



Turkey

Prepared by Lex Mundi member firm,
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**Doing Business in Turkey
2016**

Prepared for Lex Mundi

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Turkey Snapshot

Language

The official language of Turkey is Turkish. The Latin alphabet has been in use since 1928.

Exchange rate (October 2016)

Turkish lira (TRY): US dollar – 0.327

Turkish lira (TRY): Euro – 0.297

Location

Turkey is an important crossroads between Western Europe, the Middle East and Asia, and its location has been a central feature of its history, culture and politics. Three waterways of great strategic importance lie in Turkey: the Dardanelles, a strait 40 miles (64km) long; the Sea of Marmara; and the Bosphorus, a strait 20 miles (32km) long. Together they form the only water route between the Black Sea and the Mediterranean Sea. Turkey also flanks the principal land routes from the Caucasus to the Iranian and Arabian oil fields and to the Suez Canal.

The modern Turkish state, with Ankara as its capital, was created in 1923 and has 1,633 miles (2,628km) of land frontiers and 4,454 miles (7,168km) of coastline. The European section of the country is bounded on the north by Bulgaria, on the east by the Black Sea and the Bosphorus, on the south by the Sea of Marmara and the Dardanelles, and on the west by Greece and the Aegean Sea.

Turkey in Asia is bounded on the north by the Black Sea and Georgia; on the east by Armenia and Iran; on the south by Iraq, Syria and the Mediterranean Sea; and on the west by the Aegean Sea. Turkey is approximately 900 miles (1,450km) long and 300 miles (480km) wide and covers an area of 300,948 sq.miles (779,452sq.km), of which 291,773sq.miles (755,689sq.km) are in Asia and 9,175sq.miles (23,764sq.km)

in Europe. About 90% of the population lives in the Asian part of Turkey and 10% in the European part.

Turkey is located on the Asia Minor tectonic plate intersected by the North Anatolian fault, which from time to time causes major earthquakes.

Climate

Turkey's diverse regions have different climates. The climate on the coasts contrasts with that prevailing in the interior. The southern areas that border the Mediterranean have cool, rainy winters and hot, moderately dry summers. The Black Sea coastal region receives the heaviest amount of rainfall in Turkey, with the average of 1,400 millimetres annually. Interior regions, blocked from Mediterranean influences by mountains, have a continental climate with cold winters where the temperature reaches -40°C and dry, hot summers. The snowfall in winter is heavy, with an average of 120 days per year with snow on the ground. The eastern mountainous region sees hot, dry summers and very cold winters. The spring and autumn are mild.

Infrastructure

Turkey, as an emerging market, has competitive infrastructure. There are 55 airports in Turkey open to civil air traffic, 23 of which serve international flights and 5 airports are under construction or at project stage. There are also 47 heliports in Turkey. The large majority of international traffic runs through four main airports: Ataturk International Airport in Istanbul (which was recently named the "Best Airport in Southern Europe" by Skytrax World Airlines), Adnan Menderes Airport in Izmir and Esenboga Airport in the capital city, Ankara.

The other international flight points in Turkey are Sabiha Gokcen (on the Asian side of Istanbul), Adana, Antakya,

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Antalya, Milas, Bursa, Dalaman, Diyarbakir, Erzurum, Eskisehir, Ordu-Giresun, Gaziantep, Kayseri, Konya, Kutahya, Malatya, Nevsehir, Samsun, Sanliurfa, Trabzon, Adiyaman, Agri and Amasya.. Turkish Airlines (THY) is the leading airline company in Turkey. The other airline companies are Pegasus Airlines, Atlasjet Airlines, Sun Express and Onur Air.

Turkey has 12,532 kilometres of railways, of which 11,319 kilometres are conventional and of which 1,213 km are high-speed. The Turkish government aims to improve its railways and has defined three main targets: develop high-speed trains via the construction of new railway lines, increase the speeds of the trains via the rehabilitation of existing railways and streamline the railways by restructuring. In this context, several rail projects such as Ankara-Istanbul High-Speed Line has become operational and the first stage of MARMARAY Project (the Rail Tube Tunnel under the Bosphorus Strait in Istanbul) has been completed. Another important project of Turkey in transportation is the establishment the Kars-Tbilisi-Baku railway. The total length of the project would reach 124,000 kilometres of which 92 kilometres would run through Turkey. The project is estimated to be completed by 2017.

Turkey's main sea ports are Haydarpasa, Derince, Izmir, Bandirma, Samsun, Mersin and Iskenderun. Freight transportation is available between Turkey and Serbia, Poland, Bulgaria, Romania, Czech Republic, Hungary, Slovakia, Macedonia, England, Spain, Yugoslavia, Greece, Sweden, Norway, Croatia, Slovenia, Germany, Austria, Luxembourg, Italy, the Netherlands, Switzerland, Denmark, France, Belgium, and Bosnia and Herzegovina. Transportation between Turkey and the Middle East runs from Turkey to Iran via Kapiköy border station, from Syria

to Turkey through Meydanekbez (Islahiye) and Nusaybin border stations, and from Turkey to Iraq through Nusaybin station transiting Syria.

Turkey holds great geographic importance as a bridge between continents, and is suitable for multi-mode transportation. Roads are Turkey's most important domestic transportation system. Turkey's road network is thorough, with more than 238,776km (nearly 148,368miles) of roads. Some 95% of passenger transport and over 90% of transportation of goods within Turkey are realized through highway transportation. The total length of highway that is under the control of the General Directorate of Highways is 2,159km and is made up with three kinds of roads; motorways, state highways and provincial roads. Main highways circulate from Ankara in central Anatolia; Istanbul and İzmir in the west; Adana in the south; and Erzurum and Diyarbakır in the east. The remarkable developments in Turkey with respect to road transportation are the third bridge in Bosphorus (Yavuz Sultan Selim Bridge) and the world's fourth longest bridge between Kocaeli and Yalova (Osmangazi Bridge) both of which have been opened to traffic in 2016.

Telecommunications

With respect to telecommunications, Turkey has 11,248 million fixed-lines and 73.651 million cellular phones in use. The state-owned fixed-line telecommunications company, Turk Telecom, saw 55% of its shares sold to the Saudi-owned Oger Group in November 2005. While the company remains a monopoly in the field of fixed-line and internet services, GSM operators' competition against Turk Telekom has been increasing rapidly. There are three leading private GSM operators operating in the country: Turkcell, Avea and Vodafone.

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The international country code is “+90” and the international service is provided by the SEA-ME-WE-3 submarine cable and by submarine fibre-optic cables in the Mediterranean and Black Seas.

The Turksat 4B satellite was launched as the sixth Turkish satellite in 2015.

The Internet is also a well-accepted communication medium. The internet country code is “.tr”. There are more than 2 million internet hosts and more than 46 million internet users in the country. Turk Telekom and Turkcell are the main providers of ADSL wideband internet.

Investment Background

Investment incentives

Grants and incentives are available to both Turkish and foreign investors such as:

- An investment allowance
- Tax exemptions (Customs duties)
- Subsidised credits
- Export credits
- Insurance of export receivables
- Tax exemptions
- Energy subsidies
- State aid for certain expenses

Extensive incentives are available to investors in free trade zones and include:

- A licence to set up and operate
- A location (office)
- Corporate tax exemption
- Income tax exemption related to salaries

Technology and development zones (known as technoparks) grant significant advantages to investors. Research and development incentives include:

- State aid for research and development activities
- Corporate tax exemption
- Income tax exemption

A special regulation concerning promoting investment and employment in less developed regions of the country provides for direct state aid in these regions.

Foreign investors required to give up their investment for public purposes must be compensated fairly.

Inflation rate

The inflation rate was 8.81% for the year 2015.

Foreign investment

Regarding portfolio investments, legal persons resident outside Turkey can freely purchase and sell all kinds of Turkish securities and other capital market instruments using banks and brokerage firms in Turkey as intermediaries.

There are no restrictions on foreign investors purchasing or selling a Turkish company’s securities, provided the transaction is made through an authorised brokerage firm in Turkey. However, there are special prior approval requirements for owning shares and/or voting rights reaching certain thresholds in certain types of regulated companies.

Companies subject to this requirement are generally banks, brokerage companies, insurance companies, television and/or radio companies, energy companies, asset management companies, financial leasing companies, factoring companies, finance companies, financial holding companies, air transportation companies and any other company regulated by government authority as the case may be. These regulatory permissions have to be obtained from the relevant authority irrespective of the fact that the relevant company is listed or not. Companies subject to these requirements are generally:

- Banks

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- Brokerage companies
- Insurance companies
- Television and/or radio companies
- Energy companies
- Asset management companies
- Financial leasing companies
- Factoring companies
- Finance companies
- Financial holding companies
- Air transportation companies
- Any other company regulated by government authority

Regulatory permission must be obtained from the relevant authority irrespective of whether or not the relevant company is listed.

Foreign investors are free to make direct foreign investments in Turkey. “Direct foreign investment” refers to any of the following:

- The foundation of a new company or opening of a branch
- The acquisition of capital shares directly, not through the Securities Exchange
- The acquisition of capital shares equal to at least 10% of a company or acquisition of voting securities at the same rate in a company quoted and traded in the Securities Exchange by a foreign investor using economic assets supplied from overseas or from the domestic market

However, under the amendment to the Title Deed Law, foreign persons can only acquire up to 10% of designated zoning areas in each district and a total of 30 hectares in Turkey. Companies incorporated in Turkey by foreign investors (or companies with foreign shareholders) can only acquire and use real properties in order to conduct the activities stated in their articles of association. These real properties cannot be in military or private security zones. Foreign companies can only acquire real property in limited circumstances, under certain laws such as the Petroleum Law,

Encouragement of Tourism Law, Banking Law and the Industrial Zones Law..

Diplomatic Relations

Overview

Turkey is one of the original member states of the United Nations and joined the Council of Europe in 1949, the North Atlantic Treaty Organization in 1952 and the Organization for Economic Cooperation and Development in 1960. In 1963, Turkey became an associate member of the European Economic Community by an association agreement aimed at full membership.

In addition, Turkey is a member of the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development, the Black Sea Economic Cooperation, the International Monetary Fund, and the Asian Development Bank.

In 1995, Turkey became a member of the World Trade Organization. Turkey is a member of the Organization of the Islamic Conference, the Islamic Development Bank, and the Central Bank of Turkey is a member of the Bank for International Settlements.

Turkey is a founding member of the Economic Cooperation Organisation (ECO), a trade organization formed in 1985 between Turkey, Iran and Pakistan. Since its formation, Afghanistan, Azerbaijan, Kyrgyzstan, Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan have joined the ECO.

Turkey has sought full membership in the European Union (EU) since its association agreement was signed in 1963. In 1987, Turkey submitted a formal application for full membership in the EU. Since then Turkey has taken steps to fulfil criteria required for

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membership, including a significant amendment of thirty-four articles of the Turkish Constitution. Turkey has also enacted several economic reforms, made structural adjustments in the financial sector and public finance, and enhanced competitiveness and efficiency in its economy.

In light of the above developments, the accession negotiations with Turkey were opened in October 2005. Turkey has so far opened 16 chapters. Fourteen chapters remain blocked. One of the key stumbling blocks to opening new chapters is that Turkey has yet to fully implement the Ankara Protocol, which requires normalizing bilateral relations with EU member Cyprus, something Turkey has announced it will not do until both Greek and Turkish Cypriot communities on the island are reunited or the Turkish Republic of Northern Cyprus is recognised.

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ankara@mfa.gov.mk

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Mauritania

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Mexico

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25 07
Fax: +90 312 442 02 21
mexico@embamextur.com

Moldova

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Mongolia

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Montenegro

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The Netherlands

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New Zealand

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Nigeria

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Pakistan

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Palestine

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embapaltr@hotmail.com
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Peru

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Russian Federation

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Saudi Arabia

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Slovak Republic

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United Arab Emirates

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United Kingdom

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United States of America

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Venezuela

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Vietnam

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Travel restrictions

Normally a visa is required to enter
Turkey. Detailed visa requirements for
each country's citizens are available at
<http://www.mfa.gov.tr/visa-information-for-foreigners.en.mfa>.

Government

Election system and schedule
The current Turkish constitution, which
was revised and ratified by referendum
in 2010, provides for a parliament, the
Grand National Assembly (GNA), a
president and a prime minister. The
president is elected for a five-year term
by popular vote, with one additional
term possible. Direct parliamentary and
local elections are held (separately)
every four years, however, the president
or the GNA can declare elections at an
earlier date. The prime minister is
appointed by the president from the
members of Parliament.

The prime minister, in turn, nominates
other members of the Council of
Ministers, who then must be approved
by the president. The Council of
Ministers, chaired by the prime minister,
exercises the executive powers of the
government under the authority of the
GNA. The members of the GNA are
elected for five-year terms.

The head of state in Turkey is the
president, who also serves as the
country's commander of the armed
forces. The current president is Recep
Tayyip Erdogan. The current prime
minister is Binali Yildirim.

The constitution provides for a system
of proportional representation and
forbids the formation of political parties
on the basis of class, religion or

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secessionism. The election law provides that parties that receive less than 10% of the votes in national elections are not eligible for seats in the GNA.

The next parliamentary elections will be held on 2019.

Recent political history

A series of economic shocks led to new elections in 2002, bringing into power the Justice and Development Party (AKP) of the former mayor of Istanbul, Recep Tayyip Erdogan. The political reforms of the AKP have ensured the beginning of the negotiations with the European Union. The AKP again won the 2007 elections, which followed the controversial August 2007 presidential election, during which the AKP member Abdullah Gul was elected President at the third round.

As per the results of the Turkish parliamentary elections of June 7, 2015, AKP lost its majority in the parliament, still having obtained 258 seats while CHP won 132 seats, and each MHP and HDP won 80 seats in the parliament. After coalition discussion between parties failed following June 7 elections, a new election was scheduled for November 1, 2015.

In the Turkish parliamentary elections of November 1 2015, AKP won back the absolute majority in parliament: 317 of the 550 seats. CHP won 134 seats, HDP 59 seats and MHP 40 seats.

On July 15, 2016, a coup d'état was attempted in Turkey against the Government by a faction within the army that is linked to the Gulen movement (which was officially designated by the Government as a terrorist group called FETÖ). The coup plotters attempted to overthrow the Government by seizing control of several key institutions and buildings in Ankara, Istanbul, and elsewhere, but

failed to do so as there was strong public opposition against the coup plotters. During the coup attempt, around 250 people were killed and more than 2,200 were injured while many government buildings, including the Turkish Parliament and the Presidential Palace, were damaged. On July 21, 2016, the Parliament approved the declaration of a three-month state of emergency in order to enable the authorities to take swift and effective action against those responsible for the failed coup, which also resulted in the temporary suspension of the European Convention on Human Rights. On October 3, 2016, the Parliament approved extension of a three-month-long state of emergency, declared after the country's failed military coup, by a further three months.

Legislative system

In Turkey, legislative power is granted to the Grand National Assembly (GNA), a one-chamber parliament composed of 550 deputies, who are elected every four years. The GNA writes legislation, supervises the Council of Ministers, and adopts the budget. The president of the GNA can be voted out of office by a vote of three-quarters of GNA members. The GNA approves international agreements and decides on declaring war, martial law, and emergency rule. National parliamentary elections are based on proportional representation subject to a national threshold of 10% of the vote. Members are elected by lists drawn up for each party by the relative parties' leaders. The members elected have immunity from prosecution. GNA legislation is developed by specialized commissions. The laws passed by the GNA are announced by the president within 15 days. The president may veto and refer a law back to the assembly for reconsideration.

Environment

Public/Government attitude

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Although the Environmental Law entered into force in 1983, regulations governing environmental impact assessment and management of waste have a relatively recent history in Turkey. Most of these regulations were enacted in the 2000s with a view to harmonize Turkish legislation with that of the European Union. Accordingly, the Turkish environmental legislation is very similar to European Union environmental legislation. For example, the public participation stage is an effective part of the environmental impact assessment procedure and public opinions submitted during these stages are taken into consideration by governmental authorities who, by authority, have the final word on the environmental impact assessment. In addition, waste disposal is subject to strict procedural requirements and the regulations foresee administrative sanctions for violations of such requirements. Administrative sanctions consist of monetary penalties and the shut down of businesses in the event violations are repeated.

The government's attitude toward environmental impact assessment is a matter of debate among the Turkish public. A commission was authorized by the Ministry of Environment for the issuance of decisions on environmental impact assessment, which after coverage in the Turkish media rendered the implementation of the environmental impact assessment system in Turkey questionable. Most decisions that became public were positive environmental impact assessments for projects concerning the construction of hydro-electric and thermal power plants in areas rich in varieties of flora and fauna. Based on these examples, it is hard to conclude that the environmental impact assessment procedure in Turkey provides full environmental protection. These decisions reflect the dilemma of Turkish authorities between environmental concerns and the

development of the Turkish economy. It seems as if development concerns supersede environmental concerns and not surprisingly, lawsuits have been initiated against most of the decisions of the commission by environmentalist unions and associations.

Regulations

A new regulation on environmental impact assessment was adopted on November 25, 2014. The purpose of this regulation is to regulate administrative and technical methods and principles to be complied with during Environmental Impact Assessment process. The projects which Environmental Impact Assessment shall be implemented to are listed in the annex of this regulation. Hospitals and dialysis centers are removed from the scope of the former regulation. With this regulation, shopping malls shall not be exempt from this regulation anymore and corporations, institutions and enterprises which may cause environmental problems as a result of its activities are obliged to prepare Environmental Impact Assessment Report or project presentation file.

A regulation on environmental permits and licenses has been enacted on September 10, 2014. The enterprises which are subject to obtain environmental permits and/or licenses have been stated in the annex of this regulation. Furthermore, the principles and procedures to obtain such licenses and permits, review of such applications, their terms and termination are also stated in this regulation.

The above regulations constitute the backbone of the Turkish environmental legislation along with the Environmental Law. Further details have been furnished through enactment of the following regulations and communiqués.

Environmental Permits and Licenses Regulation: The regulation has been

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enacted with a view to create a mechanism allowing for one global “environmental permit” or an “environmental permit and license” that replace all the licenses and permits required (and granted) under the Environmental Law. This Regulation has entered into force on November 1, 2014 and replaced the former regulation. An environmental permit refers to the permits granted for all of the emission, discharge, noise control, deep sea discharge and hazardous waste discharge activities, whereas an environment license indicates the technical sufficiency of a licensee for collection, recovery, recycling and destruction of wastes. Accordingly, if a facility engages in activities which require both an environment permit and license, it needs to apply for an “environment permit and license”, which is one certificate granting all the required permits and licenses.

Tanker purification facilities: The communiqué introduces rules and procedures in relation to the treatment and disposal of waste produced as a result of purification of tankers at purification facilities.

Environmental planning: Enacted with a view to create a mechanism whereby governmental authorities take and implement economic decisions concerning the utilization of land without disregarding environmental vulnerabilities.

Management and disposal of waste in general: There is one main regulation regarding the management and disposal of waste disposal procedures so that such procedures may be conducted without any adverse effects on the environment and human health. There are also numerous regulations enacted with a focus on waste management of specific substances (e.g. waste management of medical wastes, radioactive wastes etc.).

Intellectual Property

Laws

The main intellectual property rights that are capable of protection are patents, trademarks, registered and unregistered designs, copyrights and confidential information.

An invention is patentable if it is new, improves on the current state of the art and is capable of industrial application. Patent protection is granted by registration with the Turkish Patent Institute (TPI) and by Decree Law No. 551 dated 1995 Pertaining to the Protection of Patent Rights together with its implementing regulations, Law No. 4128 dated 1995 Pertaining to the Addition of the Penalty Provisions to the Decree Laws numbered 551, 554, 555 and 556 (Law No. 4128) and unfair competition provisions in the Turkish Commercial Code (TCC). TPI grants patents either following an in-depth examination or without examination. Patents granted without examination are protected for seven years. Patents granted following the TPI’s examination are protected for 20 years.

In order to be registered, a trademark must be capable of distinguishing the goods or services of one undertaking from those of other undertakings. Goods are divided into 34 classes and services are divided into 11 classes. The trademark protection is granted by registration with the TPI and by Decree Law No. 556 dated 1995 Pertaining to the Protection of Trademarks and its implementing regulations, Law No. 4128 and the TCC. Registered trademarks are protected for 10 years.

In order to be registered, a design must relate to the features of the whole or part of a product, or its ornamentation, be new, and have an individual character. The protection is granted by registration

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with the TPI and by Decree Law No. 554 dated 1995 Pertaining to the Protection of Industrial Designs and its implementing regulations, Law No. 4128 and the TCC. Designs registered with the TPI are protected for five years.

An unregistered design is any shape or configuration determined solely by its technical function and dictated solely to allow it to fit to another product. The protection of the unregistered design is under the unfair competition provisions of the TCC.

Copyright is the ownership of any kind of intellectual or artistic creation bearing the characteristics of its author. This includes the following works: scientific (including computer programs), literary (which can also include computer programs), musical, artistic, and cinematographic. The protection subsists automatically under Law No. 5846 dated 1951 on Intellectual and Artistic Works and Law No. 5728 dated 2008 that amends the penalty provisions of Law No. 5846 in a way to comply with the basic criminal laws and other related laws. The owner of a copyright has the right to process, publish, duplicate and transmit the same. The copyrights are protected during the life time of their owners and for an additional 70 years.

Confidential information includes trade secrets and inventions in enterprises. Trade secrets are automatically protected under the unfair competition provisions of the TCC. Any other confidential information must be protected by a confidentiality agreement. The right holder can prevent the disclosure of the confidential information to third parties.

International treaties

Turkey is a party to the following international agreements, conventions and treaties related to intellectual property rights:

- Paris Convention for the Protection of Intellectual Property Rights
- Convention Establishing WIPO
- Patent Cooperation Treaty (PCT)
- Strasbourg Agreement Concerning the International Patent Classification (IPC)
- Protocol Relating to Madrid Agreement
- Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of Registration of Marks
- Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks
- The Hague Agreement Concerning the International Deposit of Industrial Designs
- Locarno Agreement Establishing an International Classification for Industrial Designs
- Trademark Law Treaty (TLT)
- Budapest Agreement on the International Recognition of the Deposit of Micro-organisms for The Purposes of Patent Procedure
- Convention Establishing the World Trade Organization
- European Patent Convention
- Patent Law Treaty
- Singapore Treaty on the Law of Trademarks (this treaty was executed in 2006, although it has yet to become effective)

National investment boards

No substantive prior approvals by national investment boards are required.

Notarization requirements

In order to register a trademark, the application to the TPI shall include:

- (a) samples of the mark suitable for printing and publication;
- (b) the class numbers and the list prepared in accordance with the goods and services in relation to which the mark is to be used as per the Nice Agreement;

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- (c) the original receipt of mark application charges; the original receipt of class or classes charges;
- (d) Power of Attorney, if an attorney was appointed (if the applicant is a foreign real or legal person domiciled outside Turkey, the Power of Attorney must be notarized and apostilled);
- (e) the notarized signature circular, if the applicant is a legal entity established in Turkey; a certificate indicating that the applicant is engaged in trade;
- (f) if the application is made in relation to a trademark registered abroad, a duly notarized and apostilled copy of the approved mark registration certificate granted by the state in which the registration was made, and a translation thereof;
- (g) if a priority right is claimed, the information regarding the application for priority right, a duly notarized and apostilled copy of the priority right certificate obtained from the competent authority of the state to which the first application was made, and Turkish translation of the section concerning the information as to the application, of such certificate.

In addition, according to the Trademark Decree-Law, it is possible to license trademarks from overseas and pay royalties. The license agreement must be notarized.

Regulatory guidelines for licenses

According to the Patent Decree-Law, it is possible to license patents. Licenses may be exclusive or non-exclusive. Also, a compulsory license may be granted for dependent patents, exportation and public interest.

The rights arising from an application for a design and from a registered design may be transferred to third parties or

transferred by inheritance, and rights to use the registered industrial designs may be licensed or they may be pledged. A license may be exclusive or non-exclusive.

According to the Trademark Decree-Law, it is possible to license trademarks from overseas and pay royalties. The license agreement must be notarized. In such agreement, the term of the license, using forms and conditions, the license price and the goods on which the trademark will appear, must be indicated. The licensee shall have the rights of the trademark owner arising from the trademark. The license agreement is required to be registered with the Turkish Patent Institute

There are no specific exceptions or requirements relation to a particular product.

There is no issue regarding the deeming of royalties excessive.

Applicability of antitrust or competition laws to licenses

Intellectual property rights are not specifically regulated by the Law on Protection of Competition (No. 4054); therefore there isn't any obstacle for direct implementation of the Law on legal transactions and juristic acts based on intellectual property.

For example, license agreements may be liable to articles 4, 5, 6 and 7 of the Law on Protection of Competition. On the other hand, Decree Law on the Protection of Industrial Designs (No. 554) regulates one of the objectives as creating a competitive environment. According to Decree Law on the Protection of Trademarks No. 556, a license agreement shall not involve provisions inconsistent with other laws, regulations and communiqués. According to the Law on the Protection of Topographies of Integrated Circuits

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No. 5147, if judicial or administrative authorities determine that the holder of a right or licensee uses the royalty to destruct competition, a compulsory license may be decided as a result of this action.

Typical agreements

Typically foreign corporations enter into know-how and franchise agreements with their wholly owned subsidiaries.

Financial Facilities

Types

The following financial institutions exist in Turkey:

- Central Bank of the Republic of Turkey (the “Central Bank”)
- Banks (Public/private investment banks, public/private commercial banks, foreign commercial banks established in Turkey, branches of foreign banks established outside of Turkey, representative offices of foreign banks in Turkey)
- Participation banks
- Insurance institutions
- Leasing institutions
- Factoring institutions
- Intermediary institutions (brokerage firms and banks)
- Financing institutions
- Asset management companies
- Financial holding companies
- Pension funds
- Mutual funds
- Real estate investment companies
- Investment companies
- Venture capital investment companies
- Portfolio management companies

Bank accounts

There are no requirements for the investor to maintain a bank account in the country. However, capital in foreign currencies transferred to Turkey for the incorporation of a new company or establishment of a partnership is held in the foreign exchange accounts of banks.

With respect to the requirements to open a bank account in Turkey, there are no specific requirements other than those applicable for Turkish nationals.

There are also no restrictions on investors using their accounts, in addition to those applicable for Turkish nationals.

Financial system

Turkey has a developed free market economy, with a rich history of private enterprise. The Turkish financial system is primarily built upon the universal banking system and related areas like insurance, leasing, factoring and stock brokerage. The main economic sectors of Turkey are the agricultural, industrial, construction and service sectors.

Banking system

The banking system had a fragmented structure while the banks were under the authority of the Undersecretariat of Treasury (the “Treasury”), the Central Bank and the Savings Deposit and Insurance Fund (the “SDIF”), which provided insurance for saving deposits, under the authority of the Central Bank. In 2000, the Banking Regulation and Supervision Agency (the “BRSA”) was established as the regulatory and supervisory authority of the banking sector. The Banking Law (Law No. 5411) (published in the Official Gazette dated November 1, 2005, No. 25983) (the “Banking Law”) sets forth the authorities and responsibilities of the BRSA. The BRSA is a public legal entity with administrative and financial autonomy. The SDIF has also operated since 2000 as a public legal entity with administrative and financial autonomy.

Banks in Turkey are required to have the status of joint-stock companies (explained below in VII-C) and in addition to the Banking Law, banks are

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also subject to the provisions of the Turkish Commercial Code (the “TCC”).

The mission of the BRSA is to safeguard the rights and benefits of depositors and create the proper environment in which banks and financial institutions can operate with market discipline, in a healthy, efficient and globally competitive manner. The decision making body of the BRSA is the Banking Regulation and Supervisory Board (the “BRSB”).

Banks are subject to special supervision by the BRSA. The BRSA exercises its supervisory authority on a direct and ongoing basis in terms of legal considerations and financial soundness. Additionally, the financial statements of banks are audited by external auditors in accordance with internationally accepted principles of accounting. Banks are also examined by their own auditors, who are required to submit quarterly reports to the BRSA.

As an additional note, banks which are open to the public and whose shares are traded on a stock exchange are also under the supervisory and regulatory authority of the Capital Markets Board (the “CMB”). The CMB is a public legal entity with administrative and financial autonomy, whose authorities are stipulated in the Capital Market Law (Law No. 6362) (published in the Official Gazette dated December 30, 2012 and numbered 28513)

As the representative body of the banking sector, the Union of Turkish Banks (the “UTB”) aims to protect and promote the professional interests of its members. As of October 2016, there were 47 banks in the Turkish banking system.

Stock market

The Istanbul Stock Exchange (the “ISE”), has been in operation since 1986 for the trading of stocks, bonds and bills and warrants. The ISE is a public legal entity. ISE markets are organized under four main categories:

- Stock Market
- Emerging Companies Market
- Bonds and Bills Market
- Foreign Securities Market

Besides the stock market there is also a derivatives exchange, the Derivatives Market (“VIOP”), which is a private legal entity, incorporated by a decree of the council of ministers.

Bank loans

There are no restrictions on investors receiving bank loans.

Exchange Controls

Business transactions with nationals, residents or non-residents

A Turkish national is defined as a person who has Turkish nationality, either inherently from birth (when he/she is the child of a Turkish man or woman) or following application. Residents are defined as real persons and legal entities who have a legal residence in Turkey, including those who are employed, self-employed or owners of independent businesses abroad. Non-residents are defined as real persons and legal entities that are not considered as residents in Turkey.

There are no restrictions on conducting business with nationals, residents or non-residents. There are no restrictions on investors receiving loans from nationals, residents or non-residents.

With regards to reporting requirements, a company shall file the following with the Trade Registry:

- (a) the company's articles;

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- (b) signed signature circular (a notarised document identifying those authorised to bind the company);
- (c) signature declaration (a notarised document providing specimen signatures of the persons identified in the signed signature circular);
- (d) details of directors;
- (e) details of the registered office;
- (f) details of any branches that are opened and closed;
- (g) annual auditors' report;
- (h) annual activity report of the board of directors;
- (i) annual balance sheet;
- (j) annual income statement.

In addition, foreign companies must give the Foreign Investment General Directorate (FIGD) information relating to:

- the capital and activities of the company;
- payments made to the capital accounts;
- share transfers.

Turkish companies with foreign shareholders must also submit any information and documents as requested by the FIGD.

Furthermore, disclosure and reporting requirements in respect of Turkish listed companies in Turkey are governed by the relevant provisions of the Communiqué on Special Conditions (II-15.1) (published in the Official Gazette dated January 23, 2014 and numbered 28891) issued by the CMB.

According to the provisions of the said Communiqué, persons (individuals and legal entities such as companies, residents or non-residents, banks, finance companies etc.) are required to make disclosures to the Istanbul Stock Exchange (the "ISE") with respect to their below investments in Turkish listed companies.

Directly or indirectly:

- owning the legal title of the shares of a Turkish listed company representing 5%, 10%, 15%, 20%, 25%, 33%, 50%, 67% or 95% of the total capital of such company or
- owning the voting rights thereof representing 5%, 10%, 15%, 20%, 25%, 33%, 50%, 67% or 95% of the total voting rights in such company or
- if exceeding or falling below the said thresholds or
- owning a capital market instrument which entitles a person to acquire voting rights of the listed shares backed to such capital market instrument (such as convertible bonds) by reaching, exceeding or falling below the thresholds mentioned above.

Investment controls

Turkey's foreign investment legislation was revised most recently in 2003 through structural reforms. The procedures for foreign investment were simplified, some bureaucratic formalities abandoned, and the principle of equal treatment reemphasized. The major step realized was the introduction of a more investor-friendly Foreign Direct Investment Law (No. 4875) (the "FDIL") (published in the Official Gazette dated June 17, 2003, No. 25141) and the Regulation Regarding the Implementation of Foreign Direct Investment Law (published in the Official Gazette dated August 20, 2003 No. 25205).

According to the FDIL, foreign investors are no longer required to obtain permissions or approvals. Foreign investors will only be asked to provide certain statistical information to the General Directorate of Incentive Practices and Foreign Capital ("FIGD") for the purpose of developing an information system regarding foreign investments in Turkey.

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The FIGD is authorized to:

- (a) assist and guide foreign investors in exploring investment opportunities in Turkey,
- (b) receive and process foreign investment applications and grant investment incentives,
- (c) review and approve license, royalty and management agreements and foreign credits for joint-venture companies,
- (d) review and approve work permits for expatriates,
- (e) negotiate bilateral investment promotion and protection agreements,
- (f) coordinate Build-Operate-Transfer (BOT) projects, and
- (g) review, process and grant incentives where applicable for outward direct investments and construction services abroad.

Pursuant to the related provisions of the Communiqué, real and legal persons resident abroad may invest in Turkey in order to engage in commercial activities, to participate in partnerships, to purchase shares, to open branches and to establish liaison offices, provided that such activities:

- (a) are in the fields in which the Turkish private sector is free to engage (certain fields are reserved for the Turkish State to engage in)
- (b) do not entail a monopoly or privilege, and
- (c) do not impair national security and public order of the country.

Note that the investor does not have to be in association with a national of the country to be permitted to invest, and that there are no limitations in the amount or manner of such investment. The equity participation ratio of foreign shareholders is not limited either. No minimum amount of capital is required. Any form of company included in the Turkish Commercial Code is acceptable. It is no longer obligatory to establish

either a limited liability company or joint-stock company.

There are no restrictions on indirect investments to Turkey.

The declaration requirements have been explained in V-A. above.

Money transfers

Decree No. 32 Regarding the Protection of the Value of Turkish Currency (published in the Official Gazette, dated August 11, 1989, No. 20249) (as amended from time to time) issued by the Council of Ministers under the Law Regarding Protection of the Value of Turkish Currency (Law No. 1567) (published in the Official Gazette, dated February 25, 1930, No. 1433) (as amended from time to time) sets forth the rules regarding the Turkish foreign exchange regime.

Following the establishment of a foreign exchange market in August 1988, the Turkish lira exchange rate has been determined by market prices. Banks in Turkey set their own foreign exchange rates independently of those announced by the Central Bank. Following the abolition of restrictions on the convertibility of the Turkish lira, the exchange of proceeds from transactions in Turkish securities by foreign investors was facilitated, and residents and non-residents were permitted to buy foreign exchange without limitation and transfer such foreign exchange abroad.

Foreign investors can freely transfer the following (any of which can arise from the activities and operations of foreign investors in Turkey) through Turkish banks:

- Net profits
- Dividends
- Sale, liquidation and indemnity proceeds

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- The amount to be paid in consideration of licence, management and similar agreements

However, banks must inform the relevant authority of Turkish lira transfers executed abroad, excluding payments for exports, imports and invisible transactions that are above the equivalent of USD50,000 within a 30-day period starting from the date of transfer.

Currency transactions are also subject to notification requirements under the Law Regarding the Prevention of Laundering of Crime Revenues (Law No. 5549, 2006).

Non-residents may freely take foreign currency banknotes abroad in an amount exceeding USD5,000 or an equivalent amount in another currency, provided that a declaration has been made upon their entrance to Turkey.

Business Structures

Joint ventures

Joint ventures are permitted under Turkish Law. They can be incorporated in the form of a Joint Stock Company (Anonim Sirket) (the “JSC”) or a Limited Company (Limited Sirket) (the “LC”) (both of which are limited liability companies).

Regarding incorporation procedures, these two legal forms of limited liability companies are subject to the same requirements and processes. Save for various exceptions (such as holding companies), the obtainment of prior permission from any governmental authority is not required and incorporation is effected upon registration with the relevant Trade Registry following the filing of the required documents. The JSC is specifically preferred where shareholders with potentially conflicting

interests come together, such as in a joint-venture.

Since the requirements for incorporation are the same for these two legal forms of companies, the time frame for the establishment of these companies is also the same. Since some of the required documents are to be notarized and apostilled in the relevant country, it usually takes approximately two to three weeks to complete the documentation procedure. However, upon completion of all documentation, it takes three days to incorporate a JSC or LC.

With respect to the costs for incorporation, costs differ in line with the contemplated share capital of the company to be incorporated. The minimum capital required for an LC is TL10,000, whereas it is TL 50,000 for a JSC.

According to the Regulation Regarding the Implementation of Foreign Direct Investment Law published in the Official Gazette dated August 20, 2003 and numbered 25205, foreign shareholding companies are required to provide certain information to the Foreign Investment General Directorate regarding the capital and activities of the company (to be provided by the end of May each year), payments made to the capital accounts (to be provided within one month as of the date of payment) and share transfers either between the shareholders or from the shareholders to any third party (to be provided within one month as of the date of the transfer).

The inclusion of a national as a participant, manager or director is not required.

The investor's potential liability is the general liability under Turkish Law.

As mentioned above, there are minimum capital requirements for these

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companies; however there is no upper limit.

Limited liability companies

Limited liability companies are permitted under Turkish Law. There are two types of limited liability companies - JSC and LC.

Joint stock companies and limited liability companies require at least one shareholder. The Articles of Association of the company must be in writing and must be signed by the founders and certified by a notary public. Within 15 days after the date of the notarization of the Articles of Association by a notary public, the company will be registered with the Trade Registry where the head office of the company is located or affiliated. Following registration, the information required to be declared to the public will be announced in the Trade Registry Gazette.

Since some of the required documents are to be notarized and apostilled in the relevant country, it usually takes approximately two to three weeks to complete the documentation procedure. However, upon completion of all documentation, it takes three days to incorporate a JSC or LC.

With respect to the costs for incorporation, costs differ in line with the contemplated share capital of the company to be incorporated. The minimum capital required for an LC is TL10,000, whereas it is TL50,000 for a JSC.

The inclusion of a national as a participant, manager or director is not required.

The investor's potential liability is the general liability under Turkish Law.

As mentioned above, there are minimum capital requirements for these

companies; however there is no upper limit.

Liability companies/Unlimited

Under Turkish Law, there are ordinary partnerships (consortiums) and commercial partnerships such as commandite (Komandit Sirket) and collective companies (Kollektif Sirket).

An ordinary partnership is not a legal entity but a group of entrepreneurs from the partnership. 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 Trade Registry or the Land Registry. All partners have equal rights and are jointly and severally liable for all the debts and obligations. Statutory rules do not 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 which is Commandite Company, the general partners are fully liable for the debts of the 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. In a Commandite Company, at least two partners are required for incorporation and one of the partners must be commanditaires (partner with limited liability) and one of them must be a commandite (partner with unlimited liability) This type of business organization is rarely used. The other type of unlimited partnership which is Collective Company is founded for the purpose of operating a commercial activity under a trade name and none of its partners has limited liability towards the creditors of the

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partnership. In a Collective Company, at least two real persons are required for incorporation.

In commandite and collective companies, a deed of partnership is required for the incorporation. This deed of partnership must be signed by the founders and certified by a notary public. Within 15 days after the date of the notarization of the deed of partnership by a notary public, the company will be registered with the Trade Registry where the head office of the company is located or affiliated. Following the registration, the information required to be declared to the public will be announced in the Trade Registry Gazette.

Since some of the required documents are to be notarized and apostilled in the relevant country, it usually takes approximately two to three weeks to complete the documentation procedure. However, upon completion of all documentation, it takes three days to incorporate a commandite or collective company.

With respect to the costs for incorporation, costs differ in line with the contemplated share capital of the company to be incorporated.

The partner does not have to be a national of the country or a related state.

Partnerships, General or Limited Partnerships (Adi Ortaklık) are recognized under Turkish Law. Adi Ortaklık is a type of a company in which the partners are personally liable and their liabilities are not limited. For the incorporation of the company, there are no formal requirements. The agreement does not have to be written, however a written agreement would be strongly recommended. Registration in the Trade Registry would be subject to the general rules of the company registration as explained above in Section B, C and D.

The partner does not have to be a national of the country or a related state.

Partnerships/Undisclosed

The partnership defined in above may be formed without disclosure.

Sole proprietorships

Under Turkish Law sole proprietorships are in the form of Commandite Company or Collective Company. Therefore, please see the explanations in relation to these types of companies above in the Section D.

In addition, according to the Turkish Commercial Code a merchant is defined as a real or legal person operating in part or in full, a commercial enterprise. Furthermore, in order for an individual to be qualified as a "merchant" he/she must be registered with a Trade Register as an individual business. This can be evidenced with a certificate issued by the Trade Register which is called Trade Register Certificate (Ticaret Sicil Belgesi).

Such persons shall be considered merchants if:

- (a) the commercial enterprise is not yet in operation, although it is announced to public by circulars, newspapers etc. that such commercial enterprise has been established or
- (b) the commercial enterprise is not yet in operation although the establishment is registered with the trade registry.

Subsidiaries/Branches/Representative offices

The incorporation of subsidiaries is subject to the same procedures as the incorporation of JSCs and LCs explained above.

In accordance with the provisions of the Foreign Direct Investment Law, foreign

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entities may establish branches in Turkey.

The branch office of a foreign entity should reflect the title of the entity as well as the branch status. Establishment would be carried out through the permission of the General Directorate of Domestic Trade of the Ministry of Industry and Commerce (the “General Directorate”). There is no minimum capital requirement for branch offices. The most significant difference between a company and a branch is in regard to the responsibility for liabilities. A company’s (joint stock and limited company) liabilities are limited to its capital. In contrast, a branch’s obligations are limited not only to the branch’s capital, but also to its parent company’s assets.

It is not possible to give a definite estimate on branch registration expenses to be incurred. However, based on our past experience, it could be said that incorporation expenses cost approximately EUR6-9,000. The obtainment of the permission for the establishment of a branch office of a foreign company from the General Directorate, in practice, takes approximately 10 days provided that all the required documents and information are complete. Once the permission is obtained, the application for the registration to the Trade Register may be promptly made and the registration process with the relevant Trade Registry Office, in practice, takes approximately three to four days.

Branches are treated as non-resident limited liability companies for tax purposes, and only profits generated in Turkey are subject to corporate tax. Under local foreign investment legislation, a branch of a foreign company is a type of foreign direct investment and the establishment of a branch is subject to the same requirements and procedures as a

foreign company that intends to run a business in Turkey.

Under Turkish law, a company incorporated and organized abroad may establish a liaison office in Turkey as well. The liaison office cannot engage in trade, industrial or other business in its own name; it may however, engage in liaising activities with clients of its parent company. Therefore, liaison offices can neither directly issue invoices for goods sold nor services provided to clients, nor generate any income. The Foreign Investment General Directorate of the Undersecretariat of Treasury, Prime Ministry of Turkey (the “FIGD”) finalizes its evaluation for the issuance of permission for the establishment of a liaison office within five business days from the date of application, provided that all the required documents are duly submitted to the FIGD. The FIGD grants permission for the establishment of a liaison office for a maximum term of three years. The FIGD may, upon application, extend the term of such permit for an additional term, which may be for a term of maximum three years.

Pursuant to Article 7 of the Banking Law, banks except for branches of foreign banks to be incorporated in Turkey are required to be organized as joint stock companies in Turkey and obtain banking permission from the Banking Regulation and Supervision Agency (the “BRSA”) in order to provide banking activities in Turkey. In addition, the opening of first branches by foreign banks in Turkey is subject to the prior authorisation of the BRSA. The decision on whether the application is complete is given within three months. Following the obtainment of such authorisation from the BRSA, an operation licence is also to be obtained from the BRSA in order for the foreign bank to start its business.

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The opening of representative offices by foreign banks is subject to the authorisation of the BRSA as well as on the condition that the representation offices will not accept deposits and participation funds, will not grant loans, will not perform banking activities indicated within this law, and will not act as an intermediary firm for these activities.

The inclusion of a national as a participant, manager or director is not required for any of the entities explained above.

Trusts and other fiduciary entities

There is no trust concept under Turkish Law.

Establishing a Business

Alien business law

Foreign investors can freely invest in Turkey and shall be treated equally as the local investors, unless otherwise stipulated by international conventions or special laws.

According to the Foreign Direct Investment Law (“FDIL”), foreign investors are under the obligation to inform the FIGD annually. They are also obliged to notify the FIGD about the transactions that have been completed. Such obligations are regulated under the Regulation on the Implementations Foreign Direct Investment Law (“Regulation”). In accordance with the Regulation, foreign investors shall inform the FIGD within the specific time stated by the Regulation by filling out certain types of notification forms which are annexed to the Regulation. In this respect, the information concerning the capital and activities of the foreign capitalized company, the payments made to the capital account, share transfers made between the current foreign or local shareholders or to the

local or foreign investors that are outside the foreign capitalized company and the liaison offices within Turkey are reported. Additionally, the local companies that are outside the scope of FDIL shall be obliged to inform the FIGD in the case of a contribution to the company by a foreign investor or in the case of a share transfer by way of contribution to the share capital of the company by a foreign investor resulting such company to fall within the scope of FDIL.

Antitrust laws

The entity’s operations have to comply with anti-trust laws. The major anti-trust law is the Law on the Protection of Competition No. 4054. In addition, the following general and sector-specific laws should also be taken into consideration when operating in Turkey: the Block Exemption Communiqué on Vertical Agreements No. 2002/ 2 as amended by the Competition Board Communiqué No. 2003/3 and 2007/2, the Block Exemption Communiqué on Research and Development Agreements No. 2003/2, the Block Exemption Communiqué on Technology Transfer Agreements No. 2008/2, Block Exemption Communiqué in Relation to the Insurance Sector No. 2008/3 and the Block Exemption Communiqué on Vertical Agreements and Concerted Practices in the Motor Vehicle Sector No. 2005/4.

According to the Communiqué on Principles of Payments by Joint Stock Companies and Limited Liability Companies No. 27720, during the establishment of a joint stock company or a limited liability company and prior to increasing the capital of the same, an amount equal to 0.004% of the capital of the new company or of the increasing amount is paid to Turkish Competition Authority.

Environmental regulations

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The environmental laws and regulations are administered at the national level by the Ministry of the Environment and Urban Affairs, as well as by a variety of regional and local authorities, and regulate, among other things, waste water discharge, air pollution and solid waste disposal. Under the environmental law and regulations, the administering authorities may suspend or terminate, in whole or in part, non-complying operations, levy monetary penalties on non-complying entities and require non-complying entities to bear the cost of related remediation programs. In addition, the environmental laws provide that a person or entity may be liable to third parties who incur damages as a result of actions of such person or entity which are harmful to the environment.

The Environmental Law introduces certain concepts such as environmental pollution and principles, prohibitions, environmental pollution protection fund and administrative penalties. Entities that pollute or harm the environment are objectively (based at no-fault) responsible for the results. In addition to the above please note that the Republic of Turkey ratified the UN Framework Convention on Climate Change.

According to the Environmental Law, entities that intend to engage in activities which may cause environmental problems should prepare an "Environmental Impact Assessment Report". The entities should establish purifying plants, otherwise operation permits shall not be granted. Furthermore, the investor of the business using waste water infrastructure systems or the investors who will be using such systems shall be subject to fees which are determined in accordance with the tariffs set forth by the relevant authorities for the management, maintenance and repayment of the purifying systems.

Government approvals

The pre-establishment permits to be taken from the Treasury and Ministry of Industry and Trade required by the previous legislation for the establishment of foreign capital company have been abolished.

Insurance

There are several players in insurance market. According to article 10 of the Law on Disaster Insurances numbered 6305, independent sections as defined by the Property Ownership Law, residential buildings built on the immovable registered to title deeds and subject to private ownership, as well as the independent sections of these buildings used as an office, business establishment and for similar purposes and buildings built by the government or by the loans granted by the government because of natural disasters are subject to compulsory earthquake insurance. Public buildings and buildings constructed in rural areas are not required to carry insurance.

In addition, according to the Decree of the Council of Ministers No. 2010/190, real persons or legal entities operating in the production, storage, transportation, sale and use of natural or synthetic, solid, liquid or gas in the form of any flammable, combustible, explosive and caustic materials; real persons or legal entities operated in collection, transportation, temporary and interim storage, recycling, reuse and disposal activities of hazardous wastes within the scope of Environmental Law No. 2872 dated August 9, 1983 have to carry hazardous materials or hazardous waste liability insurances.

Moreover, LPG filling facilities have to carry bottle gas liability insurance in addition to the hazardous waste liability insurance.

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On the other hand, there are optional insurances for enterprises such as for fire, lightning, and storms.

Risks related to earthquake or hazardous wastes which may cause personal injury or pecuniary damage of third parties must be insured. Moreover, the businesses can carry insurance for accidents such as fire, explosion, vehicle impact, costs of removal of debris and for natural disasters such as storm, lightning, landslide, snow weight, etc.

Malicious acts and terrorism, floods, inflation, glass breakage, fire, rental loss, costs of workplace change due to the damage, breach of trust, personal accident, employer's liability and theft might be insured as well.

Licenses/Permits

According to the FDIL and the Governmental Decree in Force of Law No. 32 Regarding the Protection of the Value of Turkish Currency ("Decree No. 32"), unless otherwise provided by international conventions or special laws, direct foreign investments are not subject to any special license, permit or approval under the laws of Turkey other than those required within the standard procedures of the establishment of a company.

However, the permit of the Ministry Customs and Trade is required in foundation and the amendment to the articles of association of banks, participation banks, financial leasing companies, factoring companies, consumer finance companies, asset management companies, insurance companies, commodity market companies, holding companies, foreign exchange dealers, public bonded warehouse operators, public companies subject to the Capital Market Law, and free trade zone founders and operators.

In some cases the permission of the Competition Board might be required

for the validity of the transactions concerning mergers and acquisitions. The main purpose of the Competition Board (the "Board") in Turkey is the protection and the development of effective competition in the relevant markets. The activities of the Board are mainly regulated by Law No: 4054 on the Protection of Competition and several communiqués, including Communiqué No: 2010/4 regarding Mergers and Acquisitions Requiring Permission from the Competition Board (the "Communiqué"). Under Article 7 of the Communiqué, if as a result of a merger or acquisition (a) total Turkey turnover of parties to the transactions exceeds TL 100 million and Turkey turnovers of at least two parties separately exceed TL 30 million; or (b) global turnover of a party to the transactions exceeds TL 500 million and Turkey turnover of at least one of the other parties to the transactions exceeds TL 5 million, such transaction is subject to the authorization of the Board and the filing of an application shall be required. Foreign investors are not subject to any approvals but are only required to inform the relevant authorities in certain situations and that all transactions for establishing a company with foreign capital shall be the same as with local companies. Therefore, the foreign investors shall only get the approvals that are required for the establishment of local companies as per the Turkish Commercial Law. As per the current laws and regulations, a company can be established as soon as all the relevant documentation is submitted to the relevant Trade Registry Office. In cases where the need arises for filing an application before the Turkish Competition Board in order to obtain clearance, submission of the documents such as annual reports and financial statements, balance sheets and organization charts as well as detailed information on the transaction shall be required.

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The process for the establishment of a company is completed as soon as all the relevant documentation is submitted to the authorities.

Operating a Business

Advertising

There are restrictions for certain professions (legal, medical, etc.) and certain products (alcoholic drinks, cigarettes). As Turkey signed the "European Treaty on Television without Frontiers", it is subject to the restrictive provisions of that treaty with regard to advertisements (e. g. the violation of public policy).

Local attorneys

According to Article 35 of the Attorneys' Act ("AA") the ability to act in front of the courts, arbitrators and similar judiciary organs is granted only to attorneys admitted to the bar.

Attorneys may also represent their clients in front of other public institutions, i.e. land registries. The AA further states that the joint stock companies and construction cooperatives having 100 or more than 100 share holders with a share capital which is five times more than the share capital amount stated in Article 272 of Turkish Commercial Code, being TRY 50,000, are obliged to have a contracted lawyer. The companies acting contrary to the above shall be subject to an administrative fine.

Local counsels are listed on the Turkish Bar Association website and are also admitted to the bar of the city in which they have completed internships. The contact details of the attorneys can be found on the relevant websites.

According to Article 164 of AA, the attorney fees cannot be less than the minimum amount which is set annually by the Turkish Bar Association. Attorney fees can be determined as a

certain percentage of the total value or the amount of the asset being the subject matter of the judgement on the condition that it not to exceed 25% of such amount.

Bookkeeping

According to Article 64 of the Turkish Commercial Code, every merchant shall keep the books required by the character and the importance of his undertaking with a view to establish the economic and the financial situation of his commercial undertaking, the relations of debts due by or owing to him and the results obtained in the course of each year in the Turkish language, provided that the provisions of other laws are reserved.

If the merchant is a legal entity, the journal, the ledger, the balance-sheet book and the book of resolution shall be kept.

Further to an amendment made to Article 215 of the Tax Procedure Law ("TPL") in 2004, the books that shall be kept in accordance with the TPL can be in another language provided that Turkish records are also kept within the same book. The law further states that Turkish currency shall be used for the documents and records that are kept in line with the TPL. Such documents and records can also be kept in foreign currencies on the condition that the equivalent of such figures is as well indicated in Turkish currency. Moreover, it is not required to use Turkish currency on the documents that has been prepared abroad on behalf of the customers, additionally the transactions that have been made over Turkish currency can be converted to the relevant foreign currency equivalent (i.e. Euro) over the daily purchase rate of the Central Bank of Turkey.

Business ethics/codes

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There are various business ethics in Turkey. These ethics forbid unfair competition, violations of agreements, informality and threat, destructive competition, tax evasion, abusing the legal loopholes, denigration, etc.

Consumer protection laws

The rights of consumers are protected under various laws and regulations such as:

Product liability and product safety are regulated by the:

- Code of Obligations (Law No.818, 1926)
- Law Regarding the Protection of the Consumer (Law No.6502, 2013)
- Law on the Preparation and Implementation of Technical Legislation on Products, which, to a large extent, implements Directive 2001/95/EC on general product safety (Law No.4703, 2001)
- Regulation on Market Surveillance and the Auditing of Products (based on Law No.4703, 2002)

Please note that product liability is also regulated under other various pieces of legislation specific to certain goods or services such as textiles, food and cosmetics.

As per the relevant legislations the manufacturer or seller of a product is held liable if the product:

- Is defective;
- Is not fit for its purpose;
- Does not display the usual qualities expected of such a product.

The supplier, dealer, agent, manufacturer or producer, importer and creditor, who provided a means of payment to the consumer, are all jointly and severally liable to the consumer for defective goods.

Construction

In the Communiqué on Real Estate Tax Serial No. 62 , a standard square-meter cost of building constructions was included and a chart added as an annex.

Pursuant to the Zoning Law, before starting construction, those who wish to construct a building located within or outside the boundaries of a municipality are firstly required to obtain a construction license. This license shall be deemed to be expired if the building has not been completed within five years from the date of the construction license and the construction must be started within two years as of the date of the construction license.

Once construction of a building is completed, the owner is required to obtain a building utilization permit which confirms that the building is constructed in accordance with the construction license.

In addition to the foregoing, a secondary license, namely the occupancy permit, has to be obtained from the municipality following the termination of the construction works. The occupancy permits evidences that the relevant building has been constructed in compliance with the official requirements. Therefore, a building may comply with the legislation provided that both the construction license and occupancy permit are obtained.

According to the Regulation on Workplace Permits, a workplace cannot be opened or operated without duly obtaining a workplace opening and operating permit from the competent authorities.

Upon completion of the construction, a building utilization permit must also be obtained for using the buildings legally and connecting the building to electricity, water and canalization systems.

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In order to have building authorization, building owners or their legal representatives shall apply to municipalities or to governorate offices with a petition.

Pursuant to article 8 of Free Zone Implementation Regulation, the Free Zone Regional Directorate is the authority in charge of all approval and auditing works in the construction phase of the buildings established on free zones.

If the application documents are not incorrect or incomplete, building permit will be granted at the latest within 30 days.

Each governmental institution has its own fee debt depending on the variables.

Contracts

An investor can freely enter into local contracts.

According to the Turkish Code of Obligation, the contracts are valid when not made in writing; the written form is only required as a proof condition. However, if a contract shall be registered with a registry or it is required by mandatory provisions of law, the contract has to be notarised, as a validity condition.

Contracts can be governed by the law of another country. Pursuant to Article 24 of Law on International Private Law and Procedural (Law No.5718), the relations of the obligations arising from a contract shall be subject to the law expressly selected by the parties.

Price controls

There are some price controls over some areas. Aeronautics, the radio and television supreme council, medicine, tobacco are some examples of areas subject to price controls in Turkey.

Product registration

The registration of products in relation to pharmaceuticals, food and textiles are required under Turkish law.

The registration is obtained by the submission of the documentation required under the relevant law to the governmental authority, for example, in the case of pharmaceuticals to the Ministry of Health.

It is not possible to give a precise timeline as the registration process depends on the relevant law applicable for the product in question and the relevant competent authority which shall complete the registration.

The fees and costs which may arise as per the applicable law such as the costs to be made to receive an inspection and approval shall be borne by the applicant.

Reductions or return on capital

According to Article 15(d)(i) of the Decree No. 32 Regarding Protection of the Value of Turkish Currency (the “Decree No. 32”) (which governs Turkish foreign exchanges) issued by the Council of Ministers under the Law Regarding Protection of the Value of Turkish Currency (Law No. 1567), the persons (individuals and legal entities such as companies, funds, banks, finance companies etc.) resident outside Turkey may freely and without the consent, approval, permission, authorization, license, exemption from or registration, filing, notification, written agreement with any Turkish regulatory authority including the Treasury, Prime ministry of the Republic of Turkey, the Capital Market Board (the “CMB”) and the Central Bank of the Republic of Turkey, purchase and sell all kinds of Turkish securities (including shares) and other capital market instruments with the

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intermediation of banks and brokerage firms in Turkey and may freely repatriate their sale proceeds and income such as interest and dividends to abroad through banks in Turkey.

Sale of goods

Pursuant to Article 19 of the Code of Obligations (Law No. 818) (the “Code of Obligations”), the subject matter of an agreement may be freely determined by the parties within the bounds specified by law. Such bounds have been laid down as “violation of express provisions of law, inconsistency with ethics, public order or personal rights. Failure to comply with these bounds shall affect the validity of the agreement. Additionally, further to the rule of freedom of contracts envisaged in Article 11 of Code of Obligations, the parties may freely agree on the terms of the agreement. Furthermore, due to the factors of environment, health, culture or international conventions and other reasons, Turkey forbids the export and import of certain products such as drugs.

Trade associations

There are chambers of commerce in each city to which each legal entity must be registered. Also there are professional unions such as unions or chambers of merchants and craftsmen that entities can join.

The chambers of commerce and some associations may require an annual subscription fee.

According to the TCC, commercial provisions are applied in the following order:

- Mandatory provisions
- Contract provisions
- Replacement provisions
- Trade customs
- Trade practices
- General provisions

Moreover, according to article 2 of the TCC, unless otherwise implied by the law, in case the parties are not in the same region, the business practice of the place of performance shall be applicable. In case one of the parties is not a merchant, business practices shall be applied in case these trade practices are known or should have known by this party.

Terminating a business

The liquidation process takes about one year and the business is terminated after the submission of the relevant documentation to the Trade Registry Office.

The most common forms of businesses established in Turkey are joint stock companies and limited liability companies. The dissolution of joint stock companies is subject to strict provisions of law and the company can only be dissolved as per such rules. The reason behind this is to protect the creditors of a joint stock company as the shareholders of a joint stock company are not personally liable for the debts of a company but have a limited liability with the company’s net worth assets. The provisions regulating the principles to be applied for the dissolution of a joint stock company are also applicable for the dissolution of limited liability companies.

Except in cases wherein the company merged with another company, converted into a limited liability company or transferred to a public law corporation, the dissolved company shall enter into liquidation. Once the company enters into liquidation, a liquidation officer is assigned and the liquidation process is carried out by the supervision of such liquidation officer.

According to Article 162 of the Tax Procedure Law, news of the termination of the business shall be given to the relevant tax office, otherwise the tax

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payer will continue to be liable for the taxes. Furthermore, in the event of termination and liquidation, the companies are subject to special arrangements as per the provisions of the Corporate Tax Law and are treated as the same without being subject to any special arrangements as per the other applicable tax laws such as Income Tax Law.

Joint stock companies are dissolved in one of the following cases:

- The expiration of the term for which they have been constituted in case the company does not continue to operate after the expiration date as an undefined term company;
- The realization of the object of the company or the impossibility of its realization;
- The realization of any cause of dissolution provided for by articles of association;
- Amalgamation with another company;
- Bankruptcy of the company;
- A resolution has been adopted by general assembly on the dissolution.
- Other circumstances determined in laws

Upon the termination of the business, the receivables of public administrations and employees are paid primarily.

In the event of insolvency or bankruptcy, the company is responsible with its net worth, assets, and its right with third parties. The shareholders have no personal responsibility.

Labour Relations

Employer/Employee relations

Employment relationships are regulated by the Labour Code No. 4857 (Labour Code) together with its relevant regulations. The Labour Code applies to both Turkish and foreign employers and

employees working for a Turkish entity in Turkey.

In addition to the Labour Code, Social Insurance and Universal Health Insurance Law No. 5510 is also applicable to employer/employee relations.

Employment regulations

An investor does not have to hire nationals of the country but there are some conditions for foreign people to work in Turkey. Foreign employees must obtain a:

- Work Permit (to be obtained from the Ministry of Labour and Social Security)
- Work Visa (to be obtained from the diplomatic representatives of Turkey)
- Residence Permit (to be obtained from Immigration Authority)

The minimum wage for the year 2016, the monthly minimum gross salary amount is TRY1647.

The general weekly working time is 45 hours. This amount can be distributed unequally to days upon obtaining the employee's consent. However, as per article 63 of the Labour Code, the maximum period that an employee can work is 11 hours per day. Total annual overtime work shall not be more than 270 hours in a year.

Employees who have completed a minimum of one year of service in the establishment since their recruitment, including the probation period, shall be allowed to take annual leave with pay. The length of the employee's annual leave with pay shall not be less than;

- 14 days if the length of his service is between one to five years, (five included),
- 20 days if it is more than five and less than 15 years,
- 26 days if it is 15 years and more (15 included).

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For employees younger than 18 years old and older than 50 years old, the length of annual leave with pay must not be less than 20 days.

Employees are entitled to take paid sick leave up to one week in case a medical report evidencing their situation is submitted to the employer. Following such period, if the absence of the employee due to illness is extended, the leave becomes on an unpaid basis.

In the event of such absences the employee must provide the employer with a medical report setting out the duration of the ill-health absence.

Hiring and firing

There is no regulation stipulating a minimum number of people to employ in Turkey. Investors are not required to employ a minimum number of nationals. There is no regulation concerning the position of nationals. However, in workplaces where 50 or more employees are employed, the Labour Code requires the employers to ensure that 3% of the workforce is composed of disabled employees in full-time roles that are suitable in respect of their professional qualifications and physical and psychological status.

Open-ended employment contracts with a duration of one year or more should be executed in writing. Employment contracts should be executed in Turkish if they are concluded between Turkish citizen employees and legal entities incorporated under the laws of Turkey. Failing to do so will invalidate the contract. If there is no written contract, the employer, must within two months of commencement of employment, provide the employee with a document outlining the general and specific working conditions, daily or weekly work periods, the term of the employment contract, if specified; the amount of salary and any additional

payments such as allowances, bonuses, premiums, etc., the intervals at which salary is paid and the conditions of termination.

The Labour Code requires a written termination notice to be served on the employee and signed by the employee. In this regard, the notice must be served through a notary public or by hand delivery or registered postage-paid mail.

In the event that the employee refuses to accept delivery of a notice served by hand delivery, an attendance record of the refusal to accept delivery must be drawn up in the place of delivery.

In the event that the notifications served through a notary public or the post office (via registered postage-paid mail) are not accepted by the employee, the reason for such failure of notification must be set out on the notification envelope by the notifying party, the employer. The employer is obliged to draw up a record of a returned notification.

An investor would not have a continuing obligation towards dismissed employees.

Labour availability

Turkey has a young population and sufficient adequate skilled and unskilled labour is available in almost every sector.

Labour permits

The Law on International Labour Force No. 6735 requires foreigners to obtain a permit before they start to work either independently or for an organization in Turkey, unless otherwise provided in any bilateral or multi-lateral agreements to which Turkey is a party.

Furthermore, a work permit is valid only when the required work visa and residence permit are obtained.

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Accordingly, a foreigner who wishes to work in Turkey must obtain the following:

- Work Permit (to be obtained from the Ministry of Labour and Social Security);
- Work Visa (to be obtained from the diplomatic representatives of Turkey); and
- Residence Permit (to be obtained from the Immigration Authority.)

Foreigners residing outside of Turkey shall make applications to representation offices of the Republic of Turkey in their country. Representatives convey these applications directly to the relevant ministry in Turkey. The ministry evaluates these applications by taking the views of the relevant authorities and work permits will be granted to foreigners whose situations are considered as appropriate. This permission will take effect in case of work visa and residence permit is taken.

Foreigners with valid residence permits in Turkey or their employers can make their applications to the ministry within the country. Applications are concluded in 30 days at the latest by the ministry, on the condition that all documents are whole and complete.

Residence permit fees and approval fees of the Ministry of Foreign Affairs are involved. Residence permit fees vary upon nationality of the applicant.

The fee amount of work permits for definite period is TRY500 for one year and TRY360.20 for three months. This amount is TRY5000 for working permits with indefinite period and TRY5000 for independent work permits.

Safety standards

With a view to ensure occupational health and safety in their establishments, employers shall take all necessary measures and maintain all needed means and tools in full; and employees are under the obligation to obey and observe

all the measures taken in the field of occupational health and safety.

In order to ensure compliance with and to supervise the measures taken for occupational health and work safety at the establishment, the employer must inform the employees about the occupational risks and measures that must be taken against them as well as employees' legal rights and obligations and, in this connection, he must provide the employees with the necessary training on occupational health and safety.

The principles and methods of training shall be indicated in the regulation to be issued by the Ministry of Labour and Social Security.

Unions

Unions are recognized in Turkey. TISK contains many unions in different branches such as metal industrialists union, Turkish Textile Employers' Association, Turkish Union of Public Heavy Industry and Services Sector Employers. As per article 26 of the Law on Trade Unions and Collective Bargaining Agreements No. 6356, unions are prohibited to use the name, logo, symbols and emblems of political parties. In addition, the same article also foresees that the membership status of the unions' managers is suspended in case they stand as candidates in general and local elections and they cease their status if they are being elected.

Employers are not obligated to organise unions, it is purely optional. Collective bargaining agreements are regulated by the Law on Trade Unions and Collective Bargaining Agreement. Collective bargaining agreements are agreements that are executed between the employee trade unions and employer trade unions or employers that are not members of employer trade unions.

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Tax

Allowances

The following expenses are deductible from corporate income:

- All expenses directly related to the generation of corporate income
- Salaries and social benefits (such as food and medical expenses, social security premiums, severance indemnities etc.) of employees
- Indemnities paid in connection with damages provided that such indemnities are directly related to taxable business
- Travel expenses in connection with taxable business
- Rental payments of premises and cars used for the business
- Transaction taxes (such as stamp taxes, real state taxes, municipality taxes, etc.) in connection with the business
- Depreciation
- Expenditures related to general assembly meetings
- Incorporation expenses to establish the taxable business
- Securities (including equity and debt offerings) issuance expenses
- And etc.

The following expenditures do not qualify as tax-deductible expenses:

- Any interest paid to shareholders against their equity capital
- Interest and foreign exchange losses related to loans obtained from lenders with a direct and indirect equity interest in the company acting as the borrower to the extent the total amount of such loans exceed three times the net equity of the company
- Disguised profits distributed through transfer pricing
- Legal reserves of the company
- Tax penalties, other monetary fines and the interest related to such penalties and fines

- Losses incurred from the issuance of securities (including stocks) below their nominal values and fees and commissions
- Indemnities paid in connection with damages incurred from a crime committed by shareholders, directors, officers, and employees
- And etc.

Tax calculation

The taxable base is determined over the net profit of the corporation obtained within a fiscal period. The calculation of such amount is made in accordance with the procedure which is introduced as the “Taxation of Commercial Income” under the Income Tax Law.

The taxable base of a transaction is generally the total value of the consideration received, not including the VAT itself. VAT generally applies to the following transactions:

- The delivery of goods and services made in Turkey within the scope of commercial, industrial, agricultural or professional activities
- Services benefited in Turkey,
- Goods and services imported into Turkey,
- Delivery of goods and services arising from other activities.

Corporations which are held as exempted from paying corporate income tax are listed under Article 4 of the Corporate Income Tax Law. Such corporations are mostly public corporations. Corporations that either have their legal head office or business headquarters in Turkey (i.e.; resident corporate income taxpayers) are subject to corporate income tax on their worldwide income. Those which do not have either in Turkey (i.e.; non-resident taxpayers) are taxed only on their income derived and/or deemed to have

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been derived in Turkey. The taxation period is normally a calendar year and the corporate income tax is assessed on annual income. In principle, tax is assessed on the corporate income tax return to be submitted by the taxpayer on an annual basis within the fourth month following the end of the taxation period. However, in terms of non-resident taxpayers, a withholding scheme applies depending on the nature and source of corporate income. The rate of withholding varies from 0% to 25%, and the taxpayer may choose to declare such income under the annual corporate income tax return, and if the same declared tax was previously withheld it is set off against the corporate income tax accrued on the annual corporate income tax return.

Capital gains

Since Turkey is not a federal state, taxation is on a one-level country-wide basis. Capital gains derived by all companies, including branches of foreign companies, are included in ordinary income and are subject to corporate income tax (20%). Capital gains are generally computed by subtracting the cost of asset, after deducting expenses related to the sale, from the selling price. Capital gains derived from sales of depreciable fixed assets are not taxable to the extent that such gains are reinvested in new fixed assets to replace the sold assets. Capital gains to be used for reinvestment are transferred to a special reserve account. If the special reserve is not used to finance the purchase of similar new assets within the following three years, the balance in the reserve must be included in taxable income. 75% of capital gains derived by corporate income tax payers from disposals of shares held for at least two years qualify for corporate tax exemption on the condition that the capital gain is reserved in an equity reserve fund and is not distributed for five years. Tax treaties may reduce the holding period

for such an exemption to one year and extend the scope of exemption to 100% of the capital gain.

Filing and payment requirements

Corporations are to file interim tax returns by the end of each quarter and pay advance corporate income tax on their quarterly profits at the same rate as the annual corporate rate (20%). These paid interim corporate income taxes are offset against the annual corporate income tax for the fiscal year.

Tax returns for annual corporate income tax are required to be filed with the Turkish tax office located within precinct of a company's address from the 1st to the 25th day of the fourth month following the end of the fiscal year of the corporation. Corporate income tax assessed accordingly is required to be paid in full on such day.

The fiscal year of a corporation is, by default, the calendar year. However, corporations may, with the prior permission of the Ministry of Finance, designate another term (which must be 12 months) as their fiscal year.

Miscellaneous taxes due

There are, in addition to the above mentioned, value-added tax, to which the deliveries of goods and rendering of services within the scope of an enterprise are subject, real estate tax, stamp tax and banking and insurance transactions tax.

Registration duties

Registration duties are due upon the incorporation of a company and increase in capital. Registration duties may arise on the transfer of a company's shares and assets, depending on the form of the company in the former case and the type of asset in the latter case.

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Sales tax or turnover tax

The delivery of goods and the provision of services including importation of the same into Turkey are, in general, subject to VAT.

VAT payable on local purchases and on imports is regarded as "input VAT" and VAT calculated and collected on sales is considered "output VAT". Input VAT is offset against output VAT in the VAT return filed at the related tax office by the 20th of the following month. If output VAT is in excess of input VAT, the excess amount is paid to the related tax office. On the contrary, if input VAT exceeds the output VAT, the balance is carried forward to the following months to be offset against future output VAT. There is no cash refund to recover excess input VAT, except for exportation.

There is also a so-called reverse charge VAT mechanism, which requires the calculation of VAT by resident companies on payments sent abroad. Under this mechanism, VAT is calculated and paid to the related tax office by the Turkish company on behalf of the foreign company. The local company treats this VAT as input VAT and offsets it in the same month. This VAT does not create a tax burden for the Turkish and the non-resident company, except for its cash flow effect.

The VAT rate, in general, is 18%. The standard VAT rate applies to all supplies of goods or services, unless a specific measure provides for a reduced rate or exemption. There are, however, reduced or increased rates which apply at the rate of 1% or 8% depending on the subject matter of taxation.

Social security and welfare system contributions

Work accidents, occupational disease, disease and maternity premiums (short-term insurance): 2%. Disablement, old

age and death premiums (long-term insurance): 11%. General health insurance premiums: 7.5%. Contribution to unemployment insurance: 2%.

Employers must pay the above specified amounts (in total 22, 5%) as a portion of an employee's gross salary.

Special tax schemes

The investment incentives scheme is specifically designed to encourage investments with the potential to reduce dependency on the importation of intermediate goods vital to the country's strategic sectors.

Amongst the primary objectives of the investment incentives scheme are: reduce the current account deficit; boost investment support for lesser developed regions; increase the level of support instruments; promote clustering activities; and to support investments that will create the transfer of technology.

The investment incentives system has been comprised of four different schemes. Local and foreign investors have equal access to:

- General Investment Incentives Scheme
- Regional Investment Incentives Scheme
- Large-Scale Investment Incentives Scheme
- Strategic Investment Incentives Scheme

In order to benefit from any of the incentive schemes listed above, two general conditions shall be met:

- The investment project shall be approved by the Ministry of Economy, and
- An investment incentive certificate provided by the Ministry of Economy shall be obtained.

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The incentive schemes broadly include; value added tax and customs tax exemptions, corporate income tax reduction, income withholding tax allowance, social security premium supports, VAT refund, interest supports and land allocation.

However, abovementioned supports may vary in accordance with an each investment incentive scheme.

The Research & Development (“R&D”) Law provides special incentives for R&D and design investment projects in Turkey provided that a minimum of 30 personnel are employed in an R&D centre. This personnel requirement may be reduced to 15 employees in sectors determined by the Council of Ministers to be a priority, such as software, medicine and medical devices, agriculture, food, biotechnology, ICT, and other high-tech sectors. The incentives within the new law will remain in effect until 2024 and include:

- 100% deduction of R&D expenditure from the tax base
- Half of the R&D and design expenditure increase incurred in the operational year compared to the previous year will be deductible (criteria will be determined by Council of Ministers)
- Income withholding tax exemption for employees (until December 31, 2023.)
- 50% social security premium exemption for employers (until December 31, 2023)
- Stamp tax exemption for applicable documents
- Customs tax exemption for imported products within the scope of R&D projects
- Techno-initiative capital for new scientists up to TL 500,000
- Deduction from the tax base of certain funds granted by public bodies and international organizations

On the other hand, certain supports are also provided for R%D activities under Turkish Law such as; supports for Technology Development Zones, supports provided under the Industrial Thesis (SANTEZ) and TUBITAK Programs and loans granted by The Technology Development Foundation of Turkey (TTGV).

Tax on profit

Since Turkey is not a federal state, taxation is on a one-level country wide basis. Resident corporation taxpayers are subject to corporate income tax at the rate of 20% on their net corporate income derived from their activities across the world.

On the other hand, taxable income of non-resident corporation taxpayers is comprised of the following:

- Professional fees obtained in Turkey
- Profits from commercial, agricultural and industrial enterprises in Turkey (in cases where they have an establishment or a permanent representative in Turkey)
- Income arising from rental of real properties, rights and movable properties in Turkey
- Income obtained in Turkey from certain kinds of securities
- Other income and revenues obtained in Turkey.

Tax treaties

As of the date hereof, Turkey has income tax treaties in force with the following countries:

- Austria
- Norway
- South Korea
- Jordan
- Tunisia
- Romania
- Netherlands
- Pakistan
- United Kingdom

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- Finland
- Northern Republic of Cyprus
- France
- Germany
- Sweden
- Belgium
- Denmark
- Italy
- Japan
- United Arab Emirates
- Hungary
- Kazakhstan
- Macedonia
- Albania
- Algeria
- Mongolia
- India
- Malaysia
- Egypt
- China
- Poland
- Turkmenistan
- Azerbaijan
- Bulgaria
- Uzbekistan
- United States of America
- Belarus
- Ukraine
- Israel
- Slovakia
- Kuwait
- Russia
- Indonesia
- Lithuania
- Croatia
- Moldova
- Singapore
- Kirgizstan
- Tajikistan
- Czech Republic
- Spain
- Bangladesh
- Latvia
- Slovenia
- Greece
- Syria
- Thailand
- Sudan
- Luxembourg
- Estonia
- Iran
- Morocco
- Lebanon
- South Africa
- Portugal
- Serbia and Montenegro
- Ethiopia
- Bahrein
- Qatar
- Bosnia Herzegovina
- Saudi Arabia
- Georgia
- Oman
- Yemen
- Ireland
- New Zealand
- Canada
- Switzerland
- Brazil
- Australia
- Malta
- Mexico
- Kosovo

There are no specific anti-treaty shopping regulations; however, treaty shopping could be challenged by the general substance over form or controlled foreign corporation (CFC) rules.

Territoriality rules

Under the Corporate Income Tax Law companies incorporated in Turkey and branch offices of foreign companies established in Turkey are recognized as resident taxpayers and are subject to tax on their worldwide income whereas companies incorporated outside Turkey and the branch offices of Turkish companies established abroad are recognized as non-resident taxpayers and are taxed solely on their income derived from activities in Turkey.

Tax losses

In general, losses may be carried forward for five years. Losses may not be carried back. An order of priority applies for the use of losses and exemptions to offset against taxable income for the year. Past years' losses must be exhausted after applicable

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exemptions even if there is a loss. Then the other exemptions (which are only applicable if a taxable profit exists) will be applied (e.g. investment allowances). Resident companies may deduct the losses incurred in relation to business activities performed abroad provided that the foreign losses are approved by auditors authorized under the laws of the relevant jurisdiction. Foreign losses may not be deducted if related income arising from the foreign activity would have been exempt from corporation tax in Turkey.

Wealth tax

There is no applicable wealth tax.

Withholding tax

The withholding tax rates (if not provided for otherwise in the double taxation treaties) for certain income derived by non-resident corporations are as follows:

- Interest from Turkish government bonds and bills and private sector bonds: 0% or 10%
- Income from repo transaction is transaction: 15%
- Loan interest provided that the lender is a bank: 0%
- Income from financial leasing: 1%
- Rent income: 20%
- Royalties from Patents, Know-how and etc.: 20%
- Professional Fees: Petroleum-Exploration Activities 15%, Other Professional Activities 20%
- Withholding tax on dividends paid out to a non-resident corporation: 15%

Individual Taxation

Allowances

Individuals who provide independent professional services or those who are carrying out commercial activities may deduct from their taxable income ordinary business-related expenses, including salaries, rental payments, fees

and the cost of utilities. Depreciation on fixed assets is also deductible.

The employee parts of social security contributions and unemployment insurance premiums are deductible from gross employment income.

The employee portions of social security contributions and unemployment insurance premiums are deductible from gross employment income.

Premiums paid by the employee for himself or herself, his or her spouse or children with respect to personal insurance policies covering life, death, accident, illness, disablement, unemployment, maternity, birth and education are deductible if the following conditions are satisfied:

- The insurance policy is concluded with an insurance company that is located in Turkey and whose headquarters is in Turkey.
- The amount of the monthly premium or membership fee may not exceed 15% of the salary earned in that month.
- The annual total of the monthly premiums and membership fees that are paid must not exceed the annual legal minimum wage determined by the law may also not exceed the annual total amount of the minimum wage (as determined by law).

Lighting, heating, water, elevator, administration, insurance, interest, taxes, depreciation and maintenance expenses paid by an individual who derives rental income are deductible.

Tax calculation

The net income of individuals realized from their commercial, professional and agricultural activities in Turkey and the salaries of individuals paid in Turkey are subject to income tax pursuant to Article 103 of the Income Tax Law:

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In principle, individual income and gains calculated on a cumulative basis are subject to income tax at progressive tax rates which vary between 15% and 35% and are calculated on a cumulative basis. The following are the 2016 brackets and relevant income tax rates.

Amount	Rate
Up to TL 12,600	15%
Up to TL 30,000 (for the first TL 12,600, TL 1,890)	20%
Up to TL 69,000 (for the first TL 30,000, TL 5,370) In terms of the salary income, up to TL 110,000 (for the first TL 30,000 TL 5,370)	27%
Over TL 69,000 (for the first TL 69,000, TL 15,900) In terms of the salary income, over TL 110,000; (for the first TL 110,000 TL 26,970)	35%

Income derived through any and all kinds of commercial and industrial activities through a place of business or a permanent representative in Turkey, is considered to be income derived in Turkey.

On the other hand, capital gains are normally considered to be ordinary income. Therefore, capital gains are subject to income tax in Turkey. However, capital gains derived from transfers of shares are exempt from income tax in certain cases provided that the conditions specified under the Income Tax Law are fulfilled.

Self-employment income includes services rendered by a person who fulfils the following conditions:

- He or she works on behalf of himself or herself in his or her name.
- He or she uses his or her own professional knowledge.
- He or she works without being dependent on an employer.

If benefits are derived from self-employment activities performed in Turkey or if the self-employment activities are evaluated in Turkey, the income derived from such activities is considered to be income derived in Turkey and is accordingly taxable to non-residents.

Recipients of services provided by resident and non-resident self-employed Individuals must withhold a 20% tax from the amounts paid to the individuals and remit the withholding tax to the tax office on behalf of the individuals. If the service provider is a non-resident, provisions of an applicable double tax treaty need to be taken into account.

Inheritance and gift tax

Turkey residents are subject to inheritance and gift tax on worldwide assets received. The main laws concerning inheritance are the Turkish Civil Code, Law on Code of International Private and Procedure Law, and the Code of Civil Procedure. The main principle regarding jurisdiction over real property is *lex rei sitae* (i.e. property is regulated by the laws where it is located). Turkish law is therefore the applicable law governing ownership of real property located within the boundaries of Turkey.

Turkish citizens are subject to inheritance and gift tax on worldwide assets received. Resident foreigners are subject to inheritance and gift tax on worldwide assets received from Turkish citizens and on assets located in Turkey received from resident foreigners or non-residents. Non-resident foreigners

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are subject to inheritance and gift tax on assets located in Turkey only.

Transfers by way of a gift and upon death trigger gift and inheritance tax at the following rates:

Amount	Inheritance Tax	Gift Tax
First TL 210,000	1%	10%
Following TL 500,000	3%	15%
Following TL 1,100,000	5%	20%
Following TL 2,000,000	7%	25%
Following exceeding TL 3,820,000	10%	30%

Allowances are available in Turkey. The Inheritance and Gift Tax is payable in biannual instalments over a period of three years.

Miscellaneous taxes due

Other taxes relating to the environment, property, motor vehicles and inheritance can also apply.

Real estate/Habitation tax

Buildings and land in Turkey are subject to real estate tax. The taxpayer is the owner of the building or land, the owner of any usufruct over the building or land, or if neither of these exist, any person that uses the building or land as its owner.

A partial exemption of 25% of the tax value is granted for buildings or apartments used as residences. This partial exemption applies for five years from the year following the year of the completion of construction.

The tax base for the real estate tax is the tax value of the building or land. The tax value is the value recorded at the Land Registry.

The rate of building tax is generally 0.2%, but this rate is reduced to 0.1% for buildings used as residences. The rate of land tax is 0.1%, and the rate of parcelled land tax is 0.3%. These rates are increased by 100% within the frontiers of a metropolitan municipality and contiguous regions as defined by law.

Sales tax

Individuals pay sales tax in Turkey. The main sales tax is the Value Added Tax in Turkey which applies at the rate of 18% in general and at reduced rates of 1% or 8% in certain cases.

Social security and welfare system contributions

Employers must pay the following amounts (in total 22, 5%) as a portion of an employee's gross salary (Law social Insurance and General Health Insurance Law, Law No. 26200, 16 June 2006):

- Disablement, old age and death premiums (long-term insurance): 11%
- Work accidents, occupational disease, disease and maternity premiums (short-term insurance): 2%
- General health insurance premiums: General health insurance premiums: 7.5%.
- Contribution to unemployment insurance: 2%.

Stock option, profit sharing and savings plans

There is no taxation of stock option plans, profit sharing plans or saving plans.

However, under the general tax provisions, options are taxable as employment income at the time of exercise. The time of taxation may vary depending on the stock option plan. In addition, under certain circumstances, stock options are subject to stamp tax

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and may be subject to social security contributions.

Incomes from Real Properties

Incomes derived from the rental of real properties and rights by their owners, by their holders, by those holding easement and usufruct rights or by their tenants are taxable in Turkey if the real property is located in Turkey or if such properties and rights are used or evaluated in Turkey.

Rental income derived by resident and non-resident individuals from their real properties, assets and royalties for patents and rights are subject to withholding tax at a rate of 20%. For non-residents, this withholding tax may be eliminated or reduced under applicable double tax treaties.

Taxes on dividends

A withholding tax of 15% applies to dividends paid, unless reduced by a double tax treaty.

Territoriality rules

Individuals who are resident in Turkey (full liability taxpayers) are subject to tax on their worldwide income.

Non-resident individuals (limited liability taxpayers) are taxed only on earnings and revenues derived in Turkey.

Residents include individuals with legal permanent residence in Turkey and those who reside in Turkey for more than six months during one calendar year. Temporary absence does not interrupt the continuity of residence in Turkey.

Wealth tax

There is no applicable wealth tax in Turkey.

Withholding tax

Income (other than commercial, professional and agricultural income and salaries) such as interest, dividends and capital gains generated in Turkey by non-resident individuals is subject to withholding taxation. Other types of income require annual filings as applicable to resident individuals.

According to tax legislation that came into effect as of 1 January 2006, all types of resident and non-resident investors are subject to withholding tax as follows:

- 15% over repo income
- Interest on Turkish Lira term accounts are:
 - 15% for a term of up to six months,
 - 12% for a term of up to a year and
 - 10% for a term of more than one year,
- Interest on foreign exchange deposit accounts are:
 - 18% for a term of up to six months,
 - 15% for a term of up to a year and
 - 13% for a term of more than one year,

Tax on Other Legal Bodies

For taxable corporations such as cooperatives, state economic enterprises and etc. to the extent they are involved in commercial activity, allowances are mostly the same as for corporations – please see above. Stamp tax applies at the rate of 0.948% but only to the extent the related amounts are documented, i.e. in case of a transfer of capital that is not part of a signed contract between the parties, there is no stamp tax and only customary banking charges.

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General Tax Considerations

When structuring a company or other entity, as Turkey is part of a global network of OECD and UN model bilateral tax treaties, it is advisable that corporate structures, especially those that function cross-border, are implemented within the framework of treaty provisions.

The Turkish system does, in general, not provide for advance rulings for purposes of clearing a structure ex ante. Recently, a limited pre-clearance option in relation to transfer pricing calculations has entered into effect.

Since 2006 there is a specific anti-avoidance rule under the Corporate Income Tax Law that shall apply to the payments made to the tax heavens.

According to such rule, a withholding tax at the rate of 30% shall be made from all cash or on the record payments made to the corporations which reside or perform activities in the countries which will be determined by the Council of

Ministers. However, Council of Ministers has not used its authority and not determined the list of the countries for which 30% withholding tax to be applied.

Liaison office structures are not registered for corporate income tax since those could not engage in any commercial activities, including but not limited to any income generating activities. Therefore, those need to be incorporated and registered for tax purposes when the related non-resident parties start generating commercial income in Turkey (unless the related non-resident parent opts to file directly for Turkish corporate income tax).

For further information on any of the above topics please contact Pekin & Pekin

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