

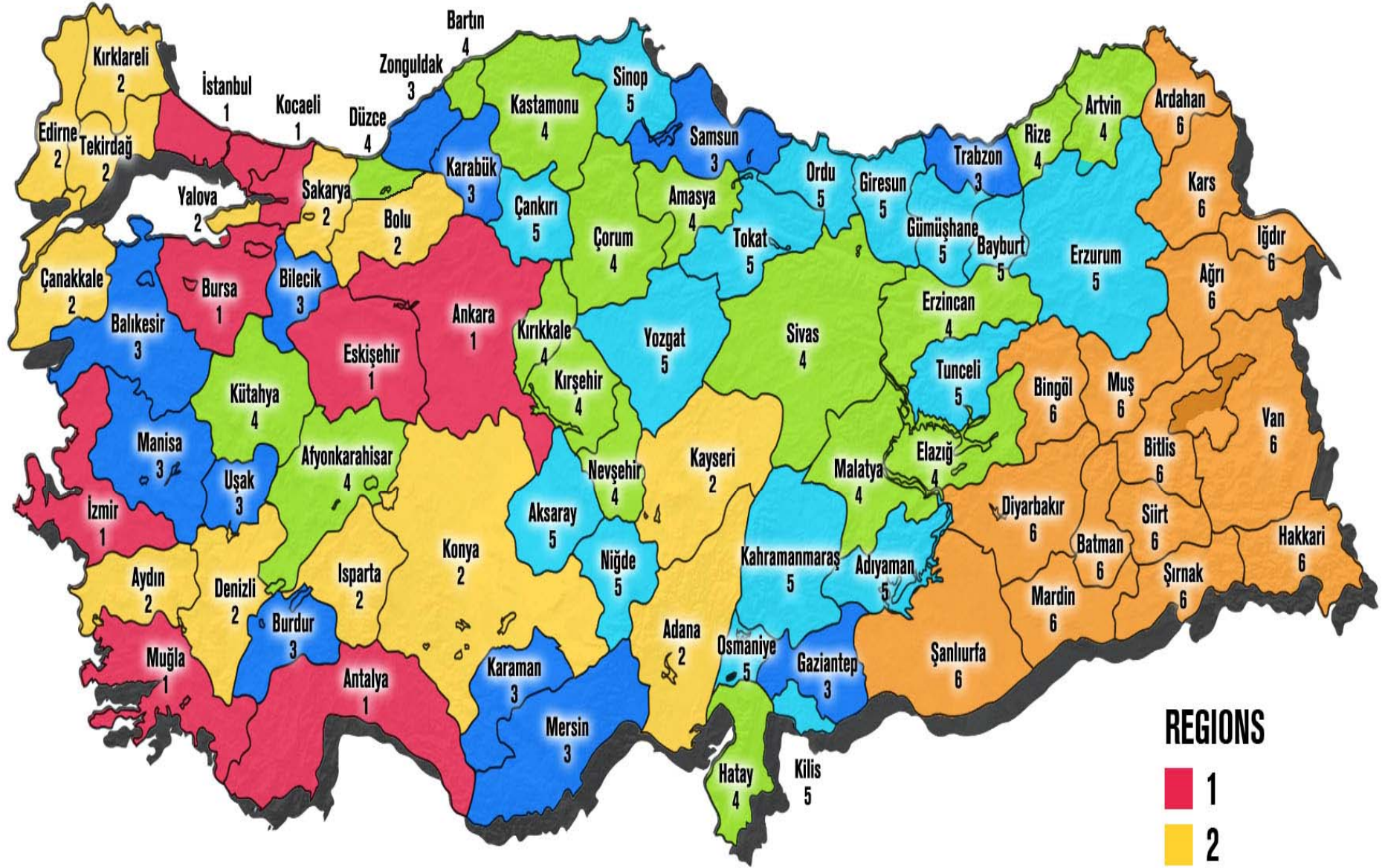
The Investment Incentive System in Turkey

The new investment incentive scheme is specifically designed to encourage investments with the potential to reduce dependency on imported intermediate goods that are vital for the country's strategic sectors.

Among the primary objectives of the new incentive scheme are reducing the current account deficit; boosting investment supports provided to the least developed regions; increasing the amount of support instruments; promoting clustering activities; and supporting investments that will create technology transfer.

Effective as of January 1, 2012, the new investment incentive system comprises four different schemes. Local and foreign investors have equal access to:

- 1- The General Investment Incentive Scheme**
- 2- Regional Investment Incentive Scheme**
- 3- Large-Scale Investment Incentive Scheme**
- 4- Strategic Investment Incentive Scheme**



REGIONS

- 1
- 2
- 3
- 4
- 5

Region 1	Region 2	Region 3	Region 4	Region 5	Region 6
Ankara	Adana	Balıkesir	Afyonkarahisar	Adıyaman	Ağrı
Antalya	Aydın	Bilecik	Amasya	Aksaray	Ardahan
Bursa	Bolu	Burdur	Artvin	Bayburt	Batman
	Çanakkale				
Eskişehir	(except for Bozcaada & Gökçeada)	Gaziantep	Bartın	Çankırı	Bingöl
Istanbul	Denizli	Karabük	Çorum	Erzurum	Bitlis
Izmir	Edirne	Karaman	Düzce	Giresun	Diyarbakır
Kocaeli	Isparta	Manisa	Elazığ	Gümüşhane	Hakkari
Muğla	Kayseri	Mersin	Erzincan	Kahramanmaraş	Iğdır
	Kırklareli	Samsun	Hatay	Kilis	Kars
	Konya	Trabzon	Kastamonu	Niğde	Mardin
	Sakarya	Uşak	Kırıkkale	Ordu	Muş
	Tekirdağ	Zonguldak	Kırşehir	Osmaniye	Siirt
	Yalova		Kütahya	Sinop	Şanlıurfa
			Malatya	Tokat	Şırnak
			Nevşehir	Tunceli	Van
			Rize	Yozgat	Bozcaada & Gökçeada
			Sivas		

1- General Investment Incentive Scheme

Regardless of the region where an investment takes place, all of the projects meeting both the specific capacity conditions and the minimum fixed investment amount are supported within the frame of the General Investment Incentive Scheme. Investment subjects that are excluded from the investment incentive program cannot benefit from this scheme.

The minimum fixed investment amount is TRY 1 million in Regions 1 and 2, and TRY 500,000 in Regions 3, 4, 5 and 6.

The major incentive instruments are:

1) Exemption from customs duties:

Customs tax exemption for imported machinery and equipment for projects with an incentive certificate.

2) VAT exemption:

VAT exemption for locally purchased or imported machinery and equipment for projects with an incentive certificate.

2- Regional Investment Incentive Scheme

The sectors to be supported in each region are determined in accordance with the regional potentials and the scale of the local economy, while the intensity of the supports varies depending on the development level of the regions.

The minimum fixed investment amount is defined separately for each sector and region, the lowest amount being TRY 1 million in Region 1 and 2, and TRY 500,000 in the remaining regions.

The terms and rates of supports provided within the Regional Investment Incentive Scheme are shown in the table below.

Regional Investment Incentive Scheme Instruments								
Incentive Instruments			Region					
			I	II	III	IV	V	VI
VAT Exemption			YES	YES	YES	YES	YES	YES
Customs Duty Exemption			YES	YES	YES	YES	YES	YES
Tax Reduction	Rate of Contribution to Investment (%)	Out of OIZ*	15	20	25	30	40	50
		Within OIZ*	20	25	30	40	50	55
Social Security Premium	Support Period	Out of OIZ*	2 years	3 years	5 years	6 years	7 years	10 years

Support (Employer's Share)		Within OIZ*	3 years	5 years	6 years	7 years	10 years	12 years
		Land Allocation	YES	YES	YES	YES	YES	YES
Interest Payment Support	Local Loans	N/A	N/A	3 points	4 points	5 points	7 points	
	Foreign Exchange/ FX Denominated Loans			1 point	1 point	2 points	2 points	
	Social Security Premium (Employee's Share)			N/A	N/A	N/A	N/A	N/A
Income Tax Withholding Support	N/A	N/A	N/A	N/A	N/A	N/A	10 years	

*OIZ: Organized Industrial Zones

Investment subjects with specific priority to be supported through Region 5 instruments regardless of the investment's region are:

- Tourism investments in the Culture and Tourism Conservation and Development Regions
- Mining investments
- Railroad and maritime transportation investments
- Specific pharmaceutical, defense and aerospace industry investments with minimum fixed investment amount of TRY 20 million
- Test facilities, wind tunnel and similar investments made for the automotive, aerospace or defense industries

- Primary, secondary and high school investments made by private sector
- International trade fair investments having at least 50,000 square meters of indoor area
- Investments made in order to produce products developed by an R&D project supported by the Ministry of Science, Industry and Technology.

3- Large-Scale Investment Incentive Scheme

12 investment subjects are supported by the instruments of the Large-Scale Investment Incentive Scheme.

Large-Scale Investments		
	Investment Subject	Minimum Investment Amount (million TRY)
1	Production of refined petroleum products	1,000
2	Production of chemical products	200
3	Harbors and harbor services	200
4	a) Automotive OEM investments	200
	b) Automotive supply industries investments	50
5	Railway and tram locomotives and/or railway and tram cars	50
6	Transit pipeline transportation services	
7	Electronics	
8	Medical, high-precision and optical equipment	
9	Pharmaceuticals	
10	Aircraft and spacecraft and/or parts	
11	Machinery (including electrical machinery and equipment)	
12	Mining investments (including metal production)	

The terms and rates of supports provided within the Large-Scale Investment Scheme are shown in the table below.

Large-Scale Investment Incentive Scheme Instruments								
Incentive Instruments		Region						
		I	II	III	IV	V	VI	
VAT Exemption		YES	YES	YES	YES	YES	YES	
Customs Duty Exemption		YES	YES	YES	YES	YES	YES	
Tax Reduction	Rate of Contribution to Investment (%)	Out of OIZ*	25	30	35	40	50	60
		Within OIZ*	30	35	40	50	60	65
Social Security Premium Support (Employer's Share)	Support Period	Out of OIZ*	2	3	5	6	7	10
		Within OIZ*	3	5	6	7	10	12
Land Allocation		YES	YES	YES	YES	YES	YES	
Social Security Premium (Employee's Share)		N/A	N/A	N/A	N/A	N/A	10 years	
Income Tax Withholding Support		N/A	N/A	N/A	N/A	N/A	10 years	

*OIZ: Organized Industrial Zones

The following categories of investments within the Regional and Large-Scale Investment Incentive Schemes can benefit from supports (such as tax reduction and social security premium support) granted to a region rated with one higher grade.

- Investments in Organized Industrial Zones (OIZ)
- Joint investments to be made by at least five companies operating in the same sector with the purpose of a greater integration.

Ex: a Region 3-level investment in an OIZ can take advantage of a Region 4-level tax reduction. Similarly, a Region 6-level investment may benefit from an additional 5% contribution to investment.

4- Strategic Investment Incentive Scheme

Investments meeting the criteria below are supported within the frame of the Strategic Investment Incentive Scheme:

- to be made for the production of intermediate and finished goods with high import dependence
- to have a minimum investment amount of TRY 50 million
- to be supplied at least 50% percent by imports
- to create minimum added-value of 40%
- to have an import value of at least USD 50 million during the past one year, for goods to be produced (this condition is not applicable to goods with no domestic production).

Strategic Investment Incentive Scheme Instruments						
Incentive Instruments		Region				
		I	II	III	IV	V
VAT Exemption		YES				
Customs Duty Exemption		YES				
Tax Reduction	Rate of Contribution to Investment (%)	50				
Social Security Premium Support	Support Period	7 years				
(Employer's Share)		(10 years for Region 6)				
Land Allocation		YES				
Interest Payment Support	Local Loans	5 points				
	Foreign Exchange / FX Denominated Loans	2 points				
Social Security Premium (Employee's Share)		10 years (only for investments in Region 6)				
Income Tax Withholding Support		10 years (only for investments in Region 6)				
VAT Refund		YES				

The support instruments to be provided within the frame of various schemes are shown in the table below:

Support Instruments	General Investment Incentive Scheme	Regional Investment Incentive Scheme	Large-Scale Investment Incentive Scheme	Strategic Investment Incentive Scheme
VAT Exemption	+	+	+	+
Customs Duty Exemption	+	+	+	+
Tax Reduction		+	+	+
Social Security Premium Support (Employer's Share)		+	+	+
Income Tax Withholding Support *		+	+	+
Social Security Premium Support (Employee's Share) *		+	+	+
Interest Payment Support **		+		+
Land Allocation		+	+	+
VAT Refund				+

*Provided that the investment is made in Region 6

**Provided that the investment is made in Region 3, 4, 5 or 6 within the frame of the Regional Investment Incentive Scheme

Support Instruments

VAT Exemption:

VAT is not paid for imported and/or domestically delivered machinery and equipment within the scope of the investment incentive certificate.

Customs Duty Exemption:

Customs duty is not paid for imported machinery and equipment within the scope of the investment incentive certificate.

Tax Reduction:

The income or corporate tax is calculated based on reduced rates until the total amount of reduced tax reaches the amount of contribution to the investment.

Social Security Premium Support (Employer's Share):

For the additional employment created by the investment, employee's share of social security premium calculated based on the amount of legal minimum wage will be covered by the government. The instrument is applicable only to the investments made in Region 6 within the scope of the investment incentive certificate.

Social Security Premium Support (Employee's Share):

For the additional employment created by the investment, employer's share of social security premium calculated based on the amount of legal minimum wage will be covered by the government.

Income Tax Withholding Allowance:

The income tax regarding the additional employment created by the investment within the scope of the investment incentive certificate will not be liable to withholding. The instrument is applicable only to the investments made in Region 6 within the scope of the investment incentive certificate.

Interest Payment Support:

Interest payment support is a financial support instrument provided for the loans with a term of at least one year obtained within the frame of the investment incentive certificate. The instrument stipulates that a certain portion of the interest/profit share regarding the loan equivalent of at most 70 percent of the fixed investment amount registered in the certificate will be covered by the government.

Land Allocation:

Allocation of land for the investments with investment incentive certificates in accordance with the rules and principles determined by the Ministry of Finance.

VAT Refund:

VAT collected on the construction expenses made within the frame of strategic investments with a fixed investment amount of TRY 500 million will be rebated.