Turkey
Opportunities and barriers to inbound construction

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OVERALL G20 ATTRACTIVENESS RANK FOR INBOUND CONSTRUCTION ACTIVITY: 12

G20 rankings & data

G20 heatmap rankings

<table>
<thead>
<tr>
<th>Construction industry health</th>
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<tbody>
<tr>
<td>Construction industry value</td>
<td>16</td>
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<tr>
<td>Construction industry, real growth</td>
<td>9</td>
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<tr>
<td>Announced spend on construction in next 3 years</td>
<td>11</td>
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<table>
<thead>
<tr>
<th>Country financial health</th>
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<tbody>
<tr>
<td>Budget balance</td>
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<tr>
<td>Overall announced fiscal stimulus</td>
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<tr>
<td>GDP/Head</td>
<td>17</td>
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<td>Credit ratings rank</td>
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<table>
<thead>
<tr>
<th>Ease of doing business</th>
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<tbody>
<tr>
<td>Doing business overall rank</td>
<td>7</td>
</tr>
<tr>
<td>Dealing with construction permits rank</td>
<td>9</td>
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<tr>
<td>Business transparency rank</td>
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<table>
<thead>
<tr>
<th>Tax regime</th>
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<tbody>
<tr>
<td>BDO overall tax rank</td>
<td>1=</td>
</tr>
<tr>
<td>World bank – paying taxes rank</td>
<td>9</td>
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Financial metrics

- Total fiscal stimulus announced £7.2bn
- Announced spend on construction in the next 3 years including fiscal stimulus to construction £21.3bn
- Construction industry value – 2009 £21bn
- Main corporate tax rate 20%

Construction sector metrics

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tbody>
<tr>
<td>Construction industry value, £bn</td>
<td>17</td>
<td>19</td>
<td>21</td>
<td>22</td>
<td>24</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>Construction industry, real growth, per cent y-o-y</td>
<td>5.3</td>
<td>3.7</td>
<td>-0.5</td>
<td>1.9</td>
<td>4.2</td>
<td>5.6</td>
<td>5.8</td>
</tr>
<tr>
<td>Construction industry, per cent of GDP</td>
<td>4.8</td>
<td>4.7</td>
<td>4.5</td>
<td>4.8</td>
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BDO review of tax

- No country in the G20 has lower headline corporate tax rates
- Thin capitalisation rules apply a typical maximum debt: equity ratio
- Tax depreciation is available at relatively fast rates
- A number of tax measures are available including beneficial VAT regime in certain cases

Overall scoring 8/10

1= out of the G20

BDO ease of doing business

There are some significant barriers for inbound construction activity, however it is possible to get round these.

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<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Very easy</td>
<td>Quite easy</td>
<td>Average</td>
<td>Quite difficult</td>
<td>Very difficult</td>
</tr>
</tbody>
</table>

Top construction firms

- Enka
- Tekfen
- Gama
- Gürş
- Baytur
- Nurol

1 Extremely dominant
2 Dominant
3 Quite dominant
4 Not very dominant
5 Not at all dominant

This dominance does not create a significant barrier to entry. However, a strategic partnership with one of these top construction firms would be helpful for a foreign company entering the market.
Opportunities and barriers

Ranked 12th overall in our G20 heatmap, Turkey is rebuilding its infrastructure, and there are many opportunities for inbound companies. However, there are significant barriers to entry, and the effects of the economic crisis may be more severe than originally expected.

In 2007, the Turkish construction industry was recovering after financial and natural disasters (earthquakes of 1999 and 2002 and the economic crises of November 2000 and February 2001). The Turkish government was taking steps to improve infrastructure for the tourism sector, as the country continued to experience double digit growth in tourist arrivals. Factors including low building standards in the construction industry, as well as a high level of corruption and widespread tax evasion were having a negative impact on the industry. Many planned infrastructure projects had to be put on hold, as funds were diverted towards the reconstruction of earthquake-hit areas.

In December 2007, a new law passed that broadened the build-operate-transfer (BOT) model to include a wider range of projects, thereby aiming to increase the pool of foreign companies eligible to enter construction projects.

Turkey’s fiscal stimulus measures, aimed to stimulate a sharply slowing economy and create more jobs, will cost TRY 17bn (£7.2bn) in 2009 according to Deputy Prime Minister Nazim Boren. The steps include financial support for companies to curb lay-offs and expand infrastructure spending.

Large infrastructure projects involving the investment of billions of dollars have been planned or are underway. The latest government announcement pertains to a TRY26.8bn (£21.3bn) comprehensive investment strategy for the south-eastern provinces to enhance the infrastructure and agricultural sector in the region, which is significantly poorer than the western provinces. In addition, the prospective accession of the country into the European Union has seen FDI flows increase substantially.

The Turkish economy has come a long way in the decade through to 2009 and the overall positive trend is expected to continue (despite the short term impact of the downturn) over the next 10 years. In general terms, the probable scenario is for Turkey to follow a similar convergence pattern to European Union economic and political standards already established by the central Europe and Baltic economies. The entrance to the EU could be a major driver for the construction and infrastructure industry.

Reasons Turkey is attractive for inbound construction activity

Turkey has several major infrastructure projects planned or underway, eg the 10-year plan to build a major network of canals on the Sakarya River and the investments of TRY300m (£132m) planned for 2009 for the airport sector, including investments in five existing airports and the construction of three new airports in Istanbul, Kutahya-Afyon-Uşak and Cukurova.

Barriers/challenges to construction activity

- Difficult tendering and project management requirements when dealing with government projects.
- Strong local construction industry with dominant control of the market.
- Scarcity of state funds to finance sizeable projects.

BDO viewpoint and advice

Pitfalls to avoid when doing business in Turkey

- Forming strategic relationships with inappropriate business partners and service providers.
- Trying to bid for projects without having good knowledge of legal, tax systems, culture of doing business, the strength of local competition.

Practical advice for inbound construction activity

- Do your homework on the country before bidding on a project.
- Part of this homework should be to find which potential business partners or service providers are good or reputable.
- Seek alternative sources of funding to State funds, eg loans from foreign financial institutions or a ‘build-operate-transfer’ model could be used.

Useful tax and other incentives for inbound construction activity

Main depreciation rates:

- Buildings and plants – Tax depreciation is available on a straight line basis at rates between two per cent and 10 per cent. Alternatively, the declining balance method can be adopted using twice these specified rates.
- Machinery and equipment – Straight line tax depreciation can be claimed at prescribed rates between seven per cent and 50 per cent. Alternatively, the declining balance method may be adopted using double these rates (up to a maximum of 50 per cent).

Other incentives:

- Capital gains derived by individuals from the sale of real estate are not taxable where held for at least four years. However, this exemption is not applicable if the individual is trading in real estate for Turkish tax purposes.
- Only 25 per cent of the capital gains derived by companies from the sale of real estate is taxable provided that the real estate is held for a minimum period of two years prior to sale and that the capital gains are not distributed for five years subsequent to the sale. A VAT exemption is also applied on such sales.

This exemption is not available for companies trading in real estate for Turkish tax purposes.


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