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Turkish MNEs steady on their course despite crisis, survey finds

Report dated January 31, 2011

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Istanbul and New York, January 31, 2011

Kadir Has University (KHU), KPMG Turkey (KPMG-T) and the Foreign Economic Relations Board (DEIK), all based in Istanbul, Turkey, and the Vale Columbia Center on Sustainable International Investment (VCC), a joint initiative of the Columbia Law School and The Earth Institute at Columbia University in New York, are releasing today the results of their second annual survey of Turkish multinational enterprises (MNEs).¹ Conducted in 2010, the survey is part of a long-term study of the rapid global expansion of MNEs from emerging markets and covers the period 2008–2009.

Highlights

Table 1 lists the top 19 Turkish MNEs on the basis of their foreign assets. There have been changes in the list compared to the one published in December 2009. The number of companies listed has increased from 12 to 19. Two firms, Nuh Çimento and Anadolu Group, have been dropped and nine others have been added. Among the nineteen companies, only four are not listed on a stock exchange and only one (TPAO) is state-owned.

The top 19 firms together held more than US\$ 31 billion in foreign assets in 2009, with the top-ranked Sabancı Holding accounting for US\$ 8 billion and the second-ranked Doğu Group accounting for more than US\$ 6 billion. The collective foreign assets of these 19 firms were more than twice as large as the total outward foreign direct investment (FDI) stock held by Turkish enterprises in 2009, which was just under US\$ 15 billion (annex figure 6). Together, the 19 companies had nearly US\$ 15 billion in foreign sales in 2009 and employed almost 90,000 workers abroad in 396 foreign affiliates on five continents. Only three firms (Enka Construction, TAV Holding and Çalık Holding) employed more than 10,000 people abroad (annex table 1).

¹ The survey was carried out by a team led by Sedat Aybar of KHU that included Hilmi Songur, Tuğçe Uygurtürk and Mehmet Özgür Yaran from KHU; Ferruh Tuğ and Abdulkadir Kahraman from KPMG-T; and Ceren Sümer and Samet Inanır from DEIK.

Table 1: The top^a 19 Turkish non-financial MNEs, by foreign assets, 2009 (US\$ million^b)

| Rank | Company | Industry | Status | Foreign assets |
|------|-------------------------------|---------------------------|--------------------------------|----------------|
| 1 | Sabancı Holding | Conglomerate ^c | Listed | 8,051 |
| 2 | Doğuş Group | Conglomerate ^c | Listed | 6,357 |
| 3 | Enka Construction | Infrastructure | Listed | 3,195 |
| 4 | Turkcell | Communication | Listed | 2,996 |
| 5 | Çalık Holding | Conglomerate ^c | Unlisted | 2,633 |
| 6 | Turkish Petroleum Corporation | Oil & gas operations | Unlisted (100% state-owned) | 1,254 |
| 7 | Koç Holding | Conglomerate ^c | Listed | 1,160 |
| 8 | Şişecam A.Ş. | Glass manufacturing | Listed | 1,129 |
| 9 | Tekfen Holding | Conglomerate ^c | Listed | 1,003 |
| 10 | Doğan Holding | Conglomerate ^c | Listed | 801 |
| 11 | Alarko Group | Conglomerate ^c | Listed | 636 |
| 12 | TAV Holding | Conglomerate ^c | Listed | 571 |
| 13 | Zorlu Enerji Group | Energy | Listed | 459 |
| 14 | Orhan Holding | Conglomerate ^c | Unlisted | 293 |
| 15 | Eczacıbaşı Holding | Conglomerate ^c | Listed | 262 |
| 16 | Borusan Holding | Conglomerate ^c | Listed | 235 |
| 17 | Yıldız Holding (Ulker) | Food & beverage | Listed | 165 |
| 18 | Eroğlu Holding | Textiles | Unlisted | 106 |
| 19 | Çelebi Holding | Conglomerate ^c | Listed | 95 |
| | | | Total | 31,401 |

Source: KHU–KPMG–T–DEIK–VCC survey of Turkish MNEs, 2010.

^a Although we speak of the ‘top 19’ here, information was not available on *all* likely candidates for the top places, among other things because not all companies responded to our survey. The MNEs on this ranking may thus not be *the* largest outward investors from Turkey but they are certainly *among* the largest.

^b The exchange rate used is the IMF rate of December 31, 2009: US\$ 1 = Turkish Lira 1.5057.

^c Conglomerates (also known as *holdings*) are large family-owned companies similar to *chaebol* in South Korea, *keiretsu* in Japan or *grupos* in Chile. The main operating sectors of the selected conglomerates are reported in table 1a below.

Profile of the top 19

Drivers of outward investment

The opening up of the Turkish economy in 1980 and the deregulation, trade liberalization and privatization that followed led to slow growth in inward FDI. This growth was strengthened by the signing of a Customs Union treaty with the European Union (EU) that came into force in 1996. Inward FDI helped outward FDI grow in several ways, for example, by making Turkish firms more competitive through knowledge spillovers and by giving them an incentive to explore foreign markets by increasing competition in the domestic market. The aims of outward investors have varied by region. They have wanted to access technology and skills in the European Union and low-cost labor in Africa and Asia. They have also sought natural resources in the newly independent Turkic countries of Central Asia and responded to growing demand in the emerging markets of Asia and Africa.

Foreign affiliates and their distribution

The 19 selected companies had 396 foreign affiliates. Doğan Holding led with 91 foreign affiliates in 20 countries, followed by Koç Holding with 55 affiliates in 28 countries and Enka Construction with 42 affiliates in 9 countries (annex table 2). These 396 foreign affiliates were concentrated in Europe (70%) and the Middle East & Africa (17%), as indicated by the Regionality Index (annex table 2) and as seen in the distribution of foreign affiliates (annex figure 2). Europe had 277 foreign affiliates of Turkish MNEs, while the Middle East and Africa increased their weight among Turkish affiliates from only six in 2007 to 69 in 2009.

Ownership and status

All but one of the leading outward investors from Turkey in 2009 were privately-owned firms. The Turkish Petroleum Corporation (TPAO) is the only state-owned enterprise in the list, with about US\$ 1.3 billion in foreign assets. Of the remaining 18, which together accounted for US\$ 30 billion or over 95% of the total foreign assets on the list, 15 were listed on at least one stock exchange. All were listed on the Istanbul Stock Exchange, with two firms also being listed on foreign stock exchanges: Turkcell İletişim Hizmetleri A.Ş. on the New York Stock Exchange and Eczacıbaşı Holding on the Frankfurt and Dusseldorf stock exchanges (annex table 3).

Head office locations

Out of the 19 firms on our list, 17 are headquartered in Istanbul, one in Ankara (TPAO) and one in Bursa (Orhan Holding) (annex figure 4).

Official language and executive nationality

The official language of all companies on the list is Turkish. Two companies, ENKA and Eczacıbaşı, also use English as an official language. All of the CEOs of these companies are Turkish nationals.

Principal industries

The companies on the list were to be found in eight different industries, if conglomerates are counted as single companies. Judged by foreign assets, conglomerates dominate, with 70% of the aggregate assets. The infrastructure and construction industry comes next, with 10% of total assets, and communication is third, with 10% (annex figure 1). Conglomerates are also the leading group in numbers, with 12 firms on the list. The other sectors represented are oil & gas operations, glass manufacturing, energy, food & beverage, and textiles.

Conglomerates

The impact of the recent global economic downturn has been severe on the foreign sales of Turkish MNEs. But this is not true for all of the markets in which Turkish investment is to be found. For instance, in the EU, specifically in France and Germany, Turkish MNEs' sales have increased. Tight budgetary controls and cuts in expenditure have enabled most Turkish conglomerates operating in the EU to stay afloat. Turkish firms responded to the crisis mainly

by drawing down their stocks and slowing down production. Product diversification, accompanied by regional diversification, was also an important strategy and a way to turn the crisis into opportunity. Respondents to the survey indicated that they wish to improve their presence in foreign markets, particularly in Africa, the Middle East and the Balkans. This is in line with Turkey's broader political strategy of becoming a regional power. Most of the respondents use a mixture of external funding and their own capital for their investments. They also express dissatisfaction with the availability of credit for foreign investment projects. The main operating industries of the listed conglomerates can be found in table 1a below.

Table 1a: Main operating industries of the listed conglomerates, 2009

| Conglomerate | Main industries |
|---------------------|--|
| Sabancı Holding | Financial services, energy, retail, cement, auto parts, and tire and tire reinforcement materials. |
| Doğuş Group | Textiles, energy, construction, finance, logistics, and media. |
| Çalık Holding | Construction, energy, textiles, finance, telecommunications and media. |
| Koç Holding | Energy, automotive, consumer durables, and finance |
| Tekfen Holding | Contracting, agro-industry, real estate development, banking, investment, and insurance. |
| Doğan Holding | Media, oil production & distribution. |
| Alarko Group | Manufacturing, trading, engineering contracting, tourism, land development, construction and energy. |
| TAV Holding | Construction of buildings, civil engineering, and airport construction. |
| Zorlu Group | Energy, electricity, construction, natural gas, textile, electronics. |
| Orhan Holding | Auto parts, textiles, construction, tourism, and insurance. |
| Eczacıbaşı Group | Building products, healthcare, consumer products, finance, information technology, and welding technology. |
| Borusan Holding | Steel, distribution, energy, logistics and telecommunications. |
| Çelebi Holding | Logistics, food, tourism, security, and leasing. |

Source: KHU-KPMG-T-DEIK-VCC survey of Turkish MNEs, 2010.

Services

The services on the list include construction, communication and energy supply, as represented mainly by Enka Construction and Turkcell, although Alarko and Zorlu are also in part service suppliers. Financing for service firms has come from own capital and long-term project financing. Given the nature of the services sector, the biggest constraint appears to be technical support in the initial stages of investment and the shortage of workforce skills in later stages both at home and in host countries. The construction sector has proved to be the locomotive of OFDI as Turkish MNEs have secured large contracts in sub-Saharan Africa and Central Asia.

Among service firms, the communications firm Turkcell was relatively unaffected by the world economic downturn. Turkcell responded to the crisis with managerial adjustments and achieved modest sales growth. Quality of service was improved in the domestic market and foreign market share was expanded through the introduction of new products. Turkcell's revenue grew by nearly 20% in local currency terms in 2009. The firm's priority appears to be the expansion of its existing investments in North Africa, the Middle East and the Balkans.

Manufacturing

The global economic downturn had a negative impact on the production side of the Turkish textiles sector. This was mainly due to the shrinking of the credit markets on which textile firms were heavily dependent. Larger firms like Eroglu Holding adopted a competitive pricing strategy by using foreign exchange management and financial derivatives. Shrinking domestic supply and poor demand have been two of the drivers for Eroglu to search for opportunities abroad, particularly in Egypt. The company is planning to expand its foreign presence by entering new markets.

Oil, gas and energy

This sector was not much affected by the global economic crisis. TPAO, a state-owned firm, is engaged in prospecting for, extracting, refining, and distributing both oil and natural gas. It also builds pipelines to carry these products. The Zorlu Group responded to the crisis by delaying some of its projected investments. It has exploited the Group's accumulated knowledge for investing in the domestic market as well.

Major outward M&A and greenfield transactions

Annex tables 4 and 5 show the top 10 M&A and the top 10 greenfield transactions, respectively, carried out by Turkish firms in foreign countries over the past three years. Three of the top 10 M&As (including the largest) and four of the top 10 greenfield transactions were undertaken by firms on our list. The value of the greenfield transactions (US\$ 5,131 million) is substantially larger than that of the M&As (US\$ 3,071 million) over the 2007-2009 period. Note, however, that the greenfield transactions are given as 'announced' and the amounts specified may thus not have actually been invested in full. The fact that the outward investment flows from Turkey during those three years totaled just over US\$ 6 billion (table accompanying annex figure 5) suggests as much. Perhaps this also explains why only *one* of the top 10 M&As in table 4 (and a small one at that) took place in 2009, while *five* of the top 10 greenfield transactions were undertaken in 2009. The industries represented by the M&As are somewhat more varied than those among the greenfield transactions, which have four real estate transactions, including the largest.

Outward FDI flows declined from \$2.6 bn in 2008 to \$1.6 bn in 2009 (annex figure 5). This was mainly due to the global economic crisis, which led many firms to adopt a wait-and-see policy. On the other hand, some firms decided to use the slowdown as an opportunity to acquire new partners abroad and to update and re-equip their workforce for the new economic environment.

The response of the Turkish firms to the crisis has varied depending on the sectors they are operating. Construction sector firms were particularly harmed by the global crisis. Turkish MNEs chose to resist the crisis by adopting a strategy of postponement of their investment commitments and financial strengthening of their balance sheets. The impact of the global crisis also varied according to the regions Turkish MNEs operate in.

Changes in assets, sales and employment in 2007-2009

The foreign assets of the firms listed in this report grew by 22% between 2007 and 2009, with the growth coming mainly in 2009 (see table 2). This is partly due to the positive growth rates in 2009. On the other hand, over the three-year period, the foreign sales of Turkish MNEs fell by 4% (they fell by 10% in 2008 before recovering by 7% in 2009). Foreign employment grew by only 1% in 2007-2009, to nearly 90,000 people. The rate of unemployment in Turkey at this time was high due to the poor domestic market. The fall in sales was due to the contraction of markets where demand was hit by the crisis. The attention of Turkish firms turned to new markets and they began investing more in neighboring countries. The government's recently announced foreign policy of "zero problem with neighbors" paved the way for this development.

Foreign assets and sales as a percentage of the total assets and sales of these companies were about 14% and 18% respectively in 2009, while foreign employment grew by 1% when comparing to the pre-crisis level of 2007. This is in stark contrast to a contraction of 7% in their total employment (table 2).

Between 2007 and 2009, foreign assets grew faster (by 22%) than total assets (which grew 1%). Foreign sales over the same period fell by 4%, while total sales fell by 23%. The reason for this was a fall in aggregate demand caused by increased unemployment. Foreign employment in the meanwhile went up and down, while total employment fell steadily as companies chose to achieve efficiency by upgrading their capital stock. This labor-saving move helped firms' competitiveness in external markets.

Table 2: Snapshot of the top 19 MNEs, 2007–2009 (US\$ million and number of employees)^a

| Variable | 2007 | 2008 | 2009 | % change 2007-2009 |
|-------------------------------|---------|---------|---------|-----------------------|
| Assets | | | | |
| Foreign | 25.668 | 26.466 | 31.402 | 22% |
| Total | 223.925 | 209.926 | 226.876 | 1% |
| Share of foreign in total (%) | 11% | 13% | 14% | |
| Sales | | | | |
| Foreign | 15.283 | 13.757 | 14.725 | -4% |
| Total | 105.783 | 90.924 | 81.761 | -23% |
| Share of foreign in total (%) | 14% | 15% | 18% | |
| Employment | | | | |
| Foreign | 88.618 | 101.885 | 89.946 | 1% |
| Total | 326.456 | 317.000 | 302.401 | -7% |
| Share of foreign in total (%) | 27% | 32% | 30% | |

Source: KHU–KPMG–T–DEIK–VCC survey of Turkish MNEs, 2010.

^aThe IMF exchange rates of December 31 of the reporting year were used throughout: US\$ 1 = TRY 1.1666 (2007), 1.5314 (2008) and 1.5057 (2009).

The big picture

Turkish outward investment surged in recent years. After crossing the US\$ 1 billion mark for the first time in 2005, outward FDI fell a little to US\$ 924 million in 2006 but then jumped to US\$ 2.1 billion in 2007 and US\$ 2.6 billion in 2008. There was a fall again in 2009 but, at US\$ 1.6 billion, investment abroad was still substantially higher than before 2007. (See annex figure 5 for details of inward and outward FDI over the past 20 years). The surge has both domestic and international causes. The ultimate domestic cause, as noted earlier, is the opening of Turkey to inward investment in the 1980s, a liberalization further strengthened by the conditionalities of IMF financial assistance in the economic crises of the early 2000s.² These inflows, in conjunction with rising labor costs, intensified competition for Turkish firms in the domestic market and forced them to look abroad for profitable opportunities. As for the international aspect, there was the creation of a customs union with the EU, which came into effect in 1996.³ There was also a significant external political development: the emergence of newly independent Turkic republics in Central Asia.

It would appear that the origins of Turkish outward investment, especially by its largest conglomerates, are a mixture of both defensive and offensive strategies. Also, in Turkey, as elsewhere, there is public concern over the activities of Turkish MNEs, as their foreign ventures are seen as transferring jobs abroad, a concern that tends to intensify during an economic downturn.

Although a variety of factors such as those mentioned have prompted Turkish firms to turn their attention to external markets, this sphere of economic activity has been broadly neglected by Turkish policy-makers. Outward FDI is still seen as “capital flight” and perceived as an activity that “steals jobs from Turks.” There is no insurance coverage for companies investing abroad. Nor is there a government body providing information about local conditions in host countries to firms venturing abroad. The general attitude of the government towards Turkish FDI abroad can best be described as inattentive.

Nevertheless, some measures taken by the government can be seen as beneficial to Turkish MNEs, for example the amended regulation governing holding companies (“or HoldCos”⁴) put in place in 2006. Most Turkish investment abroad is made through holding companies. The new structure provides HoldCo with ‘participation gains’ in the form of an exemption from corporate tax for dividend income received from their foreign affiliates if certain conditions are met. The new structure also makes gains derived from the sale of shares in foreign affiliates exempt from taxation, again if certain conditions are met. To benefit from this exemption, 75% of the assets (excluding cash) of the holding company must consist of shares in foreign affiliates, these shares must amount to at least 10% of the paid-capital of the foreign affiliates, and the shares must have been held for at least two years before being sold.

² Turkish government measures to improve the environment for inward investment include the enactment of the new FDI Law 4875 in June 2003, which replaced the old FDI Law 6224, passed in 1954. The new law eased restrictions on inward FDI in all sectors, eliminated minimum capital requirements, granted foreign investors full convertibility in transfers of capital and earnings, allowed them to own property without restrictions, and recognized their right to international arbitration.

³ The customs union agreement was restricted to industrial and processed agricultural products.

⁴ A Turkish HoldCo is a corporation that meets certain conditions such as a minimum of 10% shareholding in the paid-capital of a foreign affiliate and a holding period of at least one year before receiving dividend income.

The government has also initiated a program that aims to develop “trade marks” in specific areas of production ranging from textiles and food processing to electronics and the automotive sector. This program is known as “Turkquality” and about one hundred firms are participating in it with the hope that they will achieve global competitiveness by improving their knowledge of production, industrial organization, marketing, and servicing. Although the program is not explicitly designed to promote outward investment, its efforts to help participating firms build global management strategies and increase efficiency can reasonably be expected to encourage more Turkish firms to consider investing abroad.

It is also expected that the recently introduced new tax regime concerning the Turkish holding firm and adoption of the international accounting and reporting standards will have some positive spillover effects over the FDI regime in the country. These changes will help doing international business centered in Turkey.

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Emerging Market Global Players Project (EMGP)

The present survey of Turkish MNEs was conducted within the framework of the Emerging Market Global Players Project, an international, collaborative effort led by the Vale Columbia Center. The project brings together researchers on foreign direct investment from leading institutions in emerging markets to generate annual reports on emerging market MNEs. Reports on 10 countries have been published so far (several on some of them): Argentina, Brazil, China, India, Israel, Korea, Mexico, Russia, Slovenia and Turkey. Around 15 countries are expected to be covered in 2010. For further information, visit: <http://www.vcc.columbia.edu/content/emerging-market-global-players>.

Turkish partners

Kadir Has University (KHU) is located in Istanbul and was founded in 1997. The University has six faculties and the student body is international. The total number of faculty is about three hundred. The main campus of the university is located at the heart of historic Istanbul in a prize-winning set of buildings. KHU has close relationships with a number of foreign universities, including London, Purdue, and Fordham. The Rector of KHU is Prof. Dr. Mustafa Aydin. For more information, see www.khas.edu.tr. **KPMG International Cooperative** is the coordinating entity for a global network of professional services firms providing audit, tax, and advisory services, with an industry focus. KPMG Turkey established in 1982 and its offices are located in İstanbul, Ankara and İzmir with approximately 500 professional staff. Through KPMG's Global Industry Groups, the knowledgeable people, well-designed products and technologies are combined to help enhance services with industry insights and competitive practices. For more information, see <http://www.kpmg.com.tr/index.thtml/>. Formed in 1988, the **Foreign Economic Relations Board** of Turkey (DEİK) aims to pave the way for the development of Turkey's economic, commercial, industrial and financial relations with foreign countries as well as international business communities, by acting as an intermediary between the public and private sectors in both Turkey and abroad. The Chairman of DEİK, M. Rifat Hisarcıkloğlu, is also the Chairman of the Union of Chambers and Commodity Exchanges of Turkey (TOBB). For further information, see <http://www.deik.org.tr>.

Vale Columbia Center on Sustainable International Investment (VCC)

The Vale Columbia Center on Sustainable International Investment (VCC), headed by Karl P. Sauvant, is a joint center of the Columbia Law School and The Earth Institute at Columbia University. It seeks to be a leader on issues related to FDI in the global economy paying special attention to the sustainability aspect of this investment. Its objectives are to analyze important topical policy-oriented issues related to FDI, develop and disseminate practical approaches and solutions, and provide students with a challenging learning environment. For more information, see <http://vcc.columbia.edu>.

Annex table 1. Turkey: The top 19 MNEs: Key variables, 2009 (US\$ million^a and number)

| Ranking | | Name | Industry | Assets | | Sales | | Employment | | TNI ^b (%) | No. of foreign affiliates | No. of host countries |
|--------------------------------|------------------------|---------------------|----------------------|---------------|----------------|---------------|---------------|---------------|----------------|-------------------------|---------------------------------|-----------------------------|
| By foreign assets | By TNI ^b | | | Foreign | Total | Foreign | Total | Foreign | Total | | | |
| 1 | 17 | Sabancı Holding | Conglomerate | 8,051 | 74,300 | 1,319 | 12,175 | 5,982 | 55,201 | 11 | 34 | 18 |
| 2 | 12 | Doğuş Group | Conglomerate | 6,357 | 28,507 | 1,158 | 5,193 | 6,244 | 28,000 | 22 | 21 | 12 |
| 3 | 4 | Enka Construction | Infrastructure | 3,195 | 7,045 | 2,030 | 5,261 | 14,116 | 18,550 | 53 | 42 | 9 |
| 4 | 9 | Turkcell | Communication | 2,996 | 9,284 | 2,185 | 5,935 | 2,103 | 10,447 | 30 | 18 | 5 |
| 5 | 2 | Çalık Holding | Conglomerate | 2,633 | 4,500 | 861 | 1,511 | 13,585 | 19,263 | 62 | 13 | 8 |
| 6 | 10 | Turkish Petr. Corp. | Oil & gas operations | 1,254 | 3,629 | 882 | 2,079 | 27 | 4,498 | 26 | 6 | 4 |
| 7 | 19 | Koç Holding | Conglomerate | 1,160 | 75,016 | 1,756 | 29,775 | 4,423 | 71,221 | 5 | 55 | 28 |
| 8 | 11 | Şişecam A.Ş. | Glass manufacturing | 1,129 | 4,442 | 480 | 2,420 | 5,158 | 16,837 | 25 | 22 | 6 |
| 9 | 3 | Tekfen Holding | Conglomerate | 1,003 | 1,842 | 940 | 1,559 | 7,619 | 11,366 | 61 | 14 | 7 |
| 10 | 13 | Doğan Holding | Conglomerate | 801 | 6,339 | 745 | 6,852 | 4,652 | 12,429 | 20 | 91 | 20 |
| 11 | 7 | Alarko Group | Conglomerate | 636 | 1,172 | 214 | 594 | 907 | 3,344 | 39 | 22 | 14 |
| 12 | 1 | TAV Holding | Conglomerate | 571 | 585 | 781 | 809 | 14,184 | 14,600 | 97 | 9 | 9 |
| 13 | 14 | Zorlu Enerji Group | Energy | 459 | 1,382 | 11 | 328 | 127 | 695 | 18 | 3 | 3 |
| 14 | 5 | Orhan Holding | Conglomerate | 293 | 407 | 249 | 634 | 1,550 | 3,367 | 52 | 14 | 9 |
| 15 | 16 | Eczacıbaşı Holding | Conglomerate | 262 | 3,435 | 347 | 2,574 | 1,531 | 9,122 | 13 | 9 | 4 |
| 16 | 15 | Borusan Holding | Conglomerate | 235 | 2,439 | 444 | 2,415 | 624 | 5,676 | 13 | 12 | 8 |
| 17 | 18 | Yıldız Holding | Food & beverage | 165 | 1,813 | 94 | 1,030 | 513 | 4,492 | 10 | 5 | 3 |
| 18 | 6 | Eroğlu Holding | Textile | 106 | 511 | 191 | 410 | 3,030 | 6,010 | 39 | 1 | 1 |
| 19 | 8 | Çelebi Holding | Conglomerate | 95 | 227 | 37 | 207 | 3,571 | 7,283 | 36 | 5 | 2 |
| Total (average for TNI) | | | | 31,401 | 226,875 | 14,724 | 81,761 | 89,946 | 302,401 | 33 | 396 | |

Source: KHU–KPMG–T–DEIK–VCC survey of Turkish MNEs, 2010.

^a The exchange rate used is the IMF rate of December 31, 2009: US\$ 1 = Turkish Lira 1.5057.

^b The transnationality index (TNI) is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment.

Annex table 2. Turkey: The top 19 MNEs: Regionality Index,^a 2009

| Companies | Middle East & North Africa, Sub-Saharan Africa | East Asia & the Pacific, South Asia, Developed Asia-Pacific (Japan, Australia & New Zealand) | Eastern Europe & Central Asia, Other Europe | Latin America & the Caribbean, North America | Total number of foreign affiliates |
|-----------------------------------|---|---|--|---|---|
| Sabancı Holding | 6 | 12 | 65 | 18 | 34 |
| Doğuş Group | 20 | | 80 | | 21 |
| Enka Construction | 83 | 17 | | | 42 |
| Turkcell | | | 100 | | 18 |
| Çalık Holding | 46 | 8 | 38 | 8 | 13 |
| Turkish Petroleum Corporation | | | 50 | 50 | 6 |
| Koç Holding | | 16 | 80 | 4 | 55 |
| Şişecam A.Ş. | 10 | | 90 | | 22 |
| Tekfen Holding | 14 | | 79 | 7 | 14 |
| Doğan Holding | 4 | | 92 | 3 | 91 |
| Alarko Group | 5 | 14 | 73 | 9 | 22 |
| TAV Holding | 100 | | | | 9 |
| Zorlu Enerji Group | | | | 100 | 3 |
| Orhan Holding | | 7 | 64 | 29 | 14 |
| Eczacıbaşı Holding | | | 100 | | 9 |
| Borusan Holding | 33 | | 67 | | 12 |
| Yıldız Holding | | | 100 | | 5 |
| Eroğlu Holding | | | 100 | | 1 |
| Çelebi Holding | | | 100 | | 5 |
| Total number of affiliates | 69 | 25 | 277 | 25 | 396 |

Source: KHU–KPMG–T–DEIK–VCC survey of Turkish MNEs, 2010.

^aThe Regionality Index is calculated by dividing the number of a firm's foreign affiliates in a particular region of the world by its total number of foreign affiliates and multiplying the result by 100.

Annex table 3. Turkey: Stock Exchange Listings

| | Company | Domestic | Foreign |
|----|-------------------------------|-------------------------|--|
| 1 | Sabancı Holding | Istanbul Stock Exchange | - |
| 2 | Doğuş Group | Istanbul Stock Exchange | - |
| 3 | Enka Construction | Istanbul Stock Exchange | - |
| 4 | Turkcell | Istanbul Stock Exchange | New York Stock Exchange |
| 5 | Çalık Holding | - | - |
| 6 | Turkish Petroleum Corporation | - | - |
| 7 | Koç Holding | Istanbul Stock Exchange | - |
| 8 | Şişecam A.Ş. | Istanbul Stock Exchange | - |
| 9 | Tekfen Holding | Istanbul Stock Exchange | - |
| 10 | Doğan Holding | Istanbul Stock Exchange | - |
| 11 | Alarko Group | Istanbul Stock Exchange | - |
| 12 | TAV Holding | Istanbul Stock Exchange | - |
| 13 | Zorlu Enerji Group | Istanbul Stock Exchange | - |
| 14 | Orhan Holding | - | - |
| 15 | Eczacıbaşı Holding | Istanbul Stock Exchange | Frankfurt & Dusseldorf Stock Exchanges |
| 16 | Borusan Holding | Istanbul Stock Exchange | NASDAQ |
| 17 | Yıldız Holding (Ulker) | Istanbul Stock Exchange | - |
| 18 | Eroğlu Holding | - | - |
| 19 | Çelebi Holding | Istanbul Stock Exchange | - |

Source: KHU–KPMG–T–DEIK–VCC survey of Turkish MNEs, 2010.

Annex table 4. Turkey: The top 10 outward M&A transactions, announced, 2007-2009 (US\$ million)

| Date | Acquirer's name | Target name | Target industry | Target country | % of shares acquired | Value of transaction |
|-------------|-------------------------------|-------------------------------|---|-----------------------|-----------------------------|-----------------------------|
| 03/18/2008 | Yildiz Holding AS | Godiva Chocolatier Inc | Chocolate and cocoa products | United States | 100.0 | 850.0 |
| 06/24/2008 | Investor Group | Razi Petrochemical Co | Nitrogenous fertilizers | Iran | 100.0 | 694.6 |
| 11/30/2007 | Enka Insaat ve Sanayi AS | Ramenka LLC | Department stores | Russia | 50.0 | 544.1 |
| 04/02/2007 | Hurriyet Invest BV | Trader Media East Ltd | Advertising agencies | Netherlands | 67.3 | 369.0 |
| 02/11/2008 | Azertel AS | Azercell Telekom BM | Telephone communications, except radiotelephone | Azerbaijan | 35.7 | 180.0 |
| 09/28/2007 | Investor Group | Albtelecom | Telephone communications, except radiotelephone | Albania | 76.0 | 161.1 |
| 02/13/2009 | Van Et Ticari Yatirimlar Gida | Metro Turizm Seyahat | Local and suburban transit | Cyprus | 99.4 | 70.3 |
| 07/05/2007 | Orhan Holding AS | Dana Corp-Non-Core Fluid Prod | Fluid power valves and hose fittings | United States | 100.0 | 70.0 |
| 11/20/2007 | Bankpozitif Kredi ve Kalkinma | Demir Kazakhstan Bank | Banks | Kazakhstan | 100.0 | 70.0 |
| 12/18/2007 | Beko Elektronik AS | Grundig Multimedia BV | Offices of holding companies, nec | Netherlands | 50.0 | 61.8 |
| | | | | | Total | 3,070.9 |

Source: Adapted from Thomson ONE Banker. Thomson Reuters.

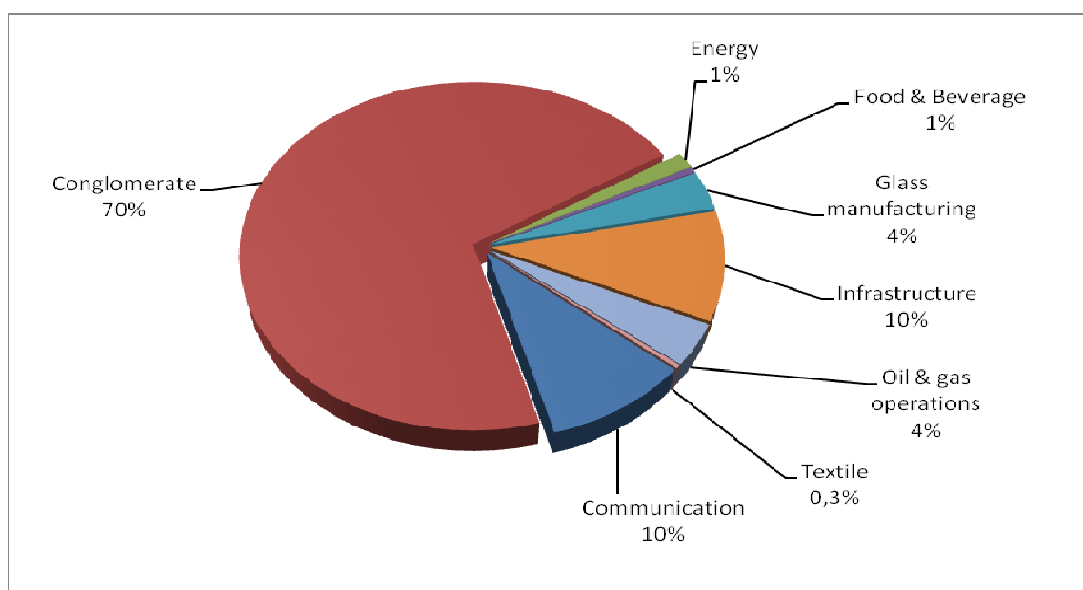
Annex table 5. Turkey: The top 10 outward greenfield transactions, announced, 2007-2009 (US\$ million)

| Date | Company | Destination | Industry | Value |
|--------------|----------------------------|--------------------|-----------------------------------|--------------------|
| Sep-07 | Opus Project & Development | Romania | Real estate | 956.1 |
| Oct-08 | Zorlu Holding | Pakistan | Alternative/renewable energy | 949.6 ^a |
| May-08 | Enka Insaat ve Sanayi | Russia | Coal, oil and natural gas | 508.8 |
| Oct-09 | TAV Airports Holding | Tunisia | Real estate | 500.0 |
| Apr-09 | Petkim Petrokimya Holding | Iran | Chemicals | 488.7 ^a |
| Feb-09 | Hayat Holding | Russia | Wood products | 385.0 |
| Jul-09 | Polimeks | Turkmenistan | Real estate | 373.2 ^a |
| May-08 | Aral Group | Azerbaijan | Real estate | 362.3 ^a |
| Feb-09 | Sisecam | Russia | Ceramics & glass | 325.0 |
| Mar-08 | Polimeks | Turkmenistan | Building & construction materials | 282.2 |
| Total | | | | 5,130.9 |

Source: Adapted from fDi Intelligence, a service from the Financial Times Ltd.

^aThis amount is an estimate.

Annex figure 1. Turkey: Breakdown of the foreign assets of the top 19 MNEs, by industry, 2009



| Industry | Foreign assets (US\$ mn) | Companies |
|----------------------|--------------------------|---|
| Conglomerates | 22,098 | (12) Doğus Group, Koç Holding, Alarko Group, TAV Holding, Doğan Holding, Sabancı Holding, Çalık Holding, Tekfen Holding, Eczacıbaşı Holding, Borusan Holding, Orhan Holding, Çelebi Holding |
| Infrastructure | 3,195 | (1) Enka Construction & Industry Co. Inc. |
| Communication | 2,996 | (1) Turkcell İletişim Hizmetleri A.Ş. |
| Oil & gas operations | 1,254 | (1) Turkish Petroleum Corporation (TPAO) |
| Glass manufacturing | 1,129 | (1) Sisecam AS |
| Energy | 459 | (1) Zorlu Enerji Group |
| Food & Beverage | 165 | (1) Yıldız Holding |
| Textile | 106 | (1) Eroğlu Holding |

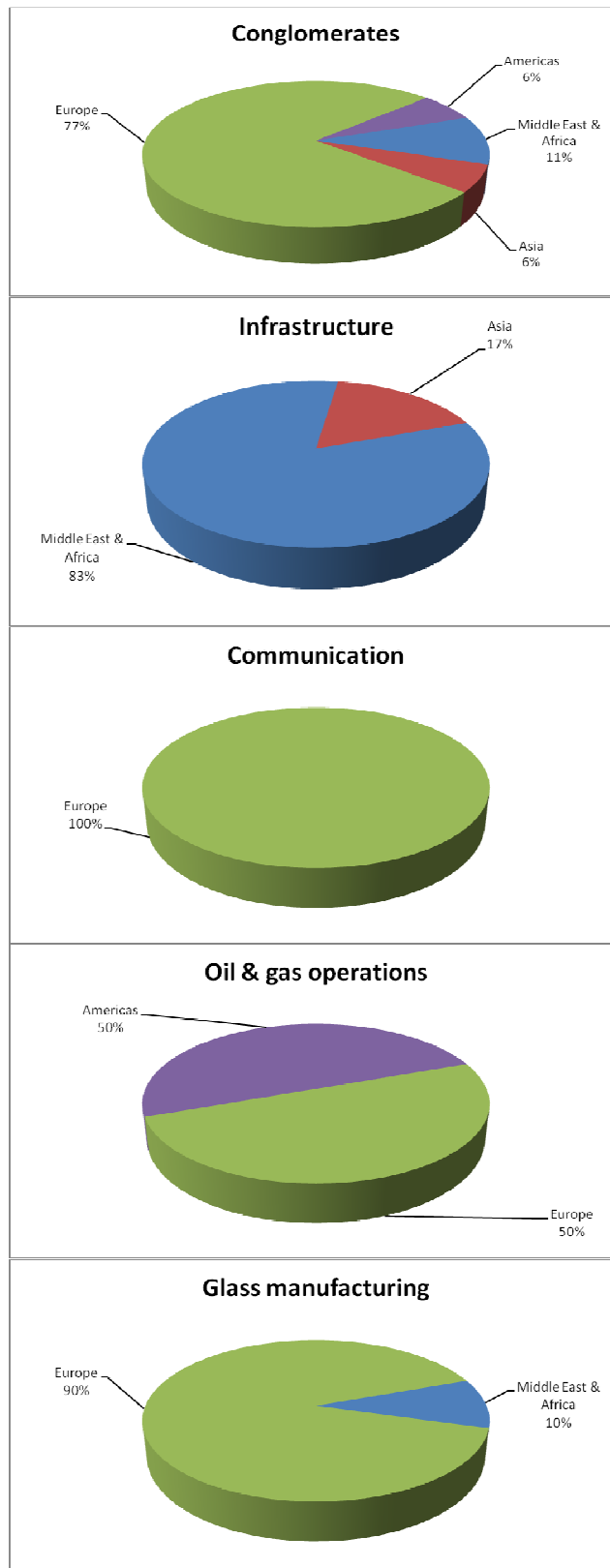
Source: KHU–KPMG–T–DEIK–VCC survey of Turkish MNEs, 2010.

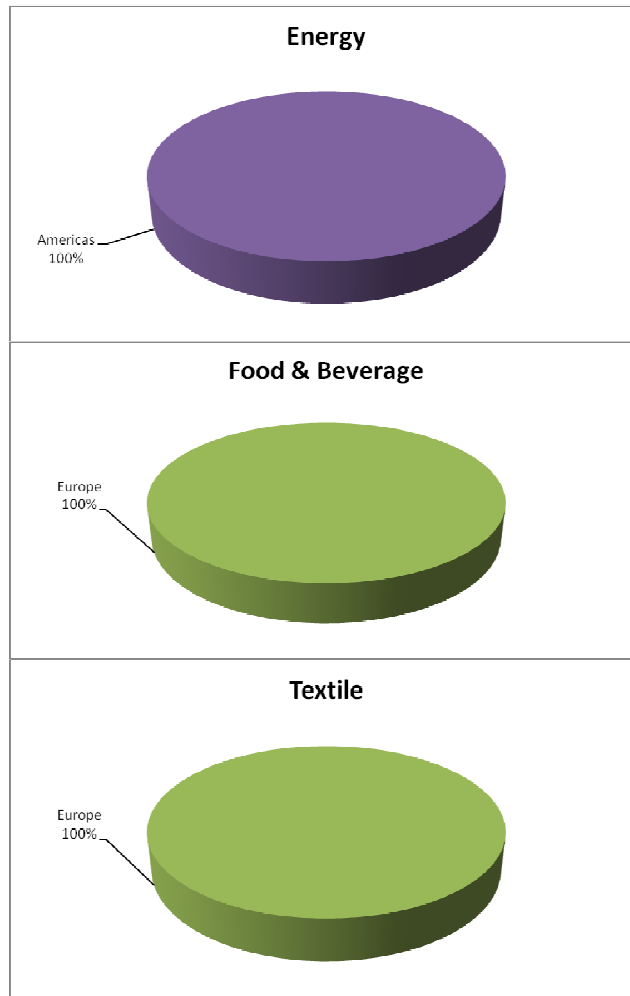
Annex figure 2. Turkey: Foreign affiliates of the top 19 MNEs, by region, 2009 (number of affiliates)



Source: KHU–KPMG-T–DEIK–VCC survey of Turkish MNEs, 2010.

Annex figure 3. Geographic distribution of the assets of the top 19 MNEs, by main industry, 2009





| Industry | Middle East & North Africa, Sub-Saharan Africa | East Asia & the Pacific, South Asia, Developed Asia-Pacific (Japan, Australia & New Zealand) | Eastern Europe & Central Asia, Other Europe | Latin America & the Caribbean, North America | Total foreign assets |
|----------------------|--|--|---|--|----------------------|
| Conglomerate | 2,359 | 1,330 | 16,994 | 1,414 | 22,097 |
| Infrastructure | 2,652 | 543 | 0 | 0 | 3,195 |
| Communication | 0 | 0 | 2,996 | 0 | 2,996 |
| Oil & gas operations | 0 | 0 | 627 | 627 | 1,254 |
| Glass manufacturing | 113 | 0 | 1,016 | 0 | 1,129 |
| Energy | 0 | 0 | 0 | 459 | 459 |
| Food & Beverage | 0 | 0 | 165 | 0 | 165 |
| Textile | 0 | 0 | 106 | 0 | 106 |
| Total assets | 5,124 | 1,873 | 21,904 | 2,500 | 31,401 |

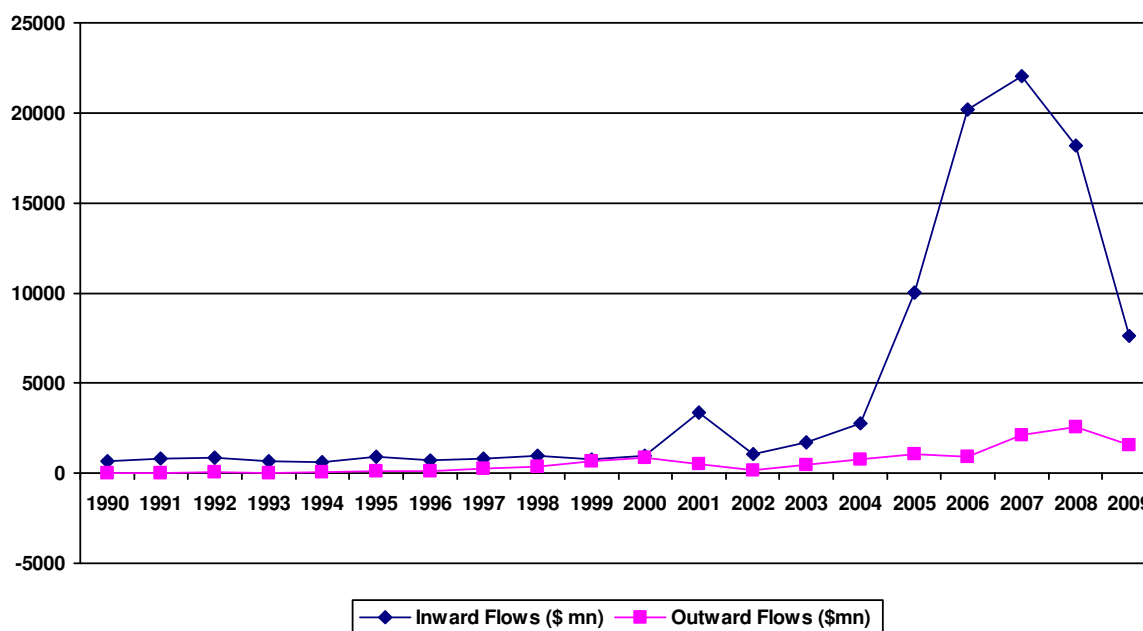
Source: KHU-KPMG-T-DEIK-VCC survey of Turkish MNEs, 2010.

Annex figure 4. Turkey: Head office locations of the top 19 MNEs, 2009



Source: KHU-KPMG-T-DEIK-VCC survey of Turkish MNEs, 2010.

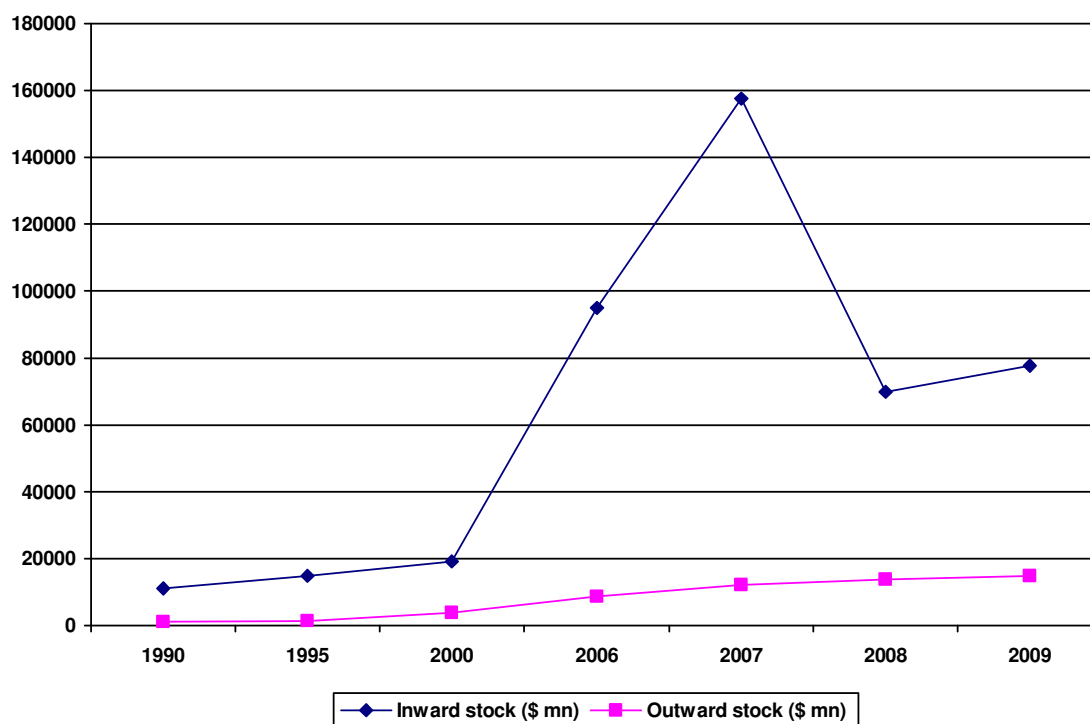
Annex figure 5. Turkey: Inward & outward FDI flows, 1990-2009 (US\$ million)



| Year | Inward flows | Outward flows |
|------|--------------|---------------|
| 1990 | 684 | -16 |
| 1991 | 810 | 27 |
| 1992 | 844 | 65 |
| 1993 | 636 | 14 |
| 1994 | 608 | 49 |
| 1995 | 885 | 113 |
| 1996 | 722 | 110 |
| 1997 | 805 | 251 |
| 1998 | 940 | 367 |
| 1999 | 783 | 645 |
| 2000 | 982 | 870 |
| 2001 | 3,352 | 497 |
| 2002 | 1,082 | 143 |
| 2003 | 1,702 | 480 |
| 2004 | 2,785 | 780 |
| 2005 | 10,031 | 1,064 |
| 2006 | 20,185 | 924 |
| 2007 | 22,046 | 2,106 |
| 2008 | 18,198 | 2,585 |
| 2009 | 7,611 | 1,551 |

Source: United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2010* (New York and Geneva: United Nations, 2010) and the Central Bank of the Republic of Turkey, provisional data.

Annex figure 6: Turkey: Inward & outward FDI stock, 1990-2009 (US\$ million)



| Year | Inward stock | Outward stock |
|-------------|--------------|---------------|
| 1990 | 11,189 | 1,157 |
| 1995 | 14,972 | 1,425 |
| 2000 | 19,204 | 3,668 |
| 2006 | 95,078 | 8,866 |
| 2007 | 157,649 | 12,210 |
| 2008 | 69,817 | 13,865 |
| 2009 | 77,729 | 14,790 |

Source: United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2010* (New York and Geneva: United Nations, 2010).

Corporate profiles of the top 19⁵

SABANCI

<http://www.sabanci.com/>

Sabancı Holding is the parent company of the Sabancı Group, Turkey's leading industrial and financial conglomerate. Sabancı Holding's main business units include financial services, energy, retail, cement, automotive, and tire and tire reinforcement materials. Listed on the Istanbul Stock Exchange (ISE), Sabancı Holding has a controlling interest in 11 companies also listed on the ISE. Sabancı companies currently operate in 18 countries and market their products in various parts of Europe, the Middle East, Asia, North Africa, and North and South America. Sabancı Holding's multinational business partners include such prominent companies as Aviva, Bridgestone, Carrefour, Citigroup, Dia, Heidelberg Cement, Hilton International, International Paper, Mitsubishi Motor Co., Philip Morris, and Verbund. In 2009, the consolidated revenue of Sabancı Holding was US\$ 12.2 billion, with an EBITDA of US\$ 2.6 billion. The Sabancı Family holds 60.6% of the Holding's share capital.

DOĞUŞ GRUBU

<http://www.dogusgrubu.com.tr/en/>

Doğuş Group was founded in 1951 and the company is active in seven core businesses: financial services, the automotive industry, construction, media, tourism, real estate, and energy. The Group has 111 companies and a workforce of over 28,000. The Group has created synergies with many global giants including the following: General Electric in finance and real estate; Volkswagen AG and TÜVSÜD in the automotive industry; Alstom and Marubeni in construction; MSNBC, CNBC and Condé Nast in media; and Hyatt International Ltd., Starwood Hotels & Resorts, Worldwide Inc., HMS International Hotel GmbH (Maritim) and Aldiana GmbH in tourism.

ENKA

<http://www.enka.com>

ENKA's history begins in 1957 with a partnership between Şarık Tara and the late Sadi Gülçelik. The range of its earliest projects included the construction of industrial plants, docks, marine slipways, shipyards, grain silos, bridges, roads and piers, all in the İstanbul area. Thus far, ENKA has completed more than 130 projects in Russia and the CIS, ranging from buildings, hospitals and industrial plants to oil and gas projects. The firm currently generates approximately 30 billion kwh of electricity per year. Its international construction projects continue to be its engine of growth, with a current backlog exceeding US\$ 7 billion. These include a mega-highway project in Romania, a brand new city in Oman, a new terminal at Moscow's Sheremetyevo Airport, a football stadium in Donetsk, Ukraine, a Toyota car factory in St. Petersburg, Russia, and oil field infrastructure on Sakhalin Island, also in Russia.

⁵ Companies are profiled in the order of their ranks by foreign assets. Most of the information in this annex has been adapted from company websites, which are provided for all companies.

TURKCELL

<http://www.turkcell.com.tr/en>

GSM-based mobile communication began in Turkey when Turkcell started its operations in February 1994. By June 2010, Turkcell had invested US\$ 8.7 billion in Turkey. With its 33.9 million subscribers, Turkcell is not only the leading operator in Turkey but also the third largest GSM operator in Europe. Turkcell's shares have been traded on the Istanbul Stock Exchange (IMKB) and the New York Stock Exchange (NYSE) since July 2000 and it is the only Turkish company ever to have been listed on the NYSE. Turkcell's operations in Azerbaijan, Kazakhstan, Georgia and Moldova (through Fintur) had reached 14.6 million subscribers as of June 2010. The Astelit Company, majority-owned by Turkcell in Ukraine, began operating in February 2005. Its brand Life had reached 11.7 million subscribers by June 2010.

ÇALIK

<http://www.calik.com/>

Çalık Holding focuses on the following business lines: construction, energy, textiles, finance, telecommunications and the media. It has nearly 20,000 employees, including employees abroad. The firm has set a target of US\$ 3 billion in revenue in 2011.

TPAO

<http://www.tpao.gov.tr/v1.4/>

TPAO was founded in 1954 by Law No. 6327, with the responsibility for undertaking hydrocarbon exploration, drilling, production, refining and marketing activities as Turkey's national oil company. Until 1983, as an integrated oil company, it was engaged in all oil industry activities, from exploration to production, refining, marketing and distribution. Today, TPAO is involved only in upstream activities: exploration, drilling, well completion and production.

KOÇ

<http://www.koc.com.tr/en-us/>

Koç Ticaret A.Ş. was established in 1938. The Koç Group is today Turkey's largest industrial group in terms of revenue, exports, share in the Istanbul Stock Exchange, and number of employees. Koç Holding, as the driving force of the Turkish economy and the world's 273th largest company, continues to fortify its strong position in the global league with the awards granted in the domestic and international platforms. Its core sectors are energy, finance, the automotive industry, and consumer durables.

ŞİŞECAM

<http://www.sisecam.com/>

Şişecam, which first made glass in 1935 has since substantially increased its production facilities both in Turkey and abroad in the flat glass, glassware, chemical and glass packaging divisions. Şişecam produces according to international standards with 17000 employees and five of its companies are traded on the İstanbul Stock Exchange.

TEKFEN

<http://www.tekfen.com.tr/english/>

The foundation for the company was laid by three entrepreneurs, Feyyaz Berker, Nihat Gökyiğit and Necati Akçağlılar in 1956. The Tekfen Group is a publicly traded corporation consisting of 49 companies and seven partnerships operating in the areas of contracting, agribusiness, real estate development, and banking. Tekfen's annual revenue is around US\$ 1.6 billion and its employees number nearly 16,000.

DOGAN

<http://www.doganholding.com.tr/>

Chairman Aydın Doğan registered with the Mecidiyeköy Tax Office in 1959 and officially commenced business. He founded his first company, in the automotive industry, in 1961. This venture marked the very beginning of Doğan Şirketler Grubu Holding A.Ş. Having established strategic alliances with 11 international business concerns, Doğan Group has operations in 18 countries. The Group has nearly 25,000 employees and stakeholders through its direct participations, strategic alliances and commercial representative offices. Nine members of the Group are listed on the Istanbul Stock Exchange.

ALARKO

<http://www.alarko.com.tr/indexeng.asp>

Beginning in a single room with two employees in 1954, the ALARKO Group of companies is today one of Turkey's foremost enterprises, employing more than 6,000 people. The Group's activities are to be found in manufacturing, trading, engineering contracting, tourism, land development, construction and energy.

TAV

<http://www.tav.aero/indexen.html>

TAV was established in 1997, as a joint venture between the Tepe and Akfen Groups following their successful bid for the Istanbul Atatürk Airport International Terminal contract. TAV Airports Holding operates a number of airports, including the Istanbul Atatürk, Ankara Esenboğa, Izmir Adnan Menderes and Antalya Gazipasa airports in Turkey; the Tbilisi and Batumi airports in Georgia; the Monastir Habib Bourguiba International Airport and the Enfidha Zine Abidine Ben Ali Airport in Tunisia; and Skopje Alexander the Great Airport and Ohrid St Paul the Apostle International Airport in Macedonia. TAV also operates duty-free stores, food and beverage services, ground handling services, information technologies, and security services. TAV Airports serve 375,000 flights for approximately 300 airlines and 42 million passengers on average per year. The company shares have been listed on the Istanbul Stock Exchange since February 23, 2007, under the name of "TAVHL".

ZOREN

<http://www.zoren.com.tr/EN/INDEX/>

The Zorlu Energy Electricity Generation Co. Inc. was set up to meet the electricity and steam needs of industrial firms belonging to the Zorlu Group in 1993. The Zorlu Energy Group, with its 16 companies (11 in Turkey and 5 abroad), currently commands a distinctive place in the energy sector with a presence in each stage of energy production, from project designing to construction and from operation to maintenance of power plants. In addition to Turkey, the firm provides services throughout Europe, Asia and the Middle East.

ORHAN HOLDING

<http://www.orhanholding.com/>

Orhan Holding established its first foreign partnership in 1989 with General Motors (GM). Thank to partnerships with other international firms like Aunde (Germany), Faurecia (France) and Magnetti Marelli (Italy), the Holding has had the opportunity to keep up with current trends. Orhan Holding works on production, sales, distribution and technical services in the automotive, textile, construction, tourism, and insurance sectors. Among other things, it produces automotive seat components and metal and fluid products for such firms as Renault, Dacia, Peugeot-Citroen, Ford, BMW, Fiat, GM, and Chrysler.

ECZACIBAŐI

<http://www.eczacibasi.com>

Eczacıbaşı inaugurated the first modern Turkish pharmaceutical plant on 23 November 1952 in Levent, Istanbul. Over the next four decades, it had expanded its production capacity to include the full range pharmaceutical products. Eczacıbaşı's core sectors are building products, healthcare products and consumer products. In addition, the Group is active in finance, information technology, welding technology, property development and mining. Internationally, Eczacıbaşı is best known for its flagship Vitra brand, a contender in the global bathroom and tile markets. It is also a major exporter of tissue paper, welding electrodes, electronic smart cards and industrial raw materials such as clay and feldspar. The company has nine international joint ventures and numerous cooperation agreements with leading international enterprises.

BORUSAN

<http://www.borusan.com.tr/en-us/>

The origins of Borusan date back to 1944. Its primary business interests include steel, distributorships, logistics, energy, and telecommunications. In all business areas in which Borusan is actively engaged, management has set a target of becoming a market leader or a close follower. In 2006, the Group signed the United Nations' Global Compact and it supports and adheres to the principles of 'good corporate governance' and 'sustainability' as prerequisites of long-term success.

YILDIZ

<http://www.ulker.com.tr/en/>

Yıldız Holding, currently operating principally in the food business with more than 65 companies, began production in 1944 with the Ülker brand. The Kalbim Benecol brand was born as a result of collaboration with the Finnish firm Raisio. At the end of 2007, Yıldız Holding took a major step in the way of globalization by acquiring Godiva Chocolatier. Yıldız has also formed a 50/50 joint venture with Gumlink to operate in the field of non-chocolate confectionery and chewing gum in 2009. It is expected to form a partnership with the German tea company LHS.

EROĞLU HOLDING

<http://www.eroglu.com/en/>

Eroğlu Clothing was established in İstanbul in 1983 and began coat and duffle coat production with a team of 15 employees. Eroğlu Holding is today producing some 20 million units of sportswear with the Colin's and Loft brands, which are for sale in its own 167 stores and in a further 3.000 retail points at home and abroad. The total number of employees working in Turkey and abroad is over 5,500. Eroğlu has now also entered the construction sector. The projects of the Group in this sector currently involve residential and retail projects with 350,000 square meters of indoor area in Tekirdağ, İstanbul Ümraniye, Merter, and the Golden Horn in Turkey, and Moscow and Kazan (Tartarstan) in Russia.

ÇELEBİ

<http://www.celebi.com.tr/en/>

Çelebi Hava Servisi was founded in Ankara On 1 February 1958. Çelebi Holding coordinates the financial and administrative functions of the companies operating under its umbrella, which are active in a wide range of fields including aviation ground handling services, terminal and port management, private security services, food services, travel agency services, and vehicle fleet leasing.