

**TURKEY
INVESTMENT INCENTIVES**

This guide has been produced to assist those who are considering investing in Turkey. Its aim is to inform on the most common types of investment available in Turkey for both individuals and companies from either within Turkey or abroad. It reflects the current tax law or practices in Turkey as of November 2003.

This booklet is not intended for definitive investment advice, but merely as an explanatory guide. We would strongly recommend that readers seek professional advice before making any decisions. Furthermore, it should also be kept in mind that Turkish tax regulations are subject to frequent change.

For further information, please contact the PricewaterhouseCoopers office in Turkey.

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I. AN OVERVIEW OF INVESTMENT INCENTIVES IN TURKEY

Investment incentives in Turkey may be categorised mainly under the following headings:

- Investment incentives provided by the Turkish State, hereinafter referred to as State Aid,
- Incentives regarding priority and least developed regions,
- Incentives in Free Zones.
- Tax, fee exemptions in Export Operations
- Incentives and advantages on customs operations (for Customs Procedures with Economic Impact, Simplified Procedures, Handling Operations, the right to obtain Binding Tariff Information)
- Research & Development Subsidies
- Incentives for Environmental Protection
- Incentives on opening specialization fairs in domestic and foreign countries.
- Incentives on expenses of patent, useful model certificate and industrial design
- Incentives on office-shop and enterprise-brand introduction operations
- Tax Incentives on revenues obtained from the operation and transfer of ships registered in the ship register.

The State Aids' principal purpose is to eliminate the inter-regional imbalances, to facilitate a larger capital contribution by the public to the capital structure and also to support activities that have a positive effect on employment. Furthermore, such investments foster activities that attract the import of foreign currency and yield advanced and suitable technology, as well as those which procure international competitiveness so as not to breach international liabilities.

Incentives relevant to investments to be realised in the priority and least developed regions simply aim to increase employment in the said regions through tax exemptions and provision of land for investments.

Free Zones are regions which are considered to be outside of the customs borders of Turkey, although they are within the border of the country's national sovereignty. The incentives provided by Free Zone Law are mainly tax exemptions for both individuals and corporations, VAT exemption on import and deliveries of goods and services and customs duty exemption on import of goods to Free Zones.

II. STATE AIDS

Generally speaking, state aid can be classified as either a tax or a non-tax incentive. The former consists of customs duties and fee exemptions, investment allowance of 40%, VAT exemptions, stamp taxes and fee exemptions, whereas the latter includes provision of land and credit allocations from the Investment Incentives Fund.

A. General Requirements

1. Investment Incentives Certificate

The principal prerequisite for benefiting from state aids except investment allowance is to obtain an Investment Incentive Certificate, subsequently referred to as an IIC.

The IIC is a document which is granted to investors for their investments by the Undersecretariat of the Treasury, hereinafter referred as the Undersecretariat, and which provides for the utilisation of the benefits.

Stated below are the regional categories for state aids

2. Regional and Sector Classifications

2.1 Classification of regions

Regions in Turkey are classified into the following priority groupings with regard to the legislation on subsidies:

- Developed regions include the cities of Istanbul and Kocaeli as well as the sub-provinces linked to these cities, and in addition the metropolitan areas of Ankara, İzmir, Bursa, Adana and Antalya (not including their sub-provinces).
- Regions prioritised for development are the provinces of Adıyaman, Ağrı, Aksaray, Amasya, Ardahan, Artvin, Bartın, Batman, Bayburt, Bingöl, Bitlis, Çanakkale (including Bozcaada and Gökçeada), Çankırı, Çorum, Diyarbakır, Elazığ, Erzincan, Erzurum, Giresun, Gümüşhane, Hakkari, Iğdır, Kahramanmaraş, Karabük, Karaman, Kars, Kastamonu, Kırıkkale, Kırşehir, Kilis, Malatya, Mardin, Muş, Nevşehir, Niğde, Ordu, Osmaniye, Rize, Samsun, Siirt, Sinop, Sivas, Şanlıurfa, Şırnak, Tokat, Trabzon, Tunceli, Van, Yozgat and Zonguldak.
- Normal regions are those other than the above-mentioned.

2.2 Qualified investments

All investments that are eligible for state aid can be realised in Normal and Priority Regions and in Organised Industrial Zones as classified by the Ministry of Industry and Trade. However, in developed regions only special sectors, which are listed in Appendix I of this guide, can be granted investment incentives.

3. Minimum Investment Amount and Capital Requirement

In order to issue an IIC, the minimum fixed amount of investment, except in the case of small- and medium- sized corporations, shall be:

- Priority development regions: 200 billion TL
- Normal and developed regions: 400 billion TL

The minimum investment requirement is applied as 20% of the above amounts for IIC applications to be made by financial leasing companies.

These limits are not required in following conditions;

- a) Investments which will be realised in the model of Build-Operate-Transfer or Build-Operate,
- b) Investment which will be realised by public foundations and institutions,
- c) Leasing investments which will be realised by financial leasing corporations,
- d) Investments of shipyards, ship building and yacht building,
- e) Investment on import of airplanes and helicopters.

If the minimum equity capital ratio of concerned legislation is determined for investments, which will be realised in the pattern of Build-Operate-Transfer or Build-Operate, then this ratio is taken into consideration.

If it is required by the firm, internal credits, foreign exchange credits and/or external credits are provided directly by banks and special financial institutions on condition that the equity/foreign capital ratio projected in the investment incentives certificates is not changed and the amount of the foreign capital that is re-valued by the revaluation rate determined by the Ministry of Finance is not exceeded. At the same time amounts corresponding to the internal credit, external credit and foreign exchange credits stated under the “foreign capital” under “investment financing” should be taken into consideration.

4. Procedural Conditions

Investments by real persons, partnerships, joint-stock companies, limited liability companies, joint ventures, public enterprises, vocational establishments, bodies with public enterprise status (public foundations and institutions which have general and added budgets, province private administration, municipalities and state economic enterprise together with its foundations and institutions with a capital composition ratio greater than 50%) and foundations may benefit from subsidies. IIC applications for completed investments or in the name of the company to be incorporated will not be taken into consideration. However, certificates may be issued for joint-stock companies and limited liability companies to be incorporated with foreign capital.

Corporations or branches with foreign shareholders apply to the Foreign Investment Directorate for the IIC. Investors apply directly to the Chambers of Industry in the related regions for investments relating to the production and the agricultural industry that are under TRL 4 trillion and among the ones listed in Appendix II of this guide. Other applications are made directly to the Undersecretariat of Treasury.

Investors wishing to benefit from subsidies should present the following documents:

- One copy of the investment information form,
- In case of application to the Undersecretariat of Treasury;
 - TL 200 million for investments to be made in priority regions.
 - TL 400 million for investments to be made in normal and developed regions,

A copy of the bank transfer document evidencing payment made into the account of the Turkish Republic Central Bank,

- In case of direct application to the Chambers:
 - A copy of the bank transfer document evidencing payment made into the chambers' account of TL 100 million,
- A copy of the bank transfer document evidencing payment made into the account of the Turkish Republic Central Bank of part of the balance, Global lists for imported or local machinery and equipment
- Proforma invoice relating to machinery and equipment and catalogues necessary for the evaluation of local and imported machinery
- Valid capacity report (for enlargement, modernisation etc. investments)
- For tourism investments, a tourism investment certificate, for educational investments, the Institution Establishment Certificate from the Ministry of National Education
- For investments relating to construction services a work status certificate must be obtained from the relevant authority of the tender
- For investments related to mining, a notarised copy of the mining operation licence and permission (not required for foreign capital investments in the name of the company to be incorporated),
- Turkish Commercial Registry Gazette in which the articles of association of the company are published (not required for foreign capital investments in the name of the company to be incorporated),
- Circular of signatures (certified by a notary public)
- And any other information and documents, which may be required by the Undersecretariat, depending on the type of investment.

The investor who will benefit from the subsidies shall apply for the IIC to the relevant authorities together with the above-stated documents and information. The amounts regarding land, building, construction, machinery and equipment related to the investment are also determined in consideration of the information submitted by the investor. For those investments other than transportation investments, the lists for local or imported machinery and equipment, excluding automobiles, planes and helicopters, are certified as an annex to the investment certificate.

5. Revision of IIC and Extension of the Investment Period

In order to be able to benefit from the subsidies indicated in the IIC, the characteristic values, conditions and time limits in the IIC should be complied with. However, these values are revised in some conditions.

5.1 Revision

The registered values on an IIC are not final values. These values may be changed according to evaluations that are based on information and documents which are documented at all stages of investment.

If there is an increase of more than 100% or a decrease of more than 50% in the fixed investment total, investors can apply for revision of the IIC to the IIC authority on condition that the certificate is still valid. However, if the investors apply for revision with regard to investment allowance and/or using credit, the ratios of 100% or 50% are not considered.

During closure, if it is considered that the investment allowance or exemption of tax, duties or Resource Support Utilisation Fund are used over the accrual value, the value in excess of the accrual value should be reclaimed.

5.2 Extension

According to legislation, as a one-off application, the investors may be granted an extension equal to half of the original investment period unless the investment is completed within the specified date on the IIC. A six-monthly report on the status of realisation of the investment should be provided to the authority, which arranged the IIC.

In order to extend the period for the investment, the investors should apply to the Undersecretariat of Treasury or the Chamber of Commerce and Industry in the city where the investment takes place within 3 months of the expiration of the period indicated in the IIC together with the Investment follow-up form. In the event of this application being made after the 3-month period, an extension may be granted on condition that the investor provides documents proving that significant investment expenditure has been made.

The investment certificate may be cancelled by the Undersecretariat and all subsidies previously benefited from will be collected with penalties in the case of the investor failing to apply for the closing certificate within 6 months following the expiration of the investment period or the granted extension.

6. Completion of Investments

The investors should apply to the Undersecretariat or Chambers of Industry within 6 months at the latest following the completion of the investment period.

Formalities for the completion endorsement of the investments realised under the scope of the IIC, may be executed by the Undersecretariat, or, if deemed necessary, other bodies appointed by the Undersecretariat, for example, Provincial Directorates of Industry and Commerce, the Chambers of Trade and Industry, or sworn financial consultants, to conduct expertise works relating to the completion of the investment on a project basis. The Undersecretariat may certify the completion based on the reports to be prepared by the aforesaid authorities.

In the case of non-fulfilment of the provisions regarding environmental protection set out in the IIC, the completion certification will not be authorised. However, in the event of the authorities of an Organised Industrial Zone located in the investment region undertaking the establishment of an environmental protection facility in that Organised Industrial Zone, the completion endorsement shall be accomplished.

In order for completion certification formalities to be performed by public enterprises outside the province where the investment takes place, the companies concerned shall pay the transportation and accommodation costs of the experts.

In the case of non-compliance with the incentive legislation, non-fulfilment, amendment, incomplete performance of the conditions and characteristics indicated in the IICs, or detriment to the integrity of the investment, and falsification of documents relating to state aid, the aid may be cancelled or withdrawn by the Undersecretariat, in part or in whole.

B. State Aid To Be Granted

1 Customs Duty and Fund Exception

The import of machinery and equipment (excluding raw materials, intermediate and operating products) is except from Customs Duty and the Mass Housing Fund contribution payment paid in accordance with the Decree on Import Regime. In order to benefit from this aid, the said machinery and equipment should be listed in connection with an IIC. However, if the items listed below are to be imported within the scope of an IIC, Customs Duty and Mass Housing Fund will be charged at the rate set forth in the prevailing Decree on Import Regime.

- Automobiles
- Buses (including double-decker buses)
- Separate chassis (trailer mountable) trucks,(excluding those which have environment safety standard engines, generally ones which have Euro I and/or Euro II standards)
- Trailers (to be pulled by separate chassis trucks) (excluding ones which have refrigeration units)
- Spare parts (cannot exceed 5% of the value of the related machinery and equipment)
- Furniture
- Yachts (including motorboats)
- Trucks (excluding off-road, and rock-carrying type heavy- duty special purpose dump- trucks which cannot operate on public roads)
- Transmixers
- Uninterrupted power sources
- Cement plant
- Forklifts
- Cement pumps
- Construction equipment
- Porcelain and ceramic kitchenware and tableware products.

The used machinery and equipment that can be imported according to the communiqué can be added to the incentive certificate, bearing in mind certain restrictions relating to region and sector.

The investment goods, machinery and equipment which are imported by benefiting from the Customs exemption may not be transferred, sold or assigned to third persons for a period of 5 years without obtaining the approval of the Undersecretariat. In the case of local investment goods, this period is 2 years. Custom taxes, duties and charges pertaining to the said machinery and equipment and fund costs which have not been collected during importation may be collected from the parties which are in breach of these provisions. For local machinery and equipment the subsidies previously given may be redeemed as per the relevant provisions.

2 Investment Allowance

The investment allowance is a tax exemption granted to income or corporate taxpayers and can be briefly defined as a deduction of a certain proportion of the investment from the corporate tax base.

Please find below the investment allowance application with respect to the last arrangements, which came into force on 24.04.2003.

2.1 Investment allowance base and ratios

For investments made after 24.04.2003, 40 % of the cost values of the economic goods subject to amortization that are purchased and manufactured for use in their operations are subject to allowance as an investment allowance exemption.

2.2 Eligible Expenses

Investment allowance cannot be calculated for the following types of expenditure according to the “amendments” published on 24.04.2003. With the exception of the below-stated, all expenditure may benefit from investment allowance:

- a) Goods with a value of less than 5 billion TL
- b) Economic goods previously used domestically or in a foreign country. (Excluding floating docks and ships which are less than 12 years old.)
- c) Intangible rights (excluding computer software which are required goods that benefit from an investment allowance)
- d) Tools, equipment, furniture and office fixtures which are not directly related to the production steps.
- e) Goods which are acquired free of charge.
- f) Buildings that are acquired by means of purchasing or construction. (excluding those used for production of goods and services)
- g) Land
- h) Passenger cars and similar land vehicles, yachts, cutters, boats and similar motor naval vessels and aerial vehicles such as planes and helicopters. (excluding those that are necessary for core business)
- i) Goods which are purchased for investments abroad.

The cost value of depreciable economic values is taken as the base in calculating the value of investment allowance exceptions. ‘The cost’ of the assets is the total of any payment made to purchase or add value to the property. These payments include foreign exchange differences regarding the acquisition of the assets, interest charges on loans and transportation and instalment charges that accumulate until the date that the assets are included in the company’s assets and become depreciable.

2.3 Indexation of Investment Allowance

The application of the investment allowance will be eligible in the year the investment expenditures are initiated and denominated in Turkish Lira. In the event of its not being immediately utilised as a tax deduction from taxable profits due to the absence or lack of taxable income in the related year, it may be carried forward until it is totally netted off against the taxable base. In determination of tax bases in the year when the investment expenses are incurred, the value of exception, which is not taken into consideration since gain is not enough, will be taken into consideration with the revaluation rate according to Tax Procedural Law in the following years. However, it should be noted that the revaluation will be applicable to the unused part in the following tax year. This provides some measure of relief from the effects of inflation/devaluation.

2.4 Sale of Fixed Assets

The taxpayer loses the right of application of the investment allowance exception for goods that are subject to an investment allowance exception if the taxpayer sells these goods within two years of acquiring the assets. In this situation it won’t make anything for the investment allowances, from which has been already benefited.

3 Vat Premium and Exemption

3.1 VAT in Turkey

VAT rates imposed on goods and services delivered in Turkey vary between 1% and 18%. However, the general rate is 18%. The import of goods and professional services is also subject to VAT at customs. For further information on VAT applications in Turkey please refer to the PricewaterhouseCoopers VAT Guide.

3.2 VAT Exemption for Machinery and Equipment

In accordance with the VAT law, the sale of machinery and equipment to tax payers holding an IIC within the framework of the certificate shall be exempted from VAT. This exemption is applied on the transfer of the IIC or machinery and equipment purchased under the IIC*.

* You may find VAT Guide from our website www.vergiportali.com.

4 Stamp Taxes and Fee Exemption

According to the new application which came into force on 01.01.2004,

- a) It is determined that the operations related to the merger, acquisition and split-off of corporations, limited partnership and limited liability companies and guarantees which are issued for cash investment credits with a period greater than 1 year are not subject to a fee.
- b) Investment credits that are taken from associations with a period greater than 1 year are exempted from stamp tax

However, if the investor chooses to be subject to the old legislation, the related principles are stated below.

Where the investor gives an export undertaking of US \$ 1,000 within 2 years following the completion of the investment, the operations stated below shall be exempt from Stamp Duty and fees:

- Company establishment
- Capital increases provided that the equity to debt ratio set in the investment certificate is preserved
- Investment loans obtained locally or from abroad, provided that the equity to debt ratio set in the investment certificate is preserved
- Registration procedures with the Land Registry Office on behalf of the company where immovable or their related rights are contributed as capital in kind and all documents related to the registration of the same in the Land Registry department pursuant to the IICs.

5 Credit Allocation from the Investment Incentives Fund

The objective of the fund formed at the Central Bank pursuant to the Decree of the Council of Ministers is to direct and encourage investments, export and foreign currency earning activities and credits in order to subsidise and procure low interest rate credits for investment financing.

The investments which shall benefit from the allocation of credits from the Fund are illustrated below:

- Research and development (R&D) investments
- Technology parks and investments to be realised in technology parks
- Investments related to environmental protection
- Priority technological investments which are determined by the High Commission of Science and Technology or TUBITAK,
- Investments aiming to improve regional imbalances,
- Investments to be relocated to Organised Industrial Zones
- Investments which will be made production industry, agricultural industry and mining investments in regions having priority in development,

The eligible investment should meet the criteria and specifications determined in the law in order to utilise the loans. Credits are allocated for the new machinery and equipment. In addition to the machinery and equipment to be used to fulfil the purpose of the investment the following costs may also be covered by loans:

- a) For R&D investments, machinery and equipment which are used in research and developments activity, and 50% of software expenditure,
- b) Investments aimed at environmental protection, 50% of expenditures of building-construction, machinery and equipment for environment investments,
- c) For priority technology investments, 50% of machinery and equipment and software expenditure,
- d) Investments which will be made in regions designated for technologically development, 50% of machinery and equipment and software expenditure,
- e) For investments that relocate to regional development cities and priority developed regions and specially designated regions, 50% of the disassembly, shipping and assembly costs.
- f) For investments aimed at regional development, 30% of the interest-free fixed investment amount.

Loans to be assigned should not exceed TL 400 billion for R&D investments, investments related to environmental protection, priority technological investments, investments in technology developing regions, investments aimed at improving the scope of regional development cities and investments to be relocated in special regions.

Furthermore, investment credit should not exceed TL 500 billion for manufacturing, agricultural and mining industries in priority development regions. In addition to these, business loans determined by intermediary banks should not exceed TL 200 billion. If investment credit and business loans are used together, the total amount of credit should not exceed TL 700 billion.

The amount of investment loan which will be assigned for individual developing investments should not exceed TL 4,5 trillion.

The interest rate of loans which have been used is 20% in the case of investment loans and 30% in the case of managing loans.

6 Incentives Regarding Small and Medium Sized Enterprises (SME's)

Incentives granted to SME's cover the following investments with the aforementioned sector and regional limitations:

- Investments in the production and agricultural sectors (excluding cotton gin and non-integrated packaging investments) to be realised by the enterprises of which the value of the total machinery and equipment, vehicles, properties, installations and other facilities excluding land and buildings does not exceed TRL 600 billion and with a maximum of 250 employees. (SME investment certificate is not issued for the research- development investments in developed regions, investment for environmental protection, technopark investments and complete new investment that will be made in special organized industrial zones

determined by the Ministry of Industry and Trade and organized industrial zones and small-scale industrial zones including organized small-scale industrial zones constituted from small-scale industrial zones)

- Tourism investments excluding the coast line between Canakkale and Icel and the districts of Urgup, Avanos and Nevsehir,
- Health investments in priority development regions,
- Educational investments to be realised in priority development regions and expansion and modernisation of existing primary and secondary education facilities in developed and normal regions,
- Mining,
- Software development.

SME investments under IIC should be completed within 2 years for investments including building construction expenditures and 1 year in other cases.

The subsidies from which the small and medium sized enterprises may benefit are:

- Credits utilised from the Fund resources are solely for machinery, equipment and raw materials to be used within the investment. The maximum allowed ratios of loans to the fixed investment amounts vary according to the scale of the enterprise as illustrated below:

Scale	Regions		
	Priority Development	Developed	Other
Micro (1-9 employees)	%60	%50	%40
Small (10-49 employees)	%50	%40	%30
Medium (50-250 employees)	%40	%30	%20

The interest rate on the investment credits (loans allocated for purchases of machinery and equipment) are 10% and 15% for priority development regions and other regions respectively. The interest rate is applied as 15% and 25% for operational credits (loans used for purchase of raw materials). The repayment terms can be up to 4 years (investment credits) and 2 years (operational credits)

- Investment allowance,
- VAT exception for machinery and equipment purchases,
- Customs duty and fund exception (excluding importation of used machinery and equipment)
- Stamp duty and fees exception

III. INCENTIVES FOR INVESTMENTS IN PRIORITY AND LEAST DEVELOPED REGIONS

1 Purpose of Law Numbered 4325

This law aims to enhance employment and investments in the priority and least developed regions by providing income and corporate tax exemptions as well as provision of land support for investments to be realised in the aforesaid regions.

2 Regional Classification

The provinces of:

- Batman, Bingöl, Bitlis, Diyarbakır, Hakkari, Mardin, Muş, Siirt, Şırnak, Tunceli and Van, which are designated as priority regions.
- Adıyaman, Ağrı, Ardahan, Bayburt, Erzurum, Gümüşhane, Iğdır, Kars, Ordu, Şanlıurfa and Yozgat, whose GNP/person is below US \$ 1,500 and annual development multiplier has been determined as -0.5 by the State Planning Agency;

shall benefit from the aid stated in Law No: 4325.

3 Income and Corporate Tax Exemption

This exemption mainly aims to relieve the tax burden on employers operating in the priority and least developed regions. Investors who establish a new business in the said regions between 1.1.1998 and 31.12.2000 and employ at least 10 employees within these establishments are exempt from income and corporate tax for 5 taxation periods, commencing from the year in which the business starts. However, it should be noted that the exemption is to be applied only to income obtained in the aforementioned regions provided that the minimum employment condition is fulfilled for each entire taxation period.

Additionally, on expiration of the exemption period, the investors may benefit from a deduction from income or corporate tax, provided that the minimum employment condition is fulfilled by 31.12.2007. The deduction brackets are as follows:

- | | |
|----------------------------------|-----------------------------|
| • For employment of 10 employees | 40% |
| • For employment of 11-50 | 40%+0.5 points per employee |
| • For employment of 51 and over | 60% |

These deductions are applicable for the revenues between periods 1.1.1998 and 31.12.2007 for those investors who are already operating a business in the said regions and start to employ an additional 10 employees over their employee number declared in the last 4 monthly Social Security Premium Payroll notices submitted before 31.10.1997.

4 Other Measures

4.1 Provision of Land under Law No. 4325

- The investments to be realised in Priority Regions (primarily the investments in Organised Industrial Zones), which boost employment, shall benefit from the transfer of immovable properties belonging to the Treasury. Those investors who intend to invest in the aforementioned provinces shall undertake to employ a minimum of 10 employees for a continuous period of 5 years.

IV. INCENTIVES IN FREE ZONES

The free zones are geographically determined areas within Turkey, which are however, considered to be outside of Turkey's customs borders. These were created to assist investors wishing to benefit from Turkey's location, as well as increasing export-oriented investment and production in Turkey, accelerating the entry of foreign capital and technology and increasing the utilisation of external finance and trade possibilities.

Law 3218 relating to Free Zones was enacted to develop trade and industry projects in Turkey.

Legal entities or individuals wishing to engage in operations in the Free Zone should be granted permission from the General Directorate of Free Zones. Free Zones have a 'zone directorate' to ensure the activities in the zone are in line with the provisions of the Free Zone Regulation.

The currently operating free trade and export processing zones and those, which are projected to be operational in the near future, are listed in appendix II.

In line with the Free Trade Zone Law, the major incentives and exemptions provided by the free zone are explained below:

1 Income and Corporate Tax

Earnings and income generated in free zones can be transferred freely to any country including Turkey. Income generated through activities in the zone by real or legal persons in Turkey, is exempt from all kinds of tax including income and corporate tax when it is remitted in Turkey and documented in accordance with foreign exchange regulations.

In addition to the above, salaries paid in the Free Zones for employment services performed therein are exempt from income tax.

2 VAT

No VAT is imposed on the transactions carried out in Free Zones. Sales from Turkey to the zones are considered as exports and users can buy goods from Turkey at the export price without value added tax. In addition, goods entering the Free Zones from other Turkish Free Zones and from abroad to Free Zones are not subject to VAT ..

3 Customs duties

In general, goods imported to Turkey from third countries (excluding goods imported within the context of the Customs Union (CU) with EU countries) are subject to customs duty. However, goods originating from Turkey, EU countries or third countries or goods in free circulation are not subjected to customs duty while entering Free Trade Zones. Importation from Free Zones to Turkey is subject to the foreign trade regime.

4 Stamp Tax

Under Turkish law, Stamp Duty is applicable on almost all kinds of legal documents including contracts, agreements, notes payable, capital contributions, letters of credit, letters of guarantee, financial statements and payroll. Stamp Duty is levied as a percentage of the value of the document at rates varying from 0.15 %-0.75 % and at nominal values.

Transactions in the Free Zones are exempt from Stamp Duty. However, should contracts be submitted to official bodies in Turkey, stamp taxes are levied.

5 Resource Utilisation Support Fund ("RUSF")

Imports with acceptance credits, time letters of credit or on a cash on delivery basis and credits obtained locally or from abroad (except for offshore credits with an average maturity of more than one year) are subject to a 3% RUSF. However, both goods entering Free Zones and loans regardless of their maturity are exempt from RUSF.

6 Other taxes, fees and duties

Except for the payments to Special Account and social security taxes, no other taxes, fees or duties are applicable in Free Zones.

V. STAMP TAX AND FEE EXEMPTIONS

Law Numbered 3505

Investments with the commitment of export and foreign currency generating activities shall benefit from the subsidies stated below under the provision of Law 3505:

The transactions regarding;

- exports,
- activities aiming to generate foreign currency under an IIC and import activities in connection with such an IIC,
- investments in connection with an IIC bearing an export commitment;
 - investment loans
 - company establishments and capital increase
 - registration procedures with the Land Registry Office where immovable or their related rights are contributed as capital in kind,

are exempt from stamp taxes and fees applicable until 31.12.2003.

VI. BUILD-OPERATE-TRANSFER (BOT), BUILD-OPERATE (BO) PROJECTS

1. BOT Model

Under this application, a legal framework has been created in order to allow private companies to conduct investments that require advanced technology and high capital contribution. Build-Operate-Transfer and Build-Operate models are developed related legislation.

The BOT model is a special financing model used to realise projects requiring advanced technology and high capital investments, especially energy and infrastructure projects. The Government guarantees to buy the products or service supply of the investments at a certain price and over a certain period of time. Not exceeding 49 years. The BOT model can be used to finance the following investments:

- Bridges
- Tunnels
- Dams
- Irrigation channels
- Water purification and sewerage systems
- Communication networks
- Mining operations
- Manufacturing plants
- Environmental pollution protection systems
- Highway and railway construction
- Subway and railway garages
- Seaports and airport construction
- and other related investments

The law provides exemption of stamp duty and fees on all operations performed for the projects within the context of the BOT model.

2 BO Model

The major difference between BOT and BO models is that the investor company retains the ownership of the investment and the related government body purchases the services during the operational phase. The BO model is designed specifically for the construction and operation of power plants under the permission of the Ministry of Energy and Natural Resources.

VII. INCENTIVES FOR TECHNOPARK INVESTMENTS

Activities related to the establishment and operation of technoparks benefit from incentives that are provided by the Undersecretariat of Treasury. In order to benefit from the incentives, after gaining approval from Founder Committee, application should be made to the Undersecretariat of Treasury by Company Management and the required procedures should be completed.

VIII. TAX INCENTIVES ON REVENUES OBTAINED FROM THE OPERATION AND TRANSFER OF SHIPS REGISTERED IN THE SHIP REGISTER

The Turkish International Ship Register is formed in order to accelerate Turkish maritime development and increase its economic contribution. Ships belonging to real person citizens of Turkey or a foreign country and resident in Turkey and those belonging to the companies established according to the Turkish Legislation should be registered in the Turkish International Ship Register.

Revenues obtained from the operation and transfer of the said ships are exempt from income tax and corporate tax and related funds. Fees belonging to the employees of the ships are exempt from income tax.

Accordingly, operation activities of the mentioned ships are not subject to;

- Income tax (if the activities are carried out by an income tax payer),
- Corporate tax (if the activities are carried out by a corporate tax payer).

Revenues obtained from the transfers of ships which are registered in the Turkish International Ship Register are not subject to corporate tax.

On the other hand, the revenues that are except from income and corporate taxes are also not subject to deduction.

However, in the case of distribution of the revenues as dividend to the shareholders, the revenues should be declared by fully-fledged real person taxpayers after the calculation of the tax claim.

Appendix I

Qualified Investments

1. Education investments
2. Health investments
3. Tourism investments
4. Electronics industry related investments
5. Investments related to environmental protection
6. Priority technological investments
7. Technology parks
8. Research and Development (R&D) investments
9. Infrastructure and electrical energy production investments
10. Ship and yacht building investments
11. Shipyard investments
12. Aeroplane and helicopter investments
13. Mining extraction and production investments
14. Information technology and software development investments
15. Rehabilitation facilities for general purposes and including facilities for handicapped children, adults and rest homes for the aged,
16. Investments permitted by the Undersecretariat are to be completely new investments having a fixed investment value of more than US \$ 50 million and with one or more of the following characteristics:
 - Necessitating high technology
 - High added value
 - Contribution to an increase in taxable income
 - Contribution to an increase in employment.
17. Exhibition and convention facility investments
18. Museums, congress buildings, cultural and performance facilities
19. Sports facilities
20. Cold storage and bonded warehouse investments
21. International supply chain service investments
22. Investments for highway construction, marine and airline transportation and rail vehicles of combined containers
23. Land travel investments for international passenger transportation
24. Airport land service investments
25. Investments of communications, radio, television and data broadcasting services
26. Electronic guidance investments
27. Product design, testing, quality control, calibration, classification, and certification service investments
28. Pharmaceutical industry investments
29. Precious metal and stone processing investments
30. Industrial mould production investments
31. Press and print industry investments
32. Ground research and improvement investments
33. Photogrammetry investments
34. Contracting services investments
35. Harbour, seaport, quay and fisherman shelter investments
36. Harbour, seaport and quay services investments
37. Trailer and pilotage services investments

38. Investments of cargo services through rented railways
39. Mass transportation services investments to be realised by municipalities and provincial administrations
40. Heavy machinery service station investments
41. Automation investments
42. Side industry investments in and for existing automotive production facilities to supply input materials for production
43. Automation Investments
44. Investments of Subsidiary Industries that provides intermediate goods for automotive production facilities
45. Investment of service complex for tourism, fair and exhibition centres, conference- culture-show centres, health-sport centres
46. Service investment made by oil company for increasing quality of petroleum and its derivatives

Appendix II

The investments for which the IIC applications can be processed by the authorised chambers

- **Production investments**
 - Food and beverages
 - Wood products
 - Textile and clothing
 - Leather and stout leather
 - Paper
 - Chemicals
 - Rubber and plastic
 - Glass and glass products
 - Non-iron metals
 - Metal products
 - Machinery production
 - Vehicle production and related side production industry (excluding ship and yacht construction)
 - Electrical and non-electrical machinery
 - Optical and scientific measurement hardware
 - Electronics
 - Cement
 - Products of fired clay and cement
 - Ceramics
 - Packaging material
 - Stationery and office equipment production

- **Agricultural industry investments**
 - Integrated meat and meat products
 - Integrated milk and milk products
 - Bait production
 - Processing of agricultural products

Appendix III

I Currently operating Free Trade Zones

- Mersin, (1987)
- Antalya (1987),
- Aegean (1990),
- İstanbul Atatürk Airport (1990),
- Trabzon (1992),
- İstanbul Leather Industry (1995),
- Eastern Anatolia (1995),
- Mardin (1995),
- İMKB (Istanbul Stock Exchange) (1997),
- İzmir Menemen Leather (1998),
- Rize (1998),
- Samsun (1998),
- İstanbul Trakya (1998),
- Kayseri (1998)
- Europe (1999),
- Gaziantep (1999),
- Adana-Yumurtalık (1999)
- Denizli (2001)
- Bursa (2001)
- Kocaeli (2001)
- Tübitak-Marmara Research Center Technology (2002)

PricewaterhouseCoopers Turkey Offices and Contacts

Süleyman Seba Cad. No: 48, BJK Plaza, B Blok K.9
834357 Akaretler, Beşiktaş-İstanbul
TURKEY

Telephone: +90 (212) 326 60 60
Facsimile: +90 (212) 326 60 50

Büyükdere Cad. No: 111, Kat 3-5
34394 Gayrettepe, İstanbul
TURKEY

Telephone: +90 (212) 355 58 58
Facsimile: +90 (212) 355 58 50

Paris Cad. No:12/4
06540 Kavaklıdere, Ankara
TURKEY

Telephone: +90 (312) 410 45 45
Facsimile: +90 (312) 410 45 50

Hürriyet Bulvarı No:4/1
Kat 6/605, Kavala Plaza 35210
Alsancak, İzmir
TURKEY

Telephone: +90 (232) 497 70 70
Facsimile: +90 (232) 497 70 50

Contact names: Erdoğan Öcal (Tax Partner)
Tel: +90 (212) 326 60 60 / 6404
Fax: +90 (212) 326 64 05

Yüksel Toparlak (Kıdemli Müdür)
Tel: +90 (212) 326 60 60 / 6418
Fax: +90 (212) 326 64 19

Cenk Ulu (Manager)
Tel: +90 (212) 326 60 60 / 6424
Fax: +90 (212) 326 64 25

E-mail: erdogan.ocal@tr.pwc.com
yuksel.toparlak@tr.pwc.com
cenk.ulul@tr.pwc.com