Financial liabilities**

Financial liabilities are classified as at FVTPL on initial recognition. On initial recognition of liabilities other than those that are recognised at FVTPL, transaction costs directly attributable to the acquisition or issuance thereof are also recognised in the fair value.

A financial liability is subsequently classified at amortized cost except:

- (a) Financial liabilities at FVTPL: These liabilities including derivative instruments are subsequently measured at fair value.
- (b) Financial liabilities arising if the transfer of the financial asset does not meet the conditions of derecognition from the financial statements or if the ongoing relationship approach is applied: When the Group continues to present an asset based on the ongoing relationship approach, a liability in relation to this is also recognised in the financial statements. The transferred asset and the related liability are measured to reflect the rights and liabilities that the Company continues to hold. The transferred liability is measured in the same manner as the net book value of the transferred asset.
- (c) A contingent consideration recognized in the financial statements by the entity acquired in a business combination where IFRS 3 is applied: After initial recognition, the related contingent consideration is measured as at FVTPL.

The Company does not reclassify any financial liability.

###### **Derecognition of financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Financial instruments recognized in accordance with IAS 39 until 31 December 2017.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **3.11 Taxation on income**

Taxation on income included in the special purpose consolidated statement of profit or loss comprises current tax and the change in the deferred income taxes. Current taxes on income comprise tax payable calculated on the basis of expected taxable income for the period using the tax rates enacted at the balance sheet date and any adjustment in taxes payable for prior years.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The tax base of an asset and liability is the amount that will affect the taxable income of such asset and liabilities in subsequent periods, in accordance with the tax legislation. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax assets and liabilities are recognized reflecting the tax consequences that would follow from the manner in which the Group expects at the balance sheet date to recover or settle the carrying amount of its assets and liabilities. While the deferred income tax liabilities are recognized for all temporary differences; deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The Group reduces the carrying amount of a deferred income tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all that deferred income tax asset to be utilized.

When the deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority and there is a legally enforceable right to set off current tax assets against current tax liabilities, deferred income tax assets and deferred income tax liabilities are offset accordingly (Note 19).

##### **3.12 Share capital and dividends**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognized in equity in the period in which they are declared. Dividend payables are reflected to special purpose consolidated financial statements as a liability once the dividend distribution is approved by the Company's shareholders (Note 14).

##### **3.13 Provision for employment termination benefits**

Employment termination benefits represent the present value of the estimated total reserve of the future probable obligation, that arise on retirement of the employees, employees who achieves the retirement age and for employees whose employment is terminated without due cause, are called up for military service or dies, calculated in accordance with the recased legislation of each Group entity. Accordingly only the entities operating in Turkey is obliged by provision for employee termination benefits, as required by the Turkish Commercial Law.

The defined retirement benefit obligation is calculated based on actuarial forecasts using the projected unit credit method when considering present value. All actuarial gains and losses are accounted for under other comprehensive income.

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **3.14 Events after balance sheet date**

Subsequent events consist of all events between balance sheet date and date of authorization for validity, even if they have been ceased to exist after any information related to profit or other financial information is publicly announced.

The Group adjusts amounts in financial statements accordingly, when an adjusting event occurs after the balance sheet date. If non-adjusting events after balance sheet date have material effects on the economic decisions of the users of the financial statements, they are disclosed in the notes to the special purpose consolidated financial statements (Note 21).

##### **3.15 Borrowings and borrowing costs**

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently presented at amortized cost using the effective yield method; any difference between proceeds, net of transaction costs, and the redemption value is recognized in the special purpose consolidated statement of profit or loss over the period of the borrowings.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

##### *Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale. All other borrowing costs are charged to the special purpose consolidated statement of profit or loss when they are incurred.

Foreign exchange differences and the effective portion of the fair value differences relating to borrowings to the extent that they are regarded as an adjustment to interest costs are also capitalized. The gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity borrowed funds in its functional currency, and borrowing costs actually incurred on foreign currency borrowings.

##### **3.16 Inventories**

Inventories are valued at the lower of cost or net realizable value. Inventories comprise spare parts. The cost of inventories is determined on a weighted average basis. The net realizable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses (Note 8).

## **KARPOWER INTERNATIONAL B.V.**

### **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **3.17 Spare parts**

Spare parts and maintenance equipment are generally accounted in inventories and are reflected to the statement of profit or loss as used; however, spare parts and maintenance equipment that are expected to be used more than one period by the Group are accounted as property, plant and equipment. Moreover, if spare parts or maintenance equipment is only associated with one property, plant and equipment then they are accounted for as property, plant and equipment (Note 11).

##### **3.18 Statement of cash flows**

Cash flows during the period are classified and reported by operating, investing and financing activities in the cash flow statements. Cash flows from operating activities represent the cash flows of the Group generated from the ordinary course of business. Cash flows related to investing activities represent the cash flows that are used in or provided from the investing activities of the Group (fixed asset investments and financial investments). Cash flows arising from financing activities represent the cash proceeds from the financing activities of the Group and the repayments of these funds. Cash and cash equivalents comprise cash on hand and bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than one months.

##### **3.19 Offsetting**

Each material class of similar items according to their nature or function is presented separately in the financial statements. If a line item is not individually material, it is aggregated with other similar items according to their nature or function. If the essence of the transaction and events requires offsetting, presentation of these transactions and events at their net values or following up of the assets at their amounts after the deduction of impairment, is not evaluated as a breach of the non-deductibility rule.

#### **NOTE 4 - FINANCIAL RISK MANAGEMENT**

##### ***Financial risk factors***

The Group's activities expose it to a variety of financial risks. These risks are; liquidity risk, market risk (including currency risk, interest rate risk), credit risk and funding risk.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Financial risk management is carried out by Finance Department of Karadeniz Holding under the policies approved by the Board of Directors. Finance Department is in cooperation with the other units of the Group and assures the detection and evaluation of financial risks and related prevention from the risks.

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

1. The first part of the paper is devoted to the study of the properties of the function  $f(x)$  defined by the equation

# KARPOWER INTERNATIONAL B.V.

## NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

### NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

#### b) Market risk

##### Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. The Group utilizes its cash assets it holds in the form of financial instruments as time deposits. In order to minimize the interest rate risk, the Group seeks for the most convenient possible rates for lending.

Interest rate position of the Group as of 31 December 2018 and 2017 is as follows:

##### Fixed rate financial instruments

Financial assets	2018	2017
Cash and cash equivalents	134,340,871	9,374,077

Financial liabilities	2018	2017
-----------------------	------	------

Bank borrowings	205,749,286	394,636,905
-----------------	-------------	-------------

Floating rate financial instruments	2018	2017
-------------------------------------	------	------

##### Financial liabilities

Bank borrowings	1,141,491,636	590,042,297
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The weighted average effective annual interest rates (%) for the interest bearing financial assets and liabilities of the Group are as follows:

Fixed rates	2018			2017		
	USD	EUR	Other	USD	EUR	Other
Financial assets						
Cash and cash equivalents	0.81%	-	0.10%	-	-	1.50%
Financial liabilities						
Bank borrowings	7.67%	5.13%	-	7.49%	5.45%	8.25%
Floating rates	2018			2017		
	USD	EUR	Other	USD	EUR	Other
Financial liabilities						
Bank borrowings	6.63% - 11.39%	-	-	7.46% - 8.71%	-	-



# KARPOWER INTERNATIONAL B.V.

## NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

### NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

#### b) Market risk (Continued)

At 31 December 2018, if interest rates on financial liabilities in USD and EUR had been 100 basis points higher/lower, with all other variables held constant, interest expense would have been USD 11,414,916 (2017 USD 5,900,423 ) higher/lower.

#### c) Currency risk

The Group is exposed to foreign exchange risk through the impact of rate changes in the translation of foreign currency denominated assets and liabilities to USD. These risks are monitored and limited by the analysis of the foreign currency position.

The Group's foreign currency risk (exposure) is monitored by the management on a weekly and where necessary on a daily basis. The objective of the management is to limit the open exposure under levels determined by the Board of Directors.

#### Foreign Currency Position

The Group's assets and liabilities denominated in foreign currencies as of 31 December 2018 and 2017 are as follows:

	2018			2017
Assets	23,985,865			64,298,326
Liabilities	(427,305,796)			(422,961,020)
<b>Net foreign currency position</b>	<b>(403,319,931)</b>			<b>(358,662,694)</b>

  

	2018			Total foreign currency
	TL	EUR	Other	
<b>Assets:</b>				
Cash and cash equivalents	174,461	628,367	1,740,300	2,543,128
Trade receivables	2,837,970	3,237,255	48,859	6,124,084
Due from related parties	9,310	2,548,341	77,258	2,634,909
Prepaid expenses	647,268	11,453,005	583,471	12,683,744
<b>Total assets</b>	<b>3,669,009</b>	<b>17,866,968</b>	<b>2,449,888</b>	<b>23,985,865</b>
<b>Liabilities:</b>				
Bank borrowings	-	(137,055,670)	-	(137,055,670)
Trade payables	(12,293,431)	(196,586,297)	(2,153,567)	(211,033,295)
Due to related parties	(8,524,006)	(70,524,675)	(168,150)	(79,216,831)
<b>Total liabilities</b>	<b>(20,817,437)</b>	<b>(404,166,642)</b>	<b>(2,321,717)</b>	<b>(427,305,796)</b>
<b>Net foreign currency position</b>	<b>(17,148,428)</b>	<b>(386,299,674)</b>	<b>128,171</b>	<b>(403,319,931)</b>

**KARPOWER INTERNATIONAL B.V.**

**NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**c) Currency risk (Continued)**

	2017			Total foreign currency
	TL	EUR	Other	
<b>Assets:</b>				
Cash and cash equivalents	582,888	22,956,029	184,431	23,723,348
Trade receivables	-	59,857	-	59,857
Due from related parties	2,197	25,271,994	909,588	26,183,779
Prepaid expenses	2,949,613	11,381,729	-	14,331,342
<b>Total assets</b>	<b>3,534,698</b>	<b>59,669,609</b>	<b>1,094,019</b>	<b>64,298,326</b>
<b>Liabilities:</b>				
Bank borrowings	-	(215,017,721)	(7,402,985)	(222,420,706)
Trade payables	(4,311,172)	(181,707,526)	(1,258,398)	(187,277,096)
Due to related parties	(6,617,695)	(6,514,396)	(131,127)	(13,263,218)
<b>Total liabilities</b>	<b>(10,928,867)</b>	<b>(403,239,643)</b>	<b>(8,792,510)</b>	<b>(422,961,020)</b>
<b>Net foreign currency position</b>	<b>(7,394,169)</b>	<b>(343,570,034)</b>	<b>(7,698,491)</b>	<b>(358,662,694)</b>

The foreign currency rates used in the translation of foreign currency denominated assets and liabilities into USD as of 31 December 2018 and 2017 are as follows:

	2018	2017
EUR	1.2646	1.1971
TL	0.1901	0.2651

The Group is mainly exposed to foreign exchange risks in terms of TL and EUR.

As of 31 December 2018, all other variables held constant, if the TL had been appreciated/depreciated by 10% against the USD, foreign exchange losses/gains resulting from foreign currency denominated assets and liabilities would decrease/increase profit before tax by USD 1,714,843 (2017: USD 739,417).

As of 31 December 2018, all other variables held constant, if the EUR had been appreciated/depreciated by 10% against the USD, foreign exchange losses/gains resulting from foreign currency denominated assets and liabilities would decrease/increase profit before tax by USD 38,629,967 (2017: USD 34,357,003).

## KARPOWER INTERNATIONAL B.V.

### NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

##### d) *Funding risk*

Funding risk attributable to the current and future potential liabilities is managed by providing continuous access to adequate number of creditors with high quality. The Group's borrowings are obtained from various financially strong financial institutions.

##### e) *Credit risk*

Credit risk consists of cash and cash equivalents, bank deposits and receivables from customers exposed to credit risk.

Credit risk is the risk that a counterparty cannot fulfil its obligations in the agreements that the Group is party to. The Group management monitors the credit risk by credit ratings and limitations to the total risk of a single counterparty.

The Group management assesses the credit quality of its customers, taking into account financial position, past experience and other factors. The Group monitors the performance of these financial assets on a regular basis to identify incurred collection losses.

The Group does not consider its related party receivables (including aged receivables) as risky in terms of collection based on the fact that the receivables are due from Karadeniz Group entities and the total receivables are collected in previous years.

The maximum exposure of the Group's financial assets to credit risk is as follows;

2018	Trade receivables	Due from related parties	Cash at banks	Financial assets
Maximum exposure to credit risk (A+B+C+D+E)	497,372,079	18,038,868	219,193,514	2,530,975
- Credit risk covered by guarantees	-	-	-	-
A. Neither past due nor impaired financial assets	239,732,900	18,038,868	219,193,514	2,530,975
B. Restructured financial assets	-	-	-	-
C. Past due but not impaired financial assets	257,639,179	-	-	-
- Secured with guarantees	-	-	-	-
D. Impaired assets	-	-	-	-
- Gross amount	32,455,031	-	-	-
- Impairment	(32,455,031)	-	-	-
- Secured with guarantees	-	-	-	-
E. Collective provision for impairment (-)	-	-	-	-

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

**e) Credit risk (Continued)**

**The Group's current credit risk rating methodology includes the following categories:**

# KARPOWER INTERNATIONAL B.V.

## NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

### NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

#### e) Credit risk (Continued)

Category	Description	Basis for recognizing expected credit losses
Secured receivables	Consist of secured receivables	Not generating credit losses
Recoverable receivables	The counterparty has a low risk of default and secured	Not generating credit losses
Doubtful or past due receivables	Amount is past due or there has been a significant	%100 allowance for unsecured receivables
Write-off	There is evidence indicating the asset is credit-impaired	Amount is written off

#### f) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

	31 December 2018	31 December 2017
Debt (trade payable and related party included)	1,780,911,092	1,843,507,513
Less: Cash and cash equivalents	(219,315,058)	(48,989,672)
Net debt	1,561,596,034	1,794,517,841
Total equity	1,851,640,330	1,298,087,999
Total net debt and total equity	3,413,236,364	3,092,605,840
Net debt/Total equity ratio	46%	58%

## KARPOWER INTERNATIONAL B.V.

### NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

##### *Fair value of financial instruments*

Fair value is the amount at which a financial instrument can be exchanged in a current transaction between available parties, other than in a forced sale or liquidation, and is best determined by a quoted market price, if existing.

For financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (un adjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, not observable inputs) (Level 3).

The estimated fair values of financial instruments have been determined by the Group, using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

The following methods and assumptions are used to estimate the fair value of the financial instruments:

##### Financial assets

The carrying values of significant portion of cash and cash equivalents are assumed to approximate to their fair value due to their short-term nature.

The carrying values of trade receivables are assumed to approximate to their amortized cost.

For the estimated fair value of advances given to customers, it is assumed that the carrying value approximates to the amortized cost.

##### Financial liabilities

The fair values of short-term borrowings and trade payables are assumed to approximate to their carrying values due to their short-term nature.

The estimated fair values of long-term borrowings are calculated based on the effective market interest rates and the cash flow calculations are discounted accordingly.

For the estimated fair value of advances received from customers, it is assumed that the carrying value approximates to the fair value.

#### NOTE 5 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparation of special purpose consolidated financial statements necessitates the usage of estimations and assumptions that can affect amounts of reported assets and liabilities as of balance sheet date, the explanation for the contingent assets and liabilities and income and expenses reported during the accounting period. Although these estimations and assumptions are based on the best judgment of the Group management related with the current conditions and transactions, actual results may differ from these estimations. Estimations are revised on a regular basis; necessary adjustments and corrections are made; and they are included in the income statement when they accrue. Estimations and assumptions subject to the risk of leading to corrections in the registered value of the assets and liabilities in the next financial period are given below:



# **KARPOWER INTERNATIONAL B.V.**

## **NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

### **NOTE 6 - CASH AND CASH EQUIVALENTS AND FINANCIAL ASSETS**

<b>Cash and cash equivalents</b>	<b>2018</b>	<b>2017</b>
Cash	121,544	50,194
Cash at banks		
- USD denominated demand deposits	78,626,914	11,530,669
- Foreign currency denominated demand deposits	6,225,729	28,034,671
- USD denominated time deposits	113,350,000	9,374,077
- Foreign currency denominated time deposits	20,990,871	-
Other	-	61
	<b>219,315,058</b>	<b>48,989,672</b>

Time deposits have less than one month maturity and annual effective interest rate for IRR denominated deposits is 0.71% (2017: USD 1.5%).

<b>Financial assets</b>	<b>2018</b>	<b>2017</b>
Blocked deposits - 3-12 months	2,530,975	8,398,413

### **NOTE 7 - TRADE RECEIVABLES AND PAYABLES**

<b>Trade receivables</b>	<b>2018</b>	<b>2017</b>
Trade receivables	529,827,110	454,621,672
Less: Provision for doubtful receivables	(32,455,031)	(95,560)
	<b>497,372,079</b>	<b>454,526,112</b>

The average maturity of trade receivables as of 31 December 2018 and 2017 is 150 days.

USD 239,732,900 of the Group's trade receivables is neither due nor impaired as of 31 December 2018 (2017: USD 326,183,777).

The aging analysis of overdue but not impaired receivables as of 31 December 2018 and 2017 is as follows:

	<b>2018</b>	<b>2017</b>
Up to 3 months	132,924,709	35,578,298
3 - 12 months	40,176,104	92,764,037
1 - 5 years	84,538,366	-
	<b>257,639,179</b>	<b>128,342,335</b>

The maximum credit risk as of the reporting date is the net book value of the receivables (Note 4).



## KARPOWER INTERNATIONAL B.V.

### NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

The Group allocated a provision for its all doubtful trade receivables and movements of provision for doubtful trade receivables are as follows:

	2018	2017
1 January	(95,560)	(132,592)
Adjustment of change in accounting policy (Note 2 4.b)	(21,839,796)	-
1 January - as restated	(21,935,356)	(132,592)
Charge for the period (Note 17)	(10,803,957)	-
Provision Released	284,282	37,032
31 December	(32,455,031)	(95,560)

The allocation and release of provision for doubtful receivables have been included in other operating income and expenses in the special purpose consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

#### Trade payables

	2018	2017
Short term trade payables		
Payables to suppliers	410,853,306	423,357,382
Notes payable	2,218,591	9,470,902
	413,071,897	432,828,284

Short term trade payables as of 31 December 2018 and 2017 have an average maturity of six months.

	2018	2017
Long term trade payables		
Payables to suppliers	-	95,422,122

#### NOTE 8 - INVENTORIES

	2018	2017
Fuel oil and Lube oil (1)	23,509,511	50,738,549
Spare parts and consumables	5,753,861	5,755,458
	29,263,372	56,494,007

(1) The Group holds the responsibility for supply of fuel for its operations in Mozambique, Ghana and Indonesia in accordance with the contracts signed (Note 1).

# KARPOWER INTERNATIONAL B.V.

## NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

### NOTE 9 - PREPAID EXPENSE AND DEFERRED INCOME

Current prepaid expenses	2018	2017
Advances given <sup>(1)</sup>	28,513,487	34,192,726
Prepaid expenses <sup>(2)</sup>	10,559,181	7,640,797
Contractual acquisition cost	4,187,666	-
Insurance expenses	8,609,417	4,827,225
	<u>51,869,751</u>	<u>46,660,748</u>
Non - current prepaid expenses	2018	2017
Advances given <sup>(1)</sup>	1,048,098	-
Prepaid expenses <sup>(2)</sup>	1,876,777	358,345
Contractual acquisition cost	16,911,275	-
	<u>19,836,150</u>	<u>358,345</u>

(1) Advances given comprise payments made for purchases of property, plant and equipment and inventories.

(2) It mainly comprises prepaid expense to local business partners in Lebanon.

Short-term deferred income	2018	2017
Advances received from customers (1)	14,320,648	19,803,189
Long-term deferred income	2018	2017
Advances received from customers (1)	27,513,861	-

(1) Advances received amounting to USD 41,830,009 relate to prepayments for operations in Lebanon and Mozambique.

### NOTE 10 - OTHER ASSETS AND LIABILITIES

Other current assets	2018	2017
VAT receivables	82,484,628	55,147,226
Prepaid taxes	16,375,112	8,572,719
Income accrual	10,095,852	423,460
Other	786,841	1,755,605
	<u>109,742,433</u>	<u>65,899,010</u>
Other current liabilities	2018	2017
Expense accruals <sup>(1)</sup>	19,381,760	18,735,172
Taxes and funds payable	9,480,274	25,300,100
Payables to personnel	2,116,468	1,901,592
Other	356,166	3,713,934
	<u>31,334,668</u>	<u>49,650,798</u>

(1) Expense accruals comprise the services provided to the powerships in Lebanon, Ghana and Indonesia such as technical services, consultancy, food and beverage, security and other supplies whose invoices are not received.

# KARPOWER INTERNATIONAL B.V.

## NOTES TO SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

### NOTE 11 - PROPERTY, PLANT AND EQUIPMENT, NET

	1 January 2018	Additions	Disposals	Transfers	Currency translation differences	Fair value change	Effect of acquisition	31 December 2018
<b>Cost:</b>								
Land improvements	65,291,993	2,665,253	-	5,543,964	(3,747,812)	-	-	69,753,398
Floating power plants	1,963,796,918	14,488,006	(15,597,906)	460,840,462	(3,408,775)	224,648,234	-	2,644,766,939
Motor vehicles	36,831,705	3,233,978	(6,702,303)	-	-	-	4,050,000	37,413,380
Furniture and fixtures	9,763,351	5,718,240	(3,933,550)	1,845,022	(274,118)	-	-	13,118,945
Construction-in-progress <sup>(1)</sup>	625,606,086	298,993,022	(7,546,543)	(468,229,448)	(2,501,251)	-	-	446,321,866
	<b>2,701,290,053</b>	<b>325,098,499</b>	<b>(33,780,302)</b>	<b>-</b>	<b>(9,931,936)</b>	<b>224,648,234</b>	<b>4,050,000</b>	<b>3,211,374,528</b>
<b>Accumulated depreciation and impairment of:</b>								
Land improvements	30,291,358	7,121,008	-	(69,451)	(254,072)	-	-	37,088,843
Floating power plants	273,951,935	121,183,846	(807,906)	71,210	(172,141)	-	-	394,226,944
Motor vehicles	5,538,050	4,694,266	(319,048)	5,043	443,326	-	262,237	10,623,874
Furniture and fixtures	1,736,316	1,318,931	(131,438)	(6,802)	(30,326)	-	-	2,886,681
	<b>311,517,659</b>	<b>134,318,051</b>	<b>(1,258,392)</b>	<b>-</b>	<b>(13,213)</b>	<b>-</b>	<b>262,237</b>	<b>444,826,342</b>
<b>Net book value</b>	<b>2,389,772,394</b>							<b>2,766,548,186</b>

(1) Construction in progress comprise ongoing floating power plant investments.

In the twelve month period ended at 31 December 2018, USD 2,481,765 (2017: USD 3,854,365) of depreciation expense is accounted for under general administrative expenses and USD 131,822,291 (2017: USD 105,497,916) of the depreciation expense is accounted for under cost of sales.

As of 31 December 2018, there are mortgages amounting to USD 2,983,812,726 on property, plant and equipment (2017: USD 1,696,692,601).

Borrowing costs amounting to USD 30,008,195 for the period between 1 January - 31 December 2018 comprising interest expense were accounted for under the construction in progress (2017: USD 56,886,230).

Floating power plants are measured at their fair values as of 31 December 2018. The fair value of the Group's Floating power plants have been arrived by the accredited independent values whose appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The floating power plants have been classified within the third level of the fair value hierarchy.

**KARPOWER INTERNATIONAL B.V.**

**NOTES TO SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

**NOTE 11 - PROPERTY, PLANT AND EQUIPMENT, NET (Continued)**

	1 January 2017	Additions	Disposals	Transfers	Currency translation differences	Fair value change	31 December 2017
<b>Cost:</b>							
Land improvements	46,877,509	12,117,607	-	7,805,538	(1,508,661)	-	65,291,993
Floating power plants	1,342,833,675	38,448,550	(165,016,664)	555,818,782	(49,781)	191,762,356	1,963,796,918
Motor vehicles	21,375,936	16,683,915	(23,417,151)	25,449,647	(3,260,642)	-	36,831,705
Furniture and fixtures	7,457,969	2,235,347	(671,256)	785,945	(44,654)	-	9,763,351
Construction-in-progress (1)	569,359,146	646,520,154	-	(589,859,912)	(413,302)	-	625,606,086
	<b>1,987,904,235</b>	<b>716,005,573</b>	<b>(189,105,071)</b>	<b>-</b>	<b>(5,277,040)</b>	<b>191,762,356</b>	<b>2,701,290,053</b>
<b>Accumulated depreciation and impairment:</b>							
Land improvements	21,892,898	8,488,740	-	-	(90,280)	-	30,291,358
Floating power plants	240,738,929	94,998,339	(61,729,347)	-	(55,986)	-	273,951,935
Motor vehicles	5,690,116	5,190,300	(3,060,011)	-	(2,282,355)	-	5,538,050
Furniture and fixtures	1,289,425	620,998	(169,098)	-	(5,009)	-	1,736,316
	<b>269,611,368</b>	<b>109,298,377</b>	<b>(64,958,456)</b>	<b>-</b>	<b>(2,433,630)</b>	<b>-</b>	<b>311,517,659</b>
<b>Net book value</b>	<b>1,718,292,867</b>						<b>2,389,772,394</b>

(1) Construction in progress comprise ongoing floating power plant investments.

# KARPOWER INTERNATIONAL B.V.

## NOTES TO SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

### NOTE 12 - BANK BORROWINGS

	2018		2017	
	Annual interest rate (%)	USD	Annual interest rate (%)	USD
USD denominated bank borrowings	-	11,460,532	7.69	145,708,459
EUR denominated bank borrowings	-	39,678,515	-	79,761,622
<b>Short term bank borrowings</b>		<b>51,139,047</b>		<b>225,470,081</b>
USD denominated bank borrowings	8.18	274,391,318	7.59	205,222,612
EUR denominated bank borrowings	5.09	32,576,041	5.44	33,519,114
Other denominated bank borrowings	-	-	8.25	7,402,995
<b>Short term portion of long term borrowings</b>		<b>306,967,359</b>		<b>246,144,721</b>
<b>Total short term bank borrowings</b>		<b>358,106,406</b>		<b>471,614,802</b>
USD denominated bank borrowings	8.94	924,333,402	7.91	411,327,415
EUR denominated bank borrowings	5.15	64,801,114	5.45	101,736,985
<b>Long term bank borrowings</b>		<b>989,134,516</b>		<b>513,064,400</b>
<b>Total bank borrowings</b>		<b>1,347,240,922</b>		<b>984,679,202</b>

As of reporting date, bank borrowings are secured by mortgages on Group's property, plant and equipment amounting to USD 2,983,812,726 (2017: USD 1,696,692,601).

The borrowings are repayable as follows:

	2018	2017
Up to 3 months	82,493,083	136,302,636
3 - 12 months	275,613,323	335,312,166
1 - 5 years	989,134,516	504,279,129
5 years and above	-	8,785,271
	<b>1,347,240,922</b>	<b>984,679,202</b>

**KARPOWER INTERNATIONAL B.V.****NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

**NOTE 13 - BANK BORROWINGS (Continued)**

The movement of borrowings as of 31 December 2018 and 2017 are as follows:

	2018	2017
Opening	984,679,202	872,108,147
Addition	870,652,288	710,243,146
Payment	(514,886,284)	(601,958,687)
Fx Gain/(loss), net	(6,500,780)	-
Interest accrual	13,296,496	4,286,596
	<b>1,347,240,922</b>	<b>984,679,202</b>

**NOTE 13 - COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES**

Guarantees received	2018	2017
Advance payment guarantee	226,821,889	129,909,259
Guarantee cheques received	696,492	6,961,311
Guarantee notes received	495,708	543,953
Guarantee letters received	83,535	963,329
	<b>228,097,624</b>	<b>138,377,852</b>

On 9 December 2015, 29 August 2017 and 12 June 2018 Karpowership Ghana has received guarantee letters amounting to USD 45,000,000, USD 79,000,000 and USD 95,000,000 respectively (2017: USD 124,000,000) from Electricity Company of Ghana Limited. These guarantee letters expire on 31 May 2019, 7 December 2025 and 31 July 2019 respectively.

Most of other advanced payment guarantees are received from main suppliers in return for the guarantees given in the normal course of business.

Guarantees given	2018	2017
Mortgages on floating power plant	2,983,812,726	1,696,692,601
Guarantees given on behalf of the related parties	1,082,562,193	620,932,647
Guarantees given to government due to performance obligations	61,903,488	53,679,454
Guarantee given to third parties	41,689,935	17,642,842
Guarantee letters given	22,066,115	20,305,322
Bid bonds	367,517	100,000,000
	<b>4,192,401,974</b>	<b>2,509,252,866</b>

## KARPOWER INTERNATIONAL B.V.

### NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### NOTE 14 - COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES (Continued)

Bank borrowings are secured by mortgages on Group's property, plant and equipment and breakdown of mortgages by degrees is as follows:

	2018	2017
First degree	2,751,940,993	1,656,692,601
Second degree	231,871,733	40,000,000
	<b>2,983,812,726</b>	<b>1,696,692,601</b>

Karpowership Lebanon has issued an irrevocable advance payment guarantee amounting to USD 41,689,935 (2017: USD 15,642,842) as of 31 December 2018, in favour of the Republic of Lebanon in return for the advance payment received from Electricite du Liban under the electricity generation services contract with the Republic of Lebanon. The advance payment guarantee expires on 30 March 2022.

Karpowership Lebanon has issued a performance bond amounting to USD 42,881,076 (2017: USD 34,129,836) as of 31 December 2018 in favour of Electricite du Liban represented by Ministry of Energy and Water of the Government of the Republic of Lebanon under the electricity generation services contract with the Republic of Lebanon dated 19 October 2018. The maturity date of the bond is 31 December 2021.

PT Indonesia has issued a performance bond amounting to IDR 170,105,184,000 (USD 12,022,412) (2017: IDR 36,581,760,000, IDR 20,729,664,000, IDR 170,105,184,000 (USD 12,549,619) as of 31 December 2018 in favour of PT PLN (Persero) regarding the electricity generation services contract. The maturity date of the bond is between 15 March 2019 and 12 October 2019.

In accordance with the agreements related to operating leases of floating power plants, total "take or pay" income on the basis of allocation of capacity for the contract periods is amounting to USD 4,493,625,579. USD 748,834,475 of such income is to be recognised in 2019, and the remaining part of USD 3,744,791,104 is to be recognised in the period between 2020 and 2029.

#### NOTE 14 - EQUITY

##### Share capital

The Company's authorized and issued capital consists of 883,441 shares issued on bearer with a nominal value of USD 624.84 each (2017: 334,420 shares issued on bearer with a nominal value of USD 646.73). The Company does not have any preferred stock.

The Company's shareholders and their shareholding at 31 December 2018 and 2017 are as follows:

	2018		2017	
	USD	Share (%)	USD	Share (%)
Karkey Karadeniz Elektrik Üretim A.Ş. ("Karkey")	571,348,010	100	208,959,071	100
<b>Share capital</b>	<b>571,348,010</b>		<b>208,959,071</b>	
<b>Total capital</b>	<b>571,348,010</b>		<b>208,959,071</b>	

Karpower BV distributed dividend to Karkey amounting 330,400,000 USD between January 5 and November 23 2018.

# KARPOWER INTERNATIONAL B.V.

## NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

### NOTE 14 - EQUITY (Continued)

#### Revaluation fund

The movements of revaluation funds of floating power plants are as follows:

	2018	2017
1 January	401,882,849	270,563,278
The effect of revaluation reserve reclassification (*)	24,597,853	-
1 January - as restated	426,480,702	270,563,278
Revaluation of floating power plants (Note 11)	224,648,234	191,762,356
Transfer of revaluation fund of assets sold to retained earnings	-	(30,265,488)
Transfer of depreciation of revalued powerships	(12,099,568)	(30,177,297)
31 December	639,029,368	401,882,849

(\*) Group management has reviewed revaluation surplus and reclassified 24,597,853 USD recognized in retained earnings to revaluation surplus. 19,105,378 USD of the reclassified balance is the revaluation of a floating powerplant which was sold to a consolidated related party which was previously recognized in retained earnings. 5,492,475 USD relates to the impact of capitalized foreign currency differences on revaluation surplus in 2018. These reclassifications between equity items were considered immaterial and previous year financials are not restated accordingly

### NOTE 15 - REVENUE AND COST OF SALES

	2018	2017
Floating power plants rent income	695,711,949	590,170,171
Sales of fuel	528,064,670	364,797,510
Sales of trade goods and spare parts	3,119,199	1,453,901
Other (1)	1,873,169	9,391,474
	1,228,768,987	965,813,056

(1) Other sales primarily comprise of service income to unconsolidated companies.

Cost of sales	2018	2017
Fuel, spare parts and consumables	523,452,760	355,396,969
Depreciation (Note 11)	131,822,291	105,497,916
Personnel expenses	48,087,708	43,483,136
Insurance expenses	20,356,779	18,625,266
Consultancy expenses (1)	6,580,194	3,198,591
Transportation, shipment and travel expenses	5,989,107	5,959,726
Rent expenses	1,768,093	1,345,992
Repair maintenance expenses	1,135,983	5,530,861
Other (2)	20,881,741	31,035,675
	760,074,656	570,074,132

(1) Consultancy expenses comprise of legal and tax advisory.

(2) Other cost of sales expenses comprise of powership operations, embarkments, sludge, sea store expenses etc



# KARPOWER INTERNATIONAL B.V.

## NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

### NOTE 16 - GENERAL ADMINISTRATIVE EXPENSES AND SELLING MARKETING EXPENSES

	2018	2017
Consultancy expenses	27,890,792	27,363,297
Personnel expenses	10,423,164	6,912,861
Depreciation and amortisation (Note 11)	2,481,765	3,854,365
Travel and transportation expenses	1,181,996	1,539,873
Other <sup>(1)</sup>	6,610,878	5,805,453
	<b>48,588,595</b>	<b>45,475,849</b>

(1) Other general administrative expenses and selling marketing expenses comprise of utility expenses, rent expenses tax and duty, food and beverage expenses, representation expenses etc.

The functional breakdown of depreciation and amortisation expenses is as follows:

Depreciation and amortisation expenses	2018	2017
General administrative expenses	2,481,765	3,854,365

The functional breakdown of personnel expenses is as follows:

Personnel expenses	2018	2017
General administrative expenses	10,423,164	6,912,861
	<b>10,423,164</b>	<b>6,912,861</b>

### NOTE 17 - OTHER OPERATING INCOME AND EXPENSES

Other operating income	2018	2017
Foreign exchange gains from trade payables and receivables	31,742,544	6,250,674
Interest income from trade receivables	10,091,677	-
Gain on sale of support vessels	3,634,957	1,603,106
Compensation of losses due to late delivery of powership <sup>(1)</sup>	-	7,150,000
Other	6,500,060	2,394,179
	<b>51,969,238</b>	<b>17,397,959</b>

(1) Balance comprise of charges of the Group to one of the shipbuilders to compensate the subsequent losses incurred due to late delivery of powerships.

Other operating expenses	2018	2017
Foreign exchange losses from trade payables and receivables	23,716,162	15,479,975
Doubtful receivables (Note 7)	10,803,957	-
Contractual aquisition expenses	2,737,395	-
Other	8,904,293	2,161,526
	<b>46,161,807</b>	<b>17,641,501</b>

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# KARPOWER INTERNATIONAL B.V.

## NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

### NOTE 18 - FINANCIAL INCOME AND EXPENSES

Financial income	2018	2017
Foreign exchange gains	2,691,269	-
Interest income	1,677,843	1,879,115
Other financial income	-	1,913,310
	<b>4,369,112</b>	<b>3,792,425</b>
Financial expenses	2018	2017
Interest expenses	71,549,447	51,301,412
Commission expenses <sup>(1)</sup>	13,870,278	6,224,539
Foreign exchange losses	825,231	4,307,880
	<b>86,244,956</b>	<b>61,833,831</b>

(1) Commission expenses comprise of commissions for guarantee letters and borrowings obtained.

### NOTE 19 - TAXES ON INCOME

	2018	2017
Corporation taxes currently payable	35,345,160	34,561,373
Less: Prepaid taxes	(23,749,096)	(27,899,384)
Current income tax liabilities, net	<b>11,596,064</b>	<b>6,661,989</b>

The principal tax rates for each country are as follows:

Country	Corporate tax rate (%)	
	2018	2017
Mozambique	32.00	32.00
Sierra Leone	30.00	-
Gambia	27.00	-
Ghana	25.00	25.00
Indonesia	25.00	25.00
Turkey	22.00	20.00
The Netherlands	20.00	20.00
Singapore	17.00	17.00
Lebanon <sup>(1)</sup>	17.00	17.00
Northern Cyprus	1.00	1.00
Isle of Man	-	-
Marshall Islands	-	-
United Arab Emirates	-	-

(1) Calculated over 17% of 10% of collection excluding VAT.

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

**KARPOWER INTERNATIONAL B.V.****NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

**NOTE 19 - TAXES ON INCOME (Continued)**

The movements of deferred income taxes are as follows:

	2018	2017
1 January	(527,418)	(113,763)
Charged to profit or loss	(378,564)	(484,781)
Credited to other comprehensive income	(10,472)	-
Currency translation differences	636,505	71,126
31 December	(279,949)	(527,418)

**NOTE 20 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES****i) Balances with related parties:**

Due from related parties	2018	2017
Karmol LNG Company Limited	11,410,000	-
Orhan Remzi Karadeniz	6,067,177	-
Karkey Karadeniz Elektrik Üretim Anonim Şirketi	426,846	14,628,824
KPS MI <sup>(1)</sup>	-	129,205,548
Other	134,845	3,914,411
	18,038,868	147,748,783

The amount of USD 433,149 (2017: 49,482,671 USD) is trade receivables relating with sales of spare parts. The amount of USD 17,605,719 (2017: 98,266,112 USD) is other receivables relating with financing activities.

Due to related parties	2018	2017
Karadeniz Holding Anonim Şirketi	19,868,858	8,741,800
Karkey Karadeniz Elektrik Üretim Anonim Şirketi	299,738	946,565
KPS MI <sup>(1)</sup>	-	319,587,585
Other	429,677	1,301,955
	20,598,273	330,577,905

The amount of USD 863,160 (2017: USD 75,358,455) is trade payables relating with spare parts and the amount of USD 19,735,113 (2017: USD 255,219,450) is other payables relating with financing activities.

(1) KPS MI has merged with Kares Karadeniz Enerji Servisleri ve Makine Ticaret A.Ş. and Kares has merged with Karkey during 2018.

## KARPOWER INTERNATIONAL B.V.

### NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

#### NOTE 20 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

##### ii) Sales and purchases of goods/services:

The transactions with related parties for the years ended 31 December 2018 and 2017 are as follows:

a) Sales to related parties:	2018	2017
Karkey	2,223,291	1,028,163
KPS MI	-	6,425,756
Other	59,130	196,861
	<b>2,282,421</b>	<b>7,650,780</b>
b) Purchase of goods and services from related parties:	2018	2017
Karadeniz Holding Anonim Şirketi	2,395,037	3,029,443
Other	-	94,480
	<b>2,395,037</b>	<b>3,123,923</b>
c) Financial income from related parties:	2018	2017
Karkey Karadeniz Elektrik Üretim Anonim Şirketi	132,196	-
d) Financial expenses to related parties:	2018	2017
Karadeniz Holding Anonim Şirketi	5,914,909	-
Karkey Karadeniz Elektrik Üretim Anonim Şirketi	854,966	-
KPS MI	-	250,275
	<b>6,769,875</b>	<b>250,275</b>

##### e) Key management compensation

The Group classifies the member of board of directors, director, coordinator and general manager as key management personnel. Total compensation provided to key management personnel by the Group for the year amounts to USD 1,673,362 (2017: USD 1,829,166). The Group did not provide key management with post-employment benefits, benefits due to outplacement, share-based payment and other long-term benefits in the periods 1 January - 31 December 2018 and 2017.

**KARPOWER INTERNATIONAL B.V.****NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 21 - INVESTMENTS IN ASSOCIATES**

According to the agreement which has signed between Karpower International B.V. and Mitsui O.S.K. Lines Ltd. as at 13 November 2018, Karmol LNG Company Limited has been established. The parties formed a partnership for business opportunities relating to LNG to Powership Project in Mozambique.

	2018		2017	
	USD	Share (%)	USD	Share (%)
Karmol LNG Company Limited	4,896,797	50.00	-	-
	4,896,797		-	

Relating to investment in associate, total assets and liabilities and profit/ (loss) for the period of as of 31 December 2018 and 2017 are as follows:

	2018	2017
Total Assets	27,726,084	-
Total Liabilities	(22,829,287)	-
Net Assets	4,896,797	-

	2018	2017
Group's Share of Loss for the period	(2,502)	-
Net Assets	(2,502)	-

The movement of investments in associate for the years ended as of 31 December 2018 and 2017 are as follows:

	2018	2017
1 January	-	-
Capital increase	4,900,700	-
Unpaid capital	(1,401)	-
Loss from associates	(2,502)	-
31 December	4,896,797	-

**NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2018**

(Amounts expressed in US Dollars ("USD") unless otherwise indicated.)

## NOTE 22 - EVENTS AFTER THE BALANCE SHEET DATE

Metin Bey Company has bought KPS 51 Karadeniz Powership Metin Bey from Rauf Bey Company on 25 January 2019. KPS 51 Karadeniz Powership Metin Bey was sent to Guine-Bissau on 2 February 2019.

**Kaya Bey Company has bought KPS 53 Karadeniz Powership Göktay Bey from Rauf Bey Company on 20 February 2019. KPS 53 Karadeniz Powership Göktay Bey was sent to Sierra Leone as second powership on 30 March 2019.**

**Karpower International B.V. was paid to USD 175.337.000 dividend to Karkey Karadeniz Elektrik Üretim A.Ş. in 2019.**

**NOTE 23 APPROVAL OF SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**

These special purpose consolidated financial statements as of and for the period between 1 January - 31 December 2018 have been approved and signed on 6 May 2019 on behalf of the Board of Directors by Orhan Remzi Karadeniz, Managing Director of Karpower International B.V.