A vision of Italy for the Turkish Investor

October 2009

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Italy Market Overview

Key figures:

GDP and inflations:

Year	Gross GDP [a] (US Dollars, billions)	GDP growth rate [b] (real)	GDP per capita [c] (US dollars/units)	Inflation rate [d] (average)
2006	1.865,112	2,0	31.917,578	2,217%
2007	2.117,516	1,6	35.963,257	2,038%
2008	2.313,893	(1,0)	38.996,165	3,500%

Source: International Monetary Fund – World Economic Outlook Database April 2009 Edition
(a) Gross domestic product - current prices
(b) Annual percentages of constant price GDP are year-on-year changes; the base year is country-specific.
(c) Gross domestic product per capita - current prices
(d) Inflation, average consumer prices - annual percent change

Foreign trade and balance of payment (Euro - Millions):

	2006	2007	2008 [a]	CAGR % (06-08)
Import	352.465	373.340	377.284	+3,46%
Export	332.013	364.744	365.806	+4.97%
Balance	(20.452)	(8.596)	(11.478)	

Source: Istat, Italia in cifre 2009, Statistiche del commercio con l'estero
(a) 2008 data is provisional

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General business and investment climate

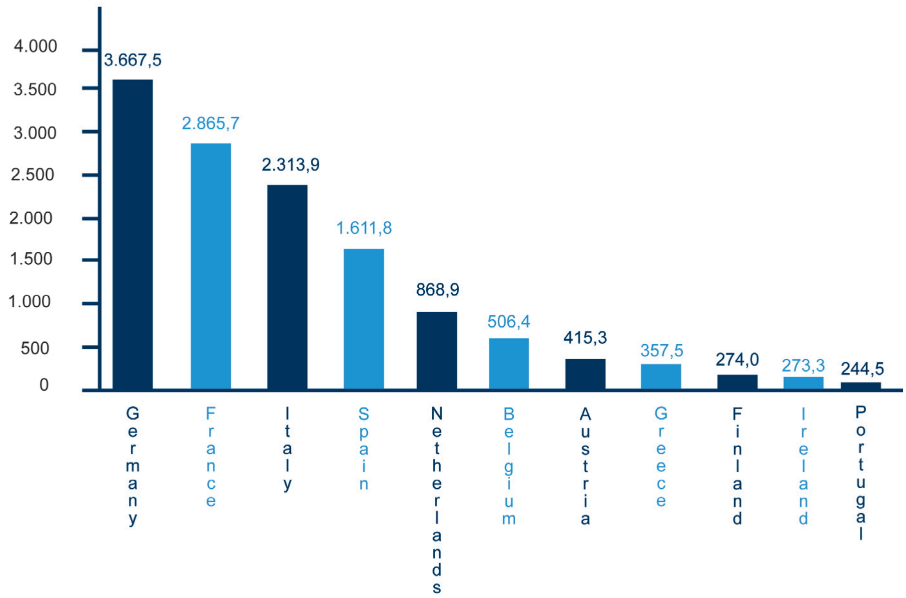
Government attitude towards foreign investments

Italy is ranked 6th among OECD countries and 3rd among Euro Area countries for Gross Domestic Product with a value of more than 2.313,9 million US dollars in 2008.
With a potential market of almost 60 million consumers, for innovative services (more than 25 million internet users) and products, the Italian market offers countless opportunities to businesses in expansion.

The ICE study highlighted that labour taxes, lack of labour flexibility, red tape and high corporate taxes are the key obstacles for foreign companies to invest in Italy.
'A new law should decrease the complexity ef the National Economic System.

Italian FDI inflow is growing fast: in 2003 the Italian FDI was $16,4 millions but in 2007 was $40,2 millions, with a period CAGR of 17%. By virtue of its strategic location in the heart of the Mediterranean Sea, Italy is the main thoroughfare linking southern Europe to northern and central Europe by land, sea and air. It provides a gateway affording easy access to 436 million consumers across the

2008 GDP Current Prices



In January 2007, the Italian Trade Commission (ICE) reported that 7,200 foreign companies operate in Italy, employing almost one million workers. Approximately 77 percent of these foreign companies are located in the north, with the Lombardy region alone representing 46 percent. According to the ICE, the stock of foreign investments in Italy equals to 12% of GDP, which is far less than in many other EU nations.

European Union, and a further 240 million in Northern Africa and the Middle East.

With an evolved system of international ports, logistics platforms and interports, Italy ranks as the second most important country in Europe for maritime freight following the UK, and the second also for passenger transport: 263 ports scattered along 7,400 km of coastline, 80 million passengers per year, port

According to the Italian Sea Ports Association, in the last few years Italian ports role has deeply changed: they have been connected in international network and have become nodes of distribution for transoceanic traffic that increasingly reaches Europe through the Mediterranean Sea. The Mediterranean Sea has increased its function in the international trade exchange, advancing Italy as the center of intercontinental flows.

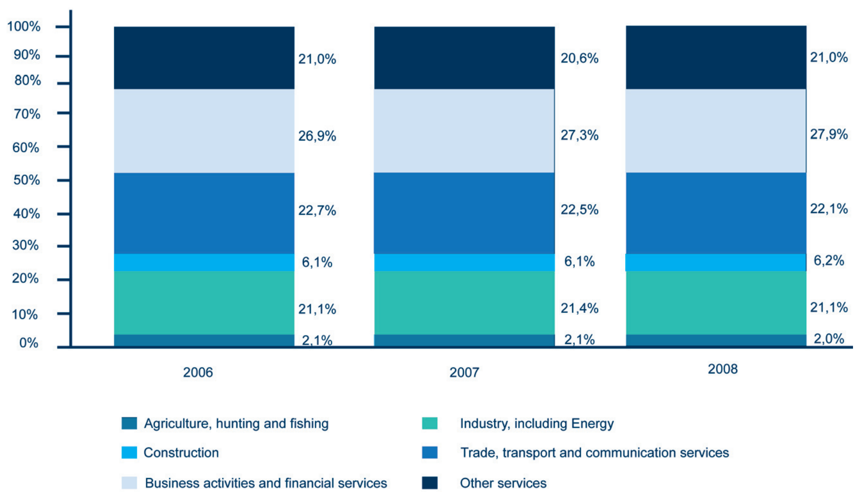
Companies deciding to invest in Italy can rely on a wide infrastructure network. Italian roads cover approximately 670,000 km, making them the second longest network in the EU (25), after France.

Ferrero, an Italian chocolate-maker, has come out top in an annual survey of the world's most reputable companies provided by the Economist and Reputation Institute.
This is a clear remark about Italian products and Italian business environment.

Italy ranks fourth as the world's top country brand in the Country Brand Index 2008, the international survey of the image of more than 40 countries in the world provided by FutureBrand. Italy ranks in top position in the following categories: Ideal for Business, Art & Culture, History, Fine Dining, Quality Products. Italy ranked as first of the European countries, just before Switzerland and France.

traffic of 550 thousand ships and 512 millions tons (2007). The central Europe market is connected to Italy mainly though the northern ports of Genoa, Trieste and Venice, while the southern ports of Gioia Tauro, Taranto, Cagliari and Naples operate as transhipment centres serving freight traffic on the world's major ocean routes.

GDP Breakdown

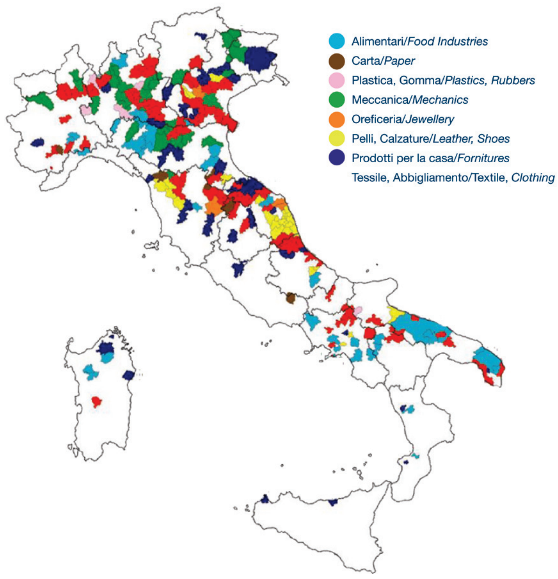


Quality Products are an Italian masterpiece: Made in Italy branded products are well recognized all around the world.

Innovation in Italy is driven by an extensive network of high-quality universities and public and private institutions and by a modern network of science and technological parks, which ensure that research is widely integrated into industrial processes.

Industrial Districts have always played an important role in national development and they represent an Italian economic success story. Their contribution to the nation's economic activity is estimated as being 20/25% of gross national product and employment. Their share of total Italian exports is over 25%.

I distretti industriali in Italia
Industrial Districts in Italy



The success of SME-based Italian districts was one of the factors that motivated economic development organisations across the world to adopt cluster promotion as an approach to stimulate growth and job creation.
Censis (an Italian research institute founded in 1964) has identified 161 areas of excellence in Italy.

The survey has highlighted three major sectors: industrial manufacturing (mainly developed in the North of Italy), tourism (mainly in Liguria, Campania, Veneto and Tuscany) and life science R&D (science parks are spread in Lombardy, Friuli-Venezia Giulia and Piedmont). In particular the Italian Regions of Tuscany and Marche are increasing their economic potential.

The Italian renewable energy sector is sharply increasing, becoming a dynamic market, in particular for wind, photovoltaic and biomass energy. These markets are attractive for foreign capital and favour international economic collaboration, the exchange of technology and the development of innovative national technologies.
The Country undertook to source at least a 20% of the total energy production from renewable sources by 2020. With 350 MW cumulated PV capacity till 2008, Italy is one of the most dynamic and growing-up solar market. Moreover National and Locals incentives have been created in order to favour a strong and efficient expansion of the sources of renewable energy.

Labour attitude toward foreign investment

New flexibility for employers

Italian labour law has become a significant factor in attracting foreign investors to Italy introducing major changes to employment rules increasing flexibility in the market to help reduce unemployment.

Two major changes stand out:

- New types of contracts of employment have been created allowing companies to match anticipated growth trends to the labour needed to achieve this, therefore allowing them to significantly reduce labour costs during periods of reduced output.

In particular, it is now possible to enter into fixed-term employment agreements for routine productive increases, so the employer is actually allowed to plan recurring fixed-term hiring in order to realize a more profitable and economic business management.

- A new regime for independent contractors now permits job placements, only where necessary, for the duration of a specific project in which they perform a predefined task (so called "collaborations on project basis").

Such collaborations are a kind of self-employment working relationships and the employer and the collaborators maintain a certain degree of independence and autonomy in performing the working activities.

General taxation policies

2008 budget reformed the structure of the Italian tax system, reducing corporate income tax (IRES) rates by 5.5 nominal points from 33 to 27.5 percent, and trimming the regional business tax (IRAP) from 4.25 to 3.9 percent. These tax cuts are in response to the increased competition for investment, particularly as the enlargement of the EU to 27 members brought Italy into competition with low cost, low tax East European states.

Form of foreign investment

Companies looking to invest in Italy receive the same kind of choices and guarantees for setting up business in Italy that they would receive in other leading developed countries.

Following a thorough reform of Italian business law in early 2003, the legal framework for companies can now be considered one of the most modern and dynamic in Europe.

Overall the 2003 reform successfully introduced:

- Changes to the structure of commercial companies (Joint Stock Company, Limited Liability company) which simplify and speed up the procedures for establishing a business
- New financial instruments for companies to create special categories of shares
- New rules providing greater flexibility and choice in corporate governance
- Corporate responsibility for groups clarifying issues related to liability, transparency and publicity.

Joint venture, wholly owned company, branch, representative office, partnership

In order to start a business activity in Italy a foreign investor may incorporate a company with limited liability or a partnership. In the first case, the liability of the stakeholders is limited to the amount of the participation subscribed by each of them while a partnership does not have a limited liability status and the partners are therefore liable for all the firm's debts and obligations (with the exception of the limited partners of limited partnerships - i.e., "società in accomandita").

A branch as well as a representative office can be established. The branch and the representative office are subject to less statutory obligations when compared to a company's obligatory requirements. For tax purposes, a branch is generally deemed to be a permanent establishment, and as such a taxable entity in the territory. Other transactions, such as joint ventures agreements or the acquisition of participations of another company, can also be performed.

Regulatory Environment

Labour law requirements

Wages and salaries

Wages and salaries are regulated by the civil code and can be time rate or piece rate. It is possible to pay the employee, in addition to the standard pay, also with profit participation, commission or fringe benefit.

Wages and salaries may combine elements of the different kind above.
NCLA provides the minimum wage to correspond and the eventual part of the wage exceeding the minimum is called "superminimum".

Such additional part of the pay is connected with the duties performed - at individual or company/department level - or with the specific professionalism of the interested employees.

Hours worked
Normal working hours are fixed to 40 hours per week, with the possibility for the NCLA to derogate in favour of the employees.

The same provisions fix the maximum working hours in 48 per week, that means the possibility for the employee to work an average of 8 extraordinary hours per week, provided that such an average is to be calculated not weekly but on a 4 months period.

There is no limit on daily working hours; however the employee must have a period of rest not lower than 11 continuous hours per day.

Extraordinary work and night work have to be compensated with a superior wage, according to the provisions of the applicable NCLA.
The parties can also agree to part-time working hours.

Termination of employment
The employment relationship can terminate due to the employee's resignations or to the employer's decision to dismiss.
The employee is free to resign at any moment, while the dismissal is not free and it is to be justified with business or personal reasons.
In case of unjustified dismissal, the employer may be judicially obliged to refund the dismissed employee and in certain cases even to reinstate the employee in the previous position. In any case, the withdrawing party has to give the other party the notice period fixed by the NCLA or to pay the relevant indemnity in lieu of notice, save for dismissal/resignation due to "just cause", implying an harsh default of the employee/employer.

Tax System

Principal taxes

The Italian tax system is based on two main income taxes (i.e., Individual Income Tax (IRPEF) and Corporate Income Tax (IRES)) and other taxes and/or duties (e.g., Regional Tax on Productive Activities (IRAP), VAT, registration tax, stamp duty, municipal tax on immovable property and inheritance and gift tax).

Anti-avoidance
The Italian tax system is characterised by specific anti-avoidance rules and by a more general rule, granting the tax authorities the power to deny tax advantages deriving from certain operations put in place without valid economic reasons and for the purpose of circumventing the law.

Turnover taxes

Value-added tax, Goods and Services Tax
As an EU Member State, Italy has implemented VAT in conformity with European rules. With some exceptions, VAT applies on the supply of goods and services for consideration, made by taxable persons, and on the import of goods.

Tax rate
The ordinary VAT rate is set at 20%. On certain products and services a 4% or 10% reduced rate may apply.
The supply of certain categories of goods and services is exempt from VAT.
This is the case of, e.g., financial services; medical care activities; services related to welfare and social security work; educational, religious and non-profit activities; supply of goods by organisations whose activities are related to exempt activities, in connection with fund-raising events organised exclusively for their own benefit.

Capital gain tax
No specific tax for capital gains exists.
Depending on the category of taxpayer, capital gains are either subject to IRES or IRPEF or to a substitutive tax. Capital gains derived by individuals are subject to IRPEF, which applies progressively up to 43%.

However, a 12.5% substitutive tax should apply on capital gains derived from the alienation of a non-qualifying shareholding.

Capital gains derived by companies are subject to IRES, whose rate is set at 27.5%. Capital gains derived by individuals from the alienation of a qualifying shareholding are generally exempt for 50.28% of their amount. Capital gains derived by companies from the alienation of a shareholding are taxed only for 5% of their amount.

Property related taxes

The only tax on property is the immovable property tax (ICI), a municipal tax proportionate to the value of the property. The ICI tax rate is determined by the municipalities.
The taxable base is the income as determined by the Cadastral registry, multiplied a coefficient generally equals to 100 for residential property and to 50 for business property. The rate ranges from 0.4% to 0.7% depending on the municipality.
Depending on the nature and/or destination of the immovable property, certain exemptions may apply.

Corporate income tax

Italian corporate entities as well as permanent establishments of non-resident corporations are subject to IRES and to IRAP. IRES is a national tax on business income, whereas IRAP is a regional tax on productive activities.

Unlike IRAP, IRES applies on the world-wide income of the corporation. Broadly speaking, IRES is levied on the total net income resulting from the Statutory Financial Statements of the company, adjusted in accordance to specific tax rules and pursuant to the accrual principle. IRAP is levied on the net value of the production derived in each Italian region. The costs of personnel are, in general, not deductible. IRES tax rate is set at 27.5%.

IRAP rate is 3.9%, however regional authorities may increase or decrease such rate by up to 0.9176%. Non-profit organisations and other charitable institutions are not deemed to carry out commercial activities and, therefore, are exempt from IRES and IRAP.
For IRES purposes, dividends received by an Italian resident company are included in the taxable base only for 5% of their amount (with the exception of dividends from trading shares collected by corporations applying IAS/IFRS, which are fully taxable). Exemptions related to capital gains have already been discussed above.

International aspects

Tax treaty policy
The majority of tax treaties signed by Italy are based on the 1963 OECD Model Convention. Consequently, a part for some cases, the higher share of taxing rights is granted to the residence state.

Withholding taxes

Dividends
Generally speaking, dividends paid to non-residents are subject to a 27% withholding tax.
For dividends on saving shares, the withholding tax is lowered to 12.5%. As from 2008, the 27% withholding tax is reduced to 1.375% for dividends distributed to companies resident in the EU or in EEA “white listed” countries. If the EU Parent-Subsidiary directive applies, dividends are fully exempt from withholding tax. Most commonly, the treaty rate ranges between 10% and 15%, depending on the participation percentage.

Interest
Interest on regular loans paid by Italian entities to foreign lenders is generally subject to a 12.5% rate. The rate may increase to 27% when the payment is made to a tax haven country.
In other cases, the payment may be reduced to nil (e.g., payments between banks). Applicable income tax treaties may reduce the withholding tax rates.Most treaties provide for a withholding tax on interest payments of 10%. Interest paid to certain European companies should not be subject to withholding tax based on the Interest-Royalty EU Directive.

Royalties
In most circumstances, royalties paid by Italian companies or individuals to non resident beneficiaries are subject to a withholding tax ranging between 22.5% (i.e., 30% of 75% of gross royalties) and 30% of gross royalties.
Applicable income tax treaties may reduce this domestic rate (however, the treaty of withholding taxes would apply on the full gross amount).

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