

**GENERAL COMMUNIQUÉ ON LAW NO. 5746 ON THE SUPPORT OF RESEARCH AND
DEVELOPMENT ACTIVITIES (SERIES NO: 1)**

1 Published in the Official Gazette dated 12/3/2008 and No. 26814.

1. Introduction The explanations regarding the income tax withholding incentive set forth in Law No. 5746 on the Support of Research and Development Activities dated 28/2/2008(1), concerning the wages earned by R&D and support personnel working in technology center enterprises, in R&D centers, in R&D and innovation projects supported by public institutions and organizations and foundations established by law or by international funds, or carried out by TÜBİTAK, in enterprises benefiting from technogirişim (technology-based start-up) capital supports, and in pre-competition cooperation projects, constitute the subject matter of this Communiqué.

2. Legal Regulation The second paragraph of Article 3 and Article 4 of Law No. 5746 on the Support of Research and Development Activities dated 28/2/2008, which entered into force effective as of 1/4/2008, are as follows: "(2) Income tax withholding incentive: Excluding public personnel, ninety percent of the wages earned by R&D and support personnel working in technology center enterprises, in R&D centers, in R&D and innovation projects supported by public institutions and organizations and foundations established by law or by international funds, or carried out by TÜBİTAK, in enterprises benefiting from technogirişim capital supports, and in pre-competition cooperation projects, in return for such work, in the case of doctoral degree holders, and eighty percent, in the case of others, are exempt from income tax." "ARTICLE 4 – (1) The determinations that those benefiting from the support and incentive elements under this Law fulfill the conditions stipulated in this Law shall be made at the latest for periods of two years. (2) The full-time equivalent number of support personnel who will benefit from the incentives regarding income tax withholding and the employer's share of insurance premiums specified in Article 3 of this Law may not exceed ten percent of the total number of full-time R&D personnel. (3) In the calculation of the minimum number of R&D personnel, the average of personnel actually working on a full-time basis for three-month periods shall be taken as the basis. (4) In the event of a breach of the conditions stipulated in this Law or of the use of the incentive and support elements for purposes other than their intended purpose, tax loss shall be deemed to have occurred with respect to taxes not assessed in due time. Non-tax supports provided, on the other hand, shall be collected in accordance with the provisions of Law No. 6183 on the Procedure for the Collection of Public Receivables dated 21/7/1953, with the application of late payment interest. (5) Those benefiting from the reductions, exemptions, supports and incentives under this Law may not additionally benefit from subparagraph (9) of the first paragraph of Article 89 of Law No. 193, subparagraph (a) of the first paragraph of Article 10 of Law No. 5520, and the provisions of similar nature of the Law on the Amendment of Certain Laws regarding the Encouragement of Investments and Employment No. 5084 dated 29/1/2004. (6) The procedures and principles regarding the implementation and supervision of this Law shall be determined by a regulation to be jointly issued by the Ministry of Finance and the Ministry of Industry and Trade, with the opinion of TÜBİTAK being obtained." The procedures and principles for the implementation and supervision of the supports and incentives have been determined by the Regulation on the Implementation and Supervision of the Support of Research and Development Activities, published in the Official Gazette No. 26953 dated 31/7/2008. (Amended: OG-24/3/2009-27179) (1) With respect to the second paragraph of Article 3 of Law No. 5746 on the Support of Research and Development Activities, Provisional Article 75, added to the Income Tax Law No. 193 by Article 8 of Law No. 5838, provides that; "Until 31/12/2013, ninety percent of the income tax calculated, after the application of the minimum living allowance, on the wages earned in return for such work by the R&D and support personnel specified in the second paragraph of Article 3 of Law No. 5746 on the Support of Research and Development Activities dated 28/2/2008, in the case of doctoral degree holders, and eighty percent, in the case of others, shall be offset by way of deduction from

the tax assessed through the withholding tax return to be filed. During this period, the provision of the said Article that is contrary to this Article shall not be applied." 3. Implementation of the Income Tax Withholding Incentive 3.1. Implementation Principles In accordance with Law No. 5746, in order to obtain an R&D Center certificate, it is mandatory to employ at least 50 (fifty) full-time equivalent R&D personnel in R&D centers. Therefore, in order to benefit from the income tax withholding incentive, at least 50 full-time equivalent R&D personnel must be employed in R&D centers. Outside of R&D centers, there is no personnel limitation for benefiting from the income tax withholding incentive in R&D and innovation projects in technology center enterprises, in enterprises benefiting from technogirişim capital supports, and in pre-competition cooperation projects. In the calculation of the income tax withholding incentive, the ratio of the time that the personnel within the scope actually devote to R&D and innovation activities to the total working time shall be taken as the basis. In the event that the entire work of the personnel operating under the Law during a month relates to R&D and innovation activities, the earned weekly rest periods and annual paid leave periods shall also be considered within this scope in the calculation of the 50 (fifty) full-time equivalent and shall be taken into account in the application of the income tax withholding incentive. However, working hours exceeding 8 hours per day and 45 hours per week, as well as overtime periods, shall not be taken into account in the calculation of the 50 (fifty) full-time equivalent. In the case of part-time work, the wage amounts found by taking into account the ratio of the time that the personnel devote to R&D and innovation activities to the total working time shall be considered as R&D and innovation expenditures. The weekly rest periods and annual paid leave periods of part-time working personnel shall not be taken into account. (Amended: OG-24/3/2009-27179) (1) The minimum living allowance shall first be applied, in accordance with the procedures and principles set forth in Income Tax General Communiqué Serial No. 265, to the amount of tax calculated on the wage corresponding to the period during which the R&D and support personnel work, including overtime, within the scope of R&D and innovation activities, and after the deduction of the minimum living allowance, ninety percent of the remaining income tax amount, in the case of doctoral degree holders, and eighty percent, in the case of others, shall be subject to offset by way of deduction from the tax assessed on the basis of each worker. (Amended: OG-24/3/2009-27179) (1) The full-time equivalent number of support personnel employed by the employer who will benefit from the incentives regarding income tax withholding may not exceed ten percent of the total number of full-time R&D personnel. Fractions arising in the calculations shall be rounded up to the whole number. In the event that the full-time equivalent number of support personnel exceeds ten percent of the total number of full-time R&D personnel, it shall be determined which personnel will benefit from the incentive, starting with the support personnel with the lowest gross wage. If the wages of those within the scope of beneficiaries are equal, the determination shall be made by the employers.

Example 1: (Amended: OG-24/3/2009-27179) (1) 70 full-time equivalent R&D personnel and 6 full-time equivalent support personnel work in the R&D center of Joint Stock Company (X), and 9 of the R&D personnel hold doctoral degrees. A gross wage of 2,000 TRY is paid to Mr. (A), an unmarried personnel member holding a doctoral degree, for his work within the scope of R&D activities. The exemption application regarding Mr. (A), an unmarried personnel member holding a doctoral degree and employed within the scope of R&D, with respect to the wage payments to be made by (X) JSC in this context, shall be as follows.

a - Gross Wage Amount 2,000.00 TL b - Taxable Wage Base [a – (a x 15%=)]* 1,700.00 TL c - Income Tax Calculated on Wages (b x 15%=) 255.00 TL d - Minimum Living Allowance Amount to Be Offset 49.95 TL e - Amount Remaining After Offset of the Minimum Living Allowance (c – d=) 205.05 TL f - Amount to Be Cancelled (e x 90%=) 184.55 TL g - Amount to Be Paid to the Tax Office (e - f=) 20.50 TL

TL
L

*(SSK Premium Employee Share 14% + Unemployment Insurance Premium Employee Share 1% = 15%)

Thus, for Mr. (A), who works at the R&D center, of the income tax amount withheld from his wage income, after the deduction of the minimum living allowance, the remaining tax amount of 90%, i.e. 184.55 TRY, will be subject to exemption (cancellation), and the remaining income tax amount of 20.50 TRY after the exemption will be paid to the tax office.

Example 2: (Amended: Official Gazette — 24/3/2009-27179) (1) A support decision has been made for one (M) of two R&D projects that have been ongoing for one year, to be supported by a public institution, and the support decision letter has been issued as of 1/3/2009. The exemption application regarding the gross wage of 3,000 TRY received by Ms. (B), a single researcher working on this project, will be calculated as follows.

a - Gross Wage Amount 3,000.00 TRY b - Wage Tax Base Subject to Tax $[a - (a \times 15\% =)]$ 2,550.00 TRY c - Income Tax Amount Calculated on Wages $(b \times 15\% =)$ 382.50 TRY d - Minimum Living Allowance Amount to Be Deducted 49.95 TRY e - Amount Remaining After Deduction of the Minimum Living Allowance $(c - d =)$ 332.55 TRY f - Amount to Be Exempted $(e \times 80\% =)$ 266.04 TRY g - Amount to Be Paid to the Tax Office $(e - f =)$ 66.51 TRY

Thus, for Ms. (B), who works on the R&D project supported by the public institution, as of 1/3/2009, of the tax amount remaining after the deduction of the minimum living allowance from her wage income, 80%, i.e. 266.04 TRY, will be subject to exemption, and the income tax amount remaining outside the exemption, i.e. 66.51 TRY, will be paid to the tax office. The calculation regarding the exemption amount will be made separately for each doctoral and other personnel working within the scope of R&D and will be shown in Annex 1 "Notification Regarding the Income Tax Withholding Incentive within the Scope of R&D" table, and these notifications will be submitted to the relevant tax office together with the withholding tax return. Taxpayers will indicate the total of the "Amount to Be Exempted" shown in the last column of Annex 1 "Notification Regarding the Income Tax Withholding Incentive within the Scope of R&D", in line (18/c) (18/c — Amount of Withholding on Wage Payments Exempted pursuant to Law No. 5746) of Table-1 "Base and Tax Notification" section of the withholding tax return they will file. This amount will be deducted from the total income tax withholding shown in line (17/b), and the income tax amount remaining after the exemption will be shown in line (19). 3.2. Commencement of the Application The income tax withholding incentive application entered into force as of 1/4/2008. The incentive application will be benefited from within the framework of the procedures and principles set forth in the "Regulation on the Implementation and Supervision of the Support of Research and Development Activities" promulgated under this Law. For this reason, within the framework of the provisions of the said regulation; - in R&D centers, as of the date the R&D center certificate is issued, - in pre-competition cooperation projects, as of the date the project contract enters into force, - in technology center enterprises, as of the date the R&D and innovation project is approved, - in technovation capital supports, as of the date the business plan is approved by the public administration, - in R&D and innovation projects supported by public institutions and organizations and foundations established by law, or by international funds, or carried out by TÜBİTAK, as of the date the support decision letter is issued or the project contract enters into force, the income tax withholding incentive may be benefited from. On the other hand, for R&D and innovation projects commenced before the date of entry into force of Law No. 5746; - if the support decision letter or project contract regarding R&D and innovation projects supported by public institutions and organizations and foundations established by law, or by international funds, or carried out by TÜBİTAK entered into force before 1/4/2008, then as of 1/4/2008, - in R&D and innovation projects carried out in R&D centers, as of the date the R&D center certificate is issued, the provisions of the income tax withholding incentive will be benefited from. 4. Payments Outside the Scope of the Incentive Application and Cases Terminating the Incentive 4.1. Payments Outside the Scope of the Incentive Application It is stated in Law No. 5746 that the income tax withholding incentive will be benefited from by R&D and support personnel working in technology center

enterprises, in R&D centers, in R&D and innovation projects supported by public institutions and organizations and foundations established by law, or by international funds, or carried out by TÜBİTAK, in enterprises benefiting from technovation capital supports, and in pre-competition cooperation projects, excluding public personnel; the income tax withholding incentive application may not be benefited from on account of the payments specified below. - Wage payments pertaining to work outside the scope of R&D and innovation activities, - Wage payments made to public personnel taking part in R&D and innovation projects and/or working in enterprises, - Wage payments pertaining to periods such as earned weekly rest leave, annual paid leave, and excused leave of personnel working part-time within the month within the scope of R&D and innovation activities. 4.2. Cases in Which the Incentive Application Terminates The income tax withholding incentive shall not be applied in the following cases: - Under Law No. 5746, the qualification of being an R&D center is conditional upon the employment of at least 50 (fifty) full-time equivalent personnel in three-month periods including the provisional taxation period. As of the provisional taxation period in which the condition of employing the number of personnel specified in the Law is violated, - in R&D and innovation projects, in cases where the project terminates for any reason or the support granted to the project ends, the R&D and innovation activity will be deemed to have been completed, and thus as of that date, - in cases where the projects carried out in KOSGEB technology center enterprises terminate for any reason or the support granted to the projects ends, the R&D and innovation activity will also end, and thus as of that date, - in cases where the enterprises taking part in a pre-competition cooperation project, if the project terminates for any reason, as of that date, and if the project contract is cancelled, as of the date the audit commences, the income tax withholding incentive may not be benefited from. 5. Other Matters In the case of the transfer of an uncompleted R&D and innovation project, the enterprise taking over the R&D and innovation project benefits from the income tax withholding incentive within the framework of the principles set forth in Section 3 of this Communiqué. For personnel benefiting from the income tax withholding incentive under Law No. 5746, employers may not additionally benefit, within the same taxation period, from the provisions of Law No. 5084. However, for personnel other than R&D and support personnel, and for support personnel exceeding 10% of the number of full-time R&D personnel, provided that the required conditions are met, the support and incentive elements provided for in Law No. 5084 may be benefited from.

In the event that those who, between the date of entry into force of Law No. 5746 and the date of publication of this Communiqué, have fulfilled the conditions specified in the Law and the provisions of the regulations published in relation thereto but have not benefited from the income tax withholding incentive as of the date of publication of this Communiqué submit a request, the necessary correction procedures shall be carried out in accordance with the correction provisions of the Tax Procedure Law No. 213. In the event that it is determined that those who have benefited from the income tax withholding incentive within the scope of the Law have unjustly benefited despite not fulfilling the conditions for benefiting from the incentive, the incentive amounts unjustly benefited from shall be collected by applying the necessary sanctions within the framework of the provisions of the Tax Procedure Law No. 213 and the Law No. 6183 on the Procedure for the Collection of Public Receivables. (Amended: OG-24/3/2009-27179) (1) The provisions set forth in Provisional Article 75 added to the Income Tax Law No. 193 with regard to the second paragraph of Article 3 of Law No. 5746 on Supporting Research and Development Activities by virtue of Law No. 5838 on the Amendment of Certain Laws shall be applied from 1/3/2009 to 31/12/2013. To be notified.

ANNEX: 1 Information Regarding the Salaried Employees ANNEX: 2 Notification Regarding the Exemption of Wage Payments within the Scope of R&D and Innovation Activities

(1) : These amendments made by the General Communiqué on Law No. 5746 on Supporting Research and Development Activities (SERIES NO: 2), published in the Official Gazette dated 24/3/2009 and No. 27179, shall be valid between the dates of 1/3/2009 and 31/12/2013.

PROVISIONS THAT COULD NOT BE PROCESSED 1) Annex 1 of the General Communiqué on Law No. 5746 on Supporting Research and Development Activities (SERIES NO: 2), published in the Official Gazette dated 24/3/2009 and No. 27179: Annex:1 NOTIFICATION REGARDING THE INCOME TAX WITHHOLDING INCENTIVE WITHIN THE SCOPE OF R&D

Information Regarding the Taxpayer Tax Identification Number* Period to Which the Notification Relates Tax Office Tax Office to Which the Notification Is Submitted Surname (Title)

Name Date Signature .../.../200...

Information Regarding the Workplaces within the Scope of the Notification Province Where Located District Relevant Tax Office Total Number of Workers Employed Social Security Institution Workplace Registration Number Address of the Workplace

Information Regarding the Amount to Be Cancelled

Row No. Employee's Turkish ID Number

(a) Date of Commencement of Employment

(b) Gross Wage Amount Related to Employment Total

(c) Minimum Living Allowance That May Be Offset Against Employment within the Scope of R&D and Innovation Activities (**) (f) Tax Amount After the Offset of the Minimum Living Allowance (g) = (e) - (f) Cancellation Rate

(h) Amount to Be Cancelled (***) (ı) =(g) x (h) Wage Assessment Base (d) Calculated Tax Amount (e) Doctorate Holders 1 % 90

2 3 4 5 Others 1

%80

3 4

TOTAL * For real persons, the Turkish ID Number shall be used. ** In this row, the minimum living allowance amounts calculated for each worker within the scope of the incentive, as shown on the Minimum Living Allowance Payroll prepared in accordance with Income Tax General Communiqué No. 265, shall be indicated. *** The amounts found as a result of multiplying the amount remaining after the offset of the minimum living allowance by the cancellation rate shall be entered in this row. The total of these rows shall be transferred to the section "18/c - Amount of Withholding on Wage Payments Cancelled Pursuant to Law No. 5746" of the Withholding Tax Return.