INTEGRA INTERNATIONAL®

Your Global Advantage

Doing Business in Turkey

CONTENTS

INTRODUCTION

This business and taxation guide has been prepared by INTEGRAL Bağımsız Denetim A.Ş., a member firm of INTEGRA INTERNATIONAL to provide a summary of the business environment and taxation in Turkey. It reflects the current tax laws as at May 2015.

This booklet is not intended as definitive advice, but merely as an explanatory guide, and we would strongly recommend that readers who have specific queries regarding Turkish taxation system to contact INTEGRAL Bağımsız Denetim A.Ş.

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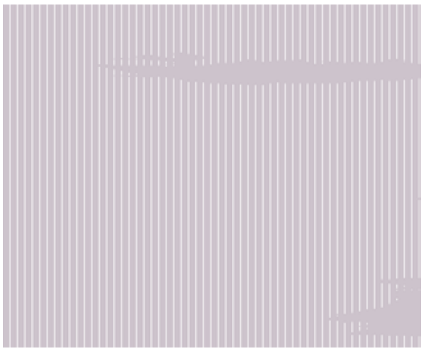
1. TURKEY

FACTS AND FIGURES OF TURKEY

1.1 Geography

Turkey is located at the intersecion of Europe and Asia. 97 % of the country is located in Asia (The Anatolian plateau) and 3 % in Europe (Eastern Thrace). The country's 783,562.38 km2 of land is divided in 7 geographic regions, namely the Marmara, Aegean, Mediterranean, South East Anatolian, East Anatolian, Central Anatolian and Black Sea. The country is surrounded by four seas: Mediterranean, Aegean, Marmara and Black Sea.

The continents of Europe and Asia are separated by Bosphorous Straight, Marmara Sea, and the Dardanelles Straight, all within the borders of the Turkish territory. The country is neighbor to European and Asian countries: Greece, Bulgaria, Georgia, Azerbajian, Armenia, Iran, Iraq, Syria.



1.2 Population and Religion

Based on the State Institute of Statistics, Turkey has a total population of 81.619.392 people as of July 2014 (est) of which 42.9% is constituted by the age of 25-54 years. Turkey's population is being rapidly urbanized, as approximately 71.5% of the population is living in urban areas. The most populated cities in Turkey are İstanbul (13 million), Ankara (4.5 million), and İzmir (3.8 million). The main religion of Turkish people by a ratio of 99% is Islam. Nevertheless, Turkey is a secular state, where freedom of worship for non-Muslims is protected under constitutional law. Among the non-Muslim population are Greek Orthodox, Armenian Christian and Jewish people. Turkey is the only Islamic country that separates state and religious matters by law.

1.3 Language and Time

The official language of the country is Turkish. All documents that are to be submitted to the government authorities must be prepared in Turkish. Turkey is located in the GMT+2 time zone, which allows it to communicate with countries from both west and east in the same working day.

1.4 Government Structure and Legal System

Turkey is a parliamentary democracy with single chamber, the Grand National Assembly (T.B.M.M.) The Grand National Assembly is composed of 550 members elected by popular vote to serve five year terms and the president of the Republic elected by assembly members for a seven year term. Citizens at the age of 18 or older have the voting right.

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

1.5 Education

At the end of every academic year, nearly 400,000 graduates from 125 universities in Turkey join the labor market with over 24.7 million young, well-educated and motivated professionals. Moreover, about 730,000 students graduate every year from the high schools in Turkey, including one third with vocational, technical and professional high schools. All things considered, Turkey has a labor market which continues to improve dramatically every year, both in quantity and quality (Source: Ministry of National Education of Turkey, 2008).

ECONOMIC ENVIROMENT

1.6 Economic Outlook

Fiscal discipline and a tight fiscal policy continue to be the main pillars of Turkey's economic program and have contributed a great deal to disinflation as well as to a strong growth performance. In addition to the sound macroeconomic policies, Turkey has implemented a comprehensive and far-reaching structural reform agenda. Compared with the experiences of other countries, Turkey's success has been remarkable primarily because of the speed with which it has conducted structural and institutional changes. Indeed, Turkey has made large strides in restructuring its financial sector as well as improving public sector governance and its business environment.

In the past five years privatization worth 25 $billion has been realized in Turkey.

The Turkish economy has had a steady growth rate for the last 20 quarters. GDP and GNP per capita figures highlight the strength and the stability of the national economy as well as its integration to macroeconomic global trends.

1.7 A Sustainable Growth Path

In recent years, the Turkish economy has displayed a high growth performance due to decisively implemented structural reforms as well as successful macroeconomic policies; it has become one of the fastest growing economies in the world. The average real GDP growth rate was 3.8% during 2013 period.

. As a result of sustained pace in growth, structural reforms and the process of macroeconomic stabilization, the EU emphasized the improvement in functioning market forces in Turkey. The accelerated reform process along with EU accession negotiations, robust private sector investments and favorable demographics promise a faster convergence with the EU during the negotiation process.

The expected rise in participation in the labor force and vast productivity gains through increasing investments are predicted to be the driving engines of the convergence; these factors also guarantee sustained high growth.

1.8 Declining Inflation

One of the most striking aspects of the recent performance of the Turkish economy has been the substantial decline in inflation in a strong growth environment with soaring energy prices. Annual inflation rate declined from a level near 70% at the beginning of 2002 to 7.5% in October 2005, the lowest level in 35 years. To further support disinflation, the Central Bank of Turkey shifted to formal inflation targeting in 2006. The 2014 end-year inflation rate was 8.17%.

1.9 Prudent Fiscal Policy

Fiscal discipline continues to be the cornerstone of the macroeconomic performance of the Turkish economy. By sustaining historically high levels of total public sector primary surpluses over GNP, averaging more than 6.5% annually for the past four years.

1.10 International Trade

As of December 31,2013, Imports in goods and services :142.9 $ billion, and Exports in goods and services :167.6 $ billion.

Liberal policies and an export-based development model have been functioning since 1980 and Turkey now has an open economy which has completed its integration with the rest of the world. Furthermore, the continued increase in the export rate ranks Turkey among the 30 leading exporting countries, making it an exemplary economic leader in the EMEA region.

Foreign Trade in terms of Countries

In terms of both imports and exports, members of the European Union are Turkey's most important trade partners. Imports by Country With respect to Turkey's imports by country groups, EU members have maintained the highest position since 1980. Between 1999 and 2005, while it was observed that imports from EU members rose from around 44% to 52%, there was also a marked increase in imports from Asia, the Black Sea Economic

Cooperation Member Countries, and the Common Wealth of Independent States which has attracted significant attention. In 2005, the share of imports to OECD countries was 56.6%. The highest position among the OECD countries was held by the EU members with a total market share of 42.2%. In 2012 the top 5 countries in terms of imports were Russia, Germany, China, US and Italy. The overall share of these 5 countries in imports was 40.9%.

Exports by Country

Between 1980 and 2005, the share of Turkish exports to European Union members was around 50%; these countries maintained their place as the group to which Turkey exports most. Between 1999 and 2005, it was observed that while the share of exports made to the EU countries changed from around 51% to 54%, there was also an increase in exports made to Black Sea Economic Cooperation

Countries, to countries of the Islamic Conference Organization, and to the Commonwealth of Independent States. In 2005, the share of exports to OECD countries was 60.4 %. The highest position among the OECD countries was held by the EU members with an overall share of 52.3%.

In 2012, the top 5 countries for exports were Germany, Iraq, Iran, the UK and UAE. The overall share of exports by these 5 countries was 33.3%.

Turkey Memberships in International Trade Organizations

Turkey has been a member of World Trade Organization, since 1995. Its commitment to intergrating with regional and international trade norms is seen in its participation in and membership of various organizations such as: Economic Cooperation Organization (ECO), UNCTAD, Black Sea Economic Cooperation Organization, World Customs Organization, International Chamber of Commerce, Islamic Cooperation Organization, D-8 , Stability Pact, and various other organizations.

LABOR FORCE

Turkey has a total population of 70 million, of which 23.2 million people are active in the labor force and the country has the 4th largest labor force in comparison to the 27 European countries.

1.11 Labor Availability

Labor Force in Millions

Turkey	27.9
Poland	16.9
Romania	9.3
Czech Republic	5.4
Hungary	4.2

Source: World Fact Book, 2013

Turkey's young population is an important source for labor force growth and has helped Turkey to rank highest among its competitors . The distribution of the workforce among many diverse sectors reflects the wealth of the opportunities offered to investors. Turkey has a young, dynamic labor force with an average age of 29 years old.

1.12 Life Expectancy at Birth

total population	73.29 years
male	71.33 years
female	75.35 years

Source : World Fact Book, 2014 (est)

1.13 Minimum Monthly Wage (Gross and Net)

<u>01.01.2015 - 30.06.2015 (Minimum Wage):</u>
Gross: **1.201,50 TL**
Net: **949,07 TL**

<u>01.07.2015 - 31.12.2015 (Minimum Wage):</u>
Gross: **1.273,50 TL**
Net: **1.000,54 TL**

BUSINESS ENVIROMENT

Turkey ranks well ahead of all competitors and the OECD Countries in Terms of average business startup time

1.14 Autonomous Bodies

Autonomous Bodies are established in order to regulate and monitor different types of markets in accordance with the requirements of a functioning market economy. The Bodies have both administrative and fiscal independency. Some of the important entities in Turkey are the Competition Authority, the Energy Market Regulation Authority, the Banking Regulation and Supervision Authority; Telecommunication Authority and the Tobacco, Tobacco Products and Alcoholic Beverages Market Regulation Board.

1.14.1 Competition Authority

Competition Authority (CA) is responsible for the full achievement of competition in the markets. Main responsibilities and powers of the Competition Authority are:

a. To carry out, the examination, inquiry and investigation into activities and official transactions defined in Competition Code upon application or upon its own initiative; to take the necessary measures to expunge infringements of the Code; and to impose administrative regulations

b. To evaluate the requests for exemption and to grant an exemption certificate to the appropriate agreements which may distort competition
c. To constantly follow the markets to which exemption decisions and negative clearance certificates are related, and to re-evaluate the applications of those in case changes are established in these markets or in the positions of the parties
d. To evaluate mergers and acquisition activities and approve them according to determined criteria

1.14.2 Energy Market Regulation Authority

Energy Market Regulation Authority (EMRA) regulates and controls the energy market. The Authority ensures its independent duties in order to provide sufficient energy sources to consumers at high quality and at low cost, in a reliable and environmentally friendly manner. The main responsibilities of Energy Market Regulation Authority are;

a. To regulate and monitor the Electricity, Natural Gas, Petroleum and Liquid Petroleum Gas markets,

b. To establish a financially viable, stable and transparent energy market within a competitive environment. www.epdk.gov.tr

1.14.3 Banking Regulation and Supervision Agency (BRSA)

BRSA safeguards the rights and benefits of depositors; prevents all kinds of operations and transactions that may risk the orderly and safe operation of banks or that may harm the economy; facilitates the efficient working of the credit system. The main goals of the Agency are as follows:

a. To enhance the efficiency of the banking sector and its competitiveness
b. To maintain confidence in the banking sector

c. To minimize potential negative effects of banking sector on economy
d. To improve the stability of the banking sector
e. To protect the rights of depositors

1.14.4 Capital Markets Board of Turkey Capital (CMB-BIST)

CMB is the regulatory and supervisory authority in charge of the securities markets in Turkey. Empowered by the Capital Markets Law (CML), which was enacted in 1981, the CMB has been making detailed regulations for organizing the markets and developing capital market instruments and institutions for the past nineteen years in Turkey. Based on the main objectives of fair and orderly functioning of the markets and protecting the rights of investors, the CMB has a wide range of responsibilities. The major objective is to take the necessary measures for fostering the development of capital markets, and hence to contribute to the efficient allocation of financial resources in the country while ensuring investor protection. Its mission is to make innovative regulations, and perform supervision with the aim of ensuring fairness, efficiency and transparency in Turkish capital markets, and improving their international competitiveness.

The CMB implements the duties vested by the Law with due diligence. The CMB is authorized in and responsible for the following areas:

a. Regulation and supervision of the securities markets and institutions,

b. Determination of the operational principles of the capital markets,

c. Protection of the rights and interests of the investors.
www.cmb.gov.tr

1.14.5 Telecommunication Authority

Telecommunication Authority undertakes the regulation, the authorization, the reconciliation and the supervision of activities within the telecommunication market. The main responsibilities of the Authority are;

a. To prepare the required plans in the telecommunications area and present them to the Ministry of Transportation,
b. To observe the developments in technology of the telecommunications area in cooperation with the universities and private establishments,
c. To observe, control, examine and evaluate the telecommunication implementations,
d.To give opinions on the concession contracts to be signed for telecommunication services and/or infrastructure,
e. To define the general criteria on price tariffs, contract provisions and technical issues to be implemented for the users of the telecommunication services and infrastructure, and other operators for their use of interconnections between the telecommunication networks, 25
f. To define and implement the performance standards considered as a basis for telecommunication items,
g) To take the required measures to protect the consumer rights.

1.14.6 Tobacco, Tobacco Products and Alcoholic Beverages Market Regulation Board (TAMRB)

TAMBRB establishes regulatory and supervisory systems in areas dealing with tobacco, tobacco products, alcohol and alcoholic drinks. The main responsibilities of the Board are as follows:

a. Regulation and supervision of tobacco production; granting of permission for the import of tobacco seeds; issuing of authorization to trade in tobacco; regulating, monitoring, and supervising tobacco producers on the basis of a written contract; and buying and selling of tobacco products by public auctions

b. Granting permissions for setting up tobacco processing plants, controlling their production, movements, handovers, and closures; monitoring of tobacco stocks and warehouses; and the granting ofcompatibility permissions to tobacco warehouses

c. Supervision of companies operating within the sector

d. The granting of production permits, sales permits as well as granting permission to establish factoriesaimed at producing tobacco products

e. Regulating the market in Ethyl Alcohol, Methanol, Distilled Alcoholic Drinks, and Fermented Alcoholic Drinks; preparing national regulation policies; and harmonizing with the EU regulations.

1.14.7 Privatization Authority

Privatization Authority does not show the main characteristics of the above mentioned market regulating autonomous agencies. However, as an independent administrative body fully responsible for privatization in Turkey, it has a very high importance for the direct investors. The Privatization High Council and Privatization Administration are responsible for carrying out privatization transactions in Turkey. The main responsibilities of the Authority are;

a. To decide which enterprises meet the criteria for inclusion in the privatization process,
b. To prepare enterprises for privatization in both fiscal and legal matters,
c. To determine a timeline for the completion of privatization procedures,
d. To prepare the privatization process of enterprises which have been deemed suitable,
e. To decide on the privatization methods required for selected enterprises,
f. To decide on scaling down methods for enterprises that are already in the process of privatization,
g. To conclude the activities of enterprises either temporarily or permanently, which are already in the process of privatization,
h. To make a decision about the possible liquidation of companies in the privatization process.
www.oib.gov.tr

1.15 Environmental Standards

Turkey's policies regarding environmental protection and development are based on the harmonization of policies and solutions with both EU and international standards, reinforcement of existing legislation, improvement of environmental management, prevention of pollution and increasing awareness of environmental issues.

Turkey participates in 76 international agreements concerning environmental protection and management as well as 25 bilateral agreements.

On January 28, 2003, the Republic of Turkey ratified an act between Turkey and European Union countries regarding Turkey's participation in the European Environment Agency and the European Information and Observation Network. Furthermore, most of the legislation on the environment has already been harmonized with the exception of certain legislation that is at the last stage of full harmonization with the EU law.

1.16 Turkish Labor Market

Turkey has been a member of the International Labor Organization (ILO) since 1932. Since it became a member, Turkey has approved 56 ILO Agreements. Moreover, Turkey has signed Bilateral Social Security Agreements with 22 countries.

According to the Turkish Constitution, the State is responsible for creating a suitable environment to prevent unemployment and to provide a peaceful labor environment.

The minimum wage is to be determined annually by the Ministry of Labor and Social Security. According to the Social Insurance Code, the social security services for employees are handled by the Social Insurance Agency. Recently, the Social Security Agency has been reorganized with the ultimate goals of consolidating all Social Security and Social Support Organizations into one single body; standardizing the regulations and principles of all social security institutions; and keeping track of the fiscal position and financial records of the institutions.

Is-Kur, a governmental body, is responsible for the domestic and international matching of jobs with employees; carrying out workforce planning; as well as safeguarding and developing employment. There is a large amount of private employment agencies in the market working effectively with employees and employers. It is also possible to find employment and employees via private employment agencies.

1.17 Employment of Expatriates

Expatriates are required to obtain a work permit before they start to work dependently or independently in Turkey. The Ministry of Labor and Social Security is responsible for:

• Processing the applications of companies that wish to employ expatriates
• Issuing work permits for expatriates
• Extending and/or restricting the term of work permits in accordance with the relevant legislation
Applications for work permits can be made both inside and outside of Turkey:
• Expatriates residing outside of Turkey need to apply to the relevant Turkish Consulate in either their residential country or their country of citizenship
• Expatriates with valid residence permits (a minimum 6 month period, with the exception of residence permits for educational purposes) can apply directly to the Ministry of Labor and Social Security
Other legal procedures regarding work permits are as follows:

• A work permit is valid only when a work visa and/or residence permit is also granted
•Applications are processed and answered within a fixed 90 day period by the Ministry. For key personnel of large foreign direct investors, this period is at most 15 days

2. Main categories of work permits Work permits are divided into 4 categories:

• Dependent work permits for a definite period of time
• Dependent work permits for an indefinite period of time
• Independent work permits
• Exceptional work permits

Exceptional work permits can be granted under certain conditions stipulated in Law. This type of work permit can be issued to an expatriate living in Turkey who is married to a Turkish citizen, to one who will temporarily come to Turkey with the aim of scientific and/or cultural activities, or to one employed by ministries, public authorities or other similar organizations.

1.18 Research and Development Activities

1.18.1 TÜBİTAK

In Turkey, public institutions and universities play an important role in R&D activities. The Scientific and Technological Research Council of Turkey is the public agency in charge of promoting, developing, organizing, conducting and coordinating research and development in different fields of natural sciences. This research is in line with the national targets for economical development and technical progress. The Council also makes important contributions to the relations between universities and industries.

The institution provides certain incentives in order to increase the scientific and technological competitiveness of Turkey; develop methods to rapidly transform scientific research into technological innovations; and provide an active contribution from the private sector into research and development. www.tubitak.gov.tr

1.18.2 TTGV

The Turkish Technology Development Foundation was set up to raise the industrial sector's awareness of R&D and to support technological development projects in the Turkish Industry through the funds provided by the Under Secretariat of Treasury from the resources of the World Bank. This Foundation continues its activities as a successful example of Private and Public Sector cooperation. In this respect, the Foundation promotes the R&D activities of the industrial sector; contributes to the creation of the necessary infrastructure for technology to produce a commercial and marketable product, system or service; provides financial support; and undertakes studies aimed at improving the legislative and institutional framework for R&D. www.ttgv.org.tr/

1.18.3 KOSGEB

Another institution, which conducts R&D research in Turkey, is the Small and Medium-sized Industry Development Organization (SMSIDO - KOSGEB). KOSGEB is focused on helping small and medium-sized industrial companies to adapt quickly to technological innovations; increasing their competitiveness and contributions to the economy; as well as improving their efficiency.

2. COMPANY LAW

Turkey's regulatory environment is extremely business-friendly. You can establish a business in Turkey irrespective of nationality or place of residence. The registration and establishment of a company in Turkey can be completed in one day.

Real persons or legal entities resident abroad can invest in Turkey through joint stock companies (AŞ), limited companies (LC), branches or partnerships. There is no approval/permission requirement from the Foreign Investment Directorate of the Turkish Treasury. No additional minimum capital requirement for foreign investors is regulated under the Foreign Direct Investment Legislation. However, according to the local regulations, there is a minimum capital requirement for different type of companies irrespective of whether the shareholders are foreigners or Turkish residents.

The process is handled by one ministry which acts as the coordinator between all authorities.

The first step in establishing a business in Turkey is to fill out the "Business Registration Form" at the local Trade Registry Office located at the local Chamber of Commerce.

Here are the steps to follow:

- Submit the notarized 'Articles of Association'.
- Deposit 0.04% of the capital into either a State Bank or the Turkish Central Bank.
- Complete the "Company Establishment Form" and register with the Trade Registry Office.

International companies may start their activities in Turkey in various forms depending on the investors' development strategies.

2.1 Limited Liability Companies (with the suffix Ltd. Şti. in Turkey)

Limited Liability Company can be formed by only one shareholder and number of shareholders of a LLC cannot exceed 50 shareholders. The shareholder(s) may be individuals or corporate bodies, residents or nonresidents.

Shareholders' liability

LLC shareholders are liable to the company only with the amount of subscribed capital and in proportion to their capital contribution with regards to third party receivables. LLC shareholders are jointly and severally liable against public receivables such as taxes with their own/personal assets. Such liability occurs only if the tax office cannot collect outstanding taxes from the assets of the company.

Share Capital

The minimum amount of capital required for establishing a limited liability company is 10,000 TL, with a minimum nominal value of 1 Kurus.

2.2 Joint Stock Company (with the suffix of A.Ş. in Turkey)

Number of shareholders

A.S. can be formed by at least one person. This shareholder may be a real person or a legal entity, residents or non-residents.

Shareholders' liability

In Joint stock companies, liabilities of shareholders are limited to the amount of capital subscribed by shareholders for both tax and legal purposes.

Share Capital

The minimum amount of capital required for establishing a joint stock company is 50,000 TL, with a minimum nominal value of 1 Kurush, however, for the joint stock companies that are open to public thus adopt a registered capital policy, the minimum amount of capital is 100.000 TL.

Management

There are two administrative bodies in the A.S. as the Board of Directors and the General Assembly.

2.3 Opening a company branch in Turkey

Foreign companies whose capital is divided into shares and which are based abroad can open a branch (or branches) in Turkey provided that they get permission from the Ministry of Commerce and Industry.

The foreign company has to assign a fully authorised company representative who is a resident in Turkey before starting transactions so as to open a branch in Turkey.

There is no equity requiremet for brances and they are tax liable for only over Turkish sourced income.

2.4 Opening a liaison office in Turkey

Foreign companies may also have a presence in Turkey through liaison offices. Yet, the liaison offices are prohibited from undertaking any kind of commercial activities and entering into partnership with other companies in Turkey. In fact, their function is limited with auxiliary and preparatory type of services.

3. ACCOUNTING AND AUDITING

The accounting profession is currently governed by the Law enacted in 1989. However, related regulations issued by the Public Oversight Authority (POA), Central Bank and the Capital markets Board (CMB) are also particularly important, since they stipulate the auditing, accounting and financial reporting standards for banks and public companies of more than 200 shareholders, matches two of the third thresholds POA declared or whose shares or bonds are quoted on the stock exchange.

Thresholds of 2015 published by Public Oversight Authority;

Net assets >= 50 million
Net turnover >= 100 million
Number of staff >= 200

The Law creates and defines two categories of accounting and auditing professionals: Certified Public Accountant, (CPA)-SMMM and Sworn-in Certified Public Accountant (Sworn-in CPA)-YMM.

Those individual persons or entities acting as auditors for corporations and regulatory agencies, must be licensed as Certified Public Accountants (SMMM), or as Sworn-in Certified Public Accountants (YMM). The Ministry of Finance requires certifications, mainly tax related, to be carried out only by Certified Financial Consultants (YMM).

Certified Public Accountants

They should be a graduate of a university and have a B.A. degree in economics, law or management and be successful in the proficiency examinations conducted by TÜRMOB after they have successfully completed their practical training lasting three years with and under the supervision of a CPA or sworn-in CPA, to be awarded a license for "certified public accountancy".

The proficiency examinations conducted by TÜRMOB comprises the following subjects; Financial Accounting, Financial statements and their analysis, Cost accounting, Auditing, Tax legislation and its implementation, Law, Company Law, The Professional Law of Accounting and Financial Advisorship.

Sworn-in Certified Public Accountants

After having at least 10 years of work experience as a certified public accountant and being successful in the proficiency examinations conducted by TÜRMOB, a CPA is awarded a license for "Sworn-in Certified Public Accountancy". Sworn-in certified public accountants do not compile ledgers but besides the functions carried out by certified pubic accountants, they are authorized to approve financial and tax statements with an authority quite comparable with what is possessed by the public officials of the Revenues Directorate of the Ministry of Finance.

The proficiency examinations conducted by TÜRMOB in which one should be successful in order to be awarded a license for sworn-in certified public accountancy comprises the following subjects; Advanced financial accounting, Financial management, Managerial accounting, Auditing, Reporting and Professional Law, Revision, Techniques for taxation, Taxes levied on incomes, Taxes levied on expenditure and wealth, Foreign trade and Exchange Rate legislation, Capital Market legislation.

3.1 Subject of Profession

A) The subjects of the profession of Certified Public Accountancy

a) To keep books; prepare the balance sheets, profit and loss statements, tax returns and other relevant documents in compliance with generally accepted accounting principles and the provisions of the relevant legislation.

b) To establish and improve accounting systems: to regulate administration, accounting, finance, financial legislation and to perform the jobs related to their applications and to provide consultancy services in the related fields.

c) Based on the relevant documents on issues specified in the aforementioned paragraph, to perform investigations, analyses and audit, to present written opinions regarding financial statements and tax returns, to prepare reports and similar documents, to perform arbitration, expertise and similar services.

B) Subject of the profession of Sworn-in Certified Public Accountancy

In addition to the duties specified in sub-paragraphs (b) and (c) of Paragraph (A) above, the subject of the profession of Sworn-in Certified Public Accountants also includes the application of certification within the framework of the regulation to be promulgated in compliance with Article 12 of the Law. Sworn-in financial advisors can not keep books related to accounting, can not establish an accounting office and cannot become partners to the accounting offices already established.

3.2 Financial Accounting and Auditing in Turkey

All joint stock companies are required to appoint statutory auditors to examine their financial statements on behalf of the shareholders. Limited Liability companies with more than 20 shareholders must have at least one statutory auditor who is subject to the rules that apply to joint stock companies.

Statutory Auditors are initially appointed under the provisions of the articles of association for a one-year term.

The annual financial statements include the following;
* Balance Sheet
* Income Statements
* Disclosures of the annual financial statements

Supplementary financial statements include the following;
* Statement of Changes in Shareholders' equity
* Statement of Cost of Goods Sold
* Cash Flow statement
* Funds Flow statement
* Profit Distribution statement

Effective from 1 January 1994, all individuals engaged in business as well as public and nonpublic companies must maintain their book of account and prepare their financial statements in accordance with the Uniform Chart of Accounts. The Turkish Commercial Code requires that accounting books, records and business documents be kept for ten years and according to the Tax Legislation these documents must be kept for five years.

These records should be kept in Turkish and in Turkish Lira and be authenticated by a public notary. Although these are the basic legal books required, others may be required depending on the type of business. Companies may keep computerized records on condition that they comply with these basic requirements.

3.3 Capital Markets Board of Turkey

Capital Markets Board (CMB) is the regulatory and supervisory authority in charge of the securities markets in Turkey. Empowered by the Capital Markets Law (CML), which was enacted in 1981, the CMB has been making detailed regulations for organizing the markets and developing capital market instruments and institutions for the past twenty-two years in Turkey.

CMB requires, publishing the audited financial statements of companies, whose shares and bonds are quoted on the Stock Exchange Market or whose shares are more than 200. The accounting policies and auditing principles required under CMB regulations is International Financial Reporting Standards (IFRS) since 2000. An auditor reporting to IFRS standards is required to provide his opinion on whether the financial statements provide a "true and fair" view. Companies operating internationally, also generally request their financial statements to be audited in accordance with International Financial Reporting Standards.

3.4 Auditing of Banks

Since 1987 all banks, including branches of foreign banks, are required to submit reports on their financial statements by independent auditors to the Turkish Central Bank. This report is based on financial statements prepared in accordance with the accounting principles required by the Undersecretariat of Treasury and the Central Bank, which are similar to IFRS.

Furthermore, banks are required to consolidate their financial statements semi annually in accordance with the consideration principles announced in a decree by the treasury. Such consolidated financial statements also need to be audited. The year-end consolidated financial statements also need to be published together with the auditors' report.

4. TAXES

Turkey has one of the most competitive corporate tax rates in the OECD region. The new Corporate Tax law that was enacted on June 21, 2006 has made some important amendments to the current applications and also included new concepts in the tax legislation. With the new Corporate Tax Law in place, the Turkish corporate tax legislation has noticeably clearer, more objective and greater harmonized provisions which are in-line with international standards.

The Turkish tax regime can be classified under three main headings:

4.1 Income Taxes

Income taxes in Turkey are levied on all income, including domestic as well as foreign individuals and corporations residing in Turkey. Non-residents earning income in Turkey through employment, ownership of property, business transactions, or any other activity which generates income are also subject to taxation, but only on the income earned in Turkey.

4.1.1 Corporate Income Taxes

In Turkey, the basic corporate income tax rate levied on business profits is 20%.

Withholding Taxes On Selected Payments of Non-Resident Corporations

- Dividends are subject to 15%.
- Interest on treasury-bill and treasury bonds derived by non-resident corporations is subject to 0%.
- Interest on other bonds and bills derived by non-resident corporations is subject to 0%.
- Bank deposits are subject to 15%.
- Profit shares paid by participation banks in consideration of participation account are subject to 15%.
- REPO agreements are subject to 15%.

4.1.2 Individual Income Tax

The personal income tax rate varies from 15% to 35%. Income tax rates applicable to yearly gross earnings from 2015 are as follows:

Income Scales Rate (%)

Up to TRY 12,000	15 %
TRY 12,001– TRY 29,000	20 %
TRY 29,001 – TRY 106,000	27 %
TRY 106,001 and over	35 %

4.2 Taxes on Expenditure

4.2.1 Value Added Tax (VAT)

The generally applied VAT rate varies between 1%, 8%, and 18%. Commercial, industrial, agricultural and independent professional goods and services; goods and services imported into the country and deliveries on goods and services caused by other activities are all subject to VAT.

4.2.2 Special Consumption Tax

There are 4 main product groups that are subject to special consumption tax at different tax rates:
• Petroleum products, natural gas, lubricating oil, solvents, and derivatives of solvents
• Automobiles and other vehicles, motorcycles, planes, helicopters, yachts
• Tobacco and tobacco products, alcoholic beverages
• Luxury products (Unlike VAT, which is applied on each delivery, special consumption tax is charged only once.)

4.2.3 Banking and Insurance Transaction Tax

Banking and Insurance company transactions remain exempt from VAT but are subject to a Banking and Insurance Transaction Tax. This tax applies to income earned by the banks, for example on loan interest. The general rate is 1%.

4.2.4 Stamp Duty

The Stamp duty applies to a wide range of documents, including contracts, agreements, notes payable, capital contributions, letters of credit, letters of guarantee, financial statements and payrolls. The Stamp duty is levied as a percentage of the value of the document at rates ranging from 0.189% to 0.948%.

4.3. Taxes on Wealth

There are three kinds of taxes on wealth:
Inheritance and Gift Taxes, property taxes and motor vehicle tax.
Buildings and land owned in Turkey are subject to real estate tax at the following rates:

- Residences 0.1%
- Other buildings 0.2%

4.4. Tax Incentives

- Prioritized Development Zones
- Technology Development Zones
- Organized Industrial Zones
- Free Zones
- Research and Development
- Educational Corporations
- Cultural Investments and Enterprises

5. FOREIGN DIRECT INVESTMENT LAW

5.1 Freedom to Invest and National Treatment

Unless stipulated by international agreements and other special laws:
- Foreign investors are free to make foreign direct investments in Turkey,
- Foreign investors shall be subject to equal treatment with domestic investors.

5.2 Expropriation and Nationalization

Foreign direct investments shall not be expropriated or nationalized, except for a public purpose and upon compensation in accordance with due process of law.

5.3 Transfers

Foreign investors can freely transfer abroad: profits, dividends, proceeds from the sale or liquidation of all or any part of an investment, amounts arising from license, management and similar agreements, and reimbursements and interest payments arising from foreign loans through banks or special financial institutions.

5.4 Access to Real Estate

Companies may freely acquire real estate or limited rights in rem through a legal entity in Turkey established or with participation by foreign investors, provided such acquisitions are permitted for Turkish citizens.

5.5 Dispute Settlement

For the settlement of disputes arising from investment agreements subject to private law and disputes arising from conditions and contracts made with the administration and under which concessions concerning public services are granted, foreign investors can apply either to the authorized local courts, or to national or international arbitration or other means of dispute settlement, provided that the conditions in the related regulations are fulfilled and the parties agree thereon.

5.6 Valuation of Non-cash Capital

Non-cash capital is valued within the regulations of Turkish Commercial Law. However, stocks and bonds of companies residing abroad will be accepted as foreign capital share of foreign investors and the values determined by the courts of the home country, or other relevant authorities in the home country, or any other international institutions performing valuations will be accepted.

5.7 Employment of Expatriates

Foreign personnel working permits are issued by Ministry of Labor and Social Security for foreign personnel to be employed in the companies, branches and entities established within the scope of this Law.

In a Regulation to be prepared jointly by the Undersecretariat of Treasury and the Ministry of Labor and Social Security, according to Article 23 of the Law on Foreign Personnel Working Permits No. 4817 dated 27 February 2003, the companies and entities with foreign capital which shall be in the context of the Regulation, the definition of the key personnel in the scope of the Regulation and other special procedures and principles concerning the work permits of key personnel will be determined.

Provisions stipulated in Article 14, paragraph 1, sub-paragraph (b) of Law No. 4817 will not be applicable to personnel to be employed within the context of this Regulation. The conditions under which the provisions stipulated in paragraph 1 of Article 13 of Law No. 4817 are to be applied to key foreign personnel employed will be specified in the Regulation.

5.8 Liaison Offices

The Undersecretariat is authorized to permit foreign companies established under the laws of foreign countries to open liaison offices, provided that they do not engage in commercial activities in Turkey.

6) RELATED PARTIES

6.1 Thin Capitalization

Thin capitalization is regulated in the article 12 of the Corporate Income Tax Law. According to the article, if the ratio of the borrowings from shareholders or from persons related to the shareholders exceeds three times of the shareholders’ equity of the borrower company at any time within the relevant year, the exceeding portion of the borrowing will be considered as thin capital.

The loans received just from credit institutions will not be considered as thin capital until the amount of the borrowing exceeds six times the shareholders’ equity.

The scope of the term “related parties” consists of shareholders and the persons who are related with the shareholders that own 10% or more of the shares, voting rights or right to receive dividends of the company.

The equity capital is the equity of the corporation at the beginning of the fiscal year. The equity capital represents the total amount of the shareholder’s equity.

In addition to the interest paid or accrued, foreign exchange losses and other similar expenses calculated over the loans that are considered as thin capital are treated as nondeductible for corporate income tax purposes.

For company that uses thin capital, there will be an additional tax assessment with penalty for the interest and similar payments for withholding tax over dividend distribution.

6.2 Transfer Pricing

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm’s length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing.

Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

The arm’s length principle is defined as applying the same prices for the purchase or sale of goods or services between related parties as the prices that would be determined had the same transactions were carried out between unrelated enterprises.

Corporations are free to determine their transfer prices by applying one of the methods stated in the law, which is most suitable for their transactions. These are, Comparable Uncontrolled Price Method, Cost-Plus Method, and Resale Price Method.

6.3 Anti-Tax Haven Provisions

All sorts of payments made to corporations (including branches of resident corporations) that are established or operational in countries which are regarded by the Council of Ministers to undermine fair tax competition due to tax and other practices, will be subject to taxation in Turkey irrespective of the fact that:

- The payments in question are subject to tax or not; or

- The corporation receiving the payment is a taxpayer or not.

6.4 Treatment of Group Companies

Consolidation of the accounts of group companies for tax purposes is not allowed in Turkey since each company is regarded as a separate taxpayer.