

INVESTMENT ENVIRONMENT IN TURKEY



International Investors Association of Turkey

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CHAPTER 1

TURKEY AND FOREIGN DIRECT INVESTMENT

The Foreign Direct Investment Law

Turkey's foreign investment legislation, which has been gradually liberalized since the 1980's, was revised most recently in 2003 through some structural reforms. The procedures for foreign investment are simplified, some bureaucratic formalities are abandoned, and the principle of equal treatment is reemphasized.

Turkey has reached a stage where the issue of foreign capital is considered as a top priority issue and the latest reforms are the initiation of a series of required course of action to improve the investment climate.

The major step that has been realized recently is the introduction of a more investor-friendly "Foreign Direct Investment Law".

The Law has changed Turkey's foreign investment policy from screening system to monitoring system. The foreign investors are no longer required to obtain permissions or approvals. Foreign investors will only be asked to provide some statistical information to the Undersecretariat of Treasury for the purpose of developing an information system about foreign investments in Turkey.

The main elements of the "Foreign Direct Investment Law" are the following;

- All former FDI related screening and approval procedures have been abandoned for a business set up (company or branch) and share transfers. Foreign investors will no longer be required to obtain prior approvals for these transactions, except for some critical sectors. The conditions for a business set up and a share transfer will be the same as for comparable local investors.

- Pre approval requirements for certain transactions- capital increase, change of field of activity, etc- of foreign investment companies have also been eliminated. Foreign capital companies will follow the same procedures as local companies to realize these transactions.
- Registration of license, know-how, royalty, technical assistance agreements to the General Directorate of Foreign Investment will no longer be required.
- The minimum capital requirement of USD 50,000 per each foreign shareholder has been abolished.
- Foreign investors will be able to form a partnership in Turkey. In the old regime, foreign investors were only allowed to form a joint stock company or a limited company. Now, any form of company included in the Turkish Commercial Code is acceptable for foreign investment.
- Valuations of international credit agencies as well as courts or competent authorities of the investor's country will be accepted as valid in the determination of the share value for marketable securities that are contributed as capital in-kind.

The "Foreign Direct Investment Law" has also reassured the foreign investors' existing rights on a stable document;

- The foreign investment legislation is based on the principle of equal treatment for the domestic and foreign investors. Foreign investors have the same privileges and obligations as the domestic capital.
- Free transfer of profits, dividends, proceeds from sale or liquidation of an investment, fees and royalties, interest payments on foreign loans is clearly restated.
- Foreign capital companies established in Turkey have the same rights to acquire a real estate as domestic investors. Foreign real persons may own a real estate according to the principle of reciprocity.

- The national or international arbitration is allowed for disputes arising from contracts involving government concessions as well as for the disputes arising from agreements subject to private law, provided that the conditions in the related regulations are fulfilled.
- Foreign investors can employ expatriates in Turkey, provided that the work permits are obtained from Ministry of Labor.
- The Law has retained the permission requirement for Liaison Offices. Liaison offices are special type of offices whose main activity is to conduct market research and feasibility studies and to accumulate investment opportunities in the Turkish market on behalf of their head offices. They are not allowed to carry on any commercial activity. Foreign investors are required to obtain permission from Undersecretariat of Treasury to open a liaison office in Turkey. The initial permission is given for 3 years, which can be extended depending on the activities performed in the last 3 years and future plans of the head office.

On April 16, 2008, the Constitutional Court has annulled subparagraph (d) of Article 3 of the Foreign Direct Investment Law passed in 2003, regarding the acquisition of real estate and limited rights in rem by companies with foreign capital and in order to avoid the loophole caused by this annulment, a law has been passed on July 3, 2008 in order to amend articles 35 and 36 of the Land Registry Law. The mentioned law provided to obtain permit for the acquisition of real estate in certain areas defined as military security zones and strategic zones.

In order to regulate the transactions to be executed in this respect, the Ministry of Public Works and Settlement has issued a regulation on November 12, 2008. The fact, that the related regulation provides a procedure for obtaining permits with regard to the mentioned zones applicable only to the companies with foreign capital, creates controversy with “foreign investors are subject to equal treatment with the Turkish investors” principle of the Foreign Direct Investment Law and causes unfair competition against the companies with foreign capital. Moreover, while the Law requires permit only with regard to the mentioned zones, the Regulation has brought practically, the requisite of obtaining permit for all real estate acquisition requests.

The problems caused, related to the provisions of the regulation pertaining to limited rights in rem, due to the frequency of use of such rights have been tried to be solved by the two circulars issued, but the uncertainties still could not be resolved.

In respect of the pledges of the banks on real estate, it is specified in the circular that upon application to the Governorship where the headquarters of the company is located for one time, then the following requests within the same city shall be addressed by the Land Registry Directorate without requiring documents yet again. With the second circular issued, this right has been extended to the all Commercial Companies that are operating under the frame of Foreign Direct Investment Law.

Despite certain conveniences brought on issuing mortgages, the commentary of the Ministry of Industry and Trade regarding the field of activity of a bank at the stage of collection of debts is worrying.

Fundamentally, the Regulation brings a guideline which is in breach of the equal treatment principle of the Foreign Direct Investment Law. All the companies established in Turkey are legal persons that are subject to Turkish laws and they should not be subject to any discriminating treatment depending whether they are companies with domestic or foreign capital.

Although the law provides for obtaining permit only for the defined zones, the regulation brings the procedure of inquiring whether the real estate falls in those zones or not. Therefore, in practice, acquisitions of real estate in all zones rather than in defined zones have been subjected to permission.

The regulation brings along prolonged permission procedures, which are incompatible with the dynamics of commercial life, as well as ambiguities and it is likely to cause obstructions at many stages. The regulation prescribes for durations up to 30 days, which may also be subject to extensions due to bureaucratic applications. No sanctions have been stipulated in the regulation in this respect.

In addition to the prolonged procedures, the evaluation of whether acquiring real estate is appropriate for the field of activity of a company shall also lead to discretionary practices and interpretations. In fact, the commentary of the Ministry of Industry and Commerce in connection with the banking field by exceeding its authority is an example as such.

Other ambiguities caused by the regulation are situation of indirect affiliates, real estates to be acquired by earlier but long term financial leasing agreements and the status of public companies.

With regard to annotating lease agreements at the land registry, although one of our member companies obtained an official letter from the Ministry of Public Works and Settlement Land Registry Directorate stating that lease annotations fall outside the scope of the regulation and despite the fact that it is not a limited right in rem, it is observed that in practice, some companies have been subjected to the regulation in this subject as well.

Other aspects of this situation are the unfair competition against companies with foreign capital in acquisition of real estate due to the permission process and ambiguities caused in privatizations and mergers and acquisitions.

The Reform Program for the Improvement of the Investment Environment in Turkey

In 2001, an initiative has been started through launching a reform process to improve administrative procedures to make Turkey a more attractive location for foreign investment, knowing that the time consuming and complex administrative procedures appear to be among the major setbacks to foreign investments, and can discourage the investors despite the other attractive features that a country may offer.

Taking into account the findings and recommendations of a diagnostic study and the project on administrative barriers to investment conducted jointly by the Government of Turkey and the Foreign Investment Advisory Service (FIAS), the Government of Turkey has enacted a "Principle Decision on the Reform Program for Improving the Investment Climate in Turkey" on December 11, 2001. Immediately after the decision, a coordination body - Coordination Council for the Improvement of the Investment Climate (YOİKK), has been established with the participation of Government officials and private sector organizations. The mission of the YOİKK is to identify and remove regulatory and administrative barriers to both foreign and local private investments.

YOİKK is composed of 12 technical committees, each dealing with specific issues about the aspects of investment climate in Turkey. The technical committees focus on:

- Company Establishment

- Employment
- Licensing
- Investment Site
- Tax and Incentives
- Foreign Trade and Customs
- Intellectual Property Rights
- Investment Promotion
- FDI Legislation
- Small and Medium Sized Organizations
- Corporate Governance
- Research & Development

The technical committees are continuously working on their own field and formulating solutions to the urgent problems. Meanwhile, the Government declares and shows its commitment to make the changes and to introduce the required laws on the basis of the recommendations of the committees in order to create a more attractive investment climate for the investors.

With the purpose of establishing a one-stop office to assist investors during the stages of investment and operations, Law on the Establishment of Investment Support and Promotion Agency of Turkey has been put into force in 2006. Investment Support and Promotion Agency of Turkey, has one-stop-shop offices in Ankara and Istanbul, reports to the Prime Ministry and promotes Turkey as a priority investment location and gives support to investors. The web site "www.invest.gov.tr" covers useful information for investors having interest in investing in Turkey.

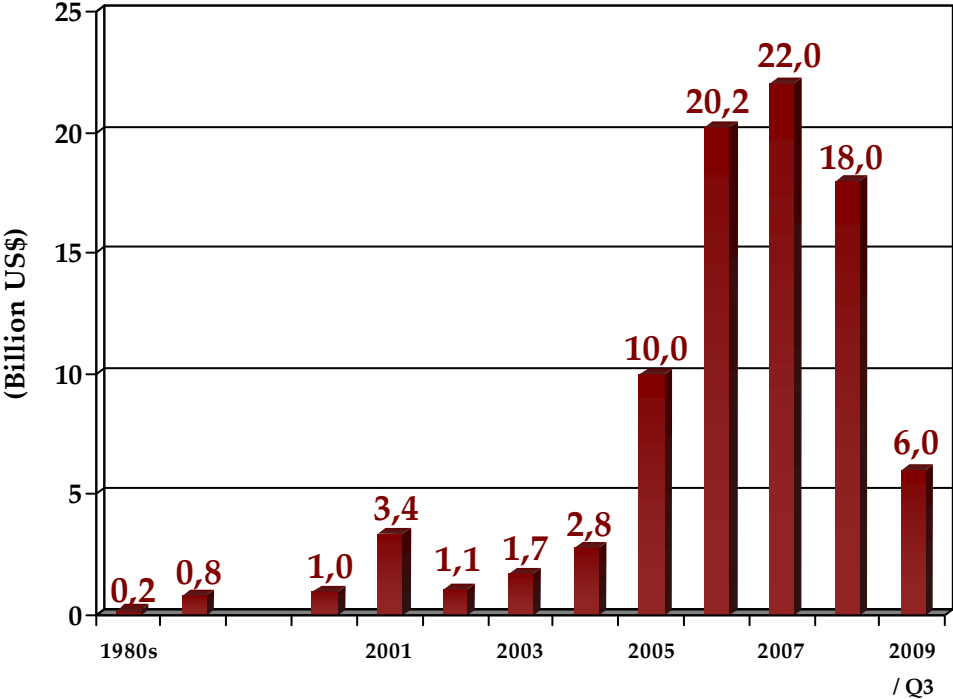
Foreign Direct Investment in Turkey

FDI inflows to Turkey, which had reached to a level of USD 20 billion in 2006 and 2007, dropped - in line with global decline - to USD 18 billion in 2008 with an 18 percent decrease. According to UNCTAD World Investment Report (WIR) 2009, Turkey had ranked 20th in 2008 among the top countries attracting FDI. Correspondingly, Turkey ranked in the 9th place among developing countries in 2008

In the first 6 months of 2009, foreign direct investment (FDI) inflows to Turkey have reached to **4.2 billion USD**. The figure denotes a decrease by 57 percent compared to the same

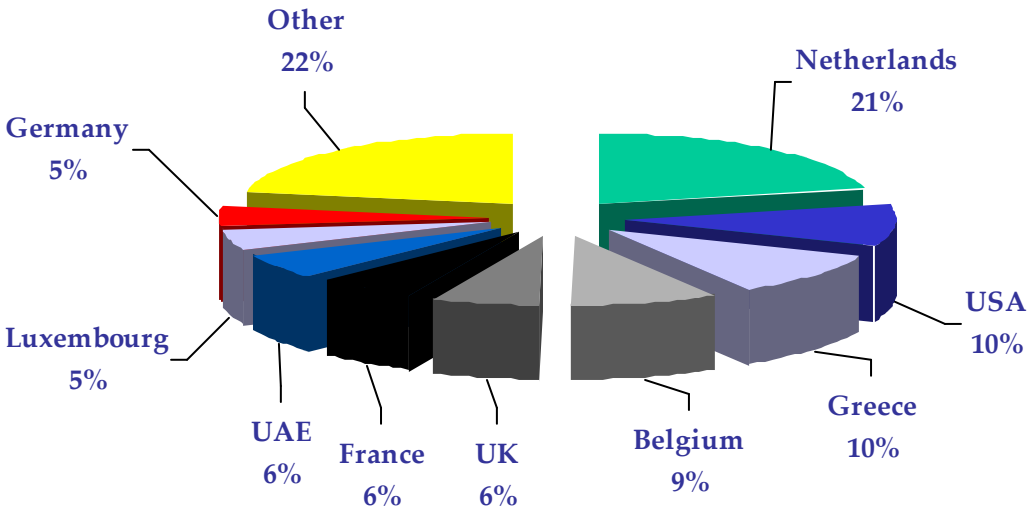
period of last year. Continued downward trend in the first half of 2009, means a 50 percent decline annually for Turkey, reflecting the global downward trend.

FDI Inflows to Turkey



As we look at the source countries of FDI to Turkey, the composition is as follows:

Source Countries for FDI Inflows to Turkey (2004-2008)



CHAPTER 2

PRIVATIZATION IN TURKEY

The involvement and participation of international investors is highly encouraged in the massive privatization program. The privatization process in Turkey has proved to be an important source of funds for the government and brought tangible results and progress within this philosophy. Many state-owned companies have already been privatized within this program.

The principles, procedures, authorized agencies and other issues regarding privatization are regulated in Privatization Law No. 4046, dated 1994, although the privatization program was initiated in 1983. In August 2003, Law No:4971 has been put into effect, setting out some further regulations to accelerate privatization applications within the scope of Privatization Law. These include arrangements that have been made to accelerate the privatization process with a new method of licensing like handing out the license of games of chance and utilization of convertible bonds of Türk Telekom.

After the Law No: 4971 was put into effect in August 2003, further regulations were introduced in year 2004 and 2005 to overcome the legal conflicts arising in the privatization program and to accelerate the privatization process. The new regulations that were put into effect also aimed to prevent the discrimination between local and foreign investors who participate in privatizations.

270 state-owned companies, 22 uncompleted state-owned facilities, 524 real estates, 8 motorways, 2 Bosphorus bridges, 103 facilities, 6 ports, the license of games of chance, vehicle inspection stations comprises the privatization portfolio of Turkish Government since 1985.

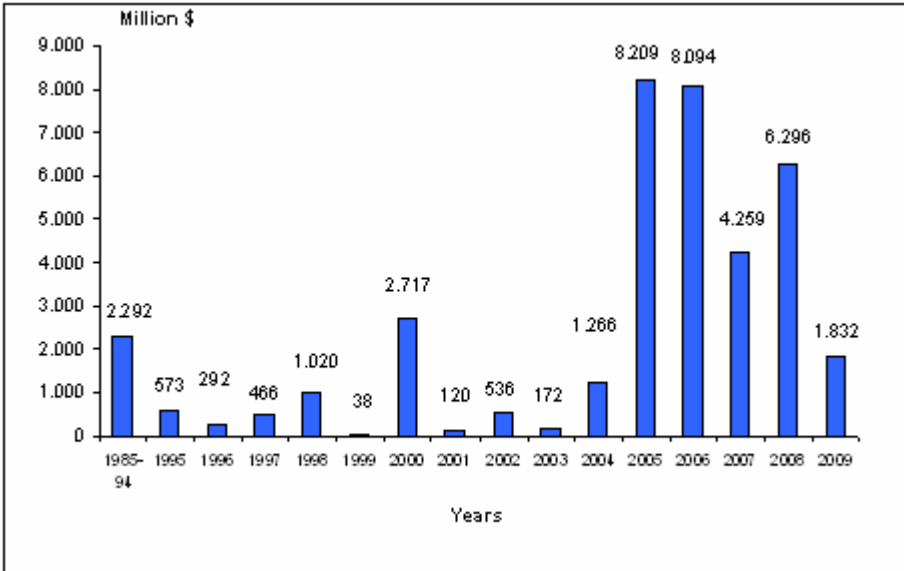
The new regulations in 2004 and 2005 have dramatically increased the level and volume of privatizations in Turkey. Furthermore, general economic conditions both local and international are the key determinants of the privatization success. Thus, the recent financial

turmoil, which severely affected European and US economy, has reduced the level and volume of the privatizations in Turkey.

Turkey is one of the fastest growing markets in emerging economies. Since Turkey has been implementing privatization process as a core agenda from 1984, Turkey has successfully positioned itself as an attractive and promising investment environment. Moreover, free market economy implementations and liberal incentives increases the investor confidence in Turkish Market. Privatization implementations in Turkey have gained momentum in 1986 and since then, more than 196 companies have been privatized where no more state ownership exists in 187 of these. Total revenue generated from privatization program until end of June 2009 amounts to USD 38 billion, including dividends and other income.

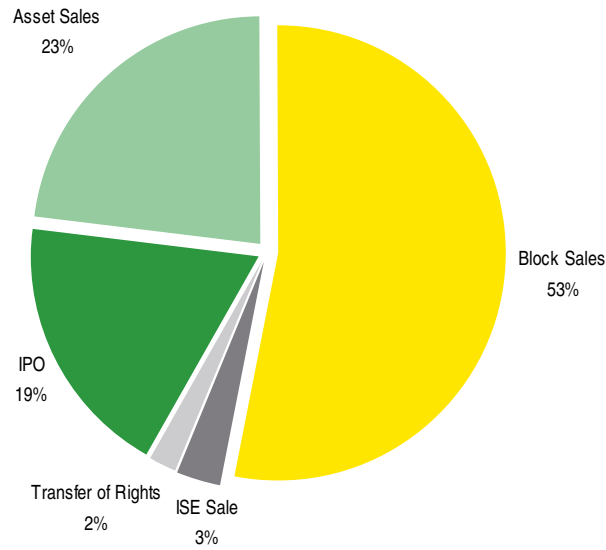
Implementing market competition in energy sector is one of the priorities of Privatization Administration. In the following years, state-owned electricity generation and distribution companies are planning to be fully privatized to private sector. In 2009, the major privatizations consists Başkent Electricity Distribution Company with USD 1.2 billion and Sakarya Electricity Distribution Company with USD 600 million. Thus, energy privatizations are expected to make up for the major part of privatization level in the upcoming years.

PRIVATIZATION IMPLEMENTATIONS BY YEARS



Source: Privatization Administration

PRIVATIZATION IMPLEMENTATIONS BY METHODS (1985-2008)



ISE: Istanbul Stock Exchange

IPO: Initial Public Offering

Source: Privatization Administration

Privatization to Date*;

- State completely withdrew from cement, animal feed production, milk-dairy products, forest products, tobacco, ground handling and catering services, petroleum distribution and refinery sectors.
- Approximately 90 % of the state entities were privatized in tourism, textile and livestock sectors.
- State has partially withdrawn from the banking, telecommunication and ports.
- Privatization of public banks has commenced with Sümerbank and continued with Etibank, Denizbank and Anadolu Bank. The international and domestic offering of the 12.3 % state shares in İş Bank in May 1998, has been the largest public offering in Turkey until that time and

recorded as one of the largest privatization proceeds among the emerging European markets.

- Public shares in Netaş and Tofaş were issued to foreign investors through international public offering for the first time, which served as a driving force of the integration of Istanbul Stock Exchange's (ISE) with foreign capital markets.
- Public shares in many companies were issued to the public, particularly in the beginning of this decade and this enhanced the institutionalization of Istanbul Stock Exchange.
- There are still 17 entities under the scope and programme of privatization. Among these entities, state has over % 50 of shares in 11 entities. Furthermore, there are 8 toll motorways, 2 Strait bridges, 1 port, electricity generation & distribution companies and license right of games of chance under the scope of privatization.

(*) As of June 2009

PRIVATIZATION IMPLEMENTATIONS IN 2004	
BLOCK SALE	PROCEEDS (USD)
ESGAZ	43,000,000
ETİ BAKIR	21,879,000
DİV-HAN A.Ş.	28,500,000
BURSAGAZ	120,000,000
AMASYA ŞEKER	1,250,000
ETİ GÜMÜŞ A.Ş.	41,200,000
ETİ KROM A.Ş.	58,050,000
ÇAYELİ BAKIR	49,250,000
BET KÜTAHYA ŞEKER	23,820,000
ETİ ELEKTROMETALURJİ	15,320,000
Total block sale	402,269,000
ASSET SALE	
TEKEL real estates	5,323,961
EBUAŞ Real estates	4,581,329
Sümer Holding real estate	6,739,962
Sümer Holding Malatya Premise	6,400,000
TÜGSAŞ-Gemlik Gübre	83,100,000
İGSAŞ	100,500,000
TEKEL (Alcoholic Beverages Ind. and Trading Inc.)	292,000,000
KBİ Samsun Pre.	11,121,000

TÜMOSAN	27,200,000
Sümer Holding Bakırköy Premise	44,000,000
Kütahya Gübre real estates	10,740,000
Others	28,489,465
Total asset sale	620,195,717
	-
PUBLIC OFFERING	-
THY	65,326,696
INTERNATIONAL OFFERING	-
THY	125,952,471
Total offering	191,279,167
TRANSFER OF RIGHTS	
SEKA Real estate	7,174,293
SÜMER Real estate	6,984,296
TEKEL Real estate	23,516,997
TEKEL-Gem. Sun. İp Mües. taş.	22,097,921
TEKEL-İnegöl Kibrit Fab. taş.	6,478,955
Others	2,845,784
Total Transfer of Rights	69,098,246
TOTAL	1,282,842,130

Source: Privatization Administration

MAJOR PRIVATIZATION IMPLEMENTATIONS-2005	
	PROCEEDS (USD)
BLOCK SALE	
ATAKÖY Tourism	33,697,808
ATAKÖY Hotel	62,796,764
ATAKÖY Marina	23,755,428
Eti Aliminium	305,000,000
Cyprus Turkish Airline	33,000,000
Turk Telecom	6,550,000,000
Adapazarı Sugar Factory	45,750,000
Total block sale	7,054,000,000
ASSET SALE	
Sümer Holding- real estates	8,454,535
Sümer Holding Beykoz Premise	29,750,000
TUGSAŞ Samsun Fertilizer	41,000,000
Kuşadası Holiday Village	34,500,000
Hilton HOTEL	255,500,000
Others	35,067,980
Total asset sale	404,272,515
ISE SALE	
Tüpraş	453,977,633
PETKİM	6,257,009
Total ISE Sale	460,234,642
PUBLIC OFFERING	
PETKİM	273,719,827
TRANSFER OF RIGHTS	
Seka Real estate	4,248,655

TDI maritime and ship	21,820,000
TEDAŞ Real estate	1,274,222
TEKEL Real estate	1,687,522
Others	8,193,471
Total Transfer of Rights	30,013,471
TOTAL	8,222,240,455

Source: Privatization Administration

- Türk Telekom – Oger Telecom has acquired Türk Telekom by submitting the highest bid with a total amount of USD 6.5 billion for 55% of the shares.
- Tüpraş - % 14.76 extra shares of Tüpraş has been offered in Istanbul Stock Exchange, while increasing the public share of Tüpraş to 49%. 14,76% of shares has been floated with a total amount of USD 453.9 million.

MAJOR PRIVATIZATION IMPLEMENTATIONS-2006	
	PROCEEDS (USD)
BLOCK SALE	
• TÜPRAŞ	4,140,000,000
• ERDEMİR	2,770,000,000
• BAŞAK INSURANCE	268,000,000
• Total block sale	7,178,000,000
ASSET SALE	
• THY-USAŞ Shares (%3)	5,181,739
• TEKEL Kayacık Salt Mine	42,200,000
• TEKEL Kaldırım Salt Mine	40,700,000
• Ankara Hotel	36,830,000
• TEKEL Twin Towers	100,000,000
• TEKEL Yavşan Salt Mine	37,300,000
• EFES HOTEL	121,500,000
• SUMER HOLDING real estate	9,939
• Kızılay Business Center	55,500,000
• TARABYA HOTEL	145,300,000
• KBI real estate	37,600,000
• Other	4,073,891
• Total asset sale	626,195,569
PUBLIC OFFERING	
• THY	207,820,151
TRANSFER OF RIGHTS	
• TEKEL Real estate	82,066,479
• TEDAŞ Real estate	650,048
• Other	1,433,212
• Total Transfer of Rights	84,149,739
• TOTAL	8,096,165,459

• *Source: Privatization Administration*

- Tüpraş- Has the capacity of processing 27.6 million crude oil and is defined as the 5th biggest refinery in Europe. The tender process for the % 51 of Tüpraş has been completed 4,140,000,000 USD.
- Erdemir- Today with a total annual crude-steel production capacity of 3 million tons, it is the largest iron & steel factory and only integrated flat steel producer in Turkey.
- Basak Insurance- Groupama International, French Company, acquired Basak Insurance with the highest bid of USD 268,000,000.

MAJOR PRIVATIZATION IMPLEMENTATIONS-2007	
	PROCEEDS (USD)
ASSET SALE	
TEDAŞ real estates	1,111,582
TCD - Deveci Iron Mine	21,500,000
TCDD - Mersin Port	755,000,000
KGM - İstanbul Levent Land	800,000,000
THY-USAŞ Shares (%0,64)	2,411,821
Vehicle Inspection Station - I. Region	300,250,000
Vehicle Inspection Station – II. Region	313,250,000
TEKEL real estates	4,547,229
Sumer Holding - Real estates	58,000,000
State Pension Fund - Çelik Palas Otel	38,900,000
Others	5,500,569
Total Asset Sale	2,295,982,839
PUBLIC OFFERING	
T. Halk Bankası	1,838,642,981
TRANSFER OF RIGHTS	
TEKEL Real estate	123,547,089
Other	456,750
Total Transfer of Rights	124,003,839
TOTAL	4,258,629,659

Source: Privatization Administration

- TCDD – Mersin Port - The joint venture between Port of Singapore Authority (PSA) and Turkish Akfen Group had won the auction for the Mediterranean port of Mersin. Mersin Port has a total area of 1,000,000 sqm with 14,000,000 tone handling capacity per year.
- KGM – İstanbul Levent Land – The land owned by the Turkish General Directorate of Highways has a total area of 96,505 sqm in Zincirlikuyu. The tender is awarded to Zorlu Holding.
- T. Halk Bankası – The Privatization Administration sold the state owned bank's shares in an Initial Public Offering on the stock exchange with a total of USD 1.84 billion.
- Vehicle Inspections Stations – Tüvtürk has won the Vehicle Inspection Station for 2 regions by submitting the highest bid for a total amount of USD 613.5 mln.

Major Privatization Tenders/Sales Finalized In 2008	
	PROCEEDS (USD)
BLOCK SALE	
Petkim Shares (%51)	2,040,000,000
ASSET SALE	
TEDAŞ – Real Estates	1,915,287
Sumer Holding – Nitro Mak Shares (%33,5)	19,550,000
TEKEL Tobacco Division	1,720,000,000
TEKEL Real estate	4,430,000
ADUAŞ Central	510,000,000
Other	305,000
Total Asset Sale	2,256,200,287
PUBLIC OFFERING	
Türk Telekomünikasyon A.Ş.	1,911,000,000
TRANSFER OF RIGHTS	
TEKEL Real estate	86,928,259
SÜMER Real estate	1,860,565
Others	1,134,863
Total Transfer of Rights	89,923,687
TOTAL	6,297,123,974

Source: Privatization Administration

- Petkim – Socar-Turcas-Injaz consortium, comprising of the Azeri energy company Socar, the Saudi investment company Injaz and the Turkish listed energy company Turcas has acquired the 51% stake of Petkim on May 2008.
- TEKEL Tobacco Division – the UK listed Tobacco Company British American Tobacco (BAT) has won the auction for the cigarette business division of TEKEL on February, 2008.
- Türk Telekomünikasyon AŞ – The IPO process of 15% stake of Turkish telecom company Turk Telekom’s shares finalized in May, 2008.
- Ankara Renewable Energy Power Plants (7 Hydroelectric, 2 Geothermal) – Zorlu Holding was the highest bidder with USD 510 mln.

Major Privatization Tenders/Sales Finalized In 2009:	
	PROCEEDS (USD)
ASSET SALE	
TEKEL Real Estates	2,176,498
BAŞKENT Electricity Dist*	1,225,000,000
SAKARYA Electricity Dist*	600,000,000
Other	2,250,209
Total Asset Sale	1,829,426,707
TRANSFER OF RIGHTS	
T. ŞEKER Real estate	1,266,151
DMO Real estate	1,214,182
TEDAŞ real estate	246,709
Total Transfer of Rights	2,727,042
TOTAL	1,832,153,749

Major Privatization Tenders/Sales In 2009 that have passed the approval process of Privatization Administration:	
	PROCEEDS (USD)
TCDD - İzmir Port	1,275,000,000
TCDD - Derince Port	195,250,000
TCDD - Bandırma Port	175,500,000
TCDD – Samsun Port	125,200,000
SÜMER Holding – Real estate	1,565,000
TEKEL Real estate	689,172
MERAM Electric Distribution	440,000,000
TOBACCO, SALT AND ALCOHOL A.Ş.	8,704,119
TOTAL	2,221,908,291

Source: Privatization Administration

* Başkent Electricity and Sakarya Electricity Distribution companies are classified as Asset Sale by Privatization Administration. However, the 100% of the shares in these companies has been transferred to private sector with electricity distribution rights.

- Başkent Electricity Distribution Company – A consortium between a Turkish conglomerate Sabancı Holding, and Austrian energy company Verbund acquired the company for a total amount of USD 1.22 bln.
- Sakarya Electricity Distribution Company – A joint venture between a Turkish energy company Akenerji and a Czech energy company CEZ acquired the company for a total amount of USD 600 mln.

The Upcoming Privatization Tenders/Sales In 2009 :	
	Tender Date
TOBACCO, SALT AND ALCOHOL Company Assets	04.12.2009
YEŞİLIRMAK Electric Dist	20.10.2009
ÇORUH Electric Dist	20.10.2009
OSMANGAZI Electric Dist	20.10.2009
Doğusan Boru Sanayi ve Ticaret A.Ş.'s %56,09 share	13.08.2009

Source: Privatization Administration

- The significant privatizations in the upcoming tenders consists Yeşilirmak, Çoruh and Osmangazi Electricity Distribution Companies. Foreign and Local investors are highly interested in electricity distribution companies and these tenders are expected to finalize in the beginning of 2010.
- Milli Piyango (National Lottery) – Privatization Administration has cancelled the tender in May 2009 due to the fact that tender results do not meet the expectations of Privatization Administration. A second tender process of licensing games of chance rights in Turkey is expected to be launched.

Ongoing Major Privatizations:

- İzmir Port - A consortium between the Turkish conglomerates Global Holding, the Chinese Hutchison, Turkey's Aegean Region Exporters' Union (EIB) and German Deutsche Bank had offered USD 1.27 billion for the Port of Izmir in May 2007. The approvals are taken and the privatization is on the signing stage.
- Derince Port - Turkerler Group, the Turkish construction company, was the highest bidder for Derince Port. The Group offered USD 192.5 mln for Derince Port in August 2007. The approvals are taken and the privatization is on the signing stage.
- Bandırma Port – Çelebi Holding led consortium had offered USD 175.5 million for Bandırma Port in May 2008. The privatization is on the signing stage.
- Samsun Port - Ceynak Logistics was the highest bidder in the tender and had offered USD 125.2 million for Samsun Port in April 2008. The privatization has been approved and is on the signing stage.

**Regarding the above mentioned port privatizations, Port-Labour Union has sued the port privatizations but Council of State has stayed the execution of Port-Labour Union demands. The privatization processes are on appeal stage and expected to finalize soon.*

- Meram Electricity Distribution Company – Alsim Alarko was the highest bidder in the tender with an offer of USD 440 million in September 2008. The privatization has been approved and is on the signing stage.
- Aras Electricity Distribution Company – Kiler Holding had offered USD 128.5 million in September 2008. The privatization had been halted by Turkey's Council of State due to a reason of limited competition during the auction process.
- Yeşilirmak Electricity Distribution Company – The privatization of Yeşilirmak Electricity Distribution Company is on the tender phase. The Privatization Authority has received 17 applications for the tender. The tender is planning to hold on 20 October 2009.
- Çoruh and Osmangazi Electricity Distribution Companies – The privatization of these 2 energy distribution companies is on the tender phase. The tender will be held on 20 October 2009 and has recently received 22 applications.

Privatization Bodies

The **Privatization High Council** (PHC) is the ultimate decision-making body for privatization in Turkey. The Council, headed by the Prime Minister, is composed of four ministers.

PHC is responsible from the formation of the privatization portfolio and determination of methodology and timing of the privatization procedures. PHC is the body approving the final transfer.

The **Privatization Administration** (PA) is the executive body for the privatization process. It is a legal public entity with an exclusive budget, reporting directly to the Prime Minister.

PA's major duties include the execution of PHC's decisions, advising the PHC in forming the privatization portfolio and restructuring and rehabilitation of enterprises in the portfolio in order to prepare them for privatization.

CHAPTER 3

INCENTIVES

Turkey provides various incentives and grants to the investors for the purpose of facilitating larger investments and capital contributions by the local and foreign investors and eliminating the regional imbalances. The current incentive regime is in line with Turkey's commitments under the WTO and customs union, hence, it is within the scope of international liabilities and commitments of Turkey.

There is no discrimination between the local and foreign investors with respect to the application of incentives.

The incentives granted to the investors under the current regime can be classified under below headings;

- Investment incentives
- Export incentives
- Free Trade Zones
- Technology Parks
- Research and Development Incentives
- Incentives to Less Developed Regions

I- INVESTMENT INCENTIVES

Main Incentive Tools

A new investment incentive system is introduced through the Decree Concerning State Encouragements to Investments enforced upon the Resolution of the Council of Ministers No.2009/15199 dated 16.07.2009.

Incentives generally comprise a mix of tax and non-tax incentives. The investors may qualify for the following general incentives based on the location, scale, and other qualifications of the investment;

- Exemptions from customs duties
- VAT exemption
- Support for interest payment
- Social security premium employer part
- Reduced corporate tax
- Investment location allowance
- Moving Support

In order to qualify for the above incentives, it is necessary to obtain an **investment incentive certificate** before the investment is initiated. In order to be granted with an investment certificate a minimum fixed investment must be 1.000.000 TRY in Region I and II, and 500.000 TRY required in Region III and IV. Furthermore, investments undertaken by means of financial leasing company must meet minimum value of 200.000 TRY.

The application for incentive certificate is made to the Undersecretariat of the Treasury by the foreign investors. Obtaining an incentive certificate is an easy procedure.

With the Decree Concerning State Encouragements to Investments enforced upon the Resolution of the Council of Ministers No.2009/15199 dated 16.07.2009, regional and sectoral divisions in terms of encouragements to be granted to the investments have been eliminated and these are stipulated to be applied within the framework of specified regional and sectoral restrictions. There are six main components of the new investment regulation. Nevertheless not all six incentives are provided to each zone; therefore the number of incentives varies depending on the region in which the investment takes place. The type of investment which can benefit from the incentives has been presented below:

Investments in Zone 1 and II	Investments in Zone III and IV	Big Investment Projects	All investments exceeding minimum investment amount
Reduced corporate tax	Reduced corporate tax	Reduced corporate tax	VAT exemption
Social security premium employer part	Social security premium employer part	Social security premium employer part	Exemptions from custom duties
Investment plant allowance	Investment plant allowance	Investment plant allowance	

	Support for interest payment	VAT exemption	
		Customs duty exemptions	

Without region discrimination, VAT and customs duty exemptions, support for interest payment is applicable for the investments to be made relating to R&D and environmental issues.

For the investment incentive purposes, regions were divided into four groups in terms of socio-economic development by Council of Ministers. The tables illustrating the Zones has been presented below:

Zone I

Code	Cities
TR10	İstanbul
TR21	Tekirdağ, Edirne, Kırklareli
TR31	İzmir
TR41	Bursa, Eskişehir, Bilecik
TR42	Kocaeli, Sakarya, Düzce, Bolu, Yalova
TR51	Ankara

Zone II

Code	Cities
TR22	Balıkesir, Çanakkale (Bozcaada, Gökçeada hariç)
TR32	Aydın, Denizli, Muğla
TR61	Antalya, Isparta, Burdur
TR62	Adana, Mersin

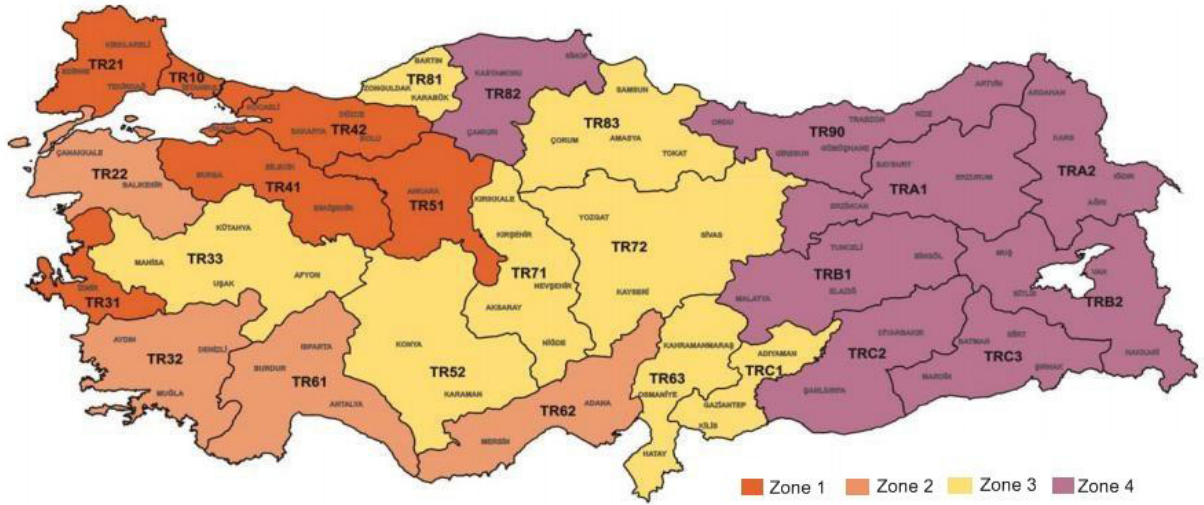
Zone III

Code	Cities
TR52	Konya, Karaman
TR63	Hatay, Kahramanmaraş, Osmaniye
TR71	Kırıkkale, Aksaray, Niğde, Nevşehir, Kırşehir
TR33	Manisa, Afyonkarahisar, Kütahya, Uşak
TR72	Kayseri, Sivas, Yozgat

TR81	Zonguldak, Karabük, Bartın
TR83	Samsun, Tokat, Çorum, Amasya
TRC1	Gaziantep, Adıyaman, Kilis

Zone IV

Code	Cities
TR82	Kastamonu, Çankırı, Sinop
TR90	Trabzon, Ordu, Giresun, Rize, Artvin, Gümüşhane
TRA1	Erzurum, Erzincan, Bayburt
TRA2	Ağrı, Kars, Ardahan, Iğdır
TRB2	Van, Muş, Bitlis, Hakkari
TRB1	Malatya, Elazığ, Bingöl, Tunceli
TRC2	Şanlıurfa, Diyarbakır
TRC3	Mardin, Batman, Şırnak, Siirt
TR22	Çanakkale İli Bozcaada, Gökçeada İlçeleri



Zone I: Investments that generally require the use of advanced technology such as automotive and supply industry, electronics, medicine, machinery and medical and optical device investments will be covered by incentives.

Zone II: Technology-intensive sectors will be generally supported. In this framework, machinery, smart multi-functional textile, non-metal mineral product, paper, food and beverage investments will be given incentives.

Zone III and IV: Investments in agriculture, agriculture based manufacturing industry, ready to wear, plastics, rubber, metal goods, tourism, health and education will be covered by incentives.

Investments that listed in Article 32/A of the Corporate Income Tax Law exceeding 50.000.000 TRY, specified in the following table, are considered as Big Investment Projects.

Industry	Minimum Investment amount
Production of Chemicals and Chemical Products	
▪ Production of Main Chemical Products	1000
▪ Production of Other Chemical Products	300
Production of Refined Petroleum Products	1000
Transportation Services made via Transit Pipeline	
Motor Vehicle Production (Only those that function on land)	250
Production of railway and tramway locomotive or carriage	
Port and port services	250
Electronics Industry Investments	
▪ LCD/Plasma Production	1000
▪ Module Panel Production	150
▪ Laser TV, 3D TV, LED TV and similar TV Productions	
▪ Other Electronics Industry Investments	
Production of medical equipment and sensitive and optical equipments	
Medicine Production	100
Production of Air and Space Vehicles	
Investments related to Machine Investment	
Mining Investments (Excluding the investments related to those metals stated in the Mining Law under IV/c group)	

I-1. Sectoral Restrictions

Sectors Supported Under Certain Conditions

1- Agricultural Sector

- a. Investments in animal husbandry
- b. Investments in stock farming

2- Service Sector

- a. Investments in integrated logistic
- b. Plant investments in pipe line transport, oil and natural gas products
- c. Investments in expo, congress, exhibition and cultural centre
- d. Investments in sports facilities
- e. Investments in combined container transport
- f. Investments in airport ground service
- g. Service investments in transmission of data signals from communication media to the final consumers
- h. Investments in facility made by build-operate or build-operate-transfer model have customs control units
- i. Infrastructure investments
- j. Investments in projects made by public institutions and organizations for sphere of duties

Sectors that are not supported

1- Agriculture and agricultural industry

- a. Manufacture of milled grain products, starch and starch products and processed animal feed (excluding the manufacture of rice, brown rice, processed feed for pets, fish feed and feeds included in the integrated husbandry investments)
- b. Biscuits,
- c. Thin wafer of dough and kadayif (a kind of sweet pastry),
- d. Pasta, semolina, noodle, couscous etc,
- e. Enterprises rendering food service (catering),
- f. Cube sugar,
- g. Herbal production (excluding greenhouse cultivation, cultivated mushroom cultivation and cultivation of feed plants within integrated husbandry investments),
- h. Husbandry investments excluding integrated husbandry investments to be given incentives within the scope of regional investments and husbandry investments to be supported conditionally.

2- Production and mining investments

- a. Investments for producing the products included in the product list attached to "Agreement on Trading of Goods under Agreement Establishing the European Coal and Steel Committee between Republic of Turkey and European Coal and Steel Committee" came into effect by being promulgated in the Official Gazette no. 22714 dated 1/8/1996,

- b. Investments excluding modernization investments for producing brick and tiles,
- c. Mining investments with royalty including those made with public institutions and organizations,
- d. Unseed cotton processing investments,
- e. Completely new, exceeding and integrating investments for producing synthetic fiber and synthetic thread,
- f. Investments in thread and weaving excluding modernization investments (excluding wool thread, smart and multi functional technical textile, carpet, tufting, unknotted fabrics, sacks).

3- Service sector

- a. Educational investments excluding pre-school education, elementary education, high school, college, university, higher education and technical and professional education; and investments for educating adults (such as courses, private teaching institutions),
- b. Health investments excluding hospital investments, medical canthers, dialysis centers, analytical laboratories and magnetic imaging,
- c. Tourism accommodation facilities other than hotels, holiday villages, apart-hotels, mountain (plateau) houses,
- d. Press investments excluding daily newspaper printing services published nationally, television and radio broadcasting,
- e. Studio investments for recording
- f. Investments for house production and construction business services,
- g. Bus, tow truck and trailer for passenger and freight transport investments (excluding the investments to be performed by municipalities),
- h. Investments for wholesale and retail trade including hypermarket, trade centre, shopping centre and car park investments,
- i. Land vehicles maintenance and service station investments,
- j. Oil products (including LPG) distribution investments, fuel station investments
- k. Highway recreation facilities investments,
- l. Restaurants,
- m. Yacht import investments,
- n. Vehicle renting investments,
- o. Laundry and carpet washing investments,
- p. Other automation investments to be performed other than industrial production facilities and automation of infrastructure investments,

- q. Excluding software and R%D activities, immovable renting and business activities,
- r. Excluding leasing activities, investments of financial intermediaries,
- s. Show centre investments,
- t. Investments of cold store the closed area of which is less than 500 m2

I-2. Exemptions from Customs Duties

Article 6 of the Decree sets out the provisions related to customs duty exemption. Customs duty exemption is provided to all investments that exceed the minimum investment amounts excluding the investments made in the industries that are not provided with the incentive and the investments that do not satisfy the required conditions set out in the decision.

The application related to the current customs duty exemptions stated in the legislation will stay in effect after the introduction of the new regulation.

I-3. VAT Exemption

In the Decree it is stated that, VAT exemption is provided to exportation and local delivery of machinery and equipment that are in scope of investment certificate and in line with VAT code.

I-4. Support for Interest Payment

In order to benefit from interest payment support,

- Investments should be research and development, environmental protection and regional support,
- Loans should be taken from banks
- Loan maturity should be at least 1 year.

Relating to the investment loans obtained with at least 1 year maturity to be utilized for the realization of the investments benefited from regional support and the investments to be made relating to R&D and environment; the payable interest or profit share for up to 70 % fixed investment amount registered in incentive certificate given in the following table can be met from the budget providing that the loan is used for the first 5 years.

Zones	Zone Specific (in points)		Investments to be made relating to R&D and environmental issues (in points)	
	TL Loan	Foreign Currency Loan	TL Loan	Foreign Currency Loan
I	-	-	5	2
II	-	-	5	2
III	3	1	5	2
IV	5	2	5	2

Limitations on credits are as follows,

- TRY 300.000 for research and development investments and environmental protection projects
- TRY 500.000 for investments in Zone IV

I-5. Social Security Premium Employer Part

The employer's portion of the social security premium limited with the premium amount calculated over the official minimum wage shall be borne by the Turkish Treasury for the big investment projects and the regional investments. The exemption applies;

- In completely new investments this applies to employees that start working on that project,
- In others, subsequent to the completion of the investment, this applies to employees recruited by the Company in addition to the average employee number calculated from the monthly submitted declarations of the Company to the Social Security Institution within the six month period before the commencement of the investment

The following table provides the duration of the relevant incentive per Zone and per start date of the investment:

Zones	Investments starting before 31.12.2010	Investments starting after 31.12.2010
I	2 years	---
II	3 years	---
III	5 years	3 years
IV	7 years	5 years

- No duplicate premium support will be provided to the Companies that already benefit from the provisions of Law No. 5084. However, for additional employees they recruit in the investments they undertake with regards to decision No. 2009/15199, they will be provided with premium support.
- The social security premium support incentive is subject to the fulfillment of the condition that the companies submit the monthly premium and service declarations on time and they make the remaining social security premium payments of the employee (both employee and employer's share) that are not borne by the Turkish Treasury.

I-6. Reduced Corporate Tax

Reduced tax rate mechanism is introduced for the revenues generated from the investments that are subject to investment incentive certificates. Both corporate tax payers and income tax payers could benefit from reduced tax rate incentive.

The following companies and investments are out of the scope of the reduced corporate / income tax rate incentive:

- a. The companies operating in finance and insurance
- b. Joint Ventures
- c. Contracting Businesses
- d. The investments made under Law No. 4283 related to the Build-Operate Model and Law related to the building and operating of Electrical Energy Production facilities
- e. The investments made under the Law Numbered 3996 regarding the Build-Operate-Transfer Model
- f. The investments made related to contracts that involve the royalty payments to be made to the landowner for the materials extracted from the land (Rodovans Contracts)

Reduced tax rate incentive is applicable for the big investment projects and the regional investments. However land, royalty, spare parts and other expenses not subjected to amortisation are not calculated in determining the investment participation rate.

The incentive amount that will be benefited related to the reduced corporate income tax rate depends on the amount participated in investment, investment participation rate and reduced corporate income tax rate.

The revenues generated through these investments will be subject to the reduced income/corporate income tax rate until the forgone tax amount due to the applied reduced rate reaches the investment participation amount which is predetermined by the Cabinet.

The investment participation rates and reduced Corporate Income Tax rates by zones are as follows:

Investments starting before 31.12.2010

	Regional Investments		Big Project Investments	
Zones	Investment Participation Rate (%)	Reduction Amount (%)	Investment Participation Rate (%)	Reduction Amount (%)
I	20	50	30	50
II	30	60	40	60
III	40	80	50	80
IV	60	90	70	90

Investments starting after 31.12.2010

	Regional Investments		Big Project Investments	
Zones	Investment Participation Rate (%)	Reduction Amount (%)	Investment Participation Rate (%)	Reduction Amount (%)
I	10	25	25	25
II	15	40	30	40
III	20	60	40	60
IV	25	80	45	80

The application of the reduced corporate / income tax rate will start in the accounting period when the investment starts operating, either partially or completely. The reduced rate shall

be applied until the forgone tax amount due to the applied reduced rate reaches the determined investment participation amount.

The reduced corporate income tax rate shall only apply on the revenues generated through the new investment. Accordingly, standard corporate income tax will apply on the revenues generated from operations other than the new investment.

I-7. Investment Location Allowance

Land shall be granted to big investment projects and supported regional investments. According to the Law No. 5520; the companies operating in finance and insurance, joint ventures, the investments made under Law No. 4283 related to the Build-Operate Model and Law related to the building and operating of Electrical Energy Production facilities and the investment made under the Law No. 3996 regarding the Build-Operate-Transfer model are excluded.

I-8. Moving Support

For textile, apparel and clothing, leather and leather products sectors there have been two fundamental rules to benefit from moving support incentive.

- For businesses operating in Zone I and II to move entirely to Zone IV until 31.12.2010,
- Providing at least 50 people employed.

As of the accounting period following the date of move, Corporate / Income tax will be 75 % discounted for a period of 5 years. Furthermore social security premium part of the employers corresponding to the minimum wage is met by the budget for a period of 5 years.

II. EXPORT INCENTIVES

Current export incentive measures are indirectly assisting the exporters through extending export credits and insurance and easing certain export related expenses. There are also exemptions from taxes, charges and fees.

II-1. Export Credits

Turkey's efforts in promoting exports are mainly concentrated in facilitating credits through Turk Eximbank (the export credit bank of Turkey) to exporter companies or to the manufacturers of export goods. Turk Eximbank has fully adopted its credit conditions to that of EU after the Customs Union Agreement.

Exporters may obtain pre-export loans both in TL and foreign exchange. The pre-export loan extended to exporters is maximum 100% of the FOB value of export commitments, with a ceiling of TRY 6 million for TRY credits and USD 10 million for foreign exchange credits. The maximum maturity of export loans is one year for TRY credits and one and a half year for foreign exchange credits.

The interest rates vary between LIBOR+0,5 and LIBOR+1,25 depending on the maturity and the currency of the loan according to the insurance scheme.

II- 2. Exemption from Taxes, Duties and Charges

All types of export credits, including letters of guarantee, letters of credits and all other export-related transactions are exempt from all taxes and charges.

II-3. Insurance of Export Receivables

Turk Eximbank insures receivables of exporters, which are derived from export proceeds, against commercial and political risks. Commercial risks in specific are bankruptcy of the buyer, buyer's failure in paying the export amount or rejection of the goods shipped to buyer. Political risks are considered as cancellation of buyer's import permission, state of war, civil war, seizure of goods during shipment and transfer difficulties.

Exporters, who have their export proceeds insured, may also use these insurance policies as collateral in obtaining export loans from other commercial banks.

All shipments made by exporters to countries that are short-listed by Turk Eximbank within a payment period of 360 days are eligible to benefit from the insurance scheme.

The 80-95% (90% for short term) losses that may arise from reasons of commercial and political risks are compensated.

II-4. Exemption from VAT and Customs Duties for Raw Materials and Intermediary Goods

Imported raw materials, intermediary goods, packaging materials to be used in the production of goods to be exported are exempt from customs duties, VAT and other charges. A letter of guarantee is submitted to the customs authorities during the importation of these materials, which is returned to the exporter when the goods are exported.

II-5. State Aids for Certain Expenses

State aids are provided for, management and promotional expenses for new foreign offices (depot, showroom, store, etc.), registration expenses of patent and other industrial property rights, personnel training expenses, trade fair and show expenses. However, these subsidies are very minor measures.

III- FREE TRADE ZONES

Free Trade Zones (FTZ) are the regions where a more attractive investment climate is offered to investors. Both local and foreign capital companies may equally benefit from the incentives granted in the Free Trade Zones. Registration rules and procedures to apply during the operational phases are minimized.

In the past, the most important advantage given to investors in the free trade zones was the exemption from all kinds of taxes. Profits derived from commercial activities in the zones were exempted from corporate and any other income tax. Similarly, all kinds of transactions within the FTZ were exempt from VAT, stamp duty and other indirect taxes. Furthermore, salaries paid to employees working in the zones were exempted from income tax. However, salaries paid to employees were subject to social security contributions.

Through the adjustments introduced, FTZ have been included in the Turkish Tax Legislation and the income acquired from operations carried out in the region have become subject to

income tax, and the tax advantages that are currently benefited from have been limited to a certain period, for protection of current investors.

According to the amendments in the Free Zones Law No: 3218, Law No: 5810 on Amendments made in the Free Zones Law and Customs Law issued on 25.11.2008 and official gazette numbered 27065; until the end of the taxation year including the date Turkey becomes a full member of the European Union

- The earnings of the manufacturer users, generated through the sales of the goods they produced in the free zones, are exempted from the income or corporate taxes.

- The wages of the workers employed by the users that export at least 85 percent of the FOB value of the goods they produce in the free zones are exempted from income tax. The Council of Ministers can reduce this rate to 50 percent.

- The transactions and arranged documents related to the activities carried out in the zones by the manufacturer users are exempt from stamp duties and fees.

Local and foreign companies may benefit equally from the incentives granted in FTZ. Registration rules and procedures to apply during the operational phases are minimized.

FTZ earnings can be transferred freely to any country, including Turkey, without any prior permission from a competent authority and are not subject to any kind of taxes, duties and fees. If the earning acquired in the free zone is distributed to resident real persons, those that are not income and corporation tax liable, those that are exempted from income and corporation tax, non-resident real persons, non-resident corporations and non-residents that are exempted from income and corporation tax under article 94/6-b of the Income Tax Code, a tax withholding of 15% should be applied.

FTZ, even though established within the political boundaries of Turkey, are considered and treated as outside of Turkish customs territory. Hence, sales from FTZ's to Turkey are treated as imports and VAT and customs duty are charged depending on the country of origin of goods imported. The sales made from Turkey to FTZ's are treated as exports.

There is a fee payable at a rate of 0.5% over the CIF values of goods that are brought into zones from abroad and CIF values of the goods imported to Turkey from FTZ.

Both local and foreign investors are required to obtain an operation license in order to operate in a FTZ, from the General Directorate of Free Trade Zones, Undersecretariat of Treasury. The application fee for obtaining the operation license is USD 5,000, which is refunded in case of refusal of the application.

Investors who receive an operation license pay rental fees ranging between USD 1-50/m²/month for office, warehouse, factory buildings and USD 0,6-8/m²/year for open storage areas in the FTZ. It is possible for investors to build their own factories/premises in some FTZ.

Infrastructure of any FTZ is comparable with the international standards. Loading, unloading and transport services for goods coming to a zone are performed by the operator company of the FTZ. Loading/unloading fees are around USD 5/ton.

In line with the incentives introduced in the FTZ, trade volume in Zones has reached considerable figures. Total trade volume in Turkish FTZ at a level of USD 11,1 billion in year 2002, has reached a trade volume of USD 24,58 billion in year 2008 and USD 11,20 billion as of August 2009.

Below table shows the lists of Free Trade Zones operating in Turkey.

LIST OF FREE TRADE ZONES			
	Free Trade Zone	Year	Region
1)	Mersin	1987	South Coast
2)	Antalya	1987	South Coast
3)	Aegean	1990	East Coast
4)	Istanbul Atatürk Airport	1990	Istanbul
5)	Trabzon	1992	Northeast Coast
6)	Istanbul Leather	1995	Istanbul
7)	Eastern Anatolia	1995	East
8)	Mardin	1995	Southeast
9)	ISE Istanbul International Stock Exchange	1997	Istanbul
10)	Izmir Menemen – Leather	1998	East Coast
11)	Rize	1998	Northeast Coast
12)	Samsun	1998	North Coast
13)	Istanbul Thrace	1998	Thrace
14)	Kayseri	1998	Central Anatolia
15)	Europa (Tekirdag)	1999	Thrace
16)	Gaziantep	1999	Southeast
17)	Adana – Yumurtalik	1999	South Coast
18)	Bursa	2001	Marmara Region
19)	Denizli	2001	Western Anatolia
20)	Kocaeli	2001	Marmara Region
21)	TUBITAK – Marmara Research Center Technology	2002	Marmara Region

- The salaries of researchers, software developers, and research and development personnel are exempt from income tax until 31.12.2013 following the establishment of the Techno Park.



V- RESEARCH AND DEVELOPMENT INCENTIVES

V-1. State Aids for R&D Activities

The state aid for R&D activities comprises a mix of reimbursement of certain expenses and grant of subsidized credits. The R&D activities to benefit from state aids are the following;

- Activities standing for creative studies
- Environment friendly production design
- Hardware activities conducted on a systematic basis which provide scientific and technical improvement in its field,
- Concept development
- Technologic and economic feasibility studies
- Design and drawing studies
- Prototype production
- Establishment of pilot facility
- Pilot production
- Patent and license studies

- Post-sales solutions studies for problems arising from product design
- Laboratory studies in the transition stage from design to implementation

The personnel expenses, cost of machinery, equipment and software, consultancy and other service fees, fees paid to scientific institutions, registration fees for patent and industrial designs to the Patent Institution, cost of R&D related materials are reimbursed up to 60%, as a State aid to the R&D activities. State aid is provided for 3 years for each project.

The Scientific and Technical Research Council of Turkey evaluates each project and determines whether the State aid would be granted along with the ratio to be applied. The recovery efforts were started in TUBITAK, to expedite the incentive process.

R&D projects for the purpose of developing a new product of commercial value, improving the competitiveness of an existing product, or developing a production management system technique may qualify to benefit from the capital support 50% of the total project costs, up to USD 1 Million, for a term of 2 years. The repayment terms and conditions of the capital support are determined in the project agreement.

Evaluations of projects to benefit from the capital support are made by the Technology Development Foundation of Turkey.

V-2. Reduction from Corporate Tax Base

With the Law No. 5746, which is effective from April 1, 2008, certain changes have been made in R&D incentives, which will be implemented until 2023. With this new law,

- 100% of the expenditures related with R&D activities in technology centre enterprises, in R&D centres, in R&D and innovation projects which were supported by public institutions, foundations or international funds,
- 50% of the excess corporate income comparing with the previous year can be deducted from corporate tax base in the R&D centres which employs more than 500 employees' full time R&D personnel could be deductible from the corporate income or income tax base.
- 90% of salaries for the doctorates and 80% for the others who are working as R&D personnel are exempt from income tax

- For the R&D personnel whose salaries are exempt from income tax, half of the social security premiums for the employer part will also be met from the Ministry of Finance's subsidy for a period of 5 year.

VI- INCENTIVES TO LESS-DEVELOPED REGIONS

With the Law No. 5084, 36 provinces, where income per capita for 2001 is below 1.500 US Dollars have been included under the scope of incentive. With this law, incentives for income tax withholding, social security employer's contribution and energy support is provided.

Through the Law No. 5350, the scope of this application has been extended to cover the provinces, where the socio-economic development index value determined for the year 2003 by the State Planning Organization Undersecretariat is negative.

The provinces, which can benefit from the incentives, are as follows:

Kırşehir	Osmaniye	Adıyaman	Sinop	Kahramanmaraş
Düzce	Kars	Giresun	Çankırı	Çorum
Van	Amasya	Siirt	Iğdır	Artvin
Uşak	Gümüşhane	Yozgat	Malatya	Kütahya
Ordu	Ardahan	Sivas	Erzurum	Trabzon
Hakkâri	Tokat	Bartın	Bingöl	Rize
Diyarbakır	Bayburt	Bitlis	Afyon	Elazığ
Şanlıurfa	Şırnak	Batman	Mardin	Karaman
Muş	Erzincan	Aksaray	Ağrı	Nevşehir
Kilis	Tunceli	Kastamonu	Niğde	Gökçeada and Bozcaada

The period of benefit for three supports detailed below, excluding free of charge purchase of land, has been specified with the Law No. 5568. The incentives specified in the Law are effective for five years for the new investments in the provinces covered with the Law to be completed until 31.12.2007, four years for these investments completed until 31.12.2008 and until 31.12.2009 for the investments completed until 31.12.2004.

VI-1. Income Tax Withholding Incentive

In the provinces under the scope of the incentives aforementioned, below conditions is to be fulfilled;

- for income and corporate taxpayers who employs at least 10 employees and started new business after 01.04.2005, employment income of employees
- for income and corporate taxpayers who employs at least 10 employees and started business before 01.04.2005, the employment income of employees working physically in the work places

are exempt from income tax provided that the work places established in the organized industrial zones or industry zones. For all other work places, the income tax exemption rate is 80%.

The amount to be wiped off cannot exceed this total to be specified according to the rates aforementioned over the value to be calculated by multiplying the number of the employees with the income tax to be paid over the minimum wage.

The income tax rate exemption is to be applied until 31.12.2009.

VI-2. Incentives in the Employer's Contribution of the Insurance Premiums

In the provinces under the scope of the incentives aforementioned, below conditions is to be fulfilled;

- for income and corporate taxpayers who employs at least 10 employees and started new business after 01.04.2005, employment income of employees
- for income and corporate taxpayers who employs at least 10 employees and started business before 01.04.2005, the employment income of employees working physically in the work places

are exempt from employer's social security contribution provided that the work places established in the organized industrial zones or industry zones. For all other work places, the income tax exemption rate is 80%.

There is a limitation over the employer's contribution exemption that is to be covered by the Treasury. Accordingly it could not exceed the value to be found by multiplying the number of

employees with the lower limit for social security income for premium determined in accordance with Article 78 of the Social Insurance Law.

In order for the premiums of the employer's contribution to be met by the Treasury, the monthly premium and service documents relating to the insured employees should be filed in legal due time. If it could not be met, then all amount should be paid to the Treasury.

VI-3. Energy Support

In provinces within the scope of this incentive:

20% of the electricity expenses of the enterprises,

- which started their activities as of 01.04.2005, and which employ minimum ten employees
- which started their activities before 01.04.2005 and employ minimum ten employees actually and continuously in the production sector

is met by the Treasury.

For enterprises, which have started their activities as of 01.04.2005, 0,5 points is added to this rate for each employee after the minimum employee number .

Likewise, for enterprises started their activities before 01.04.2005, 0,5 points is added to this rate for each employee, who started to work before this date and after the minimum employee number.

The rate to be met by the Treasury shall not exceed 50% for those enterprises performing activities in the organized industrial zones or industry zones and 40% for those businesses in other areas.

In the determination of the number of employees employed actually and continuously, the monthly premium and service documents are taken as a basis.

VI-4. Land Allocation

For investments in priority regions, if the investment creates employment opportunities for at least 10 employees for an uninterrupted period of 5 years, the Ministry of Finance shall grant free land, depending on the availability of land, through right of easement for 49 years.

CHAPTER 4

TAX SYSTEM

In recent years, there have been significant changes in the tax legislation introducing a set of measures to simplify tax structure and to increase the efficiency of the tax administration while reducing the tax rates gradually.

Turkish corporate taxpayers are subject to the provisions of a new Corporate Tax Code that entered into force after its promulgation in the Official Gazette on June 21, 2006.

The new Corporate Tax Code has replaced the previous one, which was initially enacted in 1949 and during its 57 years of rule, it was amended several times to keep up with the developments in the business and tax environment at global and local scale.

The provisions of the new Corporate Tax Code became effective as of 01.01.2006, with exceptions such as provisions regarding transfer pricing regulations, which have become effective as of 01.01.2007.

The new Corporate Tax Code introduced structural changes for the existing applications in the Turkish tax system which is as follows:

- Reduction in corporate tax rate,
- Thin capitalization,
- Transfer pricing,
- Participation exemption from foreign subsidiaries and Permanent Establishments (PE)
- Reduced capital gains taxation on shares and immovable property,
- Liquidation, spin-off, share exchange, tax exemptions,
- Foreign tax credit applications,

Apart from the structural changes in the application, new concepts are introduced to Turkish tax system:

- CFC regulations,
- Anti-abuse provisions against transactions performed by persons resident in off-shore jurisdictions,
- Cost allocation for Turkish PE of foreign parent companies

It is expected that this new law would bring Turkey in line with other OECD countries and make Turkey a more competitive country in comparison to the Eastern European countries to attract more foreign direct investment.

An obstacle is the existence of unregistered economy, which creates a comparative disadvantage with respect to fair competition for both foreign and local investors, having strong tax morality. The elimination of unregistered economy had been the major target for the Ministry of Finance since many years. Recently, a new regulation has been put into effect, enforcing the payments and collections exceeding TRY 8.000 (USD 5.425) to be made through bank transfers.

The prevailing tax regime does not maintain any differentiation between local and foreign capital companies. As of 2006, the corporate tax rate for corporations is 20% and in case of dividend distribution, the effective tax rate is 32%, together with the dividend withholding tax.

Following are the major types of taxes that are applicable in Turkey:

- Corporate Tax
- Dividend Withholding Tax
- Income Tax
- Value Added Tax
- Special Consumption Tax
- Other Wealth and Transaction Taxes

I- CORPORATE TAX

I.1 Overview

Companies whose legal or business headquarters (as stated in their articles of association) are located in Turkey or whose operations are centered and managed in Turkey are subject to corporation tax on their worldwide income. Turkish tax legislation describes these companies as fully liable taxpayers, also known as **resident companies**.

Limited liability taxpayers (**non resident companies**) include branch offices, whose legal head office or legal centre is located abroad. These companies are subject to corporate tax only on their income generated from Turkey.

I.2 Tax Rate

Corporate income is taxed in two tiers;

- Basic corporate tax
- Dividend withholding tax

The basic corporate tax rate is 20 % for both resident and non-resident corporate taxpayers. A dividend withholding tax at a rate of 15% is applicable for dividend distributions; except for the dividends paid to the corporate shareholders located in Turkey.

Below table is a comparison of current and old corporate tax rates for a corporation distributing dividends to its foreign shareholder.

CORPORATE TAX STRUCTURE				
	Old regime		Current Regime	
Corporate Income		100		100
Corporate Tax	30%	-30	20%	-20
After-tax income		70		80
Distributable profit		70		80
Dividend WHT *	10%	-7	15%	-12
Net Dividend		63		68
Effective Tax Burden		37		32%

* Disallowable expenses and reserve requirements are ignored for the simplicity purposes.

The only variation as to the retained versus distributed profits is resulted from the dividend withholding tax. Retained profits are not subject to dividend withholding tax. 20% corporate tax is the final tax as long as the profit is retained at the company.

I.3 Advance Tax

Corporations are required to pay advance tax (so called-temporary tax) based on their quarterly profits at a rate of 20%. Advance tax is payable by the 17th of the second month following the end of each quarter. Advance taxes paid throughout the year are offset against the final corporate tax liability of the company. Any excess payment of advance corporate tax is refunded to the taxpayer in April of the following year when the final corporate tax return is submitted.

I. 4 Determination of Taxable Income

Resident taxpayers are subject to corporate taxes on their worldwide income; however the following principal expenses are treated as deductible for tax purposes.

- General operating expenses (wages, pensions, interests, royalty payments, etc.)
- Travel expenses
- Taxes on real estate, stamp duties, and various local taxes
- Depreciation of tangible and intangible assets
- Cost of issuing share certificates and the expenses of forming and registering an enterprise
- Losses incurred over the previous five years (there is no loss carry back)
- Donations to approved charities and schools, hospitals and organizations carrying out scientific research
- Research and development costs
- Start-up costs.

Under Turkish Tax Laws, expenses are deductible on accrual basis. However, as far as the reserves are concerned, actual basis is adopted rather than provisional basis. Reserves for severance indemnity and bad debts are deductible on actual basis.

Certain types of expenses are specifically not allowed for deduction.

- Interests accrued or paid over the share capital
- Interests accrued or paid over thin capital
- Disguised earnings
- Legal reserves
- Taxes, penalties and fines.

I-5 Exemptions from Corporate Tax

The following earnings are exempt from corporate tax;

- Dividends received from companies, resident in Turkey
- Dividends received from foreign participants, if certain conditions satisfied
- Gains from sale of shares and real estates (See I-8)

There is no alternative tax on exempted items.

I.6 Schedule for Paying Corporate Tax

Corporate tax declaration should be made between the first and 25th days of the fourth month following the end of tax year of the company. Normally, the tax year is the calendar year. Hence, the corporate tax return is declared until 25th April of the following year. Any balance of corporate tax after offsetting the advance corporate tax payments, is due by end of the month pertaining the declaration period.

I.7 Taxation of Branch of a Foreign Entity

The major difference between branch and subsidiary or joint venture is the liability status. A branch is subject to Turkish taxes only for income generated in Turkey due to the limited liability status, whereas a subsidiary or joint venture is subject to taxes on worldwide income.

However, as far as the income derived in Turkey is concerned, the current tax regime maintains no differentiation between branch's profits and company profits. There were some differentiations in the old system resulting from withholding tax applications. These are all abrogated in the new system and branch profits are now taxed in the same manner as companies.

I.8 Taxation of Capital Gains

For corporations, there is no separate capital gains tax. Gains on the sale of fixed assets are taxed at the normal corporate rate. However, under the new Corporate Tax Code, 75% of the capital gains derived from the disposal of participation shares and immovable property, which has been held by the corporate taxpayers for a minimum two years are exempted from corporate taxation. Under the new Corporate Tax Code, the capital gains will be kept under a special reserve account for a minimum of five years with no further obligation to add the capital gains into company capital.

Provided that the buyer is a non-resident person or company that does not have a permanent place of business in Turkey, capital gains of a foreign shareholder on sale of the shares of a joint stock company is not subject to Turkish taxes. If the buyer is resident in Turkey, as a rule, the gain is subject to taxes but most tax treaties provides an exemption for the shares held for at least one year.

I.9 Taxation of Interests

The withholding tax rates to apply on the interests income of a non-resident company is as follows;

- Interests on foreign loans obtained from foreign banks and other financial institutions; **0%**.
- Interest on foreign loans from non-financial institutions; **10%**
- Interest on Turkish government papers; **0%**
- Interests on foreign currency bank deposits; **15%**
- Interest on Turkish Lira bank accounts; **15%**
- Interests on repo transactions; **15%**

The withholding tax liability is payable by the remitter of the interest to recipient. The withholding taxes can be decreased or eliminated if there is a tax treaty between Turkey and the recipient's country.

I.10 Taxation of Royalties and Fees

The non-resident companies, receiving license, know-how and technical assistance payments are taxed through withholding. The withholding taxes apply to fee payments to non-resident companies at the following rates;

- For royalty and service payments to foreign licensors; **20%**
- Rental fees to non-residents; **20%**
- Technical service fees; **20%**
- Other service fees; **20%**
- Oil exploration services; **5%**
- Financial leasing fees; **1%**

The withholding tax liability is payable by the remitter of the payments to the recipient. The withholding taxes can be decreased or eliminated if there is a tax treaty between Turkey and the recipient's country.

There is also 18% VAT charge under the reverse charge mechanism, however, reverse charge VAT does not create tax cost for either party.

I-11 Taxation of Dividends

As it is explained in section I-2 above, the dividend withholding tax rate is 15%. The withholding tax is not applied on the dividends distributed to resident corporate shareholders, i.e. the companies established in Turkey.

The non-resident shareholders may benefit from a reduced withholding tax on dividends, if they qualify to benefit from the double taxation treaty provisions that prevail for a lower withholding tax than 15 %.

I.12 Tax Treaties

Turkey has a wide network of tax Treaties with 69 countries in effect. Tax treaties of Turkey follow the OECD model. A full list of tax treaties in effect is provided on Table 6.

The list of Tax Treaties and Withholding Tax Rates			
	Royalty (%)	Interest* (%)	Dividends* (%)
Albania	10	10	5/15
Algeria	10	10	12
Austria	10	5/10/15	5/15
Azerbaijan	10	10	12
Bahrain	10	10	10/15
Bangladesh	10	10	10
Belarus	10	10	10/15
Belgium	10	15	5/10
Bulgaria	10	10	10/15
Bosnia-Herzegovina	10	10	5/15
China	10	10	10
Croatia	10	10	10
Czech Republic	10	10	10
TRNC	10	10	15/20
Denmark	10	15	15/20
Egypt	10	10	5/15
Estonia	5/10	10	10
Ethiopia	10	10	10
Finland	10	15	15/20
France	10	15	15/20
Germany ***	10	15	15/20
Greece	10	12	15
Hungary	10	10	10/15
India	15	10/15	15
Indonesia	10	10	10/15
Iran	10	10	15-20
Israel	10	10	10
Italy	10	15	15
Japan	10	10/15	10/15
Jordan	12	10	10/15
Qatar	10	10	10/15
Kazakhstan	10	10	10
Kyrgyz Republic	10	10	10
Korea (South)	10	10/15	15/20
Kuwait	10	10	10
Latvia	5/10	10	10
Lebanon	10	10	10/15
Luxembourg	10	10/15	10/20
Lithuania	5/10	10	10
Macedonia	10	10	5/10
Malaysia	10	15	10/15
Moldova	10	10	10/15
Mongolia	10	10	10
Morocco	10	10	7/10
Netherlands	10	10/15	5/10

Norway	10	15	25/30
Pakistan	10	10	10/15
Portugal	10	10/15	5/15
Poland	10	10	10/15
Romania	10	10	15
Russia	10	10	10
Serbia and Montenegro	10	10	5/15
Saudi Arabia	10	10	5/10
Singapore	10	7.5 /10	10/15
Slovenia	10	10	10
Slovakia	10	10	5/10
Spain	10	10/15	5/15
South Africa	10	10	10/15
Sudan	10	10	10
Sweden	10	15	15/20
Syria	10-15	10	10
Tajikistan	10	10	10
Thailand	15	10/15	10/15
Tunisia	10	10	12/15
Turkmenistan	10	10	10
Ukraine	10	10	10/15
UAE	10	10	10/12
United Kingdom	10	15	15/20
United States	5/10	10/15	15/20
Uzbekistan	10	10	10

* Local legislation provides lower withholding tax rates for most cases. (See section I.9)

** Also there is a tax treaty with Saudi Arabia, but it only covers the taxes regarding the air transport activities

*** Turkey-Germany Double Tax treaty Agreement is terminated. The termination of this treaty will be effective starting from 01 January 2011 and will not have effect for 2009 and 2010 tax years.

I.13 Depreciation

Effective from 1 January 2004, the useful life concept was introduced with respect to the depreciation of fixed assets. The rates of depreciation to be applied in the amortization of the assets are determined and announced by the Ministry of Finance in due consideration of the economic lives of the concerned assets. In accordance with Tax Procedure Law, the Ministry of Finance has issued three communiqués numbered 333, 339 and 365 which set forth the useful lives of different types of fixed assets.

Depreciation applies on a full-year basis to all property, plant and equipment, with the exception of vehicles, which must be depreciated on a monthly, pro-rata basis.

For fixed assets other than passenger cars, depreciation is granted for the full year, regardless of the acquisition date of the asset. For passenger cars only, depreciation for the year of acquisition is calculated on pro-rata basis. Intangible assets, like capitalized start up costs and goodwill are depreciated over five years. Empty lands cannot be depreciated.

There are two methods available to taxpayers; straight-line method and declining - balance method. A taxpayer who initially has chosen the declining balance method for an asset may switch to the straight-line method. The taxpayer then spreads the written down value over the remaining years, allowing for equal depreciation. However, those that begin with straight-line method may not switch to the double declining method.

The Ministry of Finance may, in practice, grant extraordinary depreciation rates for fixed assets subject to abnormal wear and tear.

I.14 Research and Development (R&D) Expenditures

100% of R&D expenditures might be deducted from tax base provided that certain conditions are fulfilled. This is an incentive mechanism in addition to ordinary expense recognition of R&D expenditures. The expenses which are included under the scope of the expenditure items are stated below.

- Raw materials and supplies expenses
- Personnel expenses
- General expenses
- Benefits and services provided from outsource
- Tax, duty and fees
- Depreciation and depletion
- Financial expenses

Companies which have not been able to deduct R&D expenditures due to insufficient taxable income may deduct the unused amount in the following years.

I.15 Tax Year

In principle, the tax year is the calendar year. A taxpayer may adopt a 12-month tax year other than calendar year, provided that a prior permission from the Ministry of Finance is obtained. Taxpayers demanding different tax year are required to apply to Ministry of Finance, with proper and acceptable justifications for the change.

I.16 Other Issues Related to Corporate Tax Law Numbered 5520

Thin Capitalization:

Under the new legislation, borrowings from shareholders and related parties that exceed debt/equity ratio of 3:1 will be considered as disguised capital. For the borrowings that will be

made from related party banks and financial institutions, the debt/equity ratio will be considered as 6:1. In determination of the related party borrowing, total borrowing from all related parties will be treated collectively.

For the purpose of the provision mentioned in the respective article of the code, related party is defined as persons that have direct and indirect shareholding of minimum 10% shareholding or vote/dividend right.

The opening equity for the beginning of the taxpayer's accounting period is considered as the equity for thin capitalization purposes.

The interest paid or accounted, as well as the foreign exchange differences exceeding debt/equity ratio is considered as non-deductible expense.

Except for the foreign exchange differences, interest paid over exceeding debt/equity ratio is considered as dividend distributed and will be subject to dividend w/h tax.

The debt/equity ratio will be applicable for Turkish PEs of foreign parents as well as their Turkish subsidiaries.

Transfer Pricing:

For the commercial transactions that are conducted between related parties traditional transfer pricing methods mentioned in the OECD Model Transfer Pricing Guideline will be taken as basis.

The related party is defined in the respective article as traditional definition which also stipulates that commercial transactions that are made by persons resident in low-tax jurisdictions should be considered as transactions made by related parties.

The new law also stipulates for 30% withholding tax on payments paid in cash/on account to non resident real and legal persons, who are resident in countries named as tax heavens. The Ministry of Finance will declare the list of tax heaven countries, in respect of their taxation capacity compared to Turkish tax system, as well as consideration of exchange of information with the administration of the jurisdiction, of which is not considered to be priced at arm's length.

According to the new provisions, taxpayers will decide between the methods mentioned below to conclude their commercial transactions with related parties from arm's length pricing:

- (a) Comparable uncontrolled price (CUP):
- (b) Cost plus
- (c) Resale price

Taxpayers will also have a right to use transfer pricing methods other than traditional methods mentioned above, if they argue that the traditional methods are not suitable for their transactions.

Taxpayers, upon their decision for the method they will use, will have to collate information to provide sufficient documentation.

The transfer pricing between related parties, which has not been executed in compliance with the transfer pricing methods mentioned above, will be considered as disguised profit distribution and will be subject to dividend withholding tax.

These new transfer pricing rules would be applied both for domestic and foreign transactions.

One of the new concepts that are introduced is the Advance Pricing Arrangements, which taxpayers will conclude with Ministry of Finance. The transfer pricing method approved by the Ministry of Finance will be applicable for 3 years, given that the conditions that have been effective in the determination of the transfer pricing method remain stable.

The articles of the new Corporate Tax Code regarding transfer pricing applications are effective from 1 January 2007.

Participation exemption from foreign subsidiaries and PE:

The conditions in the application of participation exemption of Turkish corporate taxpayers over the dividend income from their foreign participations are made less strict by legislation changes. Accordingly;

- minimum shareholding requirement in the foreign participation has been decreased from 25% to 10%,

- minimum holding period of the participation share has been decreased from 2 years to 1 year,
- minimum tax burden over the foreign participation has been decreased from 20% to 15%,

The conditions in the existing tax code with respect to transfer of dividend income/branch profit from foreign participations/foreign PEs to Turkey, as well as the minimum corporate tax burden requirement equal to the rate applied in Turkey for foreign participations engaged in financial leasing, finance and insurance activities, has remained the same in the new tax code.

The context of the participation exemption has been extended for companies that have been established in foreign countries with the main purpose of construction, repair, assembly and technical services. Accordingly, if, pursuant to the provisions of the respective country, the establishment of a corporation is necessary to undertake the above mentioned construction activities, the dividend that will be repatriated by the foreign subsidiary to Turkish parent will benefit from participation exemption, without consideration of the conditions set forth for participation exemption application.

Reduced capital gains taxation on participations and immovable property:

With the exception of taxpayers' capital gains that are active in trading of marketable securities and investment in immovable property, 75% of the capital gains derived from the disposal of participation shares and immovable property, which has been held by the corporate taxpayers for a minimum two years are exempted from corporate taxation.

Based on the new corporate tax rate of 20% and 75% corporate tax exemption on capital gains derived from disposal of participation shares and immovable property, the effective corporate tax rate on capital gains will be 5% (25% taxable capital gains x 20% corporate tax rate).

The condition in the existing regime for the injection of the capital gains derived from disposal of shareholding and immovable properties is abolished. Under the new Corporate Tax Code, the capital gains will be kept under a special reserve account for a minimum of five years with no further obligation to add the capital gains into company capital.

Foreign Tax Credit Applications:

Within the provisions of the new Corporate Tax Code, it is proposed that resident corporate taxpayers in Turkey will have the right to credit the corporate or income tax paid by foreign subsidiaries in their jurisdictions.

The tax paid in foreign jurisdiction, which can not be credited against the corporate tax base in Turkey because of lack of corporate income, could be carried forward for a period of three years. The tax credit will also be used on temporary tax return declarations.

CFC regulations:

For the first time in Turkish corporate tax practices, the concept of Controlled Foreign Corporation (CFC) has been put into effect.

According to the proposed provisions of the new Corporate Tax Code, CFC regulations will be applicable when resident real persons and corporate taxpayers have minimum 50% direct or indirect participation to the shares, dividend rights or voting rights in companies that have been established abroad given that foreign corporation satisfies all of the conditions mentioned below at once:

- (a) 25% or more of the foreign company's income should be in passive nature (portfolio investments),
- (b) foreign company is subject to less than 10% corporate taxation over its corporate income,
- (c) gross revenue of the foreign company exceeds foreign currency equivalent of 100,000 Turkish Lira (USD 71,400, where USD/TL exchange rate is 1.4)

If the foreign corporation will be treated within the context of Turkish CFC regulations, Turkish resident taxpayers will have to declare the corporate income of the foreign company. The amount to be declared should be in proportion with the amount attributable to Turkish resident shareholder in respect of its share in the foreign company, regardless of whether the foreign company makes a dividend distribution or not.

Anti-abuse provisions against transactions performed by persons resident in low-tax jurisdictions:

For all transactions that will be concluded between Turkish resident taxpayers and with persons that are resident in jurisdictions that Council of Ministers will declare whether the jurisdiction has a taxation capacity that is equivalent to Turkish tax system and in consideration of exchange of information with the administration of the jurisdiction, Turkish resident taxpayers will have to apply 30% withholding tax on payments made in cash/on account for the service, commission, interest, royalty and similar payments. (Council Of Ministers has not declared the list yet.)

However, if the transactions will be in the nature of commodity importation and acquisition of participation shares, this provision will not be applicable as long as the pricing will be considered to be in arm's length. Interest payments that are made over loans to financial institutions abroad will not be covered within this application.

Cost allocation for Turkish PE of foreign parent companies:

Under the new Corporate Tax Code, costs that are incurred at the headquarters or at the level of group companies resident abroad, Turkish branches of foreign companies will have the opportunity to treat these expenses as deductible item for corporate tax purposes given the below conditions are satisfied:

- the expenses incurred abroad should be in direct relation with the commercial operations of the Turkish branch,
- costs that has been allocated to Turkish branch through cost allocation keys determined at the headquarters with compliance to arm's length pricing principles

II- INCOME TAX

II. 1 Overview

There are 7 categories of income defined in tax laws for real persons. These are;

- Commercial income
- Agricultural income
- Independent professional service income
- Wages and salaries

- Securities income
- Rental income
- Capital gains

For each of above, there are specific rules for determination of taxable income.

The Turkish residents are treated as full taxpayers and they are subject to personal income tax on their worldwide income. The non-residents, defined as limited taxpayers, however, pay taxes only on the income that they earn from Turkish sources.

II.2 Residence

In the absence of a tax treaty, tax residence of a person is determined as per Income Tax Law. Individuals resident in Turkey for a continuous period (including temporary absences) of more than six months in any calendar year are treated as tax resident (full liability taxpayer) of Turkey. However, foreign employees who are on an assignment in Turkey for a specific business project or mission, or those who are in Turkey for holiday or education are not regarded as resident, even if the duration of their stay exceeds six months.

II. 3 Income Tax Rates

The lowest rate is 15%, rising progressively to a top marginal rate of 35%. All types of income are subject to same tax rates.

Income Tax Tariff for the year 2009			
Income Tax Brackets; USD1= YTL 1,4			Tax Rate For All Types of Income (%)
0		8.700 (\$ 6.215)	15
8.700 (\$ 6.215)		22.000 (\$ 15.715)	20
22.000 (\$ 15.715)		50.000 (\$ 35.715)	27
50.000 (\$ 35.715)		Over	35

II.4 Taxation of Salaries

Salaries are taxed through withholding by resident employers. Most recently there have been changes in Turkish Income Tax Code. Tax allowance, provided to real person taxpayers that

have wage income by means of offsetting certain portion of food, education, health, rent and clothing expenses from income tax payable, has been abolished as of 01.01.2007.

To replace the former application, a new regulation has been introduced named as “Minimum Subsistence Allowance”. The allowance will be calculated by multiplying the rate applied of the first income tax bracket (currently 15%) of the income tax tariff with 50% for the taxpayer, 10% for his spouse not working or not having any income, 7,5% for the first two children and 5% for each of the children remaining, of the annual gross amount of the minimum wage amount valid at the beginning of the calendar year when the wage is earned, for the employees who are above 16 and working in the industrial sector. Then this amount shall be deducted from the income tax to be calculated over the wage.

As a result of the new regulation, the taxpayers with different gross wages but similar family position will receive the same allowance. The new application has been in practice from 01.01.2008 in the taxation regime of the employees.

If the salary is paid by a non-resident employer, the employee is required to submit an annual income tax declaration.

III. VALUE ADDED TAX

Supply of goods and services within the boundaries of Turkey, as well as the imports are subject to Value Added Tax (VAT). VAT is assessed at the rate of 18% for most goods and services. There are also reduced rates for certain goods and services; 8% for basic food, books and natural gas, textile products; and 1% for journals and newspapers and certain agricultural products and most leasing transactions.

VAT is reported monthly. Input VAT paid over purchases is automatically credited against the output VAT computed over sales, and any positive difference is paid to the tax office by the taxpayer on the 26th of the following month. If the difference is negative, however, as a rule, it is not refunded to the taxpayer and it is carried forward to the future periods. However, refund is possible for certain transactions, like exports.

Exempted transactions include export of goods and services, transshipment of goods through Turkey, cultural and educational activities, delivery of equipment to the military and diplomatic personnel, delivery of investment goods within the scope of incentive certificate.

IV. SPECIAL CONSUMPTION TAX

Special Consumption Tax (SCT) has been introduced to Turkish tax system, effective from August 1st, 2002. SCT is designed to establish a single consumption tax structure in Turkey (apart from the value added tax), and abolished 16 different consumption taxes and fund levies, which were in effect.

SCT is imposed on specific goods only. Various petroleum products, including oil and natural gas; vehicles such as automobiles, caravans, motorcycles, helicopters, and aircraft; carbonated and alcoholic beverages and tobacco products; and miscellaneous luxury products including perfumes and cosmetics, furs, precious stones, various types of durable consumer goods, electronic devices, watches, and guns. SCT is imposed at different rates and amounts for different products. To give an example, for petroleum products, SCT is varying between TL 0,7605 to TL 2,00 per liter. There are also other petroleum products for which SCT is applied over per kilogram or per cubic meter basis.

V. OTHER TAXES

V.1 Stamp Tax

Stamp tax is applied on a wide range of official and legal documents at different rates. When the amount is specified, the rate is 0.75% over the amount specified, such as contracts, loan agreements, guarantees and mortgages. The ceiling for stamp tax is 1.136.904,10 TL for the year 2009 per each document that is subject to stamp tax. Foreign exchange loan agreements with foreign credit institutions are exempt from stamp tax. Stamp duty is exempted on letter of credits and applied at 0.6% on salaries.

V.2 Real Estate Tax

Real estate tax is a kind of wealth tax. It is divided into two categories as building tax and the land tax. The rates are 0.1% for residences; 0.2% for other buildings; 0.1-0.3% for land. The tax is paid in two equal installments. The rates applied with 100% increase for the real estates within the boundaries of big cities.

V.3 Banking and Insurance Transaction Tax (BITT)

Commission and interest income of the banks and the premiums collected by insurance companies are subject to 5% BITT. BITT is applied at 0.1% on foreign exchange selling transactions by the banks. Transactions that are subject to BITT are exempt from VAT.

V.4 Motor Vehicle Tax

Motor vehicle tax is payable by the motor vehicle owners. Tax amount varies according to the type, features, and age of the vehicle (cars, buses, lorries, trailers, airplanes, and helicopters). The amount of MVT for car is varying from TL 44,00 to TL 14.220,00 for 2009 depending on the criteria mentioned before. For example for 2009, cars that has engine capacity between 1301-1600 cm³ and aged between 1-3 years has TL 628,00 motor vehicle tax.

VI. MORTGAGE

A common housing finance model called mortgage, which has been used in developed countries for many years has been put into effect in Turkey. Law Amending Various Laws Concerning Housing Finance System numbered 5582 has taken effect after its promulgation in the Official Gazette dated 06.03.2007. Modifying provisions in Law of Bankruptcy, Securities Exchange Act, Law on the Protection of Consumer Rights and other various laws, the new legislation aims building a system, which facilitates the procedure of borrowing for house buyers under more favorable conditions. Under this new housing finance model, savings could be offered to the use of house buyers by means of capital markets as it is the case all over the world.

The primary reason for making changes in the tax laws is to reduce costs in the system and make “mortgage” more attractive for both savers and house buyers. Important regulations are as follows;

- a) Fund collected due to the all transactions of mortgage financing companies, housing finance companies and housing finance funds under the scope of housing finance,
- b) Funds collected from agreements and policies of insurance within the scope of housing finance and

c) Funds collected from the disposal of shares issued during their establishment or capital increase process, with an amount exceeding their nominal value are exempted from Banking and Insurance Transaction Tax (BITT).

CHAPTER 5

Significant Accounting Concepts for Investors

General

In March 2006, the Turkish Accounting Standards (TAS) has been published by Turkish Accounting Standards Board which was declared to be effective as of January 1, 2006. The legal requirements to apply TAS has been referred to in the draft revised Turkish Commercial Code; however, such draft has not yet been approved by the Grand National Assembly of Turkey. Accordingly, companies follow the existing Turkish Commercial Code, Turkish Procedural Tax Law and the communiqué issued by Ministry of Finance in 1992 applicable to all Turkish entities (excluding financial institutions) in preparing the statutory financial statements. Starting in 1994, the communiqué requires such entities to prepare their financial statements in a prescribed format using a uniform chart of accounts and certain fundamental accounting and reporting concepts specified in the communiqué.

Under Capital Markets Board (CMB) regulations, all listed companies, financial intermediaries, mutual funds, investment partnerships, and companies not listed but considered as publicly traded due to high number of shareholders (more than 250) are subject to CMB regulations. The listed companies prepare their financial statements in accordance with the communiqué no: XI-29, which has been published as of April 9, 2008. The communiqué no: XI-29 requires application of International Financial Reporting Standards effective from January 1, 2008, except for the adoption of an earlier date for discontinuation of application of IAS 29 (Financial Reporting in Hyperinflationary Economies) . As per CMB financial accounting standards application of inflation accounting was ceased as of January 1, 2005 whereas per IFRS it was ceased January 1, 2006.

Starting from December 31, 2006, financial institutions other than insurance companies, prepare their financial statements in accordance with the Turkish Accounting Standards which are in line with IFRS. However, there are certain departures from IFRS as explained in communiqués of Banking Regulations and Supervision Agency (BRSA) like non-consolidation of non-financial institutions.

A separate set of accounting principles together with uniform chart of accounts applicable to insurance companies are issued by Undersecretariat of Treasury.

Statutory Financial Statements

Companies should follow the uniform chart of accounts and prepare their statutory financial statements accordingly.

The statutory financial statements should include at least the following:

- Balance sheet
- Profit and Loss Statement and
- Notes to the Financial Statements.

Supplementary financial statements, which are not mandatory for all companies are:

- Statement of Changes in Shareholders' Equity
- Statement of Cash Flows
- Statement of Cost of Sales
- Statement of Profit Distribution

Basic accounting principles followed in the preparation of statutory financial statements (under the current existing system) are summarized below (for companies other than those subject to CMB or BRSA regulations):

Inventories

Inventories are stated at the lower of cost or market value. Cost of inventories includes all costs incurred in bringing inventories to their current state and foreign exchange losses arising from related payables denominated in foreign currencies. The methods most frequently used for valuing inventories are the average cost method and the first-in-first-out (FIFO) method. Starting from January 1, 2004, companies are not allowed to use last-in-first-out (LIFO) method. Any reserve provided for obsolete items should be approved by tax authorities in order to be tax deductible.

Fixed Assets

Fixed assets include the costs incurred for the construction/purchase of the asset, including the interest costs and foreign exchange losses capitalized in accordance with the Tax Procedural Law.

Depreciation

The rates of depreciation to be applied in the amortization of the economic assets, are determined and announced by the Ministry of Finance in due consideration of the economic lives of the concerned assets. Depreciation applies on a full-year basis to all property, plant and equipment, with the exception of vehicles, which must be depreciated on a monthly, pro-rata basis.

Intangible Assets

Intangible assets are stated at cost and are amortized over their useful lives determined by the Ministry of Finance. If the intangible assets' useful lives cannot be clearly determined, they may be amortized over five years. Capitalization of preoperational costs associated with intangible assets is optional. Non-patented inventions, know-how reflected in the development cost of products and brand names are not recognized as assets for this purpose.

Government Grants

Government grants related to capital investments for certain industries may either be recorded as income or deducted from the cost of fixed assets. Each company must adopt a consistent accounting policy for the treatment of incentives.

Capitalization of Financial Expenses

Turkish Procedural Tax Law requires capitalization of the related financial expenses incurred until the end of the fiscal year the fixed asset is ready for use. In the following years it is optional to capitalize the financial expenses incurred or charge them to expense. However, companies should follow the accounting principle consistently.

Employee Termination Benefits

Under the terms of the existing labor law, companies are required to make certain lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated at a minimum of 30 days' pay (limited with a ceiling announced semi-annually) per year of employment at the rate of pay applicable at the date of retirement or termination. Although there are defined accounts for liabilities for such benefits, they are not tax deductible until they are paid.

Investments in Securities

Under the Turkish Procedural Tax Law, common stocks and investments in mutual funds that have 51% or more of their total portfolios comprised of common stocks of companies that are founded in Turkey are valued at cost; all other investments in mutual funds are stated at market value. Treasury bills, government bonds and private sector bonds traded in stock exchange are stated at market value. Fixed income securities with no quoted market prices are valued at cost plus accrued interest.

Finance Leases

For leasing transactions incurred before July 1, 2003, neither the leased property nor the lease obligation is recorded in the balance sheet of the lessee, instead all rentals paid throughout the lease period are recorded as expense. Effective from July 1, 2003, and in line with IFRS, leased assets acquired under finance lease agreements and related lease obligations are recorded in the lessee's books. Leased assets are depreciated in line with the accounting policy of the company for other owned fixed assets. Capital payments are deducted from lease obligations and interest payments are recorded as expense.

Consolidation

In Turkey, tax legislation does not permit a parent company and subsidiaries to file a consolidated tax return. Therefore, there is no requirement for preparation of consolidated financial statements.

Reporting and Filing Requirements

A company's board of directors must prepare an annual report which includes annual basic and supplementary financial statements and an auditor's report and then submit it to all shareholders 15 days before the annual general shareholders' meeting. The company's annual report, including the annual basic and supplementary financial statements, must be filed with the Trade Registry within 30 days after the annual general shareholders' meeting.

Listed companies must file their audited financial statements and auditors' reports with the CMB and the stock exchange within 10 (plus 4 weeks for consolidated financial statements) weeks after the end of their fiscal year. They are also required to file mid-year interim financial statements together with limited review report within 6 weeks after the end of their mid-year plus 2 weeks for consolidated financial statements).

Banks must send their audited year end financial statements till the end of April and reviewed quarterly interim unconsolidated and consolidated financial statements within 45 days and 75 days, respectively, to the BRSA and Banks Association of Turkey after the end of each quarter. Listed banks are also subject to CMB deadlines. Banks are also required to deliver their consolidated and unconsolidated financial reports to BRSA and Banks Association of Turkey and publish in the Trade Registry Gazette, within four months following the accounting period. The Banks Association of Turkey shall publish the financial statements delivered to it in its website within the deadlines set in the regulation.

Insurance companies must file their audited annual financial statements within 10 weeks after the end of the financial year and reviewed mid year financial statements within 8 weeks after the end of semi annual period with the Undersecretariat of Treasury.

Audit Requirements (under the current system)

All joint stock companies are required to appoint statutory auditors (only real person auditors) to examine their financial statements on behalf of the shareholders. Audits performed by statutory auditors are limited in nature compared to audits performed in accordance with internationally accepted auditing standards. Statutory auditors are not always from the profession and are generally viewed as persons fulfilling a legal requirement. Limited liability companies with more than 20 shareholders must have at least one statutory auditor who is subject to the rules that apply to joint stock companies. There are new requirements for statutory audit in draft Turkish Commercial Code; i.e. qualifications for auditors are determined, scope of the work enlarged, responsibilities are defined, etc.

Under the CMB regulations, the financial statements of joint stock companies traded on the Istanbul Stock Exchange, financial intermediaries, mutual funds, investment partnerships and companies not listed but considered open to the public by the CMB, must be audited by independent external auditors in accordance with generally accepted auditing standards issued by CMB which are in line with International Standards on Auditing.

BRSA requires all banks to be audited by independent external auditors annually. In addition, review reports are required for quarterly interim financial statements. Consolidated financial statements of the banks are subject to same review / audit procedures. However, only financial subsidiaries are subject to consolidation.

Insurance companies are also required to submit audited annual financial statements and reviewed half year financial statements to the Undersecretariat of Treasury.

CHAPTER 6

EXCHANGE REGIME

Overview

Turkey has a liberal exchange control regime. Law number 1567, concerning the protection of the value of the Turkish currency, guarantees the free transfer of profits, fees and royalties.

The transfer of profits, dividends, proceeds of sale and liquidation, license, know-how, technical assistance fees, repayment of loans and interests are not restricted.

Turkish Lira is fully convertible. The supply of foreign exchange is not limited and banks may open foreign exchange deposit accounts for both the residents and the non-residents. Principal and interests of non-residents can be transferred through the investor's bank. Non-residents may sell and buy securities at the Istanbul Stock Exchange, without being subject to any limitation and/or approval.

Incoming Capital and Repatriation

Turkey has eliminated the requirement of prior approval for foreign direct investments. There are no limitations on foreign investors to buy or sell shares of existing companies in Turkey. There are no requirements to convert into Turkish Lira foreign currency transferred to Turkey for the purpose of establishing corporations, increasing capital or buying the shares of existing Turkish companies.

Foreign direct investors may liquidate their holdings and the transfer of liquidation proceeds are realized through banks. Turkish Lira proceeds are converted to foreign exchange by using the official exchange rate valid on the transfer date. Proceeds from sale of shares or assets are transferred freely.

Dividend Transfers

Foreign investors have the right to transfer dividends, after deducting the relevant taxes and legal reserves required by laws, without needing a prior approval from any authority. Immediately after the end of the tax year, dividends corresponding to the foreign investor can be transferred abroad, provided that a resolution is passed in the annual general meeting of the shareholders. Advance dividend distribution is possible for listed companies at Istanbul Stock Exchange and also for other corporate taxpayers.

Foreign currency equivalent of the dividends is determined by applying the prevailing official exchange rate on the date of transfer. Dividend transfer can be realized even before the declaration of tax return of the concerned year.

Transfer of Royalties and Fees

Royalty, license and management fees, payments for know-how and technical assistance can be transferred freely, through submitting the agreement between the parties to the bank making the transfer. The previous requirement of registering the license, know how and royalty agreements to General Directorate of Foreign Investment have been abolished with changes made in Foreign Direct Investment legislation in 2003. The transfer is handled directly by the bank making the transfer. These types of payments are subject to withholding tax at a rate of 20 %. However, most tax treaties reduce the rates and the rates to apply varies according to the nature of payment.

Incoming Loans and Repayment

There are no restrictions on companies to procure any type of foreign credit, including cash, non-cash, guarantees and surety, and to make use of such credits through use of banks. Foreign credits can be obtained freely within the framework of foreign exchange laws and regulations. Interest and principal repayment can be made without needing an approval or authorization. The withholding tax rate on foreign bank loan interests is 0%.

Resource Utilization Support Fund (RUSF) is a type of charge levied on the loans obtained by Turkish companies and real persons. The rate and application of RUSF change dependent on the maturity, type and currency of the loan.

Pursuant to the provisions set forth in RUSF Communiqué numbered 6, RUSF withholding is not applicable on foreign currency loans derived from foreign countries by legal and real persons resident in Turkey with a maturity of one year or longer. Accordingly, RUSF withholding shall not be applied on loans in foreign currency derived by the company from a corporation resident abroad, if the average maturity is one year or longer. (Please note that, the foreign corporation's being a financial institution or not does not have any importance in RUSF issue.)

Please note that, foreign currency loans with an average maturity of less than one year are subjected to RUSF at a rate of 3% over the principal amount.

Outgoing Capital

Residents of Turkey are free to export foreign currency capital through banks and financial institutions for the investment purposes outside of Turkey. The amounts to be transferred are capital in-kind, the transfer is made in conformity with customs regulations. There has been an amendment in the foreign Exchange regulation dated 28.02.2008, enabling the Turkish resident companies to provide loans in foreign or Turkish currency to their related parties abroad. The related parties can be their participations (subsidiary), their parent company and their group companies abroad.

Granting Foreign Exchange Loans to real persons resident in Turkey

There has been an amendment in the Foreign Exchange regulation dated 17.06.2009. With the Council of Ministers Resolution no 2009/15082, provisions on granting and obtaining loans in foreign exchange and foreign exchange indexed loans were amended. Accordingly;

- The condition of the maturity term of 18 months for foreign exchange loans granted to residents in Turkey for funding the export, sales and deliveries considered as export and activities ensuring foreign exchange earnings, was repealed.

- The banks operating in Turkey are allowed to grant foreign exchange loans to Turkish resident persons, provided that these loans have average maturity term that is longer than a year or are over USD 5 million.
- Certain limitations were introduced related to the banks' granting foreign exchange indexed loans to the Turkish resident persons. Accordingly, banks can grant foreign exchange indexed loans to Turkish resident persons only for commercial or professional purposes.
- It is stipulated that real persons resident in Turkey cannot obtain foreign exchange loans or foreign exchange indexed loans within the country or abroad, except for the cases mentioned above and cases to be specified by the Ministry.

With another amendment in the foreign exchange regulation dated 14.07.2009; it was promulgated that "Finance companies may grant foreign exchange indexed loan to legal entities and real persons, provided that such grant is for commercial and professional purposes".

Collection of Export Receivables

There has been an amendment in the foreign exchange regulation dated 28.02.2008. With this amendment, it was promulgated that it is no longer required for the exporters to bring the export proceeds into Turkey and convert them into TL within 180 days as of the date of exportation. The period can be extended in case of force majeure.

As per each customs declaration or transit trade form, the export and transit trade accounts which have shortages (including those emerging from insurance charges) amounting USD 100.000 or of equivalent value are written off directly by banks without regarding the presence of force majeure and the method of payment.

With another amendment in the foreign exchange regulation dated 14.07.2009; it was promulgated that

- The time restriction for liability of performing export within 18 months relating to provisions of export in return for cash foreign currency, and 24 months for cash foreign exchanges that are the price of ship construction and export (excluding ready-made ships), and the time restrictions determined according to the period of certificate in using cash foreign exchanges obtained from transactions within the scope of Inward

Processing Authorization Certificate and Taxes, Dues and Charges Exemption Certificate have been annulled.

- The regulation stating that the terms of pre-financing loans obtained from abroad should be 18 months at most, and the regulation stating that the term of loans to be used for financing ship construction and export (excluding ready-made ships) shall be 24 months and that terms of loans obtained for financing export, sales and deliveries deemed as export and services or activities yielding foreign exchange within the scope of Inward Processing Authorization Certificate and Taxes, Dues and Charges Exemption Certificate shall be equal to the period of certificate have been annulled.

Payment of Import Debts:

Payments for imports are transferred in Turkish currency or foreign exchange from the resources of the banks and private finance institutions negotiating the transaction, as well as from the foreign exchange account of importers. Such payments must be made in accordance with established banking customs and practices along with the agreements between buyers and sellers.

CHAPTER 7

FOREIGN TRADE

Overview

In the past 27 years, exports rose from USD 4.7 billion in 1981 to USD 137.5 billion (FOB) in 2008. According to the figures of the State Statistics Institute, the export figure is expected to reach USD 149 billion in 2009. Below table shows the annual figures and thus overall growth in Turkey's foreign trade volume.

Foreign Trade (in million USD)									
Year	Exports		Imports		Foreign Trade Balance		Foreign Trade Volume		Ratio (Exp/Imp) (%)
	Amount	Change (%)	Amount	Change (%)	Amount	Change (%)	Amount	Change (%)	
1981	4.703	61.6	8.933	13.0	-4.230	-15.4	13.636	26.0	52.6
1982	5.746	22.2	8.843	-1.0	-3.097	-26.8	14.589	7.0	65.0
1983	5.728	-0.3	9.235	4.4	-3.507	13.3	14.963	2.6	62.0
1984	7.134	24.5	10.757	16.5	-3.623	3.3	17.891	19.6	66.3
1985	7.958	11.6	11.343	5.5	-3.385	-6.6	19.301	7.9	70.2
1986	7.457	-6.3	11.105	-2.1	-3.648	7.8	18.561	-3.8	67.1
1987	10.190	36.7	14.158	27.5	-3.968	8.8	24.348	31.2	72.0
1988	11.662	14.4	14.335	1.3	-2.673	-32.6	25.997	6.8	81.4
1989	11.625	-0.3	15.792	10.2	-4.167	55.9	27.417	5.5	73.6
1990	12.959	11.5	22.302	41.2	-9.343	124.2	35.261	28.6	58.1
1991	13.593	4.9	21.047	-5.6	-7.454	-20.2	34.640	-1.8	64.6
1992	14.715	8.2	22.871	8.7	-8.156	9.4	37.586	8.5	64.3
1993	15.345	4.3	29.428	28.7	-14.083	72.7	44.773	19.1	52.1
1994	18.106	18.0	23.270	-20.9	-5.164	-63.3	41.376	-7.6	77.8
1995	21.637	19.5	35.709	53.5	-14.072	172.5	57.346	38.6	60.6
1996	23.224	7.3	43.627	22.2	-20.402	45.0	66.851	16.6	53.2
1997	26.261	13.1	48.559	11.3	-22.298	9.3	74.820	11.9	54.1
1998	26.974	2.7	45.921	-5.4	-18.947	-15.0	72.895	-2.6	58.7
1999	26.587	-1.4	40.671	-11.4	-14.084	-25.7	67.258	-7.7	65.4
2000	27.775	4.5	54.503	34.0	-26.728	89.8	82.278	22.3	51.0
2001	31.334	12.8	41.399	-24.0	-10.065	-62.3	72.733	-11.6	75.7
2002	36.059	15.1	51.554	24.5	-15.495	56.5	87.613	18.1	69.0
2003	47.253	31.0	69.340	34.5	-22.087	43.0	116.593	33.0	68,1
2004	63.167	33.7	97.540	40.7	-34.372	56.0	160.706	38.0	64,8
2005	73.476	16.3	116.774	19.7	-43.297	26.0	190.250	18.4	62.9
2006	85.534	16.4	139.576	19.5	-54.041	24.8	225.110	18.3	61.3
2007	107.215	25.4	170.057	21,8	-62.791	16.2	277.334	23.2	63.0
2008	132.025	23.1	201.963	18.8	-69.939	11,4	333.988	20.4	65.4

In 2008, 94.8 % of total exports was in manufactured goods, whereas agricultural and forestry products constitute only 2.9 % of the total exports. Above statistics show that Turkish manufacturing industry has become the locomotive in the growth of Turkish exports.

As can be noted from the below table presenting the composition of Turkish exports for years 2007 and 2008, Turkey's export products are widely diversified. Today, Turkey is among large agricultural producers of Europe and accordingly the major exporter of agricultural and processed food such as tomato paste, olive oil and tobacco

Export for Selected Goods	Amount		Annual Percentage Change	
	2007	2008	2007	2008
AGRICULTURE AND FORESTRY	3 725 213	3 936 711	7	5,7
Agriculture and farming of animals	3 709 447	3 923 626	7	5,8
Forestry and logging	15 766	13 085	13,4	-17
FISHING	158 252	240 330	20,9	51,9
MINING AND QUARRYING	1 660 967	2 155 150	44,9	29,8
Mining of coal, lignite and peat	1 937	20 914	60,3	979,8
Crude petroleum and natural gas	4 349	60 958	284,5	1301,8
Uranium and thorium ores	0	0		
Metal ores	853 403	1 026 461	82,2	20,3
Other mining and quarrying	801 279	1 046 817	18,6	30,6
MANUFACTURING	101 081 800	125 187 722	26	23,8
Food products and beverages	5 164 489	6 475 836	19	25,4
Tobacco products	194 726	276 802	7,3	42,1
Textiles	10 804 633	11 323 044	16,6	4,8
Wearing apparel	11 794 828	11 503 808	15,9	-2,5
Luggage, saddler and footwear	558 767	606 793	28	8,6
Products of wood and cork	455 185	534 955	35,5	17,5
Paper and paper products	835 719	1 051 948	39	25,9
Printing and publishing	130 355	145 155	21	11,4
Coke, petroleum products and nuclear fuel	4 922 265	7 325 096	44,7	48,8

Chemicals and chemical products	4 056 687	4 994 803	16,5	23,1
Rubber and plastic products	3 929 841	4 749 916	30,3	20,9
Other non-metallic minerals	3 398 232	4 321 013	21,4	27,2
Manufacture of basic metals	12 348 928	22 569 898	32,3	82,8
Manufacture of fabricated metal prod (exc machinery)	4 251 440	5 531 449	26,9	30,1
Manufacture of machinery and equipment	8 032 297	9 763 363	33,7	21,6
Office, accounting and computing machinery	129 740	135 240	46,1	4,2
Electrical machinery and apparatus	4 106 293	4 975 080	45,5	21,2
Communication and apparatus	2 766 114	2 276 648	-10,4	-17,7
Medical, precision and optical instruments, watches	337 115	404 334	38,2	19,9
Motor vehicles and trailers	17 016 180	19 361 877	34,2	13,8
Other transport	2 746 699	3 360 386	28,4	22,3
Furniture	3 101 266	3 500 277	31,6	12,9
Total	106 626 233	131 519 913	25,4	23,3
SOURCE: TURKSTAT (TUİK)				

The exports of household appliances industry was US 2.964 million in 2008. Compared with 2007, exports of household appliances industry achieved an 8.8% increase. Turkish manufactured household appliances account for 13.8 % of all household appliances sold in UK, 11.1% of those sold in France and 8.9 % of those sold in Germany.

Exports of furniture, ceramics, glassware has nearly tripled in the past 10 years.

Another success story behind the reasons of rising exports is the automotive industry. Turkey has become an attraction for automobile production in the past 20 years. Today 15 companies are manufacturing various types of vehicles such as passenger cars, buses, trucks, pickups, mini and midi buses and trailers.

Turkey's annual production capacity has increased from 20,000 to 635.000 cars per year, through the investments of Renault, Tofaş, Toyota, Honda, Hyundai and Ford in Turkey. It is no further surprise to see that among these car makers, some of them produce a number of their major brands only in Turkey.

The Turkish vehicle industry has a total capacity of 1.5 million vehicles of which 1.3 million is for light vehicles (passenger cars, mini buses and pick-ups). The total vehicle production in 2008 was 1,147,110 units (excluding tractors).

Automotive parts and components manufacturing has shown a similar successful trend along with automotive industry. Among 1000 firms, which are active in the sector, nearly 350 companies export considerable volume of their production. In 2008, around USD 7.3 billion of automotive parts and components were exported and 70 % of total exports were shipped to EU countries. It is no surprise to see the sector presents high-quality products to the market, as 30% of those companies operating in the sector have internationally accepted quality certifications.

On the other hand, imports also rose from its level of USD 8.9 billion in 1981 to of USD 218 billion (CIF) in 2008, and according to the preliminary figures, for the year 2009, the amount in the economic program of the state for the import is USD 232.5 billion (CIF).

Top categories in terms of imports are listed in the below table.

Imports By Chapters (ISIC Rev. 3 Classification)				
	2007	2008	2007	2008
AGRICULTURE AND FORESTRY	4 640 577	6 391 914	59,9	37,7
Agriculture and farming of animals	4 352 787	6 151 343	65,2	41,3
Forestry and logging	287 790	240 571	7,4	-16,4
FISHING	30 935	41 125	-5,2	32,9
Fishing	30 935	41 125	-5,2	32,9
MINING AND QUARRYING	25 314 075	35 649 704	14,9	40,8
Mining of coal, lignite and peat	2 569 726	3 314 894	29,9	29,0
Crude petroleum and natural gas	21 783 673	31 108 518	13,3	42,8
Uranium and thorium ores	0	3		
Metal ores	682 682	811 997	14,0	18,9
Other mining and quarrying	277 994	414 293	17,2	49,0
MANUFACTURING	133 938 136	150 252 319	21,3	12,2
Food products and beverages	2 660 999	3 763 099	8,5	41,4
Tobacco products	82 139	104 016	-2,4	26,6
Textiles	5 316 839	5 093 383	25,8	-4,2
Wearing apparel	1 357 371	1 902 149	41,1	40,1
Luggage, saddlery and footwear	1 260 859	1 383 145	19,5	9,7

Products of wood and cork	874 014	921 345	28,3	5,4
Paper and paper products	2 831 779	3 013 552	20,7	6,4
Printing and publishing	597 368	600 290	59,0	0,5
Coke, petroleum products and nuclear fuel	9 492 322	13 828 943	24,4	45,7
Chemicals and chemical products	23 624 584	26 993 947	20,5	14,3
Rubber and plastic products	3 114 146	3 450 668	20,8	10,8
Other non-metallic minerals	1 541 986	1 549 954	8,6	0,5
Manufacture of basic metals	23 086 845	26 506 077	35,1	14,8
Manufacture of fabricated metal prod(exc machinery)	2 815 999	3 487 503	15,1	23,8
Manufacture of machinery and equipment	17 094 630	17 013 992	19,4	-0,5
Office, accounting and computing machinery	2 937 445	2 833 476	4,4	-3,5
Electrical machinery and apparatus	6 325 429	7 357 785	26,9	16,3
Communication and apparatus	5 848 762	5 346 464	19,4	-8,6
Medical, precision and optical instruments, watches	3 369 299	3 855 131	16,9	14,4
Motor vehicles and trailers	15 096 193	15 513 673	13,6	2,8
Other transport	2 231 409	3 115 066	-7,6	39,6
Furniture	2 377 720	2 618 659	29,5	10,1
ELECTRICITY, GAS AND WATER SUPPLY	21 528	15 492	18,2	-28,0
Electricity, gas and steam	21 528	15 492	18,2	-28,0
WHOLESALE AND RETAIL TRADE	6 086 804	9 578 987	45,1	57,4
Waste and scrap	6 086 804	9 578 987	45,1	57,4
OTHER BUSINESS ACTIVITIES	2 395	1 696	123,2	-29,2
Other business activities	2 395	1 696	123,2	-29,2
SOCIAL AND PERSONAL ACTIVITIES	28 265	32 320	94,2	14,3
Recreational, cultural and sporting activities	28 256	32 258	94,2	14,2
Other service activities	9	63	370,8	619,9
Total	170 062 715	201 963 558	21,8	18,8
Source: TURKSTAT (TUİK)				

The composition of imports, constituting mainly of capital goods and raw materials also indicate that gradual growth of the Turkish exports rely heavily on imports.

Turkey's main trading partners in terms of exports by country are Germany, United Kingdom, France, Italy, Spain, Russia and United States. .

Customs Union

The customs union between Turkey and the European Union has been in effect since the beginning of 1996. Customs Union is of great importance to Turkey, since EU is the most important trading partner of Turkey.

In accordance with the framework of the Customs Union, Turkey has eliminated import and export custom duties and charges on EU goods. Today, with the exception of agriculture, customs and duty charges along with any sort of quantitative restrictions over EU goods does not prevail. Agriculture, being treated under a different category for current

circumstances, is of much difference in terms of pricing and subsidy structure as practiced in Turkey and EU today.

Turkey has harmonized its trade policies and legislation and adopted the EU's Common External Tariff and regulations in its foreign trade.

Import Regulations

There are no import restrictions over goods imported to Turkey, with the exception of some restrictions of very minor character. There are certain goods for which permission from relevant ministries shall be required, such as films, videos. Similarly, Undersecretariat of Foreign Trade lists goods that require exclusive permission.

For goods that are imported to Turkey from countries other than European Union, customs duties and charges are applicable in conformity with the provisions of customs union. Regardless of origin of goods, whether from EU or non-EU country, value added tax at a rate 18% (1% or 8% for certain basic goods) over CIF value, including other duties and funds, is collected. Investment goods – only the machinery and equipment - are exempt from VAT and customs duties, provided that an investment certificate is obtained from the Undersecretariat of Treasury.

Export Regulations

There are no restrictions over the exports of goods, except for the ones that arise mainly from the quota restrictions applied against Turkey by the country for which the goods are intended for shipment.

Exports are exempt from VAT, duties and transaction taxes. The exception to this general rule is the payment of Support and Price-Stabilization Fund mainly over some agricultural goods (hazelnuts, grape, apricot, and fig). Goods manufactured in Turkey have a duty-free access to the EU.

CHAPTER 8

ECONOMIC CLIMATE

GNP

Turkey's economic performance of last 20 years, relying heavily on export oriented growth strategy, have resulted in a massive economic transformation from closed economy, to a competitive, market-oriented economy regulated through a liberal legal framework.

With its population exceeding 70 million people, Turkey is a big market. The liberal regime along with the considerable increase in government spending for infrastructure has been the main stimulus behind the increase in investment both for exports and big domestic market.

Having faced economic problems during previous crisis periods, as can be seen from the table presented below, Turkey's growth trend has not changed from its upward direction between 2002-2007. Previous impressive macroeconomic performance has been due to the combinations of several factors including ongoing structural reform agenda, and political stability. However, due to the severe economic crisis, we observe a sharp decline in growth in 2008, parallel to the global trend.

Real GDP at Constant Prices and % of Real Change in GDP		
Year	GDP (in billion TL)	% Real GDP Growth
2002	72,5	6,2
2003	76,3	5,3
2004	83,5	9,4
2005	90,5	8,4
2006	96,7	6,9
2007	101,2	4,6
2008	102,3	1,1
<i>Source</i>	TUIK and State Planning Organization	

Currency

Turkey has a liberal exchange rate regime in which New Turkish Lira is convertible against other currencies. Actors of the free market mainly determine the value of New Turkish Lira. Money markets, which have reached considerable volume supported by well-performing technological infrastructure, forms a solid ground for efficient flexible foreign exchange regime.

The Central Bank of Turkey declares its quotations on daily basis as official rates of foreign currency. Widely determined by the factors in the free market, Turkish Central Bank's intervention to money markets is a rare occasion under current circumstances.

In the beginning of the year 2005, six zeroes were deleted from the Turkish currency -TL and Yeni Türk Lirası (YTL-New Turkish Lira) became the new currency unit of Turkey.

With the transition to YTL at the beginning of the year, both TL and YTL were in circulation for 2005. Turkish Lira banknotes and coins were withdrawn from circulation as of January 1,2006.

Removing six zeros from the currency coupled with the success of driving inflation down to single digit numbers is a very important step from the point of its effects on the reputation of the Turkish currency.

The changeover to the New Turkish Lira is clear evidence that the vicious cycle that is believed to have trapped the Turkish economy has been broken at last. The New Turkish Lira is also a symbol of attaining a lasting economic stability, towards which great efforts have been made. In the year 2009, TL became currency unit of Turkey again. By the end of 2009 YTL banknotes and coins will be withdrawn and TL will be the one and only currency unit of Turkey.

Below table provides the year-end buying quotations of the Central Bank for major currencies in the last eight years.

Exchange Rates For Major Currencies					
	USD	EURO	GBP	JYEN	DEM
31.12.2001	1,4466	1,2813	2.1000	0,0110	0,6551
31.12.2002	1,6397	1,7189	2,6402	0,0138	0,8789 (*)
31.12.2003	1,3958	1,7451	2,4766	0,0130	0,8923 (*)
31.12.2004	1,3421	1,8268	2,5765	0,0130	0,9340 (*)
31.12.2005	1,3418	1,5875	2,3121	0,0114	0,8117 (*)
31.12.2006	1,4056	1,8515	2,7569	0,0118	0,9467 (*)
31.12.2007	1,1647	1,7102	2,3259	0,0102	-
31.12.2008	1.5218	2.1332	2.2105	0.0168	-

(*) 1 EURO/DM = 1.95583

Inflation

Inflation has been Turkey's most important economic problem, with increases in both retail and wholesale prices.

The most recent programs that have been carried with IMF mainly focused on fighting inflation, reducing government debt financing need, while sustaining continuous economic growth.

With the committed measures taken by the former and current governments, inflation has entered into a decreasing trend. Wholesale and retail prices have respectively dropped to 30.8% and 29.7% in 2002 and to 11.67 and 10.06 % in 2008. The inflation rates for years 2001 and 2008 have been presented in the below table.

Inflation Rates (%)		
Year	Wholesale Price Increase	Retail Price Increase
2001	88.6	68.5
2002	30.8	29.7
2003	13,9	18,4
2004	13,8	9,3
2005	2,66	7,7
2006	11,58	9,6
2007	5.94	8.39
2008	11.67	10.06

Turkey's Integration with European Union

Turkey is an accession country in the process of negotiations with the European Union for full membership since October 2005. Implementation of important political reforms to meet the Copenhagen criteria allowed the EU's historic decision in December 2004 to open accession negotiations with Turkey in October 2005. Turkey had already signed a Customs Union Agreement with the EU in 1995.

The process of accession is expected to provide a strong incentive to continue with political, macroeconomic and structural reforms. In June 2005, the European Commission presented a draft framework for accession negotiations, setting out the method and the guiding principles of the negotiations, in line with the December 2004 European Council conclusions. This process allows Turkey to familiarize itself with the Acquis and allows the Commission and Turkey to evaluate the degree of preparedness of the country before deciding whether a chapter can be opened for negotiations. The Council adopted, in December 2005, the revised Accession Partnership for Turkey.

The expectancy of starting the negotiations for full membership, as perceived for a strong indication of the ultimate phase of accession of Turkey with the EU, is an important trigger for the investors seeking opportunities to take share from the growing Turkish economy.

CHAPTER 9

ESTABLISHING A COMPANY WITH FOREIGN CAPITAL

There is the principle of non-discrimination and equal treatment in Turkish foreign investment legislation. Foreign investors enjoy the same status with local companies. There are no rules requiring a Turkish participation in the capital or management of a company with foreign capital; a company may be established with 100% foreign capital. Almost all sectors are open to foreign capital. However, there exist certain restrictions for foreign investors when they acquire immovable properties or limited rights in rem through a legal entity. According to recent amendments, companies with foreign capital may acquire immovable rights or limited rights in rem, only within the context of their objective as indicated in their articles of association.

The company establishment procedures have been simplified to a great extent through shifting from screening system to monitoring system for foreign investments and through eliminating the unnecessary procedures to set up a business for both the local and foreign investors.

The Principal Forms of Business Units in Turkey

Below are the main features of main forms of business units in Turkey.

Joint Stock Companies

A joint stock company is established with the participation of a minimum of 5 real or legal persons as shareholders. The minimum capital requirement for the establishment of a joint stock company is TRY 50.000 (42.017-USD). The nominal value of each share shall not be below 0.01 TL.

A joint stock company may be defined as a type of company having a specific business title and a capital, which covers an amount that has been determined before, and which has been divided into shares. The structuring and organization of joint stock companies are subject to the regulations set forth in the Turkish Commercial Code. Joint stock companies having more than 250 shareholders, or who issue stocks and bonds that are quoted in the stock exchange, are subject to the provisions of the Capital Market Board.

The capital of joint stock companies is divided into shares each having equal value. Share certificates having the nature of negotiable instruments can be issued for representing the capital of a joint stock company. Such share certificates may be bearer certificates or registered certificates. Unless a specific provision is incorporated in the articles of association prohibiting transfer of registered share certificates, such certificates are transferable upon the approval of the board of directors. Meanwhile, bearer share certificates may be transferred without any restrictions, subject to the provisions of the Turkish Commercial Code.

In joint stock companies, resolutions are passed with a majority affirmative vote. However, the Turkish Commercial Code contains certain provisions, which protect the rights of minority shareholders.

In joint stock companies, the Board of Directors has been granted the authority to represent and bind the company. The Board of Directors consists of at least three members. However, dividend distribution, appointment of board of directors and auditors, amendment of articles of association, capital increases, and other important issues to be determined by the articles of association are subject to the approval of the General Assembly of Shareholders' resolution.

Joint stock companies should appoint a statutory auditor. However, there are no specific functions of the auditor other than submitting some reports to the shareholders of the company in annual general meetings.

There are two types of legal reserves. The first legal reserve is 5% of the after tax profits. The first legal reserve is set-aside until the accumulated first legal reserve reaches 20% of the company's paid-up capital. The second type of legal reserve is calculated only in case of dividend distribution. 10% of the amount distributed to shareholders is allocated to a second legal reserve. There is no maximum limit for this type of legal reserve.

Limited Companies

Limited liability companies may be formed by real persons or legal entities and consist of minimum of two and maximum of 50 partners. The minimum capital must be TRY 5.000 (4.202-USD). Each partner shall subscribe at least 25 TL or its multiples as a capital.

Limited companies can not be active in the banking and insurance sectors.

Corporate organs of limited companies consist of the meeting of partners and manager(s) . It is possible to delegate the responsibility of management and representation of the company to manager(s)

Auditor(s) are appointed in limited companies provided that the company has more than 20 partners.

The appointed manager has the authority to manage the company. The managers occupy a similar position like the members of the board of directors in joint stock companies

Amendment of the articles of association, appointment and dismissal of managers and auditors, and profit distribution requires a decision of the meeting of partners.

No share certificates are issued in a limited liability company. Transfer of share interests requires the approval of at least 75% of partners, representing at least 75% of the company's capital.

Branch office

A branch office of a foreign entity does not constitute a separate legal entity. The name of the branch office must include the term "branch office". Special rules apply to branches of foreign banks and insurance companies.

No minimum capital requirements apply, however the head office shall allocate certain funds as necessary for the operation of the branch office. The liability of the branch office extends to cover the assets of the head office.

A branch office may only operate in the areas of activities of the head office. It has no corporate organs but is managed by a representative residing in Turkey, who is appointed to this effect by a power of attorney issued by the head office which defines the representative's powers and authorizations.

Liaison Offices

Liaison offices have a special status in Turkey. They are not allowed to carry on any commercial activities. Their activities in Turkey are limited mainly to accumulate information

about investment opportunities in Turkey, and to conduct market research and feasibility studies.

Unlimited liability Companies (Partnerships)

There are ordinary partnerships (consortiums) and commercial partnerships (Komandit Sirket and Kollektif Sirket).

An ordinary partnership is not a legal entity, but a group of entrepreneurs like a consortium. Two or more individuals may form an ordinary partnership by entering into an agreement. Ordinary partnerships may not have their own trade name, nor may they appear in the Register of Commerce or the Register of Title Deeds. All partners have equal rights and they are jointly and severally liable for all the debts and obligations. No statutory rules provide a detailed legal framework for the management or operation of ordinary partnerships.

A commercial partnership is a legal entity with a legal personality independent from its partners, and may be either a limited or general partnership. In a limited partnership (Komandit Sirket), the general partners are fully liable for the debts of partnership, but there are also one or more limited partners liable for the debts only up to the amount of the capital contributions they have made to the partnership. This type of business organization is rarely used.

Registration Procedures

The registration and establishment procedures have been simplified to a very great extent, after the enactment of Foreign Direct Investment Law and revisions made in the Commercial Code and various other Laws. The complex and time consuming procedures have been eliminated for both local and foreign investors and the number of transactions have been minimized to the following steps.

Registration of a Company

Registration to the Trade Registry

Following documents are required to be submitted to the Trade Registry Office. ¹

¹ The documents required may vary depending on if the shareholders are legal entities or if they are real persons.

- Articles of Association certified by a Public Notary
- A receipt issued by the bank verifying the payment of capital contribution if the capital is contributed by the shareholders at establishment
- A bank receipt verifying the payment of Fund for Protection of Competition 0,04% of the capital commitment
- Signature declarations and passport copies of the persons authorized to represent and bind the company (copies of the identity and residence certificates for Turkish citizens)
- Photos and passport copies of the real person shareholders

Registration to Tax Office

An application to the tax office is required, where the company headquarters is located, on the same day or the day before the registration date. A tax registration number is received and legal books are certified by a Public Notary.

The rent contract certified by the Notary Public as well as the notarized circular of signatory should be submitted to the related Tax Office.

Following these registrations, the establishment procedures are completed and the company may start to operate. Expected period for finalizing the above registrations is 2-3 days.

Application to the General Directorate of Foreign Investment

After the completion of the establishment, an application shall be filed to the General Directorate of Foreign Investment for information purposes.

Registration of a Branch Office

Application to the Ministry of Industry and Commerce

A Resolution of the board of directors or the authorized organ of the head office concerning the establishment of a branch office shall be submitted to the Ministry of Industry and Commerce.

Registration to the Trade Registry and Announcement

The following documents are required to be submitted to the Trade Registry Office.²

- Board Of Director's or the authorized organ's resolution concerning the establishment of a branch office in Turkey
- Signature declaration and passport copy of the person authorized to represent and bind the branch (copy of the identity and residence certificate for Turkish citizens)
- Proxy that will function as a signature circular granted to the authorized representative in Turkey.
- Document from the Chamber of Commerce of the Parent Company

Registration to Tax Office

Registration procedure for a branch is the same as for the companies.

Application to the General Directorate of Foreign Investment

After the completion of the establishment, an application shall be filed to the General Directorate of Foreign Investment for information purposes.

Registration of a Liaison Office

Establishment procedure of a liaison office is briefly as follows:

- Application to the General Directorate of Foreign Investment of the Undersecretariat of Treasury for the issue of a permission
- Application to the Tax Office

Within one month after obtaining the permission from the General Directorate of Foreign Investment an application must be made to the tax office. Although the liaison office itself is not subject to taxes and the employees are exempted from income tax, tax office registration is required for the withholding tax liabilities over the rental payments to be extended to real persons and for the stamp tax liabilities over the salary payment.

Acquisition of an Existing Firm

A foreign investor may also buy the shares of an existing company wholly or partially, without a need for a prior permission or approval. There are no special arrangements or restrictions

² . Depending on the structure and the country at which the mother company is resident the documents required may vary considerably.

imposed on foreign investors for the acquisition of an existing firm. Foreign investors may freely purchase shares on the Istanbul Stock Exchange as well.

The following are the general conditions for purchasing shares in a joint stock company:

- Endorsement and delivery of the share certificates to the buyer by the seller in case share certificates are printed
- Written agreement for transfer of shares in case share certificates are not printed
- Board of Directors resolution regarding registration of the shares in to the share ledger of the company
- Registration of the shares into the share ledger under the name of the new owner
- Notification to the General Directorate of Foreign Investment

The following are the general conditions for purchasing shares in a limited liability company:

- A written, notarized agreement between the seller and the buyer
- A written notification about the share transfer to the legal personality of the company
- The consent of at least 75% of the shareholders, representing at least 75% of the capital
- Announcement and Registration of the transfer at the Trade Registry.
- Registration in the share ledger book of the company
- Notification to the General Directorate of Foreign Investment

CHAPTER 10

LABOUR LAW, SOCIAL SECURITY LEGISLATION, EMPLOYMENT OF EXPATRIATES

LABOUR LAW

The Labour Law that entered into force in June 2003, governs the relations between employers and employees. The Law contains several provisions in conformity with the international regulations of the International Labour Organization and the European Union.

Employment Contracts

An employment contract may be concluded for a definite period of time or for an indefinite period. An employment contract that covers a definite period exceeding one-year, as well as the contracts for temporary work and on-call work must be in writing. The law does not require a special form for the employment contracts. Employment contracts are exempted from duties, levies and stamp tax. The Law stipulates a trial period of maximum 2 months, which can be extended up to 4 months under the provisions of a collective labor agreement. The contract can be terminated within the trial period, without providing any notice or indemnity. The rights of the employee related to the wages and other benefits for the days worked thereby shall be reserved.

Principal Employer - Sub-Contractor Relation

Hiring a sub-contractor is subject to certain conditions pursuant to the new Labour Law. In accordance with the new rules, only the works that are of secondary nature comparing to the main subject of the principal employer, like an auxiliary work or a part of the main work can be sub-contracted, like cleaning, loading, unloading and construction works.

In such a relation, the principal employer is jointly responsible against the employees of the sub-contractor with respect to the liabilities arising from the Labour Law, the employment contract and the collective agreements, to which the sub-contractor is a party. Sub-contractors are obliged to notify hires made by them on behalf of the principal employer with the competent Labour Regional Directorate within a period of one month. According to recent amendments, in the event of any fictitious transactions, the employees of the sub-contractor are deemed to be the employees of the principal employer.

Notification Period

If a party, either employer or the employee, wishes to terminate an indefinite period employment contract, the terminating party is required to give an advance notice to the other party, before actually terminating the contract. The notice periods are proportional to the length of the employment and range between 2 to 8 weeks. In case of failure to comply, the party in default shall be obliged to pay as compensation an amount equal to the allowances corresponding to the above notice periods.

Dismissal of the Employees

In case of termination of an employment agreement with indefinite term, employers must comply with the procedure stipulated under the Labour Law. Employers, who terminate an employment agreement with an indefinite term where the employee has been in employment for at least six months at a workplace with thirty or more employees, shall be obliged to justify the termination with a due cause based on the qualifications or behaviors of the employee or the requirements of the enterprise, workplace or business. Furthermore, employment agreements with an indefinite term shall not be terminated due to any reason regarding the behavior or productivity of the employee unless the employee concerned has been provided with an opportunity to defend him/her self.

Collective Dismissal of Employees

Collective dismissal shall mean the dismissal of at least (i) ten employees at working places where there are 20 to 100 employees, (ii) at least ten percent of the employees at working places where there are 101-300 employees, or (iii) at least thirty employees at working places where there are 301 or more employees, in the same month. Employer who intends the collective dismissal of employees shall terminate the employment contract due to

economic, technological or structural reasons or due to similar causes related to the enterprise, working place or business. The employer shall give notice to the representatives of the trade union at the workplace, to the related regional directorate and to the Directorate of the Turkish Employment Authority, in writing, at least thirty days in advance. Termination notices are effective within 30 days following submission of a notification to the competent Regional Directorate.

Consequences of Termination with Invalid Reason

In cases, when it is determined by the court that the termination is invalid as being unjustified, employers are obliged to re-instate the employee within a period of one month as from the relevant demand of employee. Failure to do so, employer is obligated to pay to the employee compensation ranging from four to eight months allowances, upon the discretion of the court.

Furthermore, wage and other benefits up to 4 months should be also paid to the employee for the period during which the employee did not work.

The employee is obliged to make an application to the employer in order to start working, within ten workdays following the notification of the court. Otherwise, the termination made by the employer shall be deemed valid.

Severance Indemnity

Employers, who terminate an employment agreement of an employee – with the exception for termination due to justifiable reasons– must pay to the employee severance indemnity, provided that the employee has completed one year service, starting from the actual date of commencement of employment.

If the employee terminates the employment contract, he/she shall not be entitled to receive a severance payment, unless the resignation is due to military service, retirement, involuntary employment under conditions detrimental to health or safety or unethical behavior of the employer. In addition, women who resign within one year from the date of marriage are also entitled to receive severance payment.

Severance pay corresponds to one-month salary for each full year of service starting from the date of commencement of employment. The most recent gross monthly remuneration of

the employee prior to the date of termination, shall serve as a basis for the calculation of severance indemnity. However, in case the allowance is not constant due to the nature of the work, then the average amount will be calculated by dividing the total amount earned during the last year by the total number of working days. There is a ceiling to be paid as severance indemnity for each year of service. If the salary exceeds the ceiling, the ceiling is taken as the basis for the severance pay calculation. The ceiling for the period between 01.01.2009-30.06.2009 is TRY 2,260.04 and for the period between 01.07.2009-31.12.2009 is TRY 2,365.16

Annual Paid Leave

An employee is entitled to annual paid leave after completing one year of service at the workplace from the employment date, including the trial period. The minimum length of the annual paid leave is proportional to the seniority of the employee in the workplace and ranges between 14 to 26 work days. For the employees under the age of 18 and above the age of 50, annual paid leaves shall not be less than 20 days, irrespective of the length of employment. If an employment contract is terminated, the employee is paid the amount of salary, corresponding to the number of non-utilized leave days

Working Hours

In general, the working hours shall not exceed forty-five hours in a week. Upon mutual agreement between the parties, the standard hours of work in a week may be distributed irregularly among the days of the week, provided that the total hours of work do not exceed eleven hours in a day. An employer shall be entitled to make the compensation work to be performed for hours not worked in a period of two months in certain cases.

Overtime Work and Works for Extra Hours

Overtime shall mean hours of work in excess of forty-five hours per week. In cases, where an employment contract stipulates that the total hours of work in a week is to be less than forty-five hours, any work that exceeds the average weekly hours of work (up to forty-five hours), shall be deemed as works for extra hours.

The employee who works overtime or extra hours shall, at his/her own discretion, be entitled to use one hour thirty minutes of free time for each hour of overtime, and one hour and

fifteen minutes of free time for each hour of extra work instead of receiving a salary payment of with increased wages of 50% and 25% for overtime and extra work respectively.

Unions and Collective Employment Agreements

In Turkey, there is no obligation for a worker to be a member of any union, and there is no obligation to make a collective employment agreement for any sector of business or for any work place. Unions are established on an industry-wide basis. The formation of labour unions for a specific work place or specific job shall be not allowed.

In order to be covered by a collective employment agreement, a worker must be a member of a union. There is no such requirement for the employer. In order to be a bargaining agent, a union must have a membership of more than half of the workers employed in the work place and must also include at least 10 percent of all the workers employed in the specific sector.

The Law sets a series of steps to be followed by a union before starting a strike.

SOCIAL SECURITY SYSTEM

New Social Security Law was enacted on 16 May 2006 to be enforced on 01 June 2007 and came with new applications that constitute a reform in the field of social security system of Turkey. According to the old regulations, social security system of Turkey is based upon three institutions each regulated by its own law. These institutions are the Social Security Institution, the Pension Fund and the Bag-Kur. The new system introduced a comprehensive pension reform and aimed to unify the old system and reduce the social security deficit. and to achieve an effective social assistance reform and universal health insurance standards. According to the new law, the headquarter of Social Security Association and its province organizations including their staff would be adapted to the provisions of Social Security Law by steps in three years period at the latest.

Both the employees and the employers contribute to social security premiums. The contribution rates for employee and employer are %15 and %21.5 respectively (contribution rates for veterans are lower).

The premiums, calculated as a percentage of gross salary, are paid within an upper and lower limit, which are 3,954.60 TRY and 608.40 TRY (approximately USD 3.323 and USD 511 respectively), to be applicable between 01.01.2008 and 30.06.2008 and for the second period of the year 2008 (01.07.2008-31.12.2008), 4,151.70 TRY and 638.70 TRY (approximately USD 3.489 and USD 536 respectively) are applicable. Upper and lower limits for social security premiums are updated periodically for inflation adjustment purposes.

The security covers occupational accidents and diseases, illness, maternity, disability, old age, and death.

Premium rates for each risk group are presented in the table below:

	Employer's Share (%)	Employee's Share (%)
Occupational accidents and disease insurance	1.5 – 7	-
Illness insurance	6	5
Maternity insurance	1	-
Disability, old age and death insurance	11	9
Unemployment insurance	2	1

State contributes unemployment insurance premium at a rate of %1

Age of Retirement

With the amendments introduced in 1999, the retirement age has been raised for both male and female employees. The age of retirement has been determined as 60 for men and 58 for women, respectively. Some lower ages are determined for those who are already within the social security system to protect the vested rights.

Social Security for Expatriates

As a rule, expatriates working in Turkey are subject to Social Security Law at the same rates with local employees.

However, those, who are assigned by the employer for a temporary period and pay social security premium in the home country may be exempt from Turkish social security premiums, provided that the proper documents from the competent authorities of the home country are submitted to the Social Security Institute.

Turkey has bilateral social security agreements with various countries. Turkey is also a party to the European Social Security Agreement. Most bilateral treaties and the European Social Security Agreement provide an opportunity to the employees to stay within the scope of the social security of their home country, based on the length of the assignment in Turkey.

Countries that have signed social security agreements with Turkey are as follows:

Germany	Austria	France	TRNC	Macedonia
United Kingdom	Belgium	Netherlands	Libya	Romania
Switzerland	Denmark	Sweden	Norway	Bosnia Herzegovina
Luxembourg	Albania	Azerbaijan	Canada	Czech Republic
Georgia				

Italy, Spain and Portugal are the countries for which the provisions of European Social Security Agreement will prevail.

Countries that have agreements in progress with Turkey as follows:

Australia	Belarus	China	Croatia	Israel
Egypt	Moldavia	Uzbekistan	Russia	Serbia & Montenegro
Slovakia	Ukraine			

EMPLOYMENT OF EXPATRIATES

The principles relating to the employment of expatriates in Turkey have been regulated through the Law Concerning the Work Permits Issued to Expatriates, which was put into effect in September 2003. The Law has eliminated the scattered and the multi faceted structure through unifying the provisions relating to the employment of expatriates under a single law. The most important facilitation introduced by this Law is the issuance of all work permits from a single authority.

An expatriate needs a work permit in order to work in Turkey. Applications for a work permit may be submitted to the representatives of the Turkish Republic abroad or directly to the Ministry of Labour in Turkey.

The Law envisages the issuance of work permits to “key personnel” to be employed in “foreign direct investments with special priority” by the Ministry of Labour immediately (within

15 days as of the date of application) without evaluating the competencies of the employee for the specific position.

An investment is treated as an “investment with special priority” provided that the total share of the foreign shareholders amount to at least TL 677 thousand³ and that the turnover for the last year is at least TL 51 million or the exports realized during the last year is worth at least USD 1 million; or the number of personnel employed is at least 250.

Moreover, in cases when the minimum fixed investment total amounts to TL 17 million⁴ at least, or in cases when the parent company owns direct investments in at least one other country, the investment in question is also qualified as “foreign direct investment with special priority”.

The “key personnel” referred to in this provision, has been defined as the shareholders, chairman of the board, board members, general manager(s) and assistant general managers, managers and other at similar positions in the companies classified as “foreign direct investments with special priority”.

Furthermore, a maximum of one person employed in liaison offices on whose name a certificate of authorization has been drawn up by the parent company abroad is also considered as “key personnel” provided that foreign currency amounting to at least USD 200,000 or its equivalent has been transferred to Turkey to meet the expenses of the liaison office.

The work permits to be issued for the employees not included within the above scope, shall be evaluated by the Ministry of Labour, in due consideration of the developments in the labour in Turkey, the current conditions of the industry relating to the employment of expatriates, etc. If the evaluations conducted yield positive results, the work permits shall be communicated in writing to the foreign employee, or to his/her employer in Turkey.

During the initial application, work permits are granted for a maximum period of 1 year. The period of validity of the work permits are extended for an additional period of 2 years, on condition that the required applications are made within the specified deadlines (at least 2 months prior to or 15 days subsequent to the expiry of the work permit), and that the expatriate remains in the same place of business and within the same profession. At the end of the concerned period of 3 years, the employment period may be extended for another 3 years, without the obligation to work with the same employer.

³ Pursuant to the Regulation on the *Employment of Personnel of Foreign Nationality in Direct Foreign Investment* the values applied indicated in Turkish Lira, are adjusted on an annual basis in accordance with the rate determined by the Ministry of Finance.

⁴ Please see above.

Employees, who have resided in Turkey for at least eight years legally and in an uninterrupted manner, and who have been legally employed for a total period of six years, become entitled to get a work permit for an indefinite period of time, unless otherwise provided in the bilateral or multilateral agreements to which Turkey is a party.

Provided that they have resided in Turkey for at least five years legally and in an uninterrupted manner, expatriates are also granted the permission to work in Turkey as self-employed individuals.

Expatriates, who obtain a work permit, are obliged to submit a request for an entrance visa to Turkey within 90 days as of the date of the receipt of the work permit certificates, and to apply to the competent authorities for the receipt of a residence permit within 30 days as of the date of their entry into Turkey.

CHAPTER 11

COMPETITION LAW

Turkish Competition Law has been harmonized with European Union regulations.

The Law on the Protection of Competition dated 1994 is the main legislation governing the competition rules in Turkey, which also established the Competition Authority in 1997. The organizational structure of the Competition Authority is composed of the Competition Board, the decision making body of the authority; Presidency and Service Units. Board members are required to have 10 years of professional experience, either in public or private sector, as well as credentials in the form of a degree in law, economics, engineering, business, or finance.

After its establishment, the Competition Authority has issued a series of communiqués that ensured a considerable harmonization with the EU in terms of competition policies, by means of closely following the EU practices. Competition Authority has targeted the task of surveillance and supervision of the economy as well as spreading the competition culture in the society.

Competition policy focuses on three main areas of intervention directed at the realization of all these objectives:

- Prevention of agreements restricting competition and abuse of dominant position, while on the other hand granting exemptions to and preparing secondary regulations for agreements, which are in conflict with competition rules but are deemed beneficial for the economy and to consumers,

- Control of mergers and acquisitions, prevention of attempts for mergers and acquisitions, which would create a dominant position in the market and adversely affect competition,
- Monitoring of state aids, prohibition of state aids contrary to efficiency and competition,

Competition Authority, while implementing its task, tends to follow a similar approach with European Commission.

ANTI DUMPING REGULATIONS

“Unfair” competition is not addressed in the Competition Act, but in Turkey’s Commercial Code Art 56-65, for regulating business deals between private parties. The Code defines unfair competition as “deceptive action, or any kind of abuse of various ways of economic competition, contrary to the rules of goodwill.” Disputes involving commercial disparagement, unfair practices, sales below cost, abuse of economic dependence, and trademark infringement are settled by courts, with no involvement by the Competition Authority.

Turkey pursued import substitution policy within the context of industrialization strategy until 1980’s. During this period, domestic industries were protected from foreign competition by means of high tariffs and restrictions on imports. Starting from 1984, import substitution policy was replaced by a liberal import and export promotion policy and domestic markets were opened to foreign competition by gradual reduction of customs duties and abolition of restrictions.

Following the adoption of the commercial liberalization policies after 1980, the need to protect the domestic industries from unfair trade practices occurred. Consequently, Turkey enacted its first anti -dumping code in 1989, namely, the Legislation on Prevention of Unfair Competition in Importation which is amended on 21.07.1999 by the Law No: 4412, which covers the provisions on the protection from dumped imports. It has been formulated in accordance with the provisions of Tokyo Round Anti-Dumping Code of General Agreement on Tariffs and Trade (GATT), which has regulated the technical and official procedures.

Accordingly, Turkey signed the Final Act of the Uruguay Round and the Marrakech Agreement Establishing the World Trade Organization. The WTO Anti-Dumping (A-D)

Agreement has the force of law in Turkey by virtue of the Turkish Constitution and Turkey adheres to the provisions of this Agreement.

To this end, WTO Anti-Dumping Agreement is the main reference for the Turkish anti-dumping authority. In practice, the Agreement is fully observed by Turkey. Moreover, in cases of conflict, the Agreement has precedence over the domestic legislation.

A further step was taken with the signing of Turkey-European Community Council Resolution, regulating the customs union. According to the provisions of the Resolution, the procedure relating to execution of measures will continue to be applied and consequently there will be no adverse effect on foreign investors due to aforementioned measures since the related procedures of anti dumping measures ensures that while protecting the domestic industries, the exporter countries will not bear any damages. The harmonization of measures by means of international treaties constitutes another guarantee for foreign investors since the related regulations are accessible and predictable.

In Turkish anti-dumping system, there are two separate bodies, which are the “Board of Evaluation of Unfair Competition on Importation” and the “Department of Dumping and Subsidy Investigation”. The first is empowered to take decisions for the initiation of an investigation, acceptance of undertakings, termination of an investigation or imposition of anti-dumping duties. The latter is subordinated to the Prime Ministry Undersecretariat for Foreign Trade, General Directorate for Imports, which is entitled to make preliminary examination upon complaint, to present proposals to the first Board on whether to initiate an investigation or to take measures and to carry out such investigations.

Turkey, being a party to WTO Anti-Dumping Agreement and European Community Council Resolution undertook to follow certain procedures with regards to measures that are applied for the protection of domestic industry and harmonized its legislation with aforementioned international documents by issuing The Code Concerning Prevention of Unfair Competition.

Turkish anti-dumping system is commercially focused and aims to preventing unfair competition in international commerce and competition as well as protecting the domestic industry. Thus, Turkey, having a lot to offer to foreign investors, certainly fulfils the requirements of free trade, fair competition and meets the criteria set by EU and WTO.

CHAPTER 12

PROTECTION OF INTELLECTUAL AND INDUSTRIAL PROPERTY RIGHTS

Protection of Intellectual Property Rights

Turkey is progressing with respect to its legislation on intellectual property rights. “Law on Intellectual and Artistic Works” has been amended for the purpose of harmonization of EU regulations on this field. Meanwhile, Turkey has established specialized courts in intellectual property.

The enforcement and monitoring capacity of the competent authorities in the field of intellectual property rights, custom authorities, police and judiciary has been strengthened. Border controls and the fight to combat piracy and counterfeiting have been improved. A project on intellectual property rights aiming to train judges and providing for equipment and the setting up a database is in the process of being executed. Other trainings such as specialized programs for the Ministry of Culture, Ministry of Finance and Ministry of Internal Affairs is also being carried out.

It is difficult to state that enforcements on the intellectual property rights protection in Turkey is at international standards despite the current regulations related to the protection of intellectual property rights and international agreements that Turkey has signed in. As intellectual property rights protection is not limited to legal regulations but requires also fight against organized crimes, criminal measures and specialized courts makes the enforcement at international standards difficult in many countries. It is possible to state that the enforcement in Turkey can be brought to a better level through struggle with corruption and organized crimes and ground to be reached with the Justice Reform that the Government is progressing on.

Protection of Industrial Property Rights

Turkey is harmonizing its legislation on industrial property rights, prior to its customs union with EU countries. Turkey has enacted laws on protection of trademarks, industrial designs, patents/utility models and geographic indications. The Turkish Patent Institute has been established for the purpose of registration and protection of such industrial property rights. The main system concerning the protection of industrial rights is based on the registration, which is similar to that of the European Union and the other countries that are party to Paris Convention.

Some of the basic international conventions that Turkey is a party, in this field could be enumerated as follows: Paris Convention, Protocol relating to the Madrid Agreement Concerning the International Registration of Trade Marks, Nice Agreement Concerning the International Classification of Goods and Services for the purposes of the Registration of Trade Marks, Vienna Agreement Establishing an International Classification of the Figurative Elements of Trade Marks, "Patent Cooperation Treaty" (PCT), Strasbourg Agreement Establishing an International Patent Classification, La Hague Agreement Concerning International Deposit of Industrial Designs, Locarno Agreement Establishing an International Classification for Industrial Designs and TRIPS (Trade Related Intellectual Property Rights) Agreement under WTO, European Patent Convention (EPC) and the Customs Union Decision 1/95.

Table that highlights harmonization efforts of Turkish law with international treaties and legislation on intellectual and industrial property rights

CONVENTIONS		
	<ul style="list-style-type: none"> • Paris Convention for the Protection of Industrial Property (1883), • The Hague Agreement Concerning the International Deposit of Industrial Designs (1925), • Nice Agreement Concerning the International Classification of Goods and Services for the purposes of Registration of Marks (1957) • Convention Establishing WIPO (1967). • Locarno Agreement Establishing and International Classification for Industrial Designs (1968), • Patent Cooperation Treaty (1970) 	<ul style="list-style-type: none"> • The Strasbourg Agreement Concerning the International Patent Classification (1971) • Vienna Agreement Establishing an Classification of the Figurative Elements of Marks (1973) • The Budapest Agreement on the International Recognition of the Deposit of Micro-Organism for the Purpose of Patent Procedure (1977), • The Trade Mark Treaty (1994) • The Customs Union Decision 1/95 • The Protocol Relating to the Madrid Agreement (1996) • European Patent Convention (1973) • Trade Related Intellectual Property Rights Agreement under WTO (1994)

BASIC LAWS AND DECREES	<ul style="list-style-type: none"> • Law No: 5000 for the Establishment and Functions of the Turkish Patent Institute • Law No: 551 for the Protection of Patent Rights • Law No: 554 for the Protection of Industrial Designs • Law No: 555 for the Protection of Geographical Indications 	<ul style="list-style-type: none"> • Law No: 556 for the Protection of Trademarks, • Law No: 566 for the amendment of the Transition Period of Patent Protection on Pharmaceutical and veterinary products and Process, • Law 4128 for Addition of Penal Provisions to the Laws 551, 554, 555 and 556, • Law No: 5846 on Intellectual and Artistic Works.
PATENTS	<p>The new Turkish Patent system introduces the following provisions:</p> <ul style="list-style-type: none"> • Utility model certificate, granting by examination and non examination system, • patentability criteria (novelty, inventive step, industrial applicability), • publication of applications, • opposition by third parties, • employee inventions, • compulsory license compatible with the TRIP's agreement, • compensation of damages against infringement, • non-realized income, • reputation of the invention, and • establishment of specialized courts. 	<p>Unpatentable : Games, computer software, surgical techniques and plant and animal species, or methods of plant animal breeding based on biological principles.</p> <p>Duration: 7 years for non-examined patents; 10 years for utility models; 20 years for examined patents from date of filing. Fees: 25 TRY (Application fee) Compulsory Licensing: If the patent is not used within 3 years of the issue date or there is a public interest in its use, patentee may be compelled to license.</p> <p>Industrial designs and models: The term of protection of industrial designs is 5 years from the application and is renewable for 25 years.</p> <p>Protection of textiles is not included in the Design law, although textile and fashion designs are protected as artistic works under the Copyright law. Specialized courts to deal with industrial design disputes will be established. Fees: 140 TRY (Application fee)</p>
TRADEMARKS	<p>First user may register, and registration confers proprietary rights. Prior user may prove prior rights but must do so within 3 years of registration publication. Trademarks need to be used for continuation of the protection. If the trademark is not used for 5 years without any interval, it may be cancelled. Service marks are protected.</p>	<p>Types and Duration: Trademarks run for 10 years and are renewable. Fees: 115 TRY (Application Fee) Fees: Proceeding for application under the Madrid protocol: 220 TRY</p> <p>Copyrights: Protection period of 70 years from the death of the author. Computer programs are protected as scientific and literary work. Modifications and adaptations of programs are covered as derivative works. Databases are protected as derivative works.</p> <p>Intellectual or artistic works should be registered with a local notary public, who will keep a legal copy for use in case of future conflicts. The Ministry of Culture's Copyright Directorate, with its regional representatives, is responsible for identifying and acting upon cases of piracy. Fees: None</p>

CHAPTER 13

COUNTRY PROFILE

Geography

Turkey is a location of intersection for old continents, namely Asia, Europe and Africa. It is of no surprise that history shows the country's location is the birthplace of many great civilizations, as these lands have been the centre for culture and commerce because of its unique location towards three continents and the sea surrounding it on three sides.

The country occupies an area of 814,578 square kilometers, with an almost equaling to the combined areas of Germany and France, and larger than the state of Texas. The continents of Europe and Asia are separated with the Bosphorus Strait, Marmara Sea and the Dardanelles Strait within the borders of the Turkish territory. The Anatolian Plateau is bordered by the Black Sea to the north, the Aegean Sea and the Marmara Sea to the West, and the Mediterranean Sea to the south.

Turkey has a coastline of 8,000 kilometers and land border of 2,573 kilometers. The country is neighbor to European and Asian countries; Greece, Bulgaria, Georgia, Azerbaijan, Armenia, Iran, Iraq and Syria.

Turkey is composed of seven geographical regions determined in line with the highly different and varying unique climatic and ecologic conditions. These regions are the Marmara Region, the Black Sea Region, the Mediterranean Region, the Eastern Anatolia Region, the South-eastern Anatolian Region, the Aegean Region and the Central Anatolian Region.

There are three main climatic zones in Turkey. The northern coast of Turkey, in particular the Black Sea Region, has a mild climate and is rainy throughout the year, temperatures not very low in winter and not very hot in summer. Western and southern coasts of the country have a climate of mild winters and hot, dry summers. The climate in Central Anatolia shows tough climatic features with cold and snowy winters followed by hot and dry summers.

Ankara, the capital city, is situated in the centre of the country.

Population

Turkey has a population exceeding 71,5 million people as of 2008. Turkey's population is being rapidly urbanized. Approximately 65% of the population is living in cities. The official language of the country is Turkish. All documents that are to be submitted to the government authorities must be prepared in Turkish.

Compulsory primary education is 8 years. High schools can teach English, French, German and Italian as primary foreign languages. As a result of the significant efforts that have been contributed for improving the overall educational level in last two decades, today, the literacy rate is over 90%. The increase in the overall schooling rate, from primary schools to universities, is contributing in developing the background for the formation of the well-educated, hard-working Turkish labour force of the future.

Time

Turkey is two hours ahead of Greenwich Mean Time. Time differences between Turkey and some major cities are presented in below table.

Time Differences	
City	Hours Ahead or Behind Turkey
Berlin	- 1
Budapest	- 1
Paris	- 1
Rome	- 1
London	- 2
New York	- 7
Los Angeles	- 10
Singapore	+ 6
Tokyo	+ 7
Sydney	+ 8

Political Structure

The Turkish Republic, founded in 29 October 1923, is a parliamentary democracy, for which political power is executed through a democratic parliamentary system constructed on the written constitution that safeguards individual liberties, fundamental civil rights and public freedoms.

The parliamentary democracy has a single chamber, the Grand National Assembly, and a president. The assembly is composed of 550 members elected for a five-year term. Elections are held every five years unless the government decides to call for an early election. Citizens at the age of 18 or older have the voting right. In general application, the votes are cast for political parties; however individual candidates have the legal ground to be elected as a member to the Assembly.

Assembly members elect the President of the Republic as the head of state for a fixed term.

The legislation power is exercised by the Grand National Assembly.

Judicial power is exercised by independent courts. Turkish legal system is based on legal practices of different countries. The administrative law has been based on the French system, the criminal law from Italian legal system whereas Turkish Commercial Code and Civil Code are based on the German and Swiss systems.

The highest legal body in Turkey is the Constitutional Court (Anayasa Mahkemesi) that ensures the compatibility of the laws with the constitution. The Supreme Court (Yargıtay) is the highest judicial body while the Court of Accounts (Sayıştay) is the highest judicial body responsible for controlling the financial contracts involving the state. Another Supreme Court is the Council of State (Danıştay), as the highest judicial body, which rules on conflicts between the state and the individuals.

Executive power is exercised by the Prime Minister and the Council of Ministers after receiving a parliamentary vote of confidence.

Useful Links

Undersecretariat of Treasury

Phone: 90-312-204 60 00

Fax: 90-312-212 23 53

Website: <http://www.treasury.gov.tr>

Undersecretariat of Foreign Trade

Phone: 90-312-204 75 00

Fax: 90-312-212 88 81

Website: <http://www.foreigntrade.gov.tr>

Export Promotion Center

Phone: 90-312-417 22 23

Fax: 90-312-417 22 33

Website: <http://www.igeme.gov.tr>

TCMB (The Central Bank of the Republic of Turkey)

Phone: 90-312-310 36 46

Fax: 90-312-310 74 34

Website: <http://www.tcmb.gov.tr>

DPT (State Planning Organization)

Phone: 90-312-294 50 00

Fax: 90-312-230 97 33

Website: <http://www.dpt.gov.tr>

SPK (Capital Market Board)

Phone: 90-312-292 90 90

Fax: 90-312-292 90 00

Website: <http://www.spk.gov.tr>

IMKB (Istanbul Stock Exchange)

Phone: 90-212-298 21 00

Fax: 90-212-298 25 00

Website: <http://www.imkb.gov.tr>

VOB (Derivatives Exchange)

Phone: 90-232-481 10 81

Fax: 90-232-445 61 85

Privatization Administration

Phone: 90-312-430 45 60

Fax: 90-312-435 93 42

Website: <http://www.oib.gov.tr>

TOBB (Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey)

Phone: 90-312-413 80 00

Fax: 90-312-418 32 68

Website: <http://www.tobb.org.tr>

DEİK (Foreign Economic Relations Board)

Phone: 90-212-339 50 00

Fax: 90-212-270 30 92

Website: <http://www.deik.org.tr>

TUSIAD (Turkish Industrialists' and Businessmen's Association)

Phone: 90-212-249 19 29

Fax: 90-212- 293 37 83

Website: <http://www.tusiad.org.tr>

YASED (International Investors Association of Turkey)

Phone: 90-212-272 50 94

Fax: 90-212-274 66 64

Website: <http://www.yased.org.tr>

Ministry of Finance

Phone: 90-312-415 29 00

Fax: 90-312-425 04 43

Website: www.maliye.gov.tr

Ministry of Industry and Commerce

Phone: 90-312-286 03 65

Fax: 90-312-286 53 25

Website: www.sanayi.gov.tr