INDEPENDENT AUDITOR'S REPORT

On

RENEWABLE ENERGY INTEGRATION TECHNICAL ASSISTANCE PROJECT

Implemented by

TURKISH ELECTRICITY TRANSMISSION COMPANY

And

Financed Under

World Bank Grant Agreement numbered TF-A1619

As of December 31, 2016 and For The Year Then Ended

Report Number

169/7-32/8

Prepared by

Ergül HALİSCELİK, PhD
Senior Treasury Controller

Erdem EROL
Junior Treasury Controller

June 20, 2017
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EXECUTIVE SUMMARY
A. Project Summary

The Grant Agreement for “Renewable Energy Integration Technical Assistance Project No TF-A1619” has been signed between the International Bank for Reconstruction and Development, acting as administrator of grant funds provided by various donors under the Clean Technology Fund (CTF) and Türkiye Elektrik İletim A.Ş. (TEİAŞ) on 22 August 2016.

The objective of the Project is to enhance capacity for generation planning, transmission planning, and grid management in the Republic of Turkey in anticipation of increased share of renewable energy in the generation mix.

The project consists of the following parts:

1- Capacity enhancement for generation and transmission planning
(a) Reviewing the methodology, available planning tools, data requirements and training needs for comprehensive development of the Recipient’s generation and transmission planning capacity.

(b) Providing a training workshop on available generation and transmission planning tools to select staff of the Recipient.

(c) Purchasing a planning tool corresponding to the Recipient’s requirements.

(d) Providing training to select staff of the Recipient on operating the new planning tools to strengthen their capability to address complex planning related to the introduction of greater amounts of renewable energy sources, and private sector led capacity increase.

(e) Implementing a model for planning and designing studies through: (i) the development of planning datasets; (ii) the specification of planning problem and scenarios; (iii) the analysis pertaining to the following planning studies: (A) Base Generation Planning Requirements; (B) Renewable Energy Integration for 20 GW Wind Scenario; (C) Long Term Generation Augmentation in Turkey.

2- Capacity enhancement for SCADA based Smartgrid System
(a) Strengthening the Recipient’s staff capacity for operation of the SCADA based Smartgrid System through the provision of hardware and software training for, inter alia: (i) the SCADA based Smartgrid System ongoing operation; (ii) the preparation of databases and displays for the addition of new substations and power plants for the extended system; (iii) the modification of databases and displays for continual improvements; and (iv) the modification of the power system management rules and policies.
Through the Grant Agreement dated 22 August 2016, a grant of 1,000,000 Dollar is envisaged to be used by TEIAS within the framework of the "Renewable Energy Integration Technical Assistance Project". As of 31.12.2016, TEIAS has used an amount of 140,000 Dollar and an amount of 860,000 Dollar has not been used yet. TEIAS has used an amount of 140,000 Dollar from World Bank sources between 01.01.2016 and 31.12.2016.

As of 31.12.2016, 140,000 Dollar out of the total loan has been used through the Special Account.

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, 2016 present fairly in all material respects the financial position of the Project in accordance with the cash receipts and disbursements basis of accounting.

b) To determine, as of December 31, 2016, whether the TEIAS has complied, in all material respects, with the rules and procedures of the Grant Agreement,

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 Statement of Expenditures and evaluate eligibility of these expenditures for financing under the World Bank Grant Agreement.

C. Scope of Audit

We have performed an audit of financial statements of the project as of December 31, 2016 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 the Grant Agreement and related World Bank Guidelines.

Our audit was conducted in accordance with the International Standards on Auditing published by International Federation of Accountants and related World Bank guidelines.

There was no limitation in our scope for the Project’s audit.

D. Audit Results

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

In addition, as of December 31, 2016, TEIAS has complied, in all material respects, with the rules and procedures of the Grant Agreement.
In our audit period, there was not any disbursement under the Statement of Expenditures (SOE).

E. Management Recommendations

A management letter, dated June 20, 2017, to the attention of the TEIAS 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 in order of priorities are attached to the Letter.
INDEPENDENT AUDITOR’S REPORT & FINANCIAL STATEMENTS OF THE PROJECT
INDEPENDENT AUDITOR’S REPORT

TO TURKISH ELECTRICITY TRANSMISSION COMPANY

Opinion

We have audited the Statement of Sources and Uses of Funds, Statement of Cumulative Investments and Statement of Special Account of the TF-A1619 Renewable Energy Integration Project as of December 31, 2016 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 Turkish Electricity Transmission Company based on relevant provisions of the Grant Agreement Numbered TF-A1619.

In our opinion;

a) The accompanying Statement of Sources and Uses of Funds, Statement of Cumulative Investments and Statement of Special Account present fairly, in all material respects, the financial position and accounting policies of the Renewable Energy Integration Project as of December 31, 2016 and for the period then ended in accordance with the provisions of the Grant Agreement Numbered TF-A1619.

b) Turkish Electricity Transmission Company, as of December 31, 2016 has complied with, in all material respects, the requirements of the Grant Agreement Numbered TF-A1619.

c) In our audit period, there was not any disbursement under the Statement of Expenditures (SOE).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of this report. We are independent of the Turkish Electricity Transmission Company within the meaning of ethical requirements and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note “2” to the financial statements, which describe the basis of accounting.
The financial statements are prepared to assist the Turkish Electricity Transmission Company to comply with the financial reporting provisions of the World Bank Grant Agreement Numbered TF-A1619. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Turkish Electricity Transmission Company, Undersecretariat of Treasury, and World Bank, and should not be distributed or used by other parties.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Turkish Electricity Transmission Company is responsible for the preparation and fair presentation of these financial statements in accordance with Grant Agreement Numbered TF-A1619, 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.

Those charged with governance are responsible for overseeing the Turkish Electricity Transmission Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

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

- 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 entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

We are required to 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.

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

Ahmet Ümit SUCU
Acting Chairman of
Board of Treasury Controllers

Ali ÇALIŞKAN
(Audit Partner)
Vice-Chairman

Ergül HALİŞÇELİK, PhD
Senior Treasury Controller

Erdem EROL
Junior Treasury Controller

Date: June 20, 2017
Address: T.C. Başbakanlık Hazine Müsteşarlığı,
Hazine Kontrolörleri Kurulu Başkanlığı,
06510 Ankara/TURKEY
## Statement of Sources and Uses of Funds

As of December 31, 2016 and For The Year Then Ended

(USD)

### I- Sources of Funds

<table>
<thead>
<tr>
<th>A- Government Contributions</th>
<th>Actual</th>
<th>PAD Planned</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1- General Budget</td>
<td>24,525.36</td>
<td>24,525.36</td>
<td>0.00</td>
</tr>
<tr>
<td>2- Interest Income (-)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>B- IBRD Loans</td>
<td>140,000.00</td>
<td>140,000.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1- Direct Payments</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>2- Special Account</td>
<td>140,000.00</td>
<td>140,000.00</td>
<td>0.00</td>
</tr>
<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>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>c) Summary Sheet</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>C- Refunds to Special Accounts</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>D- Net Interest Income</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>E- Foreign Exchange Gains</td>
<td>7,550.49</td>
<td>7,550.49</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Total Sources of Funds: 172,075.85 172,075.85 0.00 0.00 0.00 0.00

### II- Uses of Funds

1- Direct Project Expenses

<table>
<thead>
<tr>
<th>A-Goods and Non-consulting Services Contracts</th>
<th>Actual</th>
<th>PAD Planned</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1-SCADA/EMS Training</td>
<td>160,777.39</td>
<td>160,777.39</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Sub-total: 160,777.39 160,777.39 0.00 450,000.00 0.00 289,222.61

2- Indirect Project Expenses

| A-Commission Expenses | 7.15 | 7.15 | 0.00 | 0.00 |
| B-Foreign Exchange Loses | 0.00 | 0.00 | 0.00 | 0.00 |

Sub-total: 7.15 7.15 0.00 0.00 0.00 0.00

Total Project Investments: 160,784.54 160,784.54 0.00 450,000.00 0.00 289,222.61

Opening Balance: 0.00
Closing Balance: 11,291.31 11,291.31
### TURKISH ELECTRICITY TRANSMISSION CO.
TFA1619 (RENEWABLE ENERGY INTEGRATION TECHNICAL ASSISTANCE PROJECT)
STATEMENT OF CUMULATIVE INVESTMENTS
As of December 31, 2016 and For The Year Then Ended
(USD)

<table>
<thead>
<tr>
<th>I- DIRECT PROJECT COSTS</th>
<th>Actual YTD</th>
<th>Actual Cumulative</th>
<th>PAD Planned YTD</th>
<th>PAD Planned Cumulative</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-Goods and Non-consulting Services Contract</td>
<td>160,777.39</td>
<td>160,777.39</td>
<td>0.00</td>
<td>450,000.00</td>
<td>0.00</td>
</tr>
<tr>
<td>A1-SCADA/EMS Training</td>
<td>160,777.39</td>
<td>160,777.39</td>
<td>0.00</td>
<td>450,000.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>160,777.39</td>
<td>160,777.39</td>
<td>0.00</td>
<td>450,000.00</td>
<td>0.00</td>
</tr>
<tr>
<td>TOTAL DIRECT PROJECT COSTS</td>
<td>160,777.39</td>
<td>160,777.39</td>
<td>0.00</td>
<td>450,000.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>II- INDIRECT PROJECT COSTS</th>
<th>Actual</th>
<th>PAD Planned</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-Commission Expenses</td>
<td>7.15</td>
<td>0.00</td>
<td>-7.15</td>
</tr>
<tr>
<td>B-Foreign Exchange Loses (net)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>TOTAL INDIRECT PROJECT COSTS</td>
<td>7.15</td>
<td>0.00</td>
<td>-7.15</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TOTAL PROJECT INVESTMENTS</th>
<th>Actual YTD</th>
<th>Actual Cumulative</th>
<th>PAD Planned YTD</th>
<th>PAD Planned Cumulative</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>160,784.54</td>
<td>160,784.54</td>
<td>0.00</td>
<td>450,000.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

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*Signature*

Murat Akgündüz  
Şube Müdürü (Gı)

Muammer BEMLIO  
Daire Başkanı
## TEİAŞ RENEWABLE ENERGY INTEGRATION PROJECT
### TFA1619
#### SPECIAL ACCOUNT STATEMENT
ACC.NO: 53001693
AT HALK BANK
For The Year Ended December 31, 2016
(USD)

### Notes

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Balance</td>
<td>0,00</td>
</tr>
<tr>
<td>Reimbursement to SA</td>
<td>140,000,00</td>
</tr>
<tr>
<td>a) Advance</td>
<td>140,000,00</td>
</tr>
<tr>
<td>b) SOE Procedure</td>
<td>0,00</td>
</tr>
<tr>
<td>c) Summary Sheet</td>
<td>0,00</td>
</tr>
<tr>
<td>Refunds to SA</td>
<td>0,00</td>
</tr>
<tr>
<td>Intrest Income (net)</td>
<td>0,00</td>
</tr>
<tr>
<td><strong>Available Funds</strong></td>
<td>140,000,00</td>
</tr>
<tr>
<td>Payments made for Expenditures</td>
<td>128,701,54</td>
</tr>
<tr>
<td>Commissions</td>
<td>7,15</td>
</tr>
<tr>
<td>Transfer to the general budget</td>
<td>0,00</td>
</tr>
<tr>
<td>Service charges for the account</td>
<td>0,00</td>
</tr>
<tr>
<td><strong>Total Project Investments</strong></td>
<td>128,708,69</td>
</tr>
<tr>
<td>Closing Balance</td>
<td>11,291,31</td>
</tr>
</tbody>
</table>
1. THE OBJECTIVES AND DESCRIPTION OF THE PROJECT

The Grant Agreement for “Renewable Energy Integration Technical Assistance Project No TFA1619” has been signed between the International Bank for Reconstruction and Development, acting as administrator of grant funds provided by various donors under the Clean Technology Fund (CTF) and Türkiye Elektrik İletim A.Ş. (TEİAŞ) on 22 August 2016.

The objective of the Project is to enhance capacity for generation planning, transmission planning, and grid management in the Republic of Turkey in anticipation of increased share of renewable energy in the generation mix.

The project consists of the following parts:

1- Capacity enhancement for generation and transmission planning
   (a) Reviewing the methodology, available planning tools, data requirements and training needs for comprehensive development of the Recipient’s generation and transmission planning capacity.
   (b) Providing a training workshop on available generation and transmission planning tools to select staff of the Recipient.
   (c) Purchasing a planning tool corresponding to the Recipient’s requirements.
   (d) Providing training to select staff of the Recipient on operating the new planning tools to strengthen their capability to address complex planning related to the introduction of greater amounts of renewable energy sources, and private sector led capacity increase.
   (e) Implementing a model for planning and designing studies through: (i) the development of planning datasets; (ii) the specification of planning problem and scenarios; (iii) the analysis pertaining to the following planning studies: (A) Base Generation Planning Requirements; (B) Renewable Energy Integration for 20 GW Wind Scenario; (C) Long Term Generation Augmentation in Turkey.

2- Capacity enhancement for SCADA based Smartgrid System
   (a) Strengthening the Recipient’s staff capacity for operation of the SCADA based Smartgrid System through the provision of hardware and software training for, inter alia: (i) the SCADA based Smartgrid System ongoing operation; (ii) the preparation of databases and displays for the addition of new substations and power plants for the extended system; (iii) the modification of databases and displays for continual improvements; and (iv) the modification of the power system management rules and policies.
Through the Grant Agreement dated 22 August 2016, a grant of 1,000,000 Dollar is envisaged to be used by TEIAS within the framework of the “Renewable Energy Integration Technical Assistance Project”. As of 31.12.2016, TEIAS has used an amount of 140,000 Dollar and an amount of 860,000 Dollar has not been used yet. TEIAS has used an amount of 140,000 Dollar from World Bank sources between 01.01.2016 and 31.12.2016.

As of 31.12.2016, some 140,000 Dollar out of the total loan has been used through the Special Account.

2. MAIN ACCOUNTING POLICIES

In TEIAS, a separate accounting system has not been established for the World Bank projects. TEIAS obtains a number of loans from the Bank, and other international organizations, by which it utilized a substantial amount of funds at total.

Financial statements of the project has been established according to the accounting principles based on cash collection and payment.

3. LIMITATIONS ON THE USE THE FUNDS AND OTHER ENTITIES

In accordance with the Grant Agreement between the Turkish Government and the World Bank, the use of the funds in the Special Account is limited to the project objectives. Project funds left in the Account at the end of the project will be returned to the World Bank.

4. CASH BALANCE AS OF 31 DECEMBER 2016

The cash balance in Euro as of 31 December 2016 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Loan Funds</th>
<th>Counter Part Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Account</td>
<td>11,291,31</td>
<td>0,00</td>
<td>11,291,31</td>
</tr>
<tr>
<td>(Halkbank Ankara Corporate Branch)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Funds</td>
<td>0,00</td>
<td>0,00</td>
<td>0,00</td>
</tr>
<tr>
<td>Checking Accounts (Local Bank Account)</td>
<td>0,00</td>
<td>0,00</td>
<td>0,00</td>
</tr>
<tr>
<td>Total</td>
<td>11,291,31</td>
<td>0,00</td>
<td>11,291,31</td>
</tr>
</tbody>
</table>

5. AMOUNTS PLANNED IN PAD

The cumulative amounts for the financing of TEIAS projects under Renewable Energy Integration Technical Assistance Project (TFA1619) are not included in PAD, however the project amounts in the Table of Sources and Utilization of Funds have been taken from the relevant Departments in TEIAS.
6. INTEREST INCOME

The Special Account in the Ankara Corporate Branch of Halkbank hasn’t charged interest as of 31.12.2016.

7. EXCHANGE RATE

The currency of the grant no. TFA1619 is Dollar. However contracts for projects involve one or more currency. Therefore, payments are made the currency specified in the contract. Due to the time difference between invoice amounts and payments dates may occur favorable or unfavorable foreign exchange gain or loss. Related issues has been given a place in the Statement of Sources and Uses of Funds.