INDEPENDENT AUDITOR’S REPORT

On

SMALL AND MEDIUM ENTERPRISES ENERGY EFFICIENCY PROJECT
Implemented by

REPUBLIC OF TURKEY
MINISTRY OF ENERGY AND NATURAL RESOURCES
GENERAL DIRECTORATE OF FOREIGN AFFAIRS AND EU

And

Financed Under

The World Bank Grant Agreement No: TF-014579

As of December 31, 2015 and For the Year then ended

Report Number: 110/1 -16/1 -10/4

Prepared by

Nevzat ŞAHİN  Ömer KAÇARAN  Eyyüp El Ensar YAZICI
Senior Treasury Controller  Junior Treasury Controller  Junior Treasury Controller

June 23, 2016
TABLE OF CONTENTS

1. EXECUTIVE SUMMARY

2. FINANCIAL STATEMENTS OF THE PROJECT

2.1 Independent Auditor’s Report

2.2 Statements of Sources and Uses of Funds

2.3 Statements of Cumulative Investments

2.4 Statement of Request for Reimbursement(SOE)

2.5 Statement of Special Account

2.6 Notes to the Project Financial Statements

1. The Objective of the Grant
2. Duration of the Grant
3. Financing of the Grant
4. The Accounting Principles and Policies with Chart of Accounts and Fiscal Tables
5. The Limited Utilization of the fund and Other Assets
6. The Grant of International Bank for Reconstruction and Development (IBRD)
7. The Actual Cash Amount Of December 31, 2015
8. The Planned Expenditures for the Current Year
9. Differences Between the Requested and Paid Amounts under the SOE Procedure
EXECUTIVE SUMMARY

A. PROJECT SUMMARY

GEF Trust Fund Grant Agreement, under the Small and Medium Enterprises Energy Efficiency Project is implemented under GEF Trust Fund Grant Number 014579 which was signed between International Bank for Reconstruction and Development (World Bank) and Turkish Government (Recipient) on May 6, 2013 and was put into effect upon publication in the Official Gazette numbered 28678 and dated June 15, 2013.

The objective of the Small and Medium Enterprises Energy Efficiency Project (Project) is to improve the efficiency of energy use in small and medium enterprises in the Republic of Turkey, by scaling-up commercial bank lending for energy efficiency investments.

In the Part D of the project, Energy Efficiency Policy and Project Management Support to Ministry of Energy and Natural Resources (MENR);

1. Enhancement of the enabling environment for, and the fostering of, broader energy efficiency market development in the Republic of Turkey through, inter alia, the following activities to be carried out by MENR;

a) Market development and information dissemination, including:

(i) Raising awareness of, and providing training and disseminating information on, opportunities for energy efficiency and the success of schemes used in the credit lines established under the Project;

(ii) Carrying out market studies and assessments and developing options for future investment programs beyond the SME market; and

(iii) Establishing a dialogue with stakeholders.

b) Strengthening of the energy efficiency and regulatory regimes, including carrying out:

(i) Reviews of energy efficiency policies and developing recommendations for improvement especially in the SME sector; reviews of energy efficiency incentive and informational programs (including impact assessments) and developing recommendations to improve utilization and impact of those programs; and reviews of institutional arrangements to strengthen the energy efficiency policy and implementation function in all sectors; and

(ii) Staff training.
2. Support MENR’s management of activities under this Part D of the Project.

Annually disbursement amount for our audit period (01.01.2015 - 31.12.2015) is USD 209,797.80 and accumulated disbursement amount is USD 303,638.60 as of 31.12.2015. In our audit period, there was amount of USD 196,997.75 disbursement under SOE related to the Small and Medium Enterprises Energy Efficiency Project Numbered 014579-TF.

In the scope of the project, not only MENR but also Ziraatbank, VakıfBank and Halkbank are implementing institutions; however since these three banks have not made any disbursements, so we have not issued reports regarding these three institutions.

B. OBJECTIVES OF AUDIT

The objectives of our audit are;

a) To give an opinion on whether the financial statements, prepared as of December 31, 2015 and for the year then ended present fairly in all material respects the financial position of the Project in accordance with the cash receipts and disbursements basis of accounting, and

b) To determine, as of December 31, 2015, whether MENR has complied, in all material respects, with the rules and procedures of the Grant Agreement numbered 014579-TF.

c) To examine whether adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditures incurred with respect to SOEs and evaluate eligibility of these expenditures for financing under the Grant Agreement numbered 014579-TF.

C. SCOPE OF AUDIT

We have performed an audit of financial statements of the Project as of December 31, 2015 and for the year then ended in accordance with the cash receipts and disbursements basis of accounting. We have also performed a compliance audit on whether Project activities are in line with Grant Agreement and related World Bank guidelines.

Our audit was conducted in accordance with International Standards on Auditing published by International Federation of Accountants (IFAC) applicable to the audit of financial statements and compliance auditing.

There was no limitation in our scope for the Project’s audit.
D. AUDIT RESULT:

For the financial statements of project; our audit resulted with an unqualified opinion.

In addition, as of December 31 2015, MENR has complied, in all material respects, with the rules and procedures of the Grant Agreement.

With respect to SOEs, adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditures incurred; and these expenditures are eligible for financing under the World Bank Grant Agreement numbered 014579-TF.

E. MANAGEMENT RECOMMENDATION:

A management letter, dated June 23, 2016, to the attention of the General Directorate of Foreign Affairs and European Union was issued separately from this report. The objective of this Management Letter is to enable the auditors to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditors have identified during the audit and that, in the auditors' professional judgment, are of sufficient importance to merit their respective attentions. For this purpose, our recommendations are attached to the Letter.
FINANCIAL STATEMENTS OF THE PROJECT
INDEPENDENT AUDITOR’S REPORT

TO MINISTRY OF ENERGY AND NATURAL RESOURCES
GENERAL DIRECTORATE OF FOREIGN AFFAIRS AND EUROPEAN UNION
ANKARA

We have audited the accompanying Statements of Sources and Uses of Funds, Statements of Cumulative Investments, Statements of Requests for Reimbursement (SOE) and Statement of Special Account of the Enhancement of Turkish Energy Sector In Line With EU Energy Priorities and Strategies Project as of December 31, 2015, and for the period then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by the Ministry of Energy And Natural Resources based on relevant provisions of the Grant Agreement, numbered TF-014579.

Management’s Responsibility for the Financial Statements

Ministry of Energy And Natural Resources General Directorate of Foreign Affairs and European Union is responsible for the preparation and fair presentation of these financial statements in accordance with the relevant provisions of the Grant Agreement, numbered TF-014579, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit, and to determine whether Ministry of Energy And Natural Resources has complied with, in all material respects, the requirements of the Grant Agreement, numbered TF-014579. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether Ministry of Energy And Natural Resources has complied with, in all material respects, the requirements of the Grant Agreement, numbered TF-014579.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Opinion

In our opinion;

a) The accompanying Statements of Sources and Uses of Funds, Statements of Cumulative Investments, Statements of Requests for Reimbursement (SOE) and Statement of Special Account present fairly, in all material respects, the financial position of the Small and Medium Enterprises Energy Efficiency Project accounting policies and as of December 31, 2015 and for the period then ended in accordance with the provisions of the Grant Agreement numbered 014579-TF.

b) Ministry of Energy And Natural Resources, as of December 31, 2015 has complied with, in all material respects, the requirements of the Grant Agreement, numbered 014579-TF.

c) With respect to SOEs, adequate supporting documentation has been maintained to support the claims to the World Bank for reimbursements of expenditures incurred, and these expenditures are eligible for financing under the World Bank Grant Agreement numbered 014579-TF.

Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to Note 2 to the financial statement which describes the basis of accounting. The financial statements are prepared to assist the Ministry of Energy And Natural Resources to comply with the financial reporting provisions of the Grant Agreement, numbered 14579-TF. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for World Bank, Undersecretariat of Treasury, and the Ministry of Energy And Natural Resources, and should not be distributed or used by other parties.

A. Umit SUCU
Acting Chairman of
Board of Treasury Controllers

Ali ÇALIŞKAN
(Audit Partner)
Vice-Chairman

Nevzat ŞAHIN
Senior Treasury Controller

Ömer KAÇARAN
Junior Treasury Controller

Eyyüp El Ensar YAZICI
Junior Treasury Controller

Date: June 23, 2016
Address: Republic of Turkey Prime Ministry
Undersecretariat of Treasury
Board of the Treasury Controllers
Emek ANKARA/TURKEY
MINISTRY OF ENERGY AND NATURAL RESOURCES
GENERAL DIRECTORATE OF FOREIGN RELATIONS AND EU
(Small and Medium Enterprises Energy Efficiency Project)
(GEF TRUST FUND GRANT NUMBER TF014579)
STATEMENT OF SOURCES and USES of FUNDS

<table>
<thead>
<tr>
<th>I- SOURCES OF FUNDS</th>
<th>Actual</th>
<th>Planned</th>
<th>Variance</th>
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<td></td>
<td>YTD</td>
<td>Cumulative</td>
<td>YTD</td>
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<td>A- Government Contributions</td>
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<td>B- Other Sources of Funds</td>
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<td>C- IBRD Loan</td>
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<td>429,534.04</td>
<td>196,997.75</td>
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<td>1- Direct Payments</td>
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<td>429,534.04</td>
<td>196,997.75</td>
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<tr>
<td>a) Advance</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>b) SOE Procedures</td>
<td>196,997.75</td>
<td>279,534.04</td>
<td>196,997.75</td>
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<tr>
<td>c) Summary Sheets</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
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<tr>
<td>D- Refund to SA</td>
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<td>0.00</td>
<td>0.00</td>
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<td>TOTAL FUNDS RECEIVED</td>
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<td>429,534.04</td>
<td>196,997.75</td>
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<table>
<thead>
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<th></th>
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<td>19,992.23</td>
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<td>20,000.00</td>
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<tr>
<td>B- Consulting Services</td>
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<td>278,837.78</td>
<td>206,767.37</td>
<td>278,837.78</td>
<td>0.00</td>
<td>0.00</td>
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<tr>
<td>C- De Non consulting Services and Training</td>
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<td>4,808.59</td>
<td>0.00</td>
<td>4,808.59</td>
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<td>0.00</td>
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<td>TOTAL PROJECT INVESTMENTS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>209,797.80</td>
<td>303,638.60</td>
<td>209,797.80</td>
<td>303,646.37</td>
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<td></td>
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</tr>
<tr>
<td>from uses</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

NET USES OF FUNDS

| III- Cash at the end of the period | 138,695.49 |
| IV- Cash at the beginning of the period | 125,895.44 |

[Signature]
Ahmet BECERIKLI
Daire Başkanı
<table>
<thead>
<tr>
<th>Category Name</th>
<th>Actual</th>
<th>Planned</th>
<th>Variance</th>
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<tr>
<td></td>
<td>YTD</td>
<td>Cumulative</td>
<td>YTD</td>
</tr>
<tr>
<td>1. Goods</td>
<td>3.030,43</td>
<td>19.992,23</td>
<td>3.030,43</td>
</tr>
<tr>
<td>Office Equipment MENR-G02</td>
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<td>16.961,80</td>
<td>0,00</td>
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<tr>
<td>2. Consultants' Services</td>
<td>3.030,43</td>
<td>3.030,43</td>
<td>3.030,43</td>
</tr>
<tr>
<td>MENR-CS-03 Preparation of guidelines for EPC contracting for ESCOs and case study development (incl. establishing monitoring mechanism) Market Assessment for future inv. prog. beyond SME's Market (Mainly Public Buildings)</td>
<td>206.767,37</td>
<td>278.837,78</td>
<td>206.767,37</td>
</tr>
<tr>
<td>MENR-CS-02 Policy gap analysis, EE program evaluation (incl. review and recomm. of policies, incentives and info. programs)</td>
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<td>119.998,92</td>
<td>119.998,92</td>
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<td>Financial Exper CS-9a</td>
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<td>10.453,90</td>
<td>10.453,90</td>
</tr>
<tr>
<td>Financial Exper CS-9</td>
<td>6.166,64</td>
<td>6.166,64</td>
<td>6.166,64</td>
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<td>Procurement Specialist for MENR/PCU</td>
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<td>26.870,78</td>
<td>0,00</td>
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<tr>
<td>3. Non consultant services and Training</td>
<td>17.514,85</td>
<td>17.514,85</td>
<td>17.514,85</td>
</tr>
<tr>
<td>MENR TR01- Serenas Uluslararas Turizm Kongre Organizasyon AS</td>
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<td>4.808,59</td>
<td>0,00</td>
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<tr>
<td>PROJECT INVESTMENTS</td>
<td>209.797,80</td>
<td>303.638,60</td>
<td>209.797,80</td>
</tr>
</tbody>
</table>
## I- Request Reimbursement

<table>
<thead>
<tr>
<th>Application</th>
<th>Disbursement Categories</th>
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</thead>
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<td>Date</td>
<td>Number</td>
</tr>
<tr>
<td>14.06.2015</td>
<td>MENR-GEF-4</td>
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<tr>
<td>11.12.2015</td>
<td>MENR-GEF-5</td>
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<tr>
<td>Sub Total</td>
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## II- Request Pending Reimbursement

<table>
<thead>
<tr>
<th>Application</th>
<th>Disbursement Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub Total</td>
<td></td>
</tr>
</tbody>
</table>

## Total Amount Requested

<table>
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<tr>
<th>Disbursement Categories</th>
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</thead>
<tbody>
<tr>
<td>Civil Work</td>
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<tr>
<td>$0.00</td>
</tr>
</tbody>
</table>

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Ali Murat BECERİKLI
Daire Başvuru
MINISTRY OF ENERGY AND NATURAL RESOURCES
GENERAL DIRECTORATE OF FOREIGN RELATIONS AND EU
(Small and Medium Enterprises Energy Efficiency Project)
(GEF TRUST FUND GRANT NUMBER TF014579)
SPECIAL ACCOUNT STATEMENT
ACCOUNT NO: 94 140 101 41 AT CENTRAL BANK
For The Year Then Ended on December 31, 2015
(In US Dollars)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Balance</td>
<td>138,695.49</td>
</tr>
<tr>
<td>Reimbursements to SA</td>
<td>196,997.75</td>
</tr>
<tr>
<td>a) Advance</td>
<td>0.00</td>
</tr>
<tr>
<td>b) SOE Procedure</td>
<td>196,997.75</td>
</tr>
<tr>
<td>c) Summary Sheet</td>
<td>0.00</td>
</tr>
<tr>
<td>Refund to SA</td>
<td></td>
</tr>
<tr>
<td>Available Funds</td>
<td>335,693.24</td>
</tr>
<tr>
<td>Payment Made for Expenditures</td>
<td>209,797.80</td>
</tr>
<tr>
<td>Service charges for the account</td>
<td>0.00</td>
</tr>
<tr>
<td>Total Project Investments</td>
<td>209,797.80</td>
</tr>
<tr>
<td>Closing Balance</td>
<td>125,895.44</td>
</tr>
</tbody>
</table>
I. OBJECTIVES AND STRUCTURE OF THE PROJECT/GRANT

GEF Trust Fund Grant Agreement is implemented under GEF Trust Fund Grant Number F0114579 which was signed between International Bank for Reconstruction and Development (World Bank) and Turkish Government (Recipient) on May 6, 2013 and was put into effect upon publication in the Official Gazette numbered 28678 and dated June 15, 2013.

The objective of the Project is to improve the efficiency of energy use in small and medium enterprises in the Republic of Turkey, by scaling-up commercial bank lending for energy efficiency investments.

In the Part D of the project, Energy Efficiency Policy and Project Management Support to MENR;

1. Enhancement of the enabling environment for, and the fostering of, broader energy efficiency market development in the Republic of Turkey through, inter alia, the following activities to be carried out by MENR;

   a) Market development and information dissemination, including:

      (i) raising awareness of, and providing training and disseminating information on, opportunities for energy efficiency and the success of schemes used in the credit lines established under the Project;

      (ii) carrying out market studies and assessments and developing options for future investment programs beyond the SME market; and

      (iii) establishing a dialogue with stakeholders.

   b) Strengthening of the energy efficiency and regulatory regimes, including carrying out:

      (i) reviews of energy efficiency policies and developing recommendations for improvement especially in the SME sector; reviews of energy efficiency incentive and informational programs (including impact assessments) and developing recommendations to improve utilization and impact of those programs; and reviews of institutional arrangements to strengthen the energy efficiency policy and implementation function in all sectors; and

      (ii) staff training.
2. Support MENR’s management of activities under this Part D of the Project.

II. DURATION OF THE GRANT

Closing date of the Project is September 28, 2018.

III. FINANCING OF THE GRANT

Total amount of the GEF is $940,000 (nine hundred forty thousand United States Dollars) all of which is funded by the World Bank.

IV. THE ACCOUNTING PRINCIPLES AND POLICIES WITH CHART OF ACCOUNTS AND FISCAL TABLES

1. Accounting Standard Applied

The Chart of Accounts of the Project has been prepared on an “Accrual Basis” in accordance with the International Accounting Standards. However, the accounting procedures function on a “cash basis” in order to avoid exchange differences in investment expenditures and costs.

2. Accounting Basis

The entire fiscal tables are prepared in accordance with the cash basis. In line with this basis, after the financial transactions and economic events took place, they are taken into accounting records when the cash or quasi cash assets have been collected or paid and are reflected to fiscal tables of the related period.

3. Currency

Our accounting records are kept by applying real time exchange for both currencies, Turkish Lira and US Dollar which is the financial currency of the loan agreement signed between the World Bank and the Turkish Government.

4. Fixed Assets

The fixed assets which have been purchased by the project resources are recorded in line with the costs on the procurement date, the project components and the expenditure categories. The amortization records related with the project assets are not carried out.

5. Exchange Transactions

US Dollar or TL records of the utilization of the resources and funds, and the investment expenditures, the daily current exchange buying rate on the collection and payment date published by the Central Bank of the Republic of Turkey, is taken into account.
6. Receivables

The receivables are specified by net asset basis. Since the accounting system functions on a cash basis, the "receivables" are formulated by advance payments to the components and staff responsible. Advance payments in the period of arrangement of standard periodical reports by the World Bank are added to the related investment accounts.

7. Continuity

The Project shall execute the activities by September 28, 2018 or another date which shall be negotiated between the World Bank and the Republic of Turkey.

8. Severance Pay

In accordance with the Turkish Law the severance pay is paid in case of retirement or dismissal. The staff of the Projects Implementation Unit is the staff of MENR General Directorate of Foreign Relations and EU. The contracted consultants work under working contracts. Due to this fact, the severance pay is not under discussion and not made any provision.

9. The Capitalization of the Financial Expenditures

Neither commission fee nor charge has been paid to The Central Bank of Republic of Turkey.

10. Refunds to the special account

No amount has been refunded paid to the Central Bank of Republic of Turkey where Project Special Account exists.

V. THE LIMITED UTILIZATION OF THE FUND AND OTHER ASSETS

In accordance with the loan agreement signed between the Republic of Turkey and the World Bank, the funds under the Special Account are restricted to be utilized only in line with the project/Grant objectives. Fixed assets procured with the project funds of MENR, are restricted only to be used in line with the project objectives by the closing date of the Project/Grant. MENR, in order to control such assets, during the project and sub-project implementations, has kept each record relevant to this issue.

VI. THE GRANT OF INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

The amount of withdrawal from the grant to the account in the Central Bank is US $ 335.693,24 as of December 31, 2015.
VII. **THE ACTUAL CASH AMOUNT OF DECEMBER 31, 2015**

The actual cash amount as of December 31, 2015 is as indicated in the chart below. The currency is stated in US Dollars.

<table>
<thead>
<tr>
<th></th>
<th>Loan Funds</th>
<th>Mutual Funds</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
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<td>125,895.44</td>
</tr>
<tr>
<td>Fixed Funds</td>
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</tr>
<tr>
<td>Checking Account</td>
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<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>125,895.44</td>
<td>0.00</td>
<td>125,895.44</td>
</tr>
</tbody>
</table>

VIII. **THE PLANNED EXPENDITURES FOR THE CURRENT YEAR**

The expenditure planned for the year 2015 by grant activities are as follows: US $ 3,030.43 for procurement of goods, US $ 206,767.37 for consultancy services, US $ corresponding to US $ 209,797.80. This total amount received from the grant.

IX. **DIFFERENCES BETWEEN THE REQUESTED AND PAID AMOUNTS UNDER THE SOE PROCEDURE**

No withdrawal application has been made in the review period.