

TURKEY
2020

the business year



84 ———

SHIPBUILDING

Turkey's shipbuilding sector is giving its eastern counterparts fierce competition

117 ———

ENERGY

Turkey aims to tap into hydrocarbon reserves in the Thrace Basin and off Cyprus

143 ———

AGRICULTURE

Diverse production and strong trade ties have drawn foreign agribusiness investors

178 ———

TOURISM

The Black Sea and its surrounding areas have long been an attraction for tourists





Every technology we've developed
for 25 years is just for you to

DO





Image: Minister of Transport and Infrastructure

THE BUSINESS YEAR: TURKEY 2020

Much has changed in the Turkish economy since The Business Year's last publication in the country in 2016. Then, the economy was undergoing a sustained period of high growth at a time when much of the rest of the world was still struggling to recover from the global recession.

Now, in 2019, we returned to Turkey to produce this publication on the heels of a sharp drop in the lira's value, which sent the economy into a recession. Beleaguered by high interest rates and a decline in domestic consumer demand, companies stalled planned investments and corporate loans began souring. Despite this, the year ended optimistically, with the economy beating growth estimates, inflation reined in, and lower global and domestic interest rates providing a needed boost in investment activity.

We explored the different regulatory and corporate strategies in place to put the economy back on track via interviews conducted with nearly 150 business and government leaders to produce this publication. Several themes emerged from our interviews. From a regulatory standpoint, a number of changes were enacted to resume the flow of credit to businesses, measures were taken to boost domestic saving savings, and loans were targeted

at exporters. While many corporates scaled back their investment programs, we saw an increase in efficiency-oriented investments that will prepare companies for a future strengthening of domestic consumer confidence.

While our coverage is comprehensive, a large focus of our interviews and research was on Turkish exporting industries, who are crucial to the economy for their hard currency receivables. One decisive view on the lira's slide among our interviewees was that increased export demand was more than offset by the havoc wreaked on investment plans by currency volatility—challenging the importance of a common view held by outside observers of a currency devaluation. Exporters are keener on developing high-tech, value-added industries rather than celebrating the artificial short-term growth brought on by the lira's weakness.

Turkey's economic stability is key to the global economy and regional security. In an increasingly multipolar world, Turkey has shown the promise and peril of navigating a complicated network of economic and security alliances. As its economy returns to growth mode, Turkey's independent nature will continue to define the future of a region whose future is in doubt. ✖

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18

03 From the editor's desk

07 Executive summary

09 Timeline

10 DIPLOMACY

11 Balanced power • Chapter summary

12 Mevlüt Çavuşoğlu, Minister of Foreign Affairs • Interview

13 The demands of security
• Focus: Growing military role

14 Wilbur Ross, US Secretary of Commerce • Guest speaker

15 Denis Manturov, Minister of Industry and Trade of the Russian Federation • Guest speaker

16 ECONOMY

17 Room for growth • Chapter summary

18 Murat Uysal, Governor, Central Bank of the Republic of Turkey (TCMB) • Interview

20 Berat Albayrak, Minister of Treasury and Finance • Inside perspective

21 Caner Çolak, Secretary General, Foreign Economic Relations Board (DEİK) • Interview

22 Tough times call for sweeping measures • Focus: Economic reform

23 Effecting real change • Spotlight feature: Growth agents



28

26 FINANCE

27 Calmer waters • Chapter summary

28 Hüseyin Aydın, Chairman of the Board, The Banks Association of Turkey • Interview

29 Bülent Aksu, Chairman, Turk Eximbank • Interview

30 Xiangyang Gao, Chairman of the Board of Directors, ICBC Turkey • Interview

31 Ruojie Li, General Manager, Bank of China (BoC) Turkey A.Ş. • Interview

32 İkrâm Göktaş, CEO, Vakıf Participation Bank (Vakıf Katılım) • Interview

33 Ufuk Uyan, General Manager, Kuveyt Türk • Interview

35 A loan path • Focus: Dealing with NPLs

37 Mithat Arıkan, General Manager, TurkishBank • Interview

38 Levent Bosut, Managing Partner, inHERA Capital • Interview

39 Voices from the sector

40 INDUSTRY & DEFENSE

41 Expanding abroad • Chapter summary

42 İhsan Necipoğlu, President, Dow Turkey and Central Asia • Interview

43 Onur Kipri, General Manager, Ak-Kim • Interview

44 Kerim Kemahlı, CFO, Nurol Holding • Interview

45 Hasan Yıldırım, CEO, Temsa • Interview

47 Manufacturing • Forum

48 Voices from the sector

50 Turan Erdoğan, CEO, Vestel Group of Companies • Interview

51 Adem Atmaca, Chairman, Atmaca Group • Interview

52 Onur Özyurt, General Manager & Board Member, Kopaş Kozmetik • Interview

53 Orhan Ögücü, Chairman, Lila Group • Interview

54 Bülent Araslı, General Manager, Belgin Oil • Interview

55 Mehmet Şerif Kanık, Founder & Chairman, Kanık Group • Interview

56 M. Süleyman Öncel, Chairman of the Board, Sentez Grup • Interview

58 Livio Manzini, Chairman & CEO, Bell Holding • Interview

59 Packaging • Forum

60 Ali Ömer Alemdar, General Manager, Üntel Kablo • Interview

61 Cables • Forum

63 Textiles • Forum

64 Yılmaz Özcan, Country Manager – Turkey, Eaton • Interview

65 Turan Koçyiğit, CEO, Vefa Group • Interview

66 Voices from the sector



67 Chapter summary: Defense

69 Ahmet Hamdi Atalay, CEO, HAVELSAN • Interview

70 Temel Kotil, President & CEO, Turkish Aerospace Industries (TAI) • Interview

71 Murat İkinci, CEO, STM • Interview

72 Turning a new leaf • Focus: Defense exports

75 Akgün Filiz, General Manager, Kale Pratt & Whitney • Interview

76 SHIPBUILDING

77 Finding its niche • Chapter summary

79 Demir Koloğlu, General Manager, Sefine Shipyard • Interview

81 M. Ömer İnce, Founder, Arena Offshore • Interview

82 Orhan Gülcek, Chairman, Cemre Shipyard • Interview

84 On par with the best • Focus: Exports to northern Europe

85 Kerim Kalafatoğlu, Chairman, Ares Shipyard • Interview

86 Mehmet Gazioğlu, General Manager, Tersan Shipyard • Interview

87 Ömer Malaz, Chairman, Numarine • Interview



88 MINING & METALS

89 Realized potential • Chapter summary

91 Fatih Dönmez, Minister of Energy and Natural Resources • Interview

92 Murat Güreşçi, General Manager, Çayeli Bakır • Interview

95 Ali Emiroğlu, CEO, Miners Association of Turkey (TMD) • Interview

96 Golden bull • Focus: Gold production

98 Sami Habbab, CEO, Delta Group • Interview

100 Ömer Mafa, CEO, Cengiz Holding • Interview

101 Vehip Kaçı, President, & Ulrich Ruppel, Vice President, DMT GmbH & Co, Turkey • Interview

102 IT & TELECOMS

103 Full speed ahead • Chapter summary

104 Murat Erkan, CEO, Turkcell • Interview

105 Ümit Önal, CEO, Türk Telekom • Interview

106 Technology • B2B

107 All a click away • Focus: E-giants

109 Metin Balci, General Manager, ULAK Communications • Interview

110 Bengü Atamer, Co-Founder & COO, BuzzMyVideos • Interview

111 Voices from the sector

112 ENERGY

113 Investing in security • Chapter summary

114 Mesut İlter, General Manager, SOCAR - STAR Refinery • Interview

115 Sean Guest, CEO, Valeura Energy • Interview

116 Renewable energy • Forum

117 Road to self-sufficiency • Focus: Offshore drilling in Cyprus



118 TRANSPORT

119 Streamlined • Chapter summary

120 Mehmet Cahit Turhan, Minister of Transport and Infrastructure • Interview

121 Turhan Özen, Chief Cargo Officer, Turkish Airlines • Interview

122 Stay fly • Focus: Istanbul's new airport

123 Export facilitation • B2B

124 Claus Lassen, Managing Director, DHL Express Turkey • Interview

125 Salim Güneş, CEO, MNG Kargo • Interview

126 Lars Hoffmann, VP and Head of Mediterranean Business Unit, DFDS • Interview

127 Erik Leiss, CEO, DB Schenker Arkas • Interview

128 Ali Avcı, Chairman of the Board, Ceynak • Interview

129 Thomas Konietzko, EVP, Sales and Marketing, Çelebi Aviation Holding • Interview



130 REAL ESTATE & CONSTRUCTION

131 Seeking stability • Chapter summary

134 Umut Şenol, Managing Partner & Chairman of the Board, Core Media • Interview

135 Hakan Gümüş, General Coordinator, GABORAS • Interview

136 Tamer Çiçekçi, CEO, Reha Medin Global • Interview

137 Whole new latitude • Focus: Turkish contractors in Africa

138 AGRICULTURE & FOOD

139 Food for thought • Chapter summary

141 Özen Altıparmak, Chairman, Altıparmak • Interview

142 Hakan Koçoğlu, General Manager, Assan Foods • Interview

143 Turkey in a nutshell • Focus: Multinational agri-food companies

144 Turkish cuisine • Forum

145 Mehmet Ali Işık, Chairman, Işık Tarım • Interview

147 Voices from the sector

148 HEALTH & EDUCATION

149 Vital signs • Chapter summary: Health

150 Mehmet Ali Aydınlar, President of Board of Directors, Acıbadem Healthcare Group • Interview

153 Leyla Alaton, President, Alvimedica • Interview

154 Hasan Ulusoy, Chairman, Nobel İlaç • Interview

156 Ayhan Öztürk, Regional Vice President for Turkey, West Asia, and Levant, Medtronic • Interview

157 Slice of life • Focus: Medical devices

159 Souheil El Hakim, CEO, Bıçakcılar • Interview

160 Süha Taşpolatoğlu, CEO, Abdi İbrahim • Interview

161 Chapter summary: Education

163 Çağrı Bağcıoğlu, President of the Board of Trustees, İstanbul Bilgi University • Interview

164 Education • Forum

166 TOURISM

167 Come one, come all • Chapter summary

168 Mete Vardar, Chairman, Jolly • Interview

171 Uğur Talayhan, Regional Vice President Turkey & General Manager, Swissôtel • Interview

173 Mehmet Mengü, Managing Partner, Mercan Tourism • Interview

175 Voices from the sector

177 Eat, pray, love • Focus: Gastronomy & faith tourism

178 Marvels abound • Photo essay: The Black Sea region

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HOPE SPRINGS ETERNAL

In 2019, the Turkish economy found itself in a familiar position: recovering. Having fallen into an economic recession for the first time in a decade, the country was forced to employ a number of economic measures honed during the financial crises of the 1990s and 2000/2001. The year also brought with it the baggage of regional geopolitical maneuvering and an extended election cycle that seemed at times to bring Turkey to the brink. But with regional peace in sight and a four-year election-free period ahead, a return to economic stability seems imminent.

NEW ECONOMIC PLAN

Having achieved a “soft landing,” Treasury and Finance Minister Berat Albayrak laid out Turkey’s economic goals for the 2020-2022 period as part of the New Economic Program (NEP)—a revision of targets set prior to the 2018 currency crisis. The primary goals of the plan are to reduce inflation to below 5% by 2022, achieve a 5% GDP growth rate for each of the next three years, and reduce unemployment to below 10% by 2022. Albayrak cited a number of promising data points as well as key underlying economic factors as reasons for the optimistic targets.

The NEP is not without its skeptics, who cite a number of bleak economic scenarios as reasons for pause. In particular, achieving a 5% growth rate in the short term will be difficult considering high levels of corporate debt, a growing percentage of which is being classified as “non-performing” by lenders—that might dampen appetite for investment. High growth rates are also uncertain considering the Turkish economy’s dependence on the global economy, which is shaky amidst growing protectionist trade behavior.

DEALING WITH DEBT

The worries about Turkey’s corporate loan stock are focused on the energy and construction sectors, which have been key drivers of the country’s robust economic growth over the past two decades. These hard-currency loans have proved difficult to finance with lira receivables, which were nearly halved in hard-currency terms following the 2018 currency crisis. The government is mulling over several plans to deal with these souring loans, including efforts to have banks restructure the loans, the packaging and sale of non-performing loans to outside buyers, and—in the construction sector—a state-led takeover of projects.

CHEAP MONEY EVERYWHERE

Turkey started 2019 with one of the world’s highest baseline interest rates—around 24%—in an effort to contain runaway inflation. Inflation contained—and estimates beaten—the central bank embarked in July on an aggressive interest rate cutting campaign, chopping the benchmark rate by 10% in three months.



Image: Arena Offshore

The response to the interest rate cuts has been immediate among consumers and corporates. In October, car sales in Turkey doubled compared to the previous month and surged 127% YoY, reflecting a sharp increase in demand for personal financing products. Turkey's three state-owned banks—Ziraat Bankası, Halkbank, and Vakıfbank—have done more than their share, offering below-market interest rate loans for car and home sales. To further encourage privately owned banks to follow suit, the central bank in August decided that banks with higher loan growth can hold lower their reserves, in effect boosting the profits of banks willing to lend.

GOING ABROAD

As manufacturing has slowly moved from the West to the East over the past half-century, Turkey has managed to capture a number of key industries not quite suited for the Asian market. One such example is the niche shipbuilding sector, where a confluence of timely strategic decisions and market conditions has carved out several areas where Turkish companies have thrived. Among these areas include tugs, ferries, offshore vessels, commercial shipping vessels,

and other high value-added vessels.

Turkey's defense industry, which has been the country's fastest-growing export sector over the past two years, is another industry experiencing growth as a result of strategic investments and market conditions. 2019 has seen Turkey's defense exports penetrate or expand in a number of markets, largely in Asia, Africa, and Latin America. Many of these region's countries are wary of falling too far under the influence that comes with US, Russian, or Chinese defense purchases, which makes them prime targets for Turkish defense companies.

FOREIGN INVESTMENT

The single-largest foreign investment in Turkey was inaugurated in 2019. The newly opened STAR Refinery, built by Azerbaijani state oil company SOCAR, has a USD6.3-billion price tag, and its 10-million-ton annual crude oil processing capacity will reduce Turkey's current account deficit by USD1.5 billion. SOCAR has preliminary plans to invest more money into Turkey's refining sector, a trend that the government is working to incentivize nationwide. ✖

GDP PER CAPITA (2017)

SOURCE: WORLD BANK

USD10,540

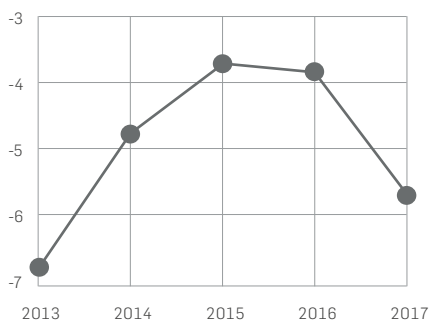
INFLATION (2018)

SOURCE: STATISTA

16.33%

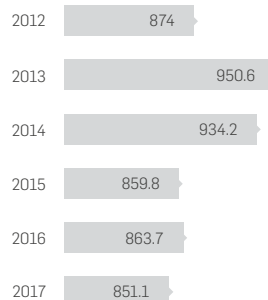
CURRENT ACCOUNT (% OF GDP)

SOURCE: WORLD BANK



GDP (CURRENT PRICES, USD BLN)

SOURCE: WORLD BANK



FEBRUARY 2019

The **STAR Refinery**, located near Izmir, formally starts operations. The USD6.3-billion investment by Azeri state oil company SOCAR represents the largest-ever foreign investment in Turkey.

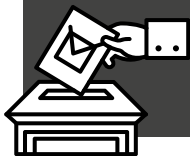


MARCH 2019

Turkey holds **local elections**. The ruling AK Party's People's Alliance secures over 50% of overall turnout while ceding mayoral control of Istanbul and Ankara to the opposition Republican People's Party (CHP).

JUNE 2019

In a re-run of the **Istanbul mayoral election**, CHP candidate Ekrem İmamoğlu wins by a comfortable margin.



APRIL 2019

The new **Istanbul Airport** opens. Once fully completed, the airport is expected to be the world's busiest, with an annual capacity of up to 200 million people.



JULY 2019

Turkey receives an initial delivery of **Russian-made S-400 missile defense systems**, a first for a NATO country. In response, Turkey is removed from the US-led F-35 joint strike fighter program.

JULY 2019

The **central bank lowers its policy rate** by 425 basis points, the first of three cuts bringing the rate down from 24% to 14% in 3 months.



NOVEMBER 2019

President Recep Tayyip Erdoğan makes his **second official White House visit** since the election of US President Donald Trump. The meeting comes during increased tensions between the two allied nations.



OCTOBER 2019

Following a **US troop withdrawal**, the Turkish military begins "Operation Peace Spring," hoping to secure a safe zone in the north of Syria.



Ankara has been the capital of the
Republic of Turkey since 1923

SOURCE: EMBASSYPAGES.COM

Number of Turkish
embassies abroad (2019)

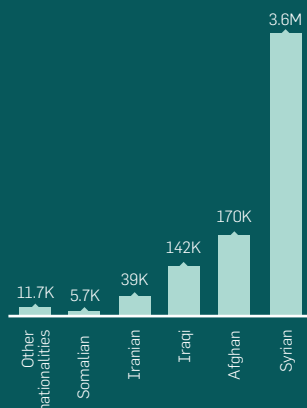
140

Number of foreign
embassies in Turkey (2019)

131

**NUMBER OF PERSONS
OF CONCERN
(AS OF JULY 2019)**

SOURCE: UNHCR





Diplomacy

BALANCED POWER

In an increasingly multipolar world, Turkey—like many nations of its stature—remains open to new partnerships. In part because of leadership dynamics and in part because of its growing involvement in international conflicts, NATO's second-largest military is forging strong ties in the international theater. Needless to say, keeping track of Turkey's changing global alignments is a dizzying task.

One way to track its international relations is to keep tabs of its top-level diplomatic meetings—meetings seemingly more important than ever in a world defined by its heads of state. Between January and November 2019, President Erdoğan officially met with Russian President Vladimir Putin six times, US President Donald Trump two times, and Chinese President Xi Jinping once. While it is difficult to measure the long-term significance of these meetings, they are certainly telling of the type of relationship Turkey has with each of these three nations.

The conflict in Syria has in part driven these leadership dynamics. Following the US military's partial withdrawal from northeast Syria, the Turkish military quickly launched Operation Peace Spring—a campaign aimed at pushing back the Kurdish-led Syrian Democratic Forces from the

Turkish border. Following the campaign, Turkey struck consecutive deals with the US and Russia to dictate the power balance in northeast Syria. In short, the outcome of the weeks-long affair diminished American influence and increased cooperation between Turkey and Russia in the region.

China brokered its power in the financial theater and largely away from the headlines. Beijing hopes to double its investments in Turkey to USD6 billion by 2021—largely in the infrastructure and energy sectors and as part of its wide-reaching Belt and Road Initiative. In June 2019, China's central bank transferred USD1 billion to Turkey in the largest-ever amount as part of a lira-yuan swap agreement signed in 2012. Turkey has signed similar swap agreements with other nations in an effort to decrease the global reliance on the dollar and euro for trade.

Turkey hopes to boost trade with all three nations. It has set identical USD100-billion annual trade targets with the Russia and the US—whose 2018 trade levels stood at USD25.7 billion and USD20.6 billion, respectively. Turkey has not set such a target with China—where trade stands at USD23.6 billion—though it has indicated it is seeking a better balance of trade, as nearly 90% of the figure is Chinese exports to Turkey. ✖



STANDING *tall*

As a valued member of international organizations with strong foreign economic and commercial relations around the world, Turkey continues to display its political clout in a new world order.

BIO

Mevlüt Çavuşoğlu is the current Minister of Foreign Affairs for the Republic of Turkey. He has served as the Minister of Foreign Affairs for the 62nd, 64th, and 65th governments of the Republic of Turkey and was appointed the first Minister of Foreign Affairs of the Presidential System of Government in 2018. Çavuşoğlu is a founding member of the Justice and Development Party (AK Party). He served as a Member of Parliament from Antalya and has held several foreign affairs roles, including as vice chairman of the AK Party in charge of foreign affairs. Çavuşoğlu received his bachelor's degree in international relations from Ankara University and completed his master's degree in economics at Long Island University in New York.

Mevlüt Çavuşoğlu
MINISTER OF FOREIGN AFFAIRS

Despite various shifts and changes over the centuries, the core functions of diplomacy persist in the 21st century. However, the “ground” and “table” of diplomacy are now broader and more multi-layered—Turkish diplomats are among the pioneers of this new diplomacy.

In places where war, coups, failing states, suffering, oppression, and bloodshed are taking place, Turkish diplomats perform their duties uninterrupted and are devoted to protecting Turkish interests. They are in constant negotiations in capitals, international organizations, and the tables of various processes.

We have developed comprehensive consultations and cooperation methods including bilateral, trilateral, quadrilateral, and other sorts of multilateral mechanisms. We are going to make more use of those not only on political but also technical levels. We continue to make a substantial contribution to regional and global stability and order through diplomacy.

Turkey is the leading country in mediation initiatives in three different international organizations. We will devote even greater attention to resolving disputes and frozen conflicts in the upcoming period.

This year, a Turkish Ambassador was elected as the Chief Monitor of the OSCE Special Monitoring Mission to Ukraine. Likewise, two very competent Turkish women were elected to important international organizations—one as a judge to the European Court of Human Rights and one as a member of the Group of Experts on Action against Violence against Women and Domestic Violence (GREVIO). We reassumed the chairmanship of the Heart of Asia-Istanbul Process, which was brought to life under our leadership. Moreover, Turkey will also be assuming the presidencies of the D-8 (Developing Eight) Organization for Economic Cooperation, Southeast European Cooperation Process, and Asia Cooperation Dialogue.

Before handing it over this year, we performed our three-year long chairmanship of the Organization of Islamic Cooperation (OIC) with the goal of revitalizing the outdated structure of the organization. Our chairmanship had an impact, and we dynamized the OIC. To name a few results of our chairmanship, we developed the Islamic Development Fund, the Center for Police Cooperation, the Contact Group of Friends of Mediation, the Women Consultative Council, and the Istanbul Arbitration Center. Regarding the Palestine cause and attacks on Jerusalem, we convened two Extraordinary OIC

“In a geography surrounded by warfare, turmoil, proxy wars, sanctions, and unbridled ambitions, is there any other democracy that has managed to become one of the top-20 global economies, all thanks to her own efforts and assets?”

Summits and three Extraordinary OIC Executive Committee meetings at foreign minister level. With these meetings, we enabled the Islamic world to speak with one voice. We defended the rights of Muslims worldwide, just as we did after the attacks on mosques in New Zealand.

Turkish diplomacy is also highly active in the development of our foreign economic and commercial relations. The amount of FDI, which was USD14.6 billion from 1984 to 2002, reached USD210 billion from 2003 to 2019. We concluded or are in negotiations for free trade and preferential trade agreements with many countries.

Turkey's interests at home and abroad require working efficiently and in a focused manner. We introduced a “3+2” principle of effectiveness to diplomacy. We strive for effectiveness at the local, regional, and global levels, plus, on the ground and at the table.

In a geography surrounded by warfare, turmoil, proxy wars, sanctions, and unbridled ambitions, is there any other democracy that has managed to become one of the top-20 global economies, all thanks to her own efforts and assets? Can anyone imagine achieving this without being active both on the ground and at the table? This is our story, and our foreign policy reflects our very own story.

Turkey is a member of NATO and the Council of Europe. We are a part of the European legal and security system. We are both the west and the east, the north and the south. Our state and nation stand tall and strong as the guarantor of regional peace and prosperity. ✖

*Sourced from the Republic of Turkey Ministry of Foreign Affairs.

THE DEMANDS OF SECURITY

With a strengthened domestic defense industry, the Turkish military, NATO's second largest, is flexing its muscle on the international stage.

THE TURKISH REPUBLIC, against remarkable odds, arose from the crucible of war. And while it long implemented founder Atatürk's principle of peace at home and peace in the world, the turbulent reality of regional politics and multi-dimensional conflicts has pre-saged a greater role for the military in the 21st century.

THE POWER OF PROXY

For almost a decade, Turkey has been actively embroiled in the horror across its Syrian border, a war indirectly fought by the world's major powers. Roughly 3 million Syrian refugees have escaped to Turkey since the conflict. Meanwhile, traffic in the opposite direction has been both humanitarian and military, as Turkey opposes the forces of President Assad and battles terrorist groups with their own agenda on Turkish soil.

GREECE AND THE EASTERN MEDITERRANEAN

Turkey, like Greece, a NATO member since 1952, has seen perennial friction with its western neighbor. Divided Cyprus aside, the pilots of both air forces have regularly buzzed each other for years. Most recently, Greece seized a Tanzanian-flagged ship bound for Libya bearing materials used in the production of explosives that had been loaded in the Turkish ports of Mersin and Iskenderun. And here we have a second proxy war, this time on African soil, pertaining to Turkey's status in the eastern Mediterranean.

The civil war plaguing Libya since the fall of Muammar Gaddafi in 2011 features one bloc comprising Saudi Arabia, the UAE, Egypt, and Israel backing General Khalifa Haftar, who seeks to overthrow the UN-recognized Government of National Accord (GNA). The other bloc comprises Turkey and Qatar. On May 18, 2019, Turkish President Recep Tayyip Erdoğan declared utmost support for the Tripoli-based Islamist administration of Fayeze al-Sarraj. No hollow words, as on May 18 Turkey sent a shipment of weapons and

armored vehicles to Islamist militias fighting the Libyan National Army (LNA). This continues to cause shock waves in neighboring Egypt, whose government is also at odds with Ankara's foreign policy. In brief, Greece argues that international waters by Libya are its own territory, which Ankara seeks to counterbalance by a foothold in that country. Turkey's concern is to avoid curbed regional authority notably related to the EU-recognized state of Cyprus. It also explains Ankara's recent EU-related dispute due to Turkey's hydrocarbon exploration off the coast of the Turkish Republic of Northern Cyprus, which the EU does not recognize.

THE MARCH FOR SELF-SUFFICIENCY

The military industrial complex is a vital part of Turkey's broader ambitions for 2023, the republic's centenary, and ambitions to rank among the world's top-10 economies. While on opposing sides in the Syrian conflict, in July realpolitik led to Turkey's receipt of the Russian S-400 anti-aircraft missile system. Washington's consequent suspension of Turkey's participation in the F35 project underscored Ankara's determination for weapons self-sufficiency. Indeed, Turkey is increasingly a military producer in its own right, and according to Stockholm International Peace Research Institute data (SIPRI) data, export units of 244 in 2017 were up more than threefold since 2010.

A long and growing array of indigenous weaponry and equipment, to name but a few, includes the Bayraktar TB2 drone, in service since 2014 notably in Syria; the T-155 Fırtına, a self-propelled howitzer with a striking distance of 40km and employed in 2017's Operation Olive Branch; and the T-129 ATAK helicopter and T-122 Multiple Barrel Rocket Launcher (MRBL). In a concerted effort, then, local public and private institutions in the military ecosystem such as Turkish Aerospace Industries and Roketsan continue to develop local content befitting Turkish aspirations on land, air, and sea. ✖

friend INDEED

Increasing bilateral trade between Turkey and US in a way that benefits both parties remains a key focus.



Wilbur Ross
US SECRETARY OF COMMERCE

BIO

Wilbur Ross has been the US Secretary of Commerce since 2017. He is the former chairman and chief strategy officer of WL Ross & Co. LLC and has over 55 years of investment banking and private equity experience. Ross has been chairman or lead director of more than 100 companies operating in more than 20 different countries. He previously served as privatization adviser to New York City Mayor Rudy Giuliani and was appointed by President Bill Clinton to the board of the US-Russia Investment Fund. Ross also was an advisory board member of Yale University School of Management. He is a graduate of Yale University and Harvard Business School.

Turkey and the US are talking about increasing bilateral trade from USD20 billion to USD100 billion. How are political differences likely to influence trade?

The way we get to USD100 billion is by reaching the point where we have USD50 billion on each side. The concept is balanced and reciprocal trade at a larger multiple of the current amount. We now have only USD20 billion.

When it comes to imposing sanctions on Turkey for its purchase of S-400 missile defense systems from Russia, the opinion in Washington appears divided. What is your personal opinion, and do you support sanctions on Turkey?

You have to look at the relationship from an overall point of view. Everything depends on everything else. I do not think you can answer one question separately from the others. I have learned never to forecast what congress or two administrations will do. The reason I am here is to try to see if we can do things in an amicable fashion. We are not seeking a big confrontation.

Traditionally, the US has championed itself as a champion of free trade and open markets. Is that changing under the Trump administration?

The policy is certainly different, but there are no free markets in the world. The people that talk about free markets the most are the Chinese and the Europeans, and they are among the most protectionist people. The reality is that the US is the least protectionist large country; it is just that we have not been as aggressive in our rhetoric about it. Our ultimate objective is to get other countries to match with their behavior their free market rhetoric.

The Chinese say their political philosophy does not seek political confrontation. They want to create win-win situations. Does the US believe that a trade war with China is inevitable?

We have been in a trade war with China in a sense for a long time. The difference is that we are now trying to negotiate a more equitable solution. We hope that we will get there. We thought we were there pretty well in May, then they went back to China and said they could not live up to what was discussed. We need them to get back to where we were in May. ✕

***Excerpt from TRT World's One on One Express: Interview with US Secretary of Commerce Wilbur Ross.**

mutually BENEFICIAL

Given the mutually beneficial relationship between Turkey and Russia, investors from both sides will find plenty of opportunities to cooperate further.

Denis Manturov
MINISTER OF INDUSTRY AND
TRADE OF THE RUSSIAN FEDERATION



Russia's partnership with Turkey is marked by intense collaboration and investment, especially in the industrial domain. We have had constructive dialogue that is reflected by our dynamics and our bilateral trade growth, which increased by 60% last year and has exceeded USD25 billion.

We have together initiated large-scale successful projects in the sphere of metal works, automobile manufacturing and construction, and the production of various materials. We see huge potential to boost our cooperation further in the areas of shipbuilding, aviation, agriculture, and the pharmaceutical industry. Apart from this, we have a number of Russian companies operating in Turkey, and the Turkish industrial business has proven to be quite a success in the Russian market. On the ground in Russia, they are represented in special economic zones like those in Tataristan. We have already

established seven enterprises that provide for a wide range of materials and items, including finished products, plastic, pipes, and materials for cars. These are excellent examples that should be used as examples of future participation by the Turkish side within the Russian Federation.

In order to cooperate even further, we need to maintain a continuous dialogue with our Turkish partners and incentivize investment in Russia even further. We will accomplish the latter through special economic zones, areas of advanced development, as well as industrial parks. We have mechanisms that offer long-term guarantees for investors and have established special preferential regimes in line with the best and most affordable work practices. We are focused on attracting advanced technology companies to invest in the Russian Federation and cooperate with Russian companies. We are ready to open access for them to enter the Russian market, and we are interested in providing certain subsidies to support them. Here, they can also cooperate with countries from all across the world.

Within the framework of our trade partnership, we also have systems and a special group to support Turkish exported goods. Within these support mechanisms, we want SMEs to be more involved. In this sense, our Turkish counterparts can make strong contri-

butions. They can focus even more on different technologies and joint projects. We could establish even more alliances and strengthen our network and cooperation even more. We could further promote this form of long-term partnership.

To summarize, I would like to say that I wish you very fruitful and interesting work. I hope you enjoy breakthrough ideas and successful and mutually beneficial projects. ✕

*Extracted from a speech given at Innoprom July 2019.

BIO

Denis Manturov has been the Minister of Industry and Trade of the Russian Federation since 2012. He previously served as Deputy Minister of Industry and Trade as well as Deputy Minister of Industry and Energy. Prior to his roles in the ministry, Manturov served as the general director of OPK Oboronprom, deputy chairman of the State Investment Corporation (Gosinkor), commercial director of Mil Moscow Helicopter Plant, and deputy general director at Ulan-Ude Aviation Plant. He has undergraduate and graduate degrees from Lomonosov MSU and a doctoral degree from Moscow Aviation Institute. He majored in law at the Russian Academy of State Service under the President of the Russian Federation.

"In order to cooperate even further, we need to maintain a continuous dialogue with our Turkish partners and incentivize investment in Russia even further."

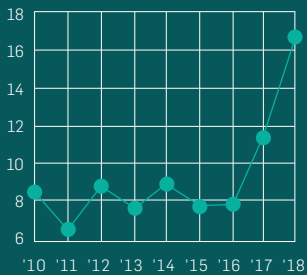
GDP GROWTH RATE (ANNUAL %)

SOURCE: THE WORLD BANK

2010	8.49
2011	11.11
2012	4.79
2013	8.5
2014	5.12
2015	6.09
2016	3.18
2017	7.44
2018	2.57

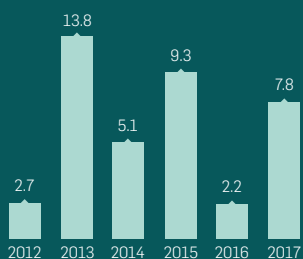
INFLATION, CONSUMER PRICES (ANNUAL %)

SOURCE: THE WORLD BANK



GROSS FIXED CAPITAL FORMATION GROWTH (%)

SOURCE: OECD



The recently opened Istanbul Airport is set to become the world's largest by passengers handled when it is complete



Economy

ROOM FOR GROWTH

The fallout of the lira's sharp decline in August 2018 was far-reaching. It impacted consumption, investment, and inflation and sent the economy into an official recession when 2018's final quarter growth figures were released.

To contain inflation, which shot above 25% in October 2018, the central bank raised its benchmark interest rate to 24%. While the move dampened demand for credit and contributed to an investment slowdown, it surpassed expectations in reducing inflation. The positive effects prompted a downward revision of year-end inflation expectations to around 12%.

With inflation steadily falling yet interest rates remaining high, calls for a changing of guard at the Central Bank began emerging from the government. Those calls were answered in early July, when Murat Uysal was appointed the new governor of the central bank. He promptly set the bank on a course of lower interest rates, slashing the benchmark rate by 10% by October.

The central bank's moves have coincided with a global appetite for expansionary monetary policy. This environment has further reinforced the timing of the rate cuts, as global investors have turned to emerging market currencies like the lira

in search of returns, thus lessening the downward currency effects often brought on by low domestic interest rates.

Turkey's economic slowdown, caused by factors mostly exogenous to the global economy, has come during a time of broad trade uncertainty. A trend of protectionist economic policies, the US-China trade war, and Brexit uncertainty caused the World Trade Organization to lower its forecast for world trade in merchandise from 2.6% to 1.2% for the year. Such global uncertainty has a high risk of exacerbating Turkey's economic woes.

While Turkish exports remained strong—in part due to the lira's weakness—imports dropped sharply due to weakened domestic demand. In the first 10 months of 2019, exports totaled USD148.84 billion, a 2.1% rise from the same period last year, while imports dropped to USD172.71 billion, a 13.2% fall.

As with most countries, Turkey is not dictating the reshaping of global trade norms, though it is heavily impacted by the result. In the meantime, it is intent on diversifying the countries on which it relies for trade, investment, and diplomatic cooperation. While this path has not been without controversy, it may prove key to navigating an increasingly complicated world. ✖

INTERVIEW



STEERING *the economy*

The central bank is focused on using all the available instruments in pursuit of price stability and financial stability in Turkey.

Murat Uysal
GOVERNOR,
CENTRAL BANK OF
THE REPUBLIC OF TURKEY (TCMB)

TCMB recently underwent a management change, most notably with your appointment as governor. Moving forward, how does the refreshed bank plan to maximize communication and enhance the effectiveness of its operations?

The way central banks all over the world communicate has constantly evolved over the last few decades. In line with this evolution, TCMB also built strong corporate communication channels and invested a great deal of attention in this area, particularly after the amendment to its law in 2001. But there is still a lot of room for improvement. So, in the upcoming period, we will try to further these endeavors together with my colleagues. Establishing effective, transparent, and inclusive communication with the public on various platforms will strongly contribute to the effectiveness of our operations and achieve our objectives. In this context, our first steps will be to increase our corporate transparency and strengthen our monetary policy communication. A few practices may come up at the top of the agenda. First, we should share more information on the monetary policy decision-making process and the reasons underlying our decisions. This is crucial for the public to understand the arguments behind the decisions of the central bank. Second, we can fill some of the missing aspects in the process of sharing data on the bank's market operations. Moreover, sharing information of higher credibility regarding our monetary policy strategy more frequently will be beneficial. Moreover, thematic speeches that express our stance on some key monetary policy issues will be useful to clarify TCMB's overall approach to the public. In addition, we continue to work on enhancing the communication of the bank with its stakeholders. Ac-

cordingly, investors, financial institutions, and corporate sector representatives, and, above all, the financial press will continue to be our main stakeholders. Explaining the importance of price stability as well as the central bank's role to all segments of society has a significant role in achieving price stability. Moreover, the consistency of policies is also extremely important, and in this context, we will work in tandem with all parties that will provide input to the processes to enhance effectiveness of the monetary policy.

Citing reduced inflation and data indicating a moderate recovery in economic activity, TCMB reduced its policy rate from 24% to 14%. Can you outline the specific goals of the rate cuts, as well as its potential risks?

Economic activity, which contracted in the second half of 2018, started to recover at a modest pace in 2019. Both domestic and external demand contributed to the recovery in the first two quarters of the year. The main driver of domestic demand was private consumption, while investment demand remained weak due to tight financial conditions and elevated levels of financial volatility. On the external demand front, despite recent signs of global slowdown, competitiveness gains and market diversification led to a solid performance in exports of goods and services, while import demand remained subdued. As a result, the contribution of net exports remained positive, also with the help of buoyant tourism demand. Recent data indicate that moderate recovery in economic activity continues. While favorable effects of improved competitiveness prevail, weakening global economic outlook tempers external demand. Looking forward, net exports are expected to contribute to economic

BIO

Murat Uysal was appointed governor of TCMB in 2019. He had previously served three years as the Central Bank's deputy governor. Prior to joining TCMB, Uysal served as the chairman of the board at Halk Invest and simultaneously as the member of the Auditing Board of Halk Investment, board member of Halk Asset Management, and as chairman of the board of Halk Asset Management. He also worked for Halkbank in various roles. He graduated from the economics department in English of the faculty of economics at Istanbul University after attending Galatasaray High School. He earned a master's degree in banking from the Institute of Banking and Insurance at Marmara University and earned his master's degree on inflation targeting and inflation targeting in Turkey and the World.

growth, although to a lesser extent, and the gradual recovery is likely to continue with the help of the disinflation trend and improvement in financial conditions. The current account balance, which has recently recorded significant improvement due to the composition of growth, is expected to maintain a moderate course. Inflation has displayed a persistent downtrend since October 2018. Tight monetary policy stance has been instrumental in controlling inflation and inflation expectations. In order to steer inflation expectations in the right direction and contain risks to pricing behavior, we have strengthened the emphasis on the role of published inflation forecasts as intermediate targets. Accordingly, we have made an explicit commitment to keep the underlying trend of inflation close to the published projections for the next three years. Accordingly, actual inflation has mostly remained close to, or even below, the lower bound of TCMB's published projections since October 2018, which has improved forecast credibility. The inflation outlook continues to improve. Over the course of the year, the relative stability of the lira and the negative output gap played a major role in disinflation, while falling import prices and food prices also contributed to the decline. We project inflation to converge to the underlying trend as the base effect fades away in the coming months. According to the October inflation report, forecast inflation will materialize around 12% by the end of 2019. The ongoing improvement in inflation dynamics and pricing behavior created room to reduce the monetary policy tightness. We delivered three rate cuts in July, September, and October, bringing the policy rate to 14% from 24%. The current monetary policy stance is largely consistent with the projected disinflation path that envisages a fall to 8.2% by the end of 2020. The easing in financial conditions supports the moderate recovery trend in economic activity by strengthening confidence and credit channels. We predict the economy will gradually return to its potential growth rate, hence the output gap will remain supportive of disinflation also in 2020. The sustained disinflation process is the key to achieve lower sovereign risk, lower long-term interest rates, and stronger economic recovery. Monetary stance should remain cautious to keep the disinflation process on track with the targeted path. We will determine the tightness of monetary policy based on the indicators of the underlying trend of inflation to ensure the disinflation process and will continue to use all available instruments in pursuit of price and financial stability.

From both a domestic and global standpoint, what are the biggest challenges facing the Turkish economy, and what are TCMB's most effective tools to solve them?

On the domestic front, steering the economy toward a sustainable growth path and ensuring financial stability are of key importance. This in turn depends on sustaining the disinflation process and achieving

“On the domestic front, steering the economy toward a sustainable growth path and ensuring financial stability are of key importance.”

price stability. Given the persistently elevated levels of medium-term inflation expectations and associated risks regarding the pricing behavior, it is crucial to keep the disinflation process consistent with the target. This requires maintaining a tight monetary stance and enhanced policy coordination that prioritizes the decline in inflation. Anchoring inflation expectations around the projected disinflation path, and ultimately around the target of 5%, will enhance the effectiveness of monetary policy and reduce possible tradeoffs associated with disinflation. The re-balancing process that the economy has undergone is smoothly evolving into a healthier growth outlook over the next year. A macro-policy mix that prioritizes the decline in inflation through strong policy coordination will improve the external financing opportunities and long-term interest rates by reducing the risk premium, which will gradually strengthen domestic demand. By preserving monetary and fiscal discipline, reducing macro-financial risks and increasing predictability in the economy, economic growth will be steered toward a balanced and sustainable path over the medium term.

Under TCMB's new leadership, what are the goals of the bank over the next 12 months?

Our main goal is to sustain the disinflation process and bring inflation down to 8.2% by end-2020. Maintaining a sustained disinflation process is the key to achieving lower sovereign risk, lower long-term interest rates, and stronger economic recovery. On the back of mildly supportive global financial conditions, we expect the level of monetary tightness and the ongoing improvement in country risk premium to contribute to the stability of the exchange rate. The improvement in the current account is also expected to support the lira. As the fall in inflation becomes more apparent and exchange rate volatility is contained, inflation expectations are expected to converge to our 2020 forecast of 8.2% in 2H 2020. Our decision-making processes will continue to be data-driven. In addition to all macroeconomic indicators, primarily inflation and economic activity, we are closely monitoring micro dynamics and field data. To enhance effectiveness of the monetary policy, we are working in tandem with all parties involved. Also, we will continue to pay effort to enhance the communication of the monetary policy, which will provide major contributions to achieving our targets. ✕

on the path TO GROWTH



The Ministry of Treasury and Finance is working toward financial stability, focusing on financial restructuring and improving the country's current account balance, in addition to boosting domestic savings.

Berat Albayrak
MINISTER OF TREASURY
AND FINANCE

*This first appeared
on Euronews.

After a year of significant reforms, the government remains committed to an ambitious agenda of economic transformation. With no elections for the next four years, Turkey offers great investment opportunities. We acted swiftly upon assuming office to restore price stability and guide the economy toward a more sustainable growth path. The results of our intervention are encouraging—inflation is already lower than a year ago, and single-digit inflation is within our grasp. The central bank continues to take measures independently to pursue its fight against inflation. In tandem, we are working to contain food prices by supporting the optimization of supply chains, with an expectation to reap the benefits of such initiatives. This is critical given food prices have been a nagging source of inflation since the early 2010s.

Following the structural transformation steps announced in April, certain policies have been implemented to improve the economic outlook in the near term as well as to increase the productivity and growth potential in the long term. Our goal is to achieve sustainable growth while addressing Turkey's main source of fragility, the chronic current account deficit, which has been financed by short-term debt.

Looking into the financial system, banks have capital adequacy ratios well above global benchmarks. However, we remain vigilant; state-owned banks received new capital injections in April, a number of privately-owned banks also raised capital, and the banking regulator has asked all banks to retain earnings. We are also developing state-of-the-art macroprudential oversight capabilities to detect systemic risks to financial stability.

The volume of credit, which contracted approximately 15% YoY, remains a serious concern. We want to ensure the system continues to provide an uninterrupted flow of credit to eligible businesses. The new law on financial restructurings shows our determination in this matter. In addition, we are keeping a close eye on banks as they work through distressed loans, particularly in the energy and construction sectors. It is worth noting that several international and domestic investors are interested in forming funds to acquire such loans. We are keen to introduce the necessary rules and regulations to

extend our support to businesses.

A major policy initiative to boost domestic savings is to be announced. This will lead to long-term growth and reduce reliance on short-term capital flows. In addition, we are filling so-called information gaps by requiring firms with domestic bank borrowings exceeding TRY100 million to submit audited financial statements to their banks before they obtain loans. A national credit rating agency will further improve the information environment and deepen capital markets. Furthermore, there is great potential for growth in the insurance industry to supplement the diversity of funding sources.

Exporters have been playing a substantial role in the improvement of Turkey's current account balance. Their tremendous entrepreneurial drive shown in diversifying export markets to over 200 countries, benefiting from modern logistics, transportation, energy, and communications infrastructure, has been the backbone of export market growth. Targeted loan programs, launched in June, have been designed to further support in this regard.

Our sovereign wealth fund along with other state institutions are actively holding discussions with strategic partners in the pharmaceuticals, petrochemicals, energy, and technology sectors in order to bolster the current account and attract foreign direct investment. In addition, significant joint exploration and production opportunities await investors in the Eastern Mediterranean. Turkey's natural endowments to become the preeminent energy, logistics, trade, and export base at the crossroads of three continents remain undeniably live and attractive.

Turkey's strong fiscal balance sheet is reassuring on the road toward re-establishing robust growth in 2H2019. We are about to undertake significant transformation of our tax code to strengthen tax administration, realize base expansion and reduce corporate taxes to create investments and jobs. Turkey's track record of fiscal discipline is self-evident and will never change. Other reforms including the effective functioning of the judicial system will be addressed before year end, contributing to a healthier and more predictable investment environment. These structural initiatives will be central looking toward the centennial of our republic in 2023. ✕

BIO

Berat Albayrak has been the Minister of Treasury and Finance since 2018. He served as the Minister of Energy and Natural Resources for the 64th, 65th, and 66th governments and has been a member of parliament. Prior to his government positions, Albayrak served as an executive in the private sector in the economics, energy, and finance fields and taught banking and finance at Marmara University. He has an undergraduate degree from Istanbul University's business department and master's and PhD degrees from New York Pace University's Lubin School of Business.

TBY ANALYTICS TURKEY 2020

106 interviews were conducted for *The Business Year: Turkey 2020* analytics. This is a breakdown of the answers to the questions we posed.

BUSINESS CONFIDENCE INDEX

How confident are you about the outlook for business in Turkey this year (1-5) ?

3.43

 AVERAGE
RATING

BREAKDOWN BY SECTOR



FINANCE

3.25

 INDUSTRY
& DEFENSE

3.3


SHIPBUILDING

3.25

 MINING
& METALS

3.2

 IT &
TELECOMS

3


ENERGY

3.5

 TRANSPORT
& LOGISTICS

3.7

 REAL ESTATE &
CONSTRUCTION

3.5

 AGRICULTURE
& FOOD

3.72

 HEALTH &
EDUCATION

3.57


TOURISM

3.75

ADVANTAGES AND CHALLENGES

What are the most commonly mentioned advantages and challenges of doing business in Turkey?

ADVANTAGES

Young population

Important export hub

Geographic location

Skilled talent

Diversified marine sector

Attractive tourist destination

CHALLENGES

Lira crisis

Fluctuating exchange rates

High inflation

Unstable economy

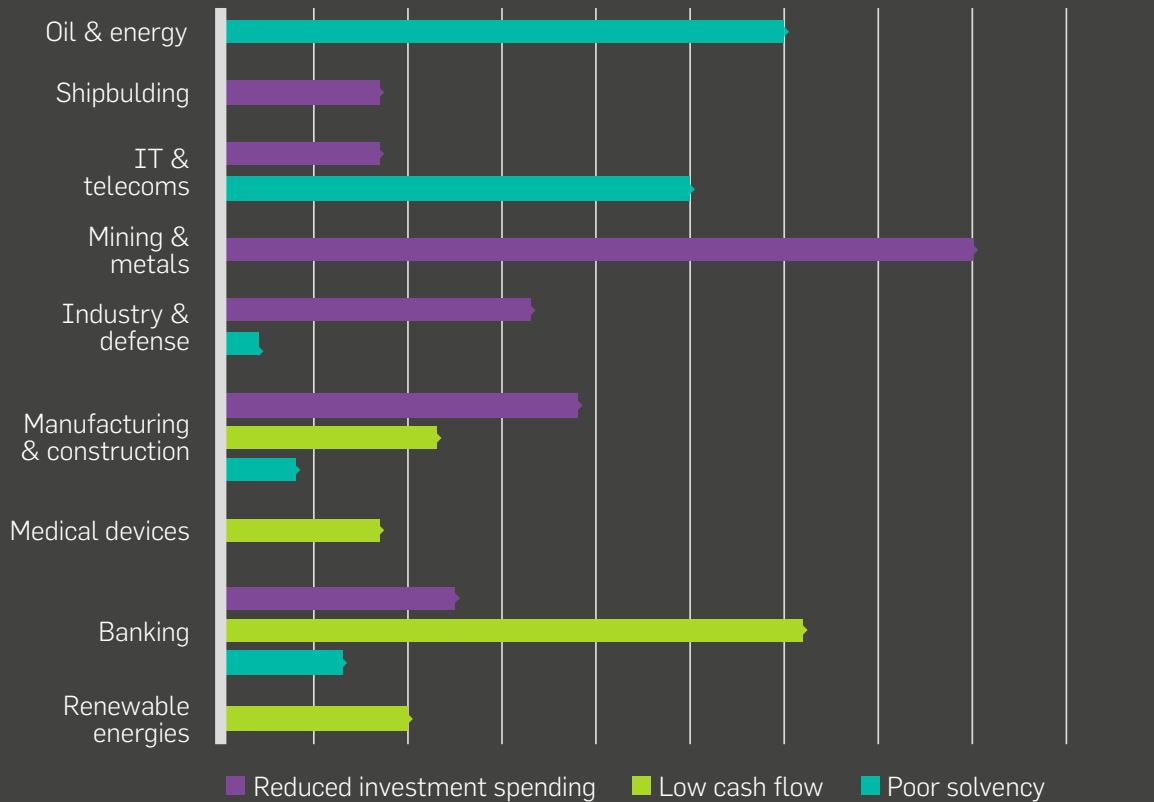
Shortage of R&D

Lack of public investment

Youth unemployment

ECONOMIC SLOWDOWN

How has the lira's depreciation negatively impacted your business?



However, there have been some advantages to the currency depreciation, especially for exporters, and the economic slowdown is not unique to the Turkish market.

“We have not been affected by the volatility of the lira and the economy. In fact, 95% of our revenue comes from export. That means domestic foreign exchange fluctuations do not affect demand for our products; however, it affects our suppliers, because they have many hard currency inputs, which requires us to be more sensitive to their situations.”

Sevda Aydın
GENERAL MANAGER,
AYTİM GROUP

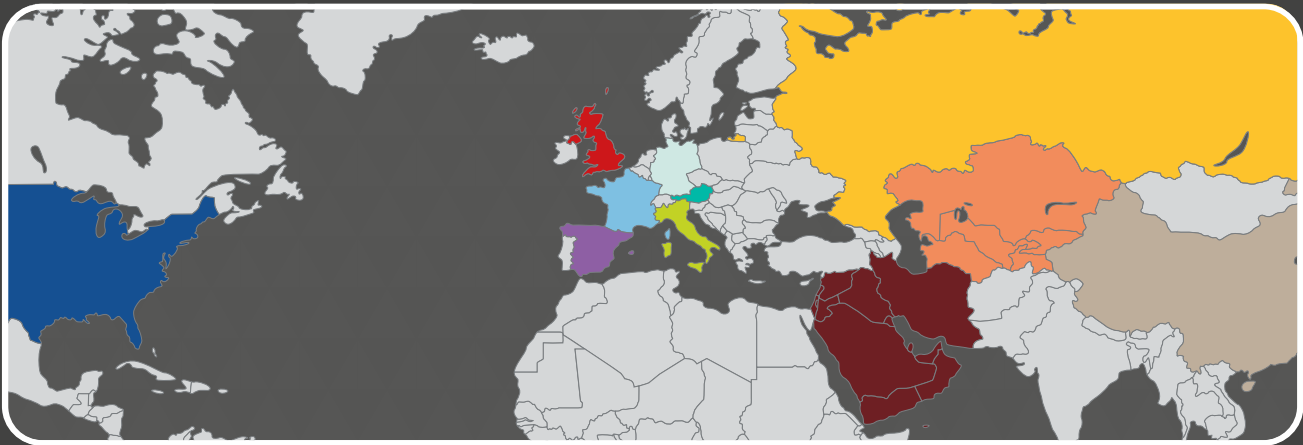
“The slowdown in 2019 was not in Turkey alone. After a strong 2018, activity around the globe hit bottom in 2019 due to economic uncertainty, trade wars, rising nationalism, government intervention, and anti-globalization. However, with its dynamic private sector, favorable demographics, sizable and growing economy, and geographical advantages, Turkey will continue to be a preferred investment location for multinationals and financial investors.”

Levent Bosut
MANAGING PARTNER,
inHERA CAPITAL

Which currency do Turkish companies feel safer to invest in?



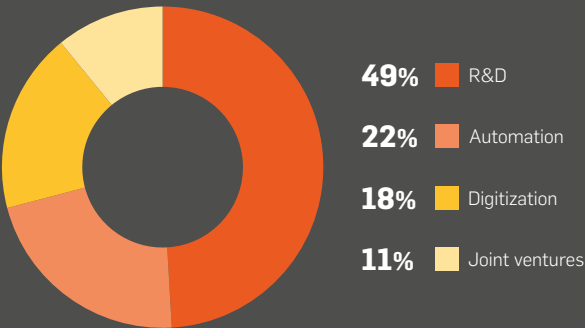
37% of our interviewees believe the lira's falling value has created a competitive atmosphere internationally for Turkish companies. How has the depreciation resulted in international investors and partnerships bilaterally?



ITALY:		Agriculture, Shipbuilding, Transport
GERMANY:		Agriculture, Energy, Industry & Defense, Mining & Metals, IT & Telecoms, Transport
FRANCE:		Agriculture, Energy, Industry & Defense, Transport
AUSTRIA:		Agriculture, Transport
UK:		Agriculture, Energy, Industry & Defense, IT & Telecoms, Real Estate & Construction, Transport
US:		Energy, Industry & Defense
THE MIDDLE EAST:		Agriculture, Energy, Industry & Defense, Mining & Metals, Shipbuilding, IT & Telecoms, Transport
RUSSIA:		Agriculture, Energy, Industry & Defense, Mining & Metals, Transport
SPAIN:		Real Estate, Industry & Defense, Agriculture, Energy
CHINA:		Agriculture, Industry & Defense, Shipbuilding, IT & Telecoms, Transport
CENTRAL ASIA:		Real Estate, Industry & Defense, Agriculture, Energy

INDUSTRY & DEFENSE

Which areas hold the greatest potential for investment in the sector?



38%
of interviewees in the sector
leverage government support
for investment projects

AGRITOURISM

How diversified is Turkey's agriculture sector?



Hazelnuts
31%



Walnuts
19%



Fruit
13%



Vegetables
13%



Honey
12%



Wheat
6%



Animal husbandry
6%

Globally, Turkey is the:

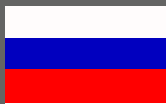
Largest
hazelnut exporter

2nd largest
honey producer

From where do the majority of tourists to Turkey come?



Germany



Russia



Dubai



Iran



Kuwait



Greece



Qatar



strengthening RELATIONS

Caner Çolak
SECRETARY GENERAL,
FOREIGN ECONOMIC
RELATIONS BOARD (DEİK)

DEİK will continue to create new and strengthen existing ties around the world through various initiatives and events.

Which Turkish industries are set to contribute most to increased exports to the US, and how is DEİK facilitating US-Turkish trade growth?

Bilateral trade between Turkey and the US has significantly grown and reached USD23 billion in 2018. However, the state of global trade and Turkish-American bilateral relations indicate a need for multi-front effort to reach target levels. As DEİK, we prepared a report with the Boston Consulting Group to analyze the ways of reaching the USD100-billion trade target set by Turkey and the US in the coming years. This report was presented to both countries' leaders and cabinet officials. According to the report, automotive and parts, textile and apparel, jewelry, civil aerospace, white goods, building materials, and furniture are the sectors identified to contribute the most towards increasing Turkey-US bilateral trade. The Turkish American Business Council (TAİK), the primary business channel between Turkey and US, has been organizing business events such as high-level roundtables and trade missions to both in Turkey and US. After US Commerce Secretary Wilbur Ross's visit in September 2019, the USD100-billion trade volume target was discussed during Turkish President Recep Tayyip Erdoğan's visit to Washington, DC in November 2019. DEİK and TAİK will closely work to realize this target by organizing more business events and creating new networks in the future.

In Turkey, what sectors of the economy are expected to see increased Chinese investment, and what Turkish products are most suitable for exporting to China?

As a result of the increase in the importance of the "China, Central Asia, West Asia Economic Corridor" in China's Belt and Road Project, Turkey will benefit more from Chinese investments in the future. In recent years, two Chinese banks have been increasing their financing activities and a Chinese insurance company has increased its support for trade finance in Turkey. Tourism represents a big area of growth with China. After tourism—although we still do not have a trade agreement with China—the food sector has the highest potential for Turkish exporters, with dried fruits, fresh fruit, and vegetables the most prominent subsectors. We also see high potential for



our branded products, such as our fashion brands in the textile sector, as well as white goods, glassware, souvenirs, and small appliances.

Outside of the immediate region, what targets has DEİK set for opening new trade relations with developing nations?

Turkey has been interesting in developing deeper economic and trade links with African countries since 2005, which Turkey declared as "Africa Year." Since then, Turkey's share in Africa's imports increased from 1% to 2.6% with a stable pace. During the same period, Turkey's number of embassies increased to 41 African countries, and Turkish Airlines now flies to 55 destinations in 37 countries on the continent. DEİK has been organizing Turkey-Africa Business Forums in Istanbul in every two years since 2016 in cooperation with Turkish Ministry of Trade and African Union Commission, hosting over 50 guest ministers and 3,000 business people from all over the African continent. Also, Turkey has free trade agreements with four African countries—Morocco, Egypt, Mauritius, and Tunisia. With the implementation of Africa Continental Free Trade Area, we expect a trade boom that will reach every corner of the continent. Having highly improved relations with Africa since 2005, Turkey will focus now more on young and developing African countries.

Over the next 12 months, what are DEİK's most important objectives?

As DEİK, our priority is to create new and strengthen existing ties around the world. We are launching events on partnerships with Japan and European countries to make joint investments in African and Asian countries. We are connecting investors in countries with Islamic to use Islamic finance to manage their investments. In order to realize this purpose, we will organize a PPP event with the Islamic Development Bank on March 2020. Africa will be a priority of ours in the future as well. Finally, along with increased Chinese investments and because of the cultural and historic ties with Turkey, Central Asian countries will be one of the most important targets for Turkish business people along with the recently announced Turkey foreign policy, "Asia Anew." ✕

BIO

Caner Çolak has been the Foreign Economic Relations Board's secretary general since 2018. He previously served as the deputy secretary general of the Turkish Exporters Assembly, a department head at the Prime Ministry Privatization Administration, an advisor to the minister at the Ministry of Economy, and in roles at the Development Bank of Turkey and Halk Bank. He graduated from Hacettepe University's Department of Economics.

FOCUS

Economic reform

TOUGH TIMES CALL FOR SWEEPING MEASURES

Treasury and Finance Minister Berat Albayrak has introduced comprehensive reforms to stabilize the nation's economy.

OFFICIALS ARE ACTING TO STABILIZE the nation's fragile economy and rebuild confidence in the banking sector following the 2018 currency crisis. On April 10, Treasury and Finance Minister Berat Albayrak introduced a sweeping economic reform package that will strengthen state banks' capital position, prioritize loans for export and other high-performing sectors, and lower corporate and individual taxes.

"We continue to uphold our fiscal discipline after the [March 2019 municipal] elections," Albayrak said during a speech on April 10 while unveiling the reform plan. "We issued tax incentives to some sectors. We will take steps that will ensure fairer taxation on higher income groups that will have minimum effect on inflation."

Outlining the long-awaited reform package, Albayrak said TRY28 billion in debt securities would be injected into state banks to boost capital. He added private banks might receive similar government aid in the future if necessary, but noted that dividend and bonus payments would be limited during the rebalancing period.

The move seeks to counter the weight posed by a large number of non-performing loans held by banks, which are expected to double in 2019. Albayrak said some problematic loans would be transferred to off-balance sheet funds of local banks and international investors, and two funds focusing on energy and real estate would be created.

Albayrak emphasized government loans would prioritize strategic sectors such as manufacturing, exports, and value-added production. Turkish exports remain competitive following the devaluation of the lira, which has narrowed the foreign trade gap by 63.6%, from USD40.8 billion in 1H2018 to USD14.85 billion in 1H2019. By injecting support into local production, Albayrak seeks to bolster Turkey's exports, nearly half of which is directed toward EU trading partners. In 1H2019, trade between Turkey and the EU amounted to USD41.4 billion.

In addition, a new government tax structure will be implanted to reduce exemptions and gradually lower corporate taxes, while combating black market activity and modifying taxes on high-income earners to create a more balanced tax scheme. Albayrak also said he plans to integrate the nation's severance pay fund with its private retirement insurance fund.

"The new individual pension system will be based on citizens' income level; in five years, we expect the funds in the new retirement reserve to exceed 10% of Turkey's GDP," he said during the April 10 speech.

While presenting the reform package, Albayrak underscored that previous budget reforms had already resulted in savings of TRY44 billion. That figure is set to cross TRY76 billion on the back of new measures. International investors observed the presentation closely, seeking assurance the central bank would move swiftly to address ongoing economic turbulence.

Following the currency crisis in August 2018, the economy suffered its worst quarterly contraction in nearly a decade, in which inflation rose as high as 25%, leaving enterprises and banks saddled with high levels of foreign-currency debt. The lira, which lost 30% of its value against the dollar in 2018 and remained volatile, stabilized in the spring of 2019 as analysts weighed the risk of higher deficits and potential government interventions.

Initial response to the reform package was positive, following which bank stocks rallied, with the majority state-owned Halkbank leading the pack with a 2% rise. The government's sustained efforts continue to bode well for the overall economy, but most importantly, they have started to bear fruit for the average citizen, as according to Turkish Statistical Institute, YoY inflation has dropped steadily over the summer period, from 18.71% in May 2018 to 15.72% in June 2019. ✖

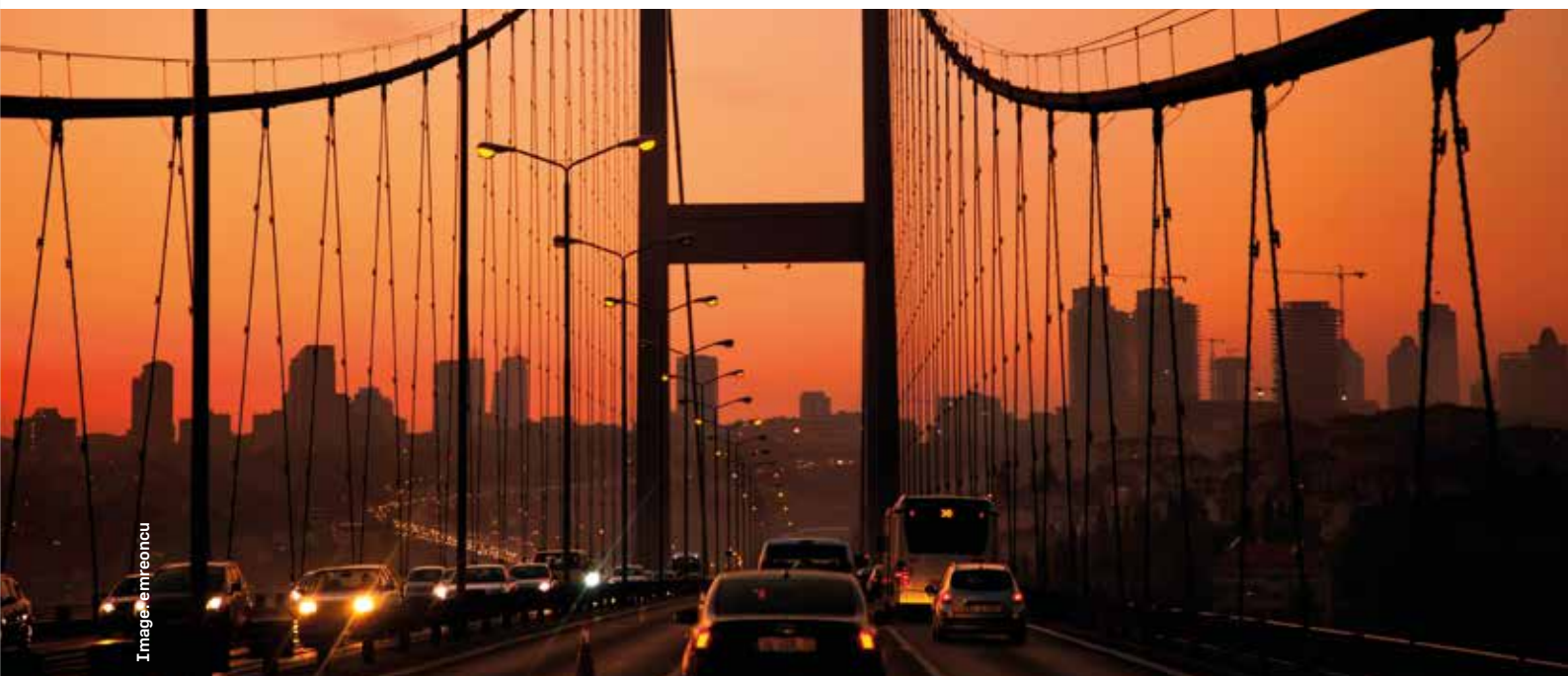


Image: emre oncu

EFFECTING REAL CHANGE

From diplomacy and finance to energy and transportation, key players in Turkey's most important sectors have their eye on preparing the country for the future.

Turkey's success story stems from its leaders' vision to steer the economy toward sustainable growth and financial stability. Despite the challenging circumstances in the last few years, regulatory and corporate strategies have been implemented to put the economy back on track, ensuring a healthier and more predictable investment environment across all sectors. Turkey continues to build and nurture political and economic ties, making a substantial contribution to regional and global stability through diplomacy. Its commercial aviation industry, which has grown by leaps and bounds in recent years, is set to gain greater momentum when Istanbul Airport, which opened in 2019, reaches full capacity. Mining, which produces vital raw material inputs for the industrial sector, also looks set to grow in the coming years, not least because. Looking toward the centennial of the Turkish Republic in 2023, the country has never been more ready to take the next step and acquire a leading role on the global stage.

Mevlüt Çavuşoğlu
MINISTER OF FOREIGN
AFFAIRS

Berat Albayrak
MINISTER OF
TREASURY
AND FINANCE

Murat Uysal
GOVERNOR,
CENTRAL BANK OF THE
REPUBLIC OF TURKEY
(TCMB)

Hüseyin Aydın
CHAIRMAN OF
THE BOARD,
THE BANKS
ASSOCIATION OF
TURKEY

Fatih Dönmez
MINISTER OF
ENERGY AND NATURAL
RESOURCES

Mehmet Cahit Turhan
MINISTER OF
TRANSPORT AND
INFRASTRUCTURE



Mevlüt Çavuşoğlu
MINISTER OF FOREIGN AFFAIRS

DESPITE VARIOUS SHIFTS AND CHANGES over the centuries, the core functions of diplomacy persist in the 21st century. In places where war, coups, failing states, suffering, oppression, and bloodshed are taking place, Turkish diplomats perform their duties uninterrupted and are devoted to protecting Turkish interests. They are in constant negotiations in capitals, international organizations, and the tables of various processes. We have developed comprehensive consultations and cooperation methods including bilateral, trilateral, quadrilateral, and other sorts of multilateral mechanisms. We will make more use of those not only on political but also technical levels. We continue to make a substantial contribution to regional and global stability and order through diplomacy. Turkey is the leading country in mediation initiatives in three different international organizations. We will devote even greater attention to resolving disputes and frozen conflicts in the upcoming period. Turkish diplomacy is also highly active in the development of our foreign economic and commercial relations. The amount of FDI, which was USD14.6 billion from 1984 to 2002, reached USD210 billion from 2003 to 2019. We concluded or are in negotiations for free trade and preferential trade agreements with many countries. Turkey's interests at home and abroad require working efficiently and in a focused manner. Our state and nation stand tall and strong as the guarantor of regional peace and prosperity.



Berat Albayrak
MINISTER OF TREASURY
AND FINANCE

AFTER A YEAR OF SIGNIFICANT REFORMS, the government remains committed to an ambitious agenda of economic transformation. With no elections for the next four years, Turkey offers great investment opportunities. We acted swiftly upon assuming office to restore price stability and guide the economy toward a more sustainable growth path. The results of our intervention are encouraging—inflation is already lower than a year ago. The Central Bank continues to take measures independently to pursue its fight against inflation. In tandem we are working to contain food prices by supporting the optimization of supply chains. This is critical given food prices have been a nagging source of inflation since early 2010s. Following the structural transformation steps announced in April, certain policies have been implemented to improve the economic outlook in the near term as well as to increase the productivity and growth potential in the long term. Our goal is to achieve sustainable growth while addressing Turkey's main source of fragility, the chronic current account deficit, which has been financed by short-term debt. Looking into the financial system, Turkish banks have capital adequacy ratios well above global benchmarks. We are also developing state-of-the-art macro prudential oversight capabilities to detect systemic risks to financial stability. **This first appeared on Euronews.*



Murat Uysal
GOVERNOR,
CENTRAL BANK OF THE
REPUBLIC OF TURKEY (TCMB)

ECONOMIC ACTIVITY, which contracted in 2H2018, started to recover at a modest pace in 2019. Both domestic and external demand contributed to the recovery in the first two quarters of the year. The main driver of domestic demand was private consumption, while investment demand remained weak due to tight financial conditions and elevated levels of financial volatility. On the external demand front, the contribution of net exports remained positive, also with the help of buoyant tourism demand. The composition of growth has a positive effect on the external balance. The current account balance, which posted a sharp improvement during the rebalancing process, is expected to remain favorable. Inflation has displayed a persistent downtrend since October 2018. Tight monetary policy stance has been instrumental in controlling inflation and inflation expectations. In order to steer inflation expectations in the right direction and contain risks to pricing behavior, we have strengthened the emphasis on the role of published inflation forecasts as intermediate targets. Accordingly, we have made an explicit commitment to keep the underlying trend of inflation close to the published projections for the next three years. Accordingly, actual inflation has mostly remained close to, or even below, the lower bound of the TCMB's published projections since October 2018, which has improved forecast credibility.



Hüseyin Aydın
CHAIRMAN OF THE BOARD,
THE BANKS ASSOCIATION
OF TURKEY

DUE TO THE SLOWDOWN IN THE ECONOMY, the banking sector saw slow growth in 2019. Total assets annually grew by 15% in nominal terms as of June 2019 and reached TRY4.2 trillion; however, in dollar terms, total assets fell by 9%. The ratio of loans to GDP was around 64% in mid-2019, while the loan-to-deposits ratio was 57%. TRY loan stock remained almost the same compared to June 2018, while FX loan stock increased by 23%—a 3% decline in USD terms. Commercial loans grew by 11% and individual loans by 1%. Commercial loans accounted for 78% of total loans, while loans to consumers took 22% of the total. SMEs' share of total loans was 25%. Inflation started to decline in the second half of 2019 and is expected to level off around 12% in December, below the target. A slowdown in domestic demand and a rather stable trend in TRY value pulled inflation down and had positive impact on expectations. According to the government program, inflation targets are 8.5% in 2020 and 6% in 2021. Demand for the TRY increased in 2Q2019 due primarily to the reverse currency substitution of residents. This caused the TRY to reach 5.8 against a USD/EUR basket in nominal terms, a considerable appreciation from 6.6 in April.



Fatih Dönmez
MINISTER OF ENERGY AND
NATURAL RESOURCES

IT IS IMPORTANT TO INCREASE THE output of the mining sector in Turkey for a number of reasons—beyond just GDP growth. Mining activity in Turkey produces vital raw material inputs for the industrial sector, and its expansion will reduce our dependence on imports. Turkey imported around USD27 billion in mining products in 2018 and exported around USD6-7 billion. Much of that USD20-billion trade deficit is from gold imports, which amounted to USD8.5 billion in 2018. We have a significant amount of imports when we look at other products such as copper, iron ore, and similar products. Contrary to what these figures might indicate, Turkey has significant mining resources—there are about 90 kinds of mining products around the world, and 70 of them exist in our country. Mining is a time- and cost-intensive activity. Investments in the sector are long-term commitments and therefore we need to be patient in this sector. The sector's expansion is also limited by environmental and location constraints. In some cases, the Ministry of Agriculture or the General Directorate of Forestry have to be consulted, and we engage in studies about the environmental and economic impact of initiating a project. There are protections in place to ensure that citizen land rights and forested lands are respected.

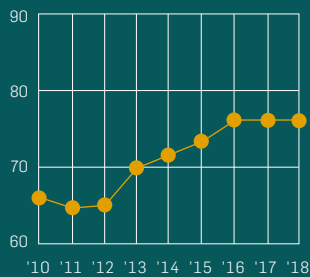


Mehmet Cahit Turhan
MINISTER OF TRANSPORT
AND INFRASTRUCTURE

THE NEW ISTANBUL AIRPORT WILL satisfy the needs of not just Istanbul and Turkey also the greater region. This project will also raise Istanbul to its deserved position in the international airline market. Istanbul Airport will also make the country a major center and a bridge among nations. We will be able to see the effects of this project in 2020, and this is really exciting for us. Furthermore, because of its geopolitical and geostrategic location, Turkey needs to be a strong maritime country. Today, 84% of global trade is being done via sea transportation. We are currently in the top 20 in terms of maritime transportation and shipbuilding. Turkey's overall maritime trade fleet is 29 million DWT. Our national shipbuilding industry has been successful in commercial shipbuilding and maintenance, in nationally designed and 100% domestically built warships, and is one of the top three industries globally for yacht building. Students are being trained in our maritime universities and other maritime schools to lead us in this industry. Ports are one of the most important parts of the logistics chain in maritime transport. Our investments are all long-term investments rather than one-year investments. When we look at the past 17 years, the point reached today is the greatest evidence that dreams can turn into reality.

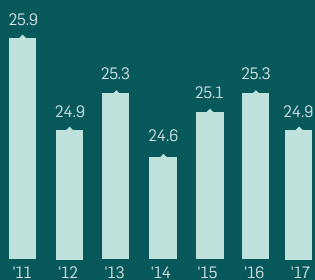
DOMESTIC CREDIT PROVIDED BY FINANCIAL SECTOR (% OF GDP)

SOURCE: THE WORLD BANK



TOTAL TAX REVENUE (% OF GDP)

SOURCE: OECD



ATMs (PER 100,000 ADULTS)

SOURCE: WORLD BANK

2010	52
2011	59
2012	63
2013	72
2014	76
2015	79
2016	78
2017	78
2018	78





Finance

CALMER WATERS

With the volatility that wreaked havoc on the Turkish economy in 2018 dampened, the banking sector began picking up the pieces of last year's financial woes in relative calm. This effort has been led by state-run banks and guided by policy changes enacted by a new guard at the central bank and an increasingly decisive regulatory regime.

Chief among the knock-on effects of the lira's volatility is a growing pile of non-performing loans (NPLs), whose ratio has climbed above 6%. These loans—primarily corporate debt belonging to companies in the energy and construction sectors—are denominated in hard currency and quickly soured when the value of these companies' lira receivables nearly halved last year. Underway are several plans to deal with the NPLs, including efforts to internally restructure the loans, the packaging and sale of NPLs to outside buyers, and a state-led takeover of construction projects.

At the end of July, weeks after his appointment as governor of the central bank, Murat Uysal cut the bank's key interest rate by 4.25%, setting in motion a plan to further drive down interest rates. The timing of the bank's initial rate cut—at a moment of global central bank rate cutting—offset a potential run on the lira as global investors turned to emerging market currencies for returns, thus propping up the lira.

Credit has indeed begun to flow more freely

to corporates and consumers alike. Three state-owned banks—Ziraat Bankası, Halkbank, and VakıfBank—have lent money at a rate considerably higher than their privately owned counterparts, even before the July drop in interest rates. To further encourage privately-owned banks to follow suit, the central bank in August decided that banks with higher loan growth can hold lower their reserves—in effect boosting the profits of banks willing to lend.

All these moves to right the economy are against the backdrop of an increasingly foreign banking sector—eight of the 20-largest banks in Turkey are foreign owned, and in the biggest transaction throughout the economy in 2019, UAE-based Emirates NBD acquired Denizbank for USD2.8 billion from Russian Sberbank. The International Commercial Bank of China—the largest bank in the world—which operates in Turkey through a subsidiary, coordinated the Turkey Wealth Fund's first foreign loan and has been increasingly lending to local banks and funding large-scale infrastructure projects as part of China's Belt and Road Initiative.

In our interviews with players from across the sector—foreign and domestic commercial banks, participation banks, investors, and institutions—we felt a sense that, while the recent volatility has certainly dented confidence, the financial sector was capitalized and prepared enough to weather the storm. ✕



STEADY *recovery*

The Banks Association of Turkey is optimistic that the central bank's decision to reduce interest rates will boost lending activity in the economy.

BIO

Hüseyin Aydın serves as the Chairman of the Banks Association of Turkey and is the current CEO of Ziraat Bank. He is also a board member of the Turkey Wealth Fund. Aydın previously served as general manager and board member of Halkbank and worked in other capacities for Pamukbank, Halkbank, and Ziraat Bank. He graduated from the Ankara Academy of Economics and Commercial Sciences.

Hüseyin Aydın
CHAIRMAN OF THE BOARD,
THE BANKS ASSOCIATION OF TURKEY

How has the economic slowdown impacted the banking sector?

Due to the slowdown in the economy, the banking sector saw slow growth in 2019. Total assets annually grew by 15% in nominal terms as of June 2019 and reached TRY4.2 trillion; however, in dollar terms, total assets fell by 9%. The ratio of loans to GDP was around 64% in mid-2019, while the loan-to-deposits ratio was 57%. TRY loan stock remained almost the same compared to June 2018, while FX loan stock increased by 23%—a 3% decline in USD terms. Commercial loans grew by 11% and individual loans by 1%. Commercial loans accounted for 78% of total loans, while loans to consumers took 22% of the total. SMEs' share of total loans was 25%.

Why has inflation fallen, and what stabilizing effects has this had on the economy?

Inflation started to decline in 2H2019 and is expected to level off around 12% in December, below the target. A slowdown in domestic demand and a rather stable trend in lira value pulled inflation down and had a positive impact on expectations. The government is targeting 8.5% inflation in 2020 and 6% in 2021. Demand for the lira increased in 2Q2019 mainly due to the reverse currency substitution of residents. This allowed the TRY rate against a USD/EUR basket to at about 5.8 in nominal terms, a considerable appreciation of the TRY from 6.6 in April.

How will the central bank's decision to reduce interest rates impact lending activity in the banking sector?

Better (lower) inflationary expectations allowed the central bank to lower policy rates below 20%, and the downward trend in inflation will support the decline

“Inflation started to decline in 2H2019 and is expected to level off around 12% in December, below the target. A slowdown in domestic demand and a rather stable trend in lira value pulled inflation down and had a positive impact on expectations.”

in interest rates. Thus, it will contribute to a fall in loan interest rates along with a fall in the funding costs of the banking sector. With the falling interest rates, the contribution of banks to the real sector and economic growth will increase.

How well suited are banks to deal with increasing ratio of non-performing loans (NPLs)?

NPLs before special provisions to loans ratio is around 4.4%. The ratio was around 4.5% for corporate loans and 3.8% for consumer loans. The ratio of restructured loans to total loans is close to 6%. The banking sector is well suited to deal with these NPLs, as the capital adequacy ratio is 17.8%, well above the regulatory ratio. Annual profitability ratios declined to 11.8% in mid-2019, from 13.7% at the end of 2018, due mainly to slow growth in loans, a squeezed interest margin, and higher special and general provision for loans. ✕

a lending HAND

Turk Eximbank prioritizes sectors with high technology and high added value as part of its economy policy and future strategy.

Bülent Aksu
CHAIRMAN,
TURK EXIMBANK



Can you outline the goals of your protocol with Turkish Exporters' Assembly (TİM) in support of Turkish exporters, as well as the details of the bank's involvement?

According to this protocol, Turk Eximbank raised TRY256 million in funding from TİM through a three-year, privately placed bond issuance. Turk Eximbank has always provided TRY credits to Turkish exporters at below-market levels. Exporters can qualify for these loans if certain conditions are met. However, amount wise, TRY credits are limited by the bank's shareholder equity. Currently, Turk Eximbank's shareholders' equity is TRY8.5 billion, of which 84% is in the form of paid-up capital. As stated in 11th Development Plan of Turkey, Turk Eximbank's equity will be increased by TRY10 billion during the plan period (2019-2023) as the bank's support increases to 29% of Turkish exports. Turk Eximbank is keen to diversify its lira sources by borrowing from qualified investors in Turkey. Thanks to the funds received from TİM, a new lira credit source has been put into service.

What sectors of the economy has Turk Eximbank identified for growth, and how is the bank working to expand credit to those sectors?

In line with the government's strategic objectives, in 1H2019, we implemented a new financial scheme in parallel with the advanced, productive, indigenous industry (İVME) financial package. In this facility, all companies exporting high-technology products are eligible to benefit from more attractive rates and conditions. Turk Eximbank will focus more on the sectors specified in the Ministry of Trade's export master plan. The sectors prioritized in this plan include machinery, automotive, electric and electronics, chemical, and food.

Another role of Turk Eximbank is to develop new markets for exports. Which markets is Turk Eximbank currently focused on developing and why?

Turk Eximbank works closely with the Ministry of Foreign Affairs, the Ministry of Trade, and the Ministry of Treasury and Finance to determine the target markets in its programs. These institutions have focused much of their efforts on building

economic and diplomatic relations with Africa. As a result, as end-2018, Turkish exports to the continent increased by more than 40% in the last 10 years to USD14.5 billion. Turk Eximbank also takes into account the requirements of sustainable lending practices to benefit recipient countries. In this manner, we provided a variety of financing opportunities for large-scale projects undertaken by Turkish contractors in the last five years, especially in the sub-Saharan Africa region, which is considered a strategic market because of its potential. Turk Eximbank is also focused on growing its operations in other regions outside Africa such as Middle East and North Africa, the Balkans, and Central Asia.

Over the next 12 months, what are Turk Eximbank's most important objectives?

As in the case of the export credit agencies of developed countries, the bank will place greater emphasis on medium- and long-term loans, export credit insurance, and guarantee operations. Under international loans program, we aim to expand the geographical distribution of loan agreements to be signed with eligible foreign banks for the purpose of providing financing to the foreign buyers willing to import goods from Turkey on deferred payment terms. Within this context, we plan to sign revolving based loan agreements with foreign banks located in MENA, Eurasia, and the Balkans. In addition, Turk Eximbank will continue to apply favorable foreign exchange interest rates to finance the export of capital goods. Furthermore, the bank places the utmost importance on developing international partnerships with other export credit agencies, international financial institutions, and multinational development banks through agreements in various forms in order to enable competitive financing opportunities. In this framework, through its credit, insurance, and guarantees, the bank aims to finance 27% of Turkey's exports via USD48.4 billion worth of support. This financing support consists of USD29.4 billion in loans and USD19 billion in export credit insurance and guarantees. ✕

Aims to finance

27%

**of Turkey's exports with
USD48.4B worth of
support**

BIO

Bülent Aksu has been the chairman of the board of directors of Turk Eximbank since 2019. He also serves as a deputy minister for the Ministry of Treasury and Finance and as a board member for Turkcell. Aksu previously served on Türk Telekom's board. He was CFO of Turkcell, CFO of SOCAR's subsidiaries Petkim and STAR Refinery, CFO and a board member for Akfel Group, and worked for Çalık Holding and Kuveyt Türk. Between 2016 and 2018, he was voted among the top 50 most influential CFOs in Turkey by Fortune Turkey. Aksu graduated from the business administration department of Istanbul University in 1996.

INTEGRATING *strengths*



Xiangyang Gao
CHAIRMAN OF THE BOARD OF DIRECTORS,
ICBC TURKEY

The largest bank in the world, ICBC is looking at channeling funding into projects and companies in Turkey that will create the highest value addition.

“ICBC Turkey will continue to contribute the development of the Turkish economy by supporting long-term domestic investments through project finance.”

BIO

Xiangyang Gao has been the chairman of the board of directors of ICBC Turkey since 2018 and also serves as chairman of the board of directors of ICBC Yatırım Menkul Değerler A.Ş. He previously served as ICBC Turkey's general manager. Gao has also worked in various positions for ICBC in its Fujian and Ningbo branches. He holds an undergraduate degree and a master's degree in business administration from Beijing University.

What initiatives in Turkey has ICBC Turkey funded, and looking forward, what are the bank's goals in Turkey in relation to Belt and Road Initiative (BRI) projects?

BRI upholds the principles of extensive consultation, joint contribution, and shared benefits. To build the “Belt and Road,” ICBC Turkey provided funds to key projects and companies especially in port management such as Kumport (shares are held by Chinese companies), Arkas, and Ceynak. Our bank also provided funds to Turkish Airlines for its operations at the new Istanbul Airport. Moreover, China has become Turkey's third-largest trade partner and second-largest importing country. Turkey is an important market for foreign investments of Chinese public contracting companies. According to the long-term commercial target between the two countries, total trade volume is targeted to exceed USD100 billion in 2020. The integration of the systemic infrastructure between China and Turkey will accelerate trade. The use of cash management products commonly used in ICBC China will also be realized in Turkey.

Can you break down the bank's lending strategy by sector?

As of 3Q2019, ICBC Turkey has TRY9.3 billion cash and non-cash loans in total. Financial institutions—mainly banks but also leasing, factoring, and consumer finance institutions—have the biggest share. They are followed by the energy and real estate sectors. Outside of domestically disbursed loans, ICBC Turkey also became the arranger of about USD2.3 billion in loans from other ICBC subsidiaries to Turkish financial institutions and corporates operating in different sectors such as real estate, construction, aviation, and port management. Moving forward, ICBC Turkey will continue to contribute the development of the Turkish economy by supporting long-term domestic investments through project finance. ICBC Turkey's main strategy is to provide a wide range of services mainly in energy, infrastructure and transportation, real estate, pub-

lic-private partnership projects, and acquisition financing in order to contribute to the Turkish economy whilst becoming the premier business partner for our customers.

Why is ICBC Turkey's NPL ratio—around 1.5%—considerably lower than the sector average, and how will this benefit ICBC Turkey moving forward?

ICBC is the largest bank in the world and has been operating in Turkey since May 2015 under the name of ICBC Turkey Bank A.Ş. Since its entry to the market, a prudent approach to lending and achieving high asset quality has been ICBC Turkey's priority. In newly established loans, this approach has been instrumental in decision-making. Our teams constantly provide analysis on a macro, sector, and company level. This detailed approach enables us to channel funding into projects and companies that will create the highest value addition.

Over the next 12 months, what are ICBC Turkey's most important strategic plans?

Under BRI, China is committed to promoting open, inclusive, pragmatic, and effective cooperation in third-party markets, so as to help Chinese and foreign enterprises utilize their complementary strengths and achieve a “1+1+1>3” all-win results in which the benefits of three-party cooperation are greater than what the parties can produce separately. Based on consolidating the Turkish market, we will also focus on other credit areas such as Greece, Israel, Azerbaijan, Georgia, and Macedonia, focusing on the BRI project, local major financial institutions clients, and Chinese and Turkish companies operating locally. We welcome other Turkish enterprises to develop those markets jointly with us. On the financial side, our bank will employ the following development plan: steady development and continuous improvement of assets, continuous enhancement of profitability and profit structure optimization, and continue to improve asset quality and increase the risk resilience. ✖

bilateral COOPERATION

BoC Turkey A.Ş. seeks to boost trade and investment between Turkey and China and act as the bridge to introduce more Chinese investment to Turkey.

Ruojie Li
GENERAL MANAGER,
BANK OF CHINA (BOC) TURKEY A.Ş.

How have BoC's operations and strategy in Turkey have changed since the bank began its official operations in 2018?

BoC has been present in Turkey since 2011 through a representative office. After the announcement of the Belt and Road Initiative (BRI) by Chinese President Xi Jinping in 2013, Turkey was defined as an important country by the Chinese government. Looking at the long-term prospective of the Turkish economy, and the improved bilateral relationship between Turkey and China, the bank resolved to invest in Turkey in 2015 to establish an operational agency. BoC Turkey A.Ş., a fully owned subsidiary of BoC Limited, started banking business in Turkey in May 2018. With the start of the subsidiary, the bank plans to increase its credit portfolio in a rapid and healthy manner under a prudential risk management approach. Given the fact that we are still at the beginning phase, we expect a higher annual increase rate in total loan and deposit base on a YoY basis higher than the average level in the local banking industry compared to our peers.

“BoC Turkey A.Ş. will continuously endeavor to identify demand and finance eligible large ticket projects in Turkey, particularly in energy and infrastructure.”

In 1Q2019, BoC Turkey A.Ş. increased its loan portfolio by over 70%. Broadly speaking, what has 2019 represented thus far for the bank's expansion within Turkey?

Since BoC Turkey A.Ş. became operational, BoC has financed more than USD1.1 billion worth of deals within Turkey, demonstrating its commitment to continuous work with local corporate partners. Currently, the bank has adopted a strategy geared toward corporate banking. Its prospective clients include top local corporates, cross-border corporates—especially those with links to China, including their subsidiaries in Turkey—and local financial institutions. In the first year of its operations, BoC Turkey A.Ş. has identified, financed, and facilitated the financing of some eligible large ticket projects in Turkey, particularly in energy, infrastructure, transportation, and banking sectors by utilizing BoC's global network and financial strength.

Looking at BoC Turkey A.Ş.' corporate lending strategy, can you break down the bank's corporate loan portfolio by sector?

Bilateral trade and investment volume between China and Turkey continue to increase. The relationship between China and Turkey has improved in recent years due to great efforts by the two governments. BoC Turkey A.Ş.' main drive is to support the cooperation of trade, investment, and finance between the two countries while contributing to the realization of China's BRI and Turkey's Middle Corridor Plan. The bank has made great efforts to introduce entrepreneurs

to the Chinese and Turkish economies to increase bilateral trade volume and do our best to bring more Chinese entrepreneurs and financial institutions to invest in Turkey.

What BRI projects in Turkey has BoC Turkey funded, and looking forward, what are your goals in Turkey for funding BRI projects?

Since the establishment of diplomatic rapport in 1971, Turkey and China have followed a course to develop their political and economic ties. Chinese investments in Turkey have expanded in a wide array of sectors including infrastructure, energy, transportation, telecommunication, technology, and finance. One of the last examples of such investments is the foundation of BoC Turkey A.Ş. in Turkey as part of BoC Group's expanding strategy to finance projects complementary to BRI. Turkey is an important country within this initiative, and China is willing to boost bilateral cooperation in the area of energy, telecommunications, railways, and ports in the countries that are part of BRI. BoC Group banks have funded many projects and Chinese investors under the BRI, in the way of cash and non-cash loans, in Turkey for many years. BoC Turkey A.Ş. will continuously endeavor to identify demand and finance eligible large ticket projects in Turkey, particularly in energy and infrastructure by utilizing BoC's global network and financial strength. We aim to provide financial services that create excellent values for our customers and shareholders and strengthen financial cooperation between Turkey and China. ✕



A HELPING hand

Vakıf Katılım's mission is to support companies and sectors that are best positioned to boost Turkey's economy and reduce its current account deficit.

BIO

İkrâm Göktaş has been the CEO and a board member of Vakıf Katılım Bankası since 2015. Prior to joining Vakıf, he worked as a deputy general director at Türkiye Finans Katılım Bankası and in various positions at Anadolu Finance Institution and Garanti Bankası. Göktaş graduated from Ankara University's political sciences faculty business administration department.

İkrâm Göktaş
CEO,
VAKIF PARTICIPATION BANK (VAKIF KATILIM)

How does Vakıf Katılım differentiate itself in a competitive banking sector?

We are the only public bank in Turkey that does gold banking. We rank third among 854 institutions active in this market over a period of three years. Therefore, gold banking is our niche. We should consider its different advantages as well, in terms of reserves and such. In gold, the usage area is limited on the credit side. However, we are also the biggest public bank doing the most transactions on the Istanbul Gold Exchange. We are the leader by far in this and are constantly among the top three banks. We carried out gold exports amounting to USD425 million in this period. We do imports as well. We work as a gold correspondent. Gold will make up an important part of our strategies for the coming period. We are thinking about what we can do differently regarding gold banking right now.

What is Vakıf Katılım's strategy to hedge against the increasing number of non-performing loans (NPL) in the market?

We have not been affected as much by NPLs as other banks. We may have chosen our clients well, but our clients are still a part of this economy, so they were impacted. The sector's biggest problem has been companies declaring bankruptcy. Most that did so regretted it, because if they had sat down with banks and talked about it, they would have found refinancing solutions, especially public banks that can provide solution-oriented approaches. NPL rates increased, though they are currently on a level of 4-5%, which is manageable. Even though we acted drastically, this rate came to 2% for us. The Banking Regulation and Supervision Agency (BDDK), the Central Bank, and the Capital Markets Board (SPK) as well as independent audit companies have all created a structure to deal with NPLs. There is an increase in NPLs across the country, though Turkey's strong banking structure can handle this. Everything is returning to normal currently.

From which sectors of the economy have you seen the most demand for sharia-compliant financing?

We do not have such a sector distinction; however, we do pay attention to this. We are a public bank, and we seek to support the sectors working in parallel with the

"We are also the biggest public bank doing the most transactions on the Istanbul Gold Exchange.

We are the leader by far in this and are constantly among the top three banks."

government's new economic plan. All our products and services are Islamic, though we do not support a sector specifically. There are four important areas for us: companies that export, companies that support employment, companies that provide import substitution, and the manufacturing sector. We provide them special prices and payment terms because these are beneficial for a sustainable economy, and one of Turkey's biggest problems is its current account deficit.

Participation banks in Turkey want to capture around 15% of the banking sector's assets by 2025. From a regulatory and banking strategy standpoint, what steps need to be taken to reach that goal?

In the last 10 years, especially in the participation-banking sector, many important arrangements have been made. However, there have also been challenges. When Bank Asya was in the sector, it had a market share of 35%. After it went defunct, new participation banks opened up immediately to fill the gap. However, that market share has been filled by foreign and conventional banks; participation banks only filled a small portion of that 35%. Still, many new entrants and participation banks have broken the 5% barrier in market share, which is a magic number for us and will improve in the future; it is currently 6%. The role of a public bank is important here. The authorities are helping us overcome our biggest disadvantage, which is a lack of financial products. This is one of the most important problems in comparison to conventional banking, especially for products sold at a personal level. With new legislation and regulations, we will increase our penetration. ✕

systematic GROWTH

In order to enhance the experience of its SME and corporate customers, Kuveyt Türk plans to employ various innovations, especially for its internet and mobile channels.

Ufuk Uyan
GENERAL MANAGER,
KUYEYT TÜRK



What major strategic changes has Kuveyt Türk made in recent years to respond to changing customer preferences and market opportunities?

Kuveyt Türk has been serving retail and wholesale customers for 30 years and is the largest participation bank in Turkey in terms of asset size. Kuveyt Türk served mostly corporate customers until around 2008, when it expanded its services to retail, commercial, SME, and corporate segments. In 2009, we laid the foundations of digital banking and established a platform-based structure. We have redesigned personalized customer and employee experiences, taking into account the changing expectations of the digital generation. Thus, we aimed to create a culture of work that is transparent, simple, agile, and prominent. This process gave us the opportunity to switch from a product-oriented structure to a customer-oriented structure, from a process-oriented structure to an experience-oriented structure, and from a transaction-centered structure to an interaction-centered structure. In 2015, we expanded internationally by establishing KT Bank AG as our 100% subsidiary in Germany, becoming the first interest-free bank operating in continental Europe.

How has Kuveyt Türk been impacted by the recent economic instability?

2H2018 was an especially difficult period in terms of fluctuations in exchange rates, interest rates, and inflation, but due to the measures taken by the relevant public authorities we entered the normalization process. The efforts of banks to renew their syndicated loans were significantly successful and as a result the economy has stabilized. In this environment, maintaining the asset quality

“We have redesigned personalized customer and employee experiences, taking into account the changing expectations of the digital generation.”

for banks and minimizing the damage in their balance sheets are extremely vital. We are closely following the risks of our customers and strive to keep our non-performing loans (NPLs) at a minimum level. As a result, as of end-2018, the NPL ratio in the banking sector was 3.7%, and we managed to keep this ratio at 2.47%. Through our early prevention and monitoring committee created solely for this purpose, we ensure that our head office and branches are in close contact with each other to take timely actions. The Central Bank's decision in May 2018 to forbid the use of FX-indexed loans was an apt move. It reduced our need for foreign resources as well as the negative effect of exchange rate volatility on the market.

What are Kuveyt Türk's primary objectives and plans for the next 12 months?

In 2019, we plan to maintain the growth we achieved in the last five years. As of end-2019, we plan to reach asset size of over TRY85 billion, which we have exceeded, and a net profit of more than TRY1 billion. Regarding our priorities for 2019 and beyond, we are aiming to focus more on strategic products such as leasing, foreign trade financing, project financing, and consumer financing. In line with all these targets, we aim to be among the best-performing banks in terms of NPL ratios to sustain our asset quality. As the only bank in Turkey with two R&D centers, we place great importance on digital banking. We are selling products

produced at Architech, a technology firm we established in 2015. We positioned Architech as one of Turkey's leading technology companies, and it has an agreement with Kuwait-based banking software company ITS. We have exported many technologies, such as branch and mobile branch automation systems. The BOA Banking Platform, developed by Kuveyt Türk, will be used by more than 60 banks in more than 20 countries via ITS. At the end of three years, we will export approximately TRY120 million worth of software. Moving forward, this is one of our most important priorities. Another area we are focusing on is personalized banking experience. We will continue our efforts to bring personalized biometric security solutions to our banking processes. In addition, we will create value for technological solutions such as chatbots and audio technologies. ✖

BIO

Ufuk Uyan has been Kuveyt Türk's General Manager since 1999 and also serves as a member of the board of directors, executive committee, remuneration and nomination committee, credit committee, and asset and liability committee. He joined Kuveyt Türk as the director of projects and investments and was appointed executive vice president and later executive assistant to the CEO. Uyan previously worked for Albaraka Türk and has a bachelor's degree from Boğaziçi University's department of economics and a master's degree from Boğaziçi's department of business administration.

YOUR PLATFORM TO GROW IN QATAR AND BEYOND



Up to 100%
foreign ownership



Repatriation
of profits



Legal environment
based on English
common law



Compelling
tax & business
environment



World-class
regulator



Corporate tax on
locally-sourced
profits



Streamlined &
transparent company
registration & licensing
process



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currency

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Step one

Submit
Business Case



Step two

Submit Application
for Licence



Step three

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& Begin Operations



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مركز قطر للمال
Qatar Financial Centre

A LOAN PATH

Burdened by non-performing loans, the latest in a series of economic woes, Turkey's financial institutions are looking for a compromise.

AS A RESULT OF the lira's sharp decline in 2018, many of Turkey's biggest corporate borrowers found themselves unable to meet their hard-currency debt obligations with their slashed lira receivables. These borrowers' loans sit on the balance sheets of Turkish banks, where they are beginning to sour. Formally known as non-performing loans (NPLs), this debt accounts for over 4% of all loans in the banking sector, and many estimates see them doubling before the end of 2019.

Throughout 2019, the Ministry of Treasury and Finance has mulled different plans to support banks' restructuring of loans to the energy and construction sectors. However, talks between banks, the government, and other stakeholders have progressed slowly. No party wants to commit itself to a drastic course of action in the hope that the economy will bounce back soon.

In such times, bankers and other concerned parties have to settle for one of two solutions—they can either sell the NPLs to an external asset management company—at a lower price than the loan's original worth—and be rid of them forever or find new repayment arrangements that work for both sides.

Bad loans—as NPLs are often informally called—are sold at prices ranging from 5% to 80% of the total sum, depending on the debtor's profile and the loan's age, among other factors. Rather counter-intuitively, certain bad loans are seen as a hot commodity in the world of finance, with more investors keen to buy them than one would imagine.

International industry players such as Goldman Sachs, Deutsche Bank, and the European Bank for Reconstruction and Development (EBRD) have shown some interest in purchasing Turkish NPLs, though it is not clear whether the Turkish side is ready to sell its bad loans in bulk. Real estate, tourism, and energy sectors typically have bad loans. Japan's Orix Corp and American equity firm Bain Capital at some point seemed to be keener than other bidders to get their hands on Turkish NPLs, though no deal with either company has been finalized so far.

There are some legal obstacles in the way of trading bad loans, too. Local laws do not allow foreign companies to directly buy NPLs, which forces potential buyers to first set up a firm in Turkey or form a partnership with Turkish financiers. This gives an advantage to EBRD, as it is a 12% shareholder and former investor in a major Turkish asset management firm, Hayat Varlik. Thus far, EBRD has offered TRY100 million to Hayat to spend on the purchase of NPL portfolios.

In June 2019, Yapı Kredi, a private bank with nationwide operations, reportedly sold over TRY917 million worth of NPL debt to Turkey-based asset management companies at a discounted price of TRY26 million. Ostensibly, although no major deal has been cut for the bulk selling of NPLs, a number of smaller deals have been signed.

Both restructuring and the reselling of loans to third parties, however, mean losing money as far as banks are concerned. However, some banks are convinced restructuring is the lesser of two evils. ✕



areas of IMPROVEMENT

TurkishBank is digitizing its banking services to provide a better customer journey and improved financial services.

Mithat Arıkan
GENERAL MANAGER,
TURKISHBANK



Can you tell us about TurkishBank's investments in innovation and your strategy for technology and digital banking?

Turkey has two main advantages in digital banking: its young population and smartphone penetration ratio. Daily banking transactions, like new account opening and money transfers, have already become digital. Now, asset management and investment planning tools are also becoming digital, which will result in lower costs for banks and less commissions to be paid for customers. AI, chatbots, and blockchain technologies are also new areas of improvement for the financial sector. Individual customers can also choose robo-advice tools to manage their portfolios. TurkishBank is aware of this development and is in close contact with fintech companies, which are also becoming important players in the market. Such collaborations with fintechs will enable us to reach more customers without a huge branch network or heavy infrastructure investments. These advancements in technology will also provide banks the ability to reduce costs and allow customers to reduce their fees for banking transactions.

The Central Bank of Turkey has reduced interest rates twice in recent months. How will this impact TurkishBank's corporate lending strategy?

After the last two interest rates meetings, held by the central bank, interest rates have been cut by almost 750 basis points. We expect the central bank to continue with these actions, in line with their monetary policy. Even though these are technical figures in the finance market, they also have an important psychological influence. If customer perception is

"We are a small-sized bank in the market, so our agility enabled us to react swiftly."

negative, then they choose not to apply for any loans from banks. A drop in the rates can quickly change this perception to positive for customers and the banks. With borrowing costs expected to fall further in the coming period, credit interest rates should also fall. TurkishBank has always tried to pass along any advantages or discounts from the central bank or funding markets to the benefit of our customers, and this is how we will continue in the future.

What are the updated figures on TurkishBank's non-performing loan (NPL) ratio, and how are you working through this instability?

The NPL ratio of the local banking sector has increased, though it became more of an important issue for the local financial sector to manage this bad loan portfolio. This forced all banks to be more aware of the risks. We are a small-sized bank in the market, so our agility enabled us to react swiftly. We analyzed the market circumstances and sought to be proactive on how we could further help our customers. We are not an active player in the individual loan market and did not see such a negative impact on our individual portfolios. On the corporate side, we had some bad debt to manage. In terms of ratios, we are currently on the sector average, though in comparison to our previous level, our NPL ratio is now higher. Instead of selling any bad debt—which is a common practice

in Turkey—we sought to restructure it internally, which is the reason why our ratio is slightly higher.

What are your objectives and plans for the next 12 months?

Firstly, we are working hard on more digitalization in banking services for a better customer journey. Secondly, in Europe especially, the open banking concept is becoming a big trend, though this is not the current situation in Turkey. TurkishBank wants to be part of the open banking trend and has already entered that zone with TurkishBank UK. Another important issue is the strong synergy between TurkishBank and our subsidiary company, Turkish Investment. This improves our financial service and product offers to affluent segment customers in the market. Developing partnerships with fintech companies to fulfill customer needs in a cheaper and easier way compared to traditional banking services and products is another goal for TurkishBank Group. ✕

BIO

Mithat Arıkan is currently general manager and a board member of TurkishBank. He is also a board member of Turkish Investment and Securities, a subsidiary of TurkishBank. Arıkan joined TurkishBank in 2011 as the executive vice president in charge of credit management. He began his banking career in 1992 as an inspector and later served in various executive positions in the credit management departments of several banks. Arıkan graduated from Ankara University's faculty of political science and public administration.

STRATEGIC *gains*



Levent Bosut
MANAGING PARTNER,
inHERA CAPITAL

Given that Turkey will continue to be a preferred investment location for multinationals and financial investors, inHERA Capital stands ready to help buyers enter or expand in the country.

BIO

Levent Bosut, the founder of inHERA Capital, has led Oaklins Turkey since 1998. He is a seasoned investment banker and academic with extensive mergers and acquisitions, project financing, and restructuring transaction experience. He sold his own M&A boutique to TAIB Bank. He has held advisory and board member positions, including the chairman of Discovery Networks, Turkey and financial expert witness in the US. He taught MBA students at Rutgers, NJ, worked in venture investments in NY and in project finance at Finansbank. He holds a BS in mechanical engineering from Boğaziçi University, an MS from NJIT, and an MBA, ABD from Rutgers University.

How does the slowdown in M&A activity in Turkey fit within the global M&A narrative?

Within Turkey, M&A activity has declined from an annual average of around USD25 billion between 2010 and 2015 to less than USD10 billion in the last four years. M&A in 2019 was especially weak; however, with its dynamic private sector, favorable demographics, sizable and growing economy, and geographical advantages, Turkey will continue to be a preferred investment location for multinationals and financial investors. With the risk perception taming, international relations improving, and fundamental reforms underway, M&A deal flow and foreign investment interest will be on the rise again after 2020.

What global and domestic trends will drive M&A growth in Turkey moving forward?

The lira's depreciation has driven down asset prices. As a result, many local companies have become targets for strategic and financial investors as they may be available at lower multiples, and their performances can soar after a transformation. The normalization of Turkey, which has already started, will provide lucrative opportunities for investors who act before prices recover. Outside of this, the ongoing international trade war, specifically between China and the US, stands to benefit Turkish companies and will make acquisitions in the market more attractive. Many companies produce products that can replace Chinese- or US-made products that may be priced out of the market due to tariffs. Many local manufacturing companies have become even more competitive with the weak currency, so acquisitions accompanied by capital investments can make these companies regional champions.

In which sectors of the economy do you expect to see the most activity?

Most of the renewable and thermal power plants that have been built with substantial leverage cannot service their debts. This means many energy assets are available at attractive terms from their owners, as well as creditor banks. The automotive industry will also see a boost if some expected investments by multinational companies are carried out. We may see more automotive deals in the near future as investors try to get their share of the supply industry's growth. Naturally, the technology, service, and manufacturing sectors will have their share in M&A activity.

“We can provide a responsive and seamless service to our clients by coordinating the entire process with our international offices around the globe.”

inHERA is the Turkish office of Oaklins. What is the importance of this relationship for inHERA's business in Turkey?

Oaklins is a leading global advisory firm providing M&A, growth equity and ECM, debt advisory, and corporate finance advisory services. We have a wide coverage in 40 countries, with industry experts in 15 industries and hundreds of niche sub sectors. Within Oaklins, we can access potential buyers at the right level with the help of our colleagues in the relevant countries and sector specialties. inHERA advises financial and strategic buyers to enter or expand in Turkey, grow geographically, consolidate fragmented industries, or expand their product and service offerings. For these often complex transactions, we offer our experience to handle the intricate details, bridge the expectations and any cultural gaps, and implement convincing win-win strategies to reach successful acquisitions or disposals on behalf of our clients. While assisting Turkish companies making acquisitions abroad, we utilize the local investment banks belonging to our extensive international organization. We can provide a responsive and seamless service to our clients by coordinating the entire process with our international offices around the globe.

In which sectors of the economy has inHERA recently been active?

The sectors in Turkey that we have recently been active in include services, including healthcare, laundry, automotive, consulting, logistics, and distribution; financial services, especially insurance; and heavy and light manufacturing, including medical equipment, electronic equipment, agribusiness, F&B, packaging, and energy. We are currently working on transactions within the energy industry and the waste management sector. In line with global trends, we also expect to see some activity in the logistics sector. ✖



Pınar Kuriş
CEO,
CİGNA FİNANS

Why did Cigna choose to enter the Turkish market, and how do the combined capabilities of Cigna and QNB contribute to its competitiveness?

Cigna decided to enter the Turkish market because of its 80-million population, young demography, and geographic location. We saw a significant growth potential here in 2012 and entered the market through our joint venture with QNB Finansbank—the Turkish subsidiary of Qatar National Bank. QNB Finansbank is among the top five private banks in Turkey, with more than 5.5 million active customers in its portfolio, and it acts as our main channel. Our foremost strategy for growth has been to work closely with the bank to increase and improve integration with its branches, ATMs, internet banking, and fully digital online solutions. We are now one of the most effective insurance companies in Turkey, based on our premium production per branch, which is second in life and pension market. Another of Cigna's advantages is the strength of our own telemarketing teams, which is different from the usual outsourcing model in Turkey. Globally, Cigna is truly invested in its workforce, and that model has been applied in Turkey. We currently have 130 in-house telemarketing agents.

What technologies does Cigna Finans use to improve its services?

The future depends on analytics, and we have invested in our analytical capabilities extensively. For example, we use analytics even to recruit new agents, where we look at our top performing agents and seek to replicate their personal traits in our newly hired agents. When we understand the key parameters of sales success, we can apply those criteria to the recruitment process and pick agents who will succeed in the business. Cigna Finans was recently given the global innovation award from Cigna Global because of its use of speech analytics. In our operations, we can digitally assess the quality and effectiveness of our agents' calls. Calls are recorded and uploaded to a system that can automatically assess them. The system has AI capabilities that can recognize the effectiveness of certain word patterns, which can then be replicated by other agents in the system. It is a truly useful mix of technology and human touch, an aspect that is still vitally important for customer satisfaction.

How do Cigna's operations around the world share their technologies and best practices with one another?

Cigna's power is that it has different capabilities and different product groups in different countries. This brings a diversity of ideas that can be used throughout Cigna's global operations. We have company-wide conferences where groups from different countries attend to share their best practices and talk about new ideas. There is a great system in place to share technologies and ideas, which gives us a competitive advantage over our smaller competitors.



Uğur Tozşekerli
CEO,
AEGON TURKEY

What major strategic changes has Aegon made since its entry into the Turkish market in 2008?

When Aegon entered the Turkish market through its acquisition of Ankara Emeklilik, it set its financial and non-financial objectives. For our financial objectives, we wanted to be among the top-10 life insurance providers within 10 years and among the top five within 15 years. We have accomplished our 10-year objective and are set to accomplish the 15-year one. Within our push for greater market share, we seek sustainable profitability. We never aimed to gain market share without a sound, firm, and smart sustainability perspective. We have three non-financial objectives, and they are all correlated. The first is to become the most recommended company according to our clients, employees, and business partners. We measure this through Net Promoter Score (NPS). In order to be successful, you have to analyze the market through such measures. Our analysis showed that we were not competitive in the individual pension area. Products that fall under this line are not insurance products but financial products, and banks are the dominant player in this market. This recognition pushed us to focus our strategy on life rather than pension. The second non-financial objective is to expand our services into new customer segments. Previously, Ankara Emeklilik had only focused on small segments of the policy foundation members so we chose to expand our services to new segments as well. The third objective is to develop a strong multi-channel distribution policy. We decided to invest in all channels at the same time and make ourselves more attractive to work with through our unique value proposition. We invested heavily in skills, technology, innovation, and service. In technology, we have been using the tablet sales process to make every step digital, from lead generation to policy issuance. We have also invested in our direct sales force. Finally, we have invested in people to build up multi-skilled agile teams. Having multi-skilled people who can work in an adaptive and agile way enables a company to face any challenge.

Aegon has several channels through which it sells insurance products. Can you break down your annual turnover by channel and identify the channels from which you see growth?

It changes every year. Aegon's bank issuance ratio used to be around 20%, but it has dropped to around 10% because of growth in other channels. At present, our revenue can be broken down to 50% external agencies, 40% internal direct sales force, and the rest through bank issuance and online sales. Our strategy used to be multi-channel but we converted it recently to omni-channel. This conversion is ongoing, though it makes it easier for customers to start or finish through our online sales system, which is convenient and efficient for everyone.

MANUFACTURING, VALUE ADDED (% OF GDP)

SOURCE: THE WORLD BANK



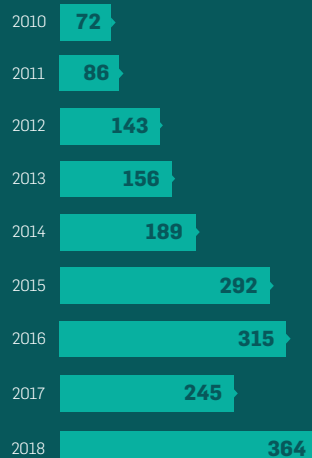
INDUSTRY (INCLUDING CONSTRUCTION), VALUE ADDED PER WORKER (CONSTANT 2010 USD)

SOURCE: WORLD BANK

2010	32.14
2011	25.66
2012	37.01
2013	38.98
2014	38.26
2015	39.76
2016	41.09
2017	43.61
2018	43.32

DEFENSE EXPORTS (USD MLN)

SOURCE: TURKISH EXPORTERS
ASSEMBLY





Industry & Defense

EXPANDING ABROAD

Turkey's industrial sector has long been a source of dynamism and employment for the economy, and has steadily accounted for around one-third of the economy's GDP. Turkey's labor costs are a fraction of those in Europe, and its education and technology levels are far greater than neighboring Middle Eastern countries—factors making it a steady destination for domestic and foreign investment.

The industrial sector's success has acted as a barometer for the economy's overall health, so when industrial output fell YoY for the 13 months following the 2018 financial crisis, economic confidence suffered. However, in September 2019, the sector released output figures showing a 3.4% YoY increase and a 3.2% MoM increase. It began to feel as if the sector has its swagger back.

Chief to the sector's survival and nascent success have been exports, which for the first nine months of the year climbed by an annual 2.6% to USD132.5 billion. Turkish exports have a notable Western orientation, with Germany, the UK, Italy, and US among the top-five destinations, and Europe alone accounting for around 60% of exports. Turkey's dependence on Western demand could prove perilous, with sanctions threats emanating from both the US and the EU during 2019 in re-

sponse to Turkish geopolitical maneuvering.

However, as a sign of Turkey's efforts to diversify its export markets, Iraq cracked the top-five export destinations according to recent figures—an encouraging sign of the country's stability and Turkey's position to capture increased demand in the region. Syria has also been cited as a target market for Turkish exporters keen to service demand as the country stabilizes.

Turkey indeed has a plan to diversify its export markets. The Ministry of Trade in August unveiled a roadmap for diversification, targeting 17 countries where it aims to double its exports. These countries include the US, Brazil, China, Ethiopia, Morocco, South Africa, South Korea, India, Iraq, the UK, Japan, Kenya, Malaysia, Mexico, Uzbekistan, Russia, and Chile—countries that currently account for a quarter of current Turkish exports.

The roadmap also includes five target sectors to be prioritized for export growth: machinery, automotive, electric-electronic, chemical, and the food industry. State-owned Türk Eximbank is key to the roadmap's growth strategy. The bank, which finances around 27% of Turkish exports, cited the five target sectors in addition to high-technology products as areas of growth for its loan portfolio. ✖

INTERVIEW



İhsan Necipoğlu
PRESIDENT,
DOW TURKEY AND CENTRAL ASIA

MAKING A *difference*

Dow's vision is to be the most innovative, customer-centric, inclusive and sustainable materials science company in the world.

Breaking down Dow's business into its three main business units—packaging, infrastructure, and coatings—where do you see the most growth potential?

The first of Dow's three segments globally is packaging solutions, which as publicly announced, constituted around half the company's net sales in 1Q2019. The next one is industrial intermediaries and infrastructure, which involves polyurethanes and industrial solutions. That accounted for around 31% of revenue. The last one is performance materials and coatings—mostly related to the paint and construction industries—which represented about 21%. When you look at Dow Turkey specifically, we work with a large customer base in all these sectors. The main business operations for Dow Turkey utilize Dow's global sourcing to supply its customers, which constitutes most of its business in Turkey. We also provide solutions through our local manufacturing capacities. Our local manufacturing units include the emulsions that we manufacture for coatings, plastic additives that we produce to modify PVC window frames, and the polyurethane systems where we formulate systems for automotive and appliances, and for insulation for the construction industry. We also operate a 50/50 joint venture with Aksa, called DowAksa, a large-scale, full-service, fully integrated provider of carbon fiber solutions for industrial applications in current and future transportation, infrastructure, and energy markets.

What balance of exported versus domestically consumed products is Dow Turkey producing?

Most of the products we make are domestically consumed or are indirect exports. This is a result of the structure of our products. For example, one of our major markets, coatings, is mostly a domestic market. At the end of the day, most of our coating solutions are liquid, and it is not feasible to transport liquid over long distances, which is why our coating exports are mostly focused on nearby locations. The plastic additives products that we manufacture are easier to transport, as these are granules, and we export to countries in close proximity. Dow Plastic Additives business' contribution to Turkey's exports was recognized by the Istanbul Chemical Products Exporters' Association (İKMİB) in the Plastic Raw Materials category in 2018 with the "Stars of Exports" award. DowAksa produces carbon fiber and various composites for wind energy, wind turbines,

"The solutions Dow provides to the appliance industry make it possible to qualify and improve energy efficiency ratings and the performance of the end products."

and wrap materials for building retrofits. Its exports are mostly generated from the materials produced for wind energy. We signed a USD300-million agreement with Vestas in 2018. We started the exports for Vestas, so that is a major item for us for value-added exports.

How do your solutions improve energy efficiency?

A fair bit of our business is indirectly related to energy efficiency. For example, our polyurethane resins for appliances are all about energy efficiency, so at the end of the day we are making a difference by reducing the amount of energy our products consume. The solutions Dow provides to the appliance industry make it possible to qualify and improve energy efficiency ratings and the performance of the end products. Similarly, DowAksa works with the renewable sectors such as wind energy. Here, we make a substantial difference by manufacturing products that increase the energy efficiency of wind turbines, such as critical parts of the blade.

Considering the increasingly environmentally conscious habits of consumers, how is Dow working to adapt its products accordingly?

A great example is what we do in the packaging market with our Pack Studios concept. The Pack Studios are a global network of packaging experts, equipment, and testing capabilities that provide the right collaborative environment for the development of better packaging. Through Pack Studios, we are able to bring key value chain players together and provide access to the whole packaging value chain in order to define functional and sustainable packaging products that will satisfy current and future consumers. This collaboration is critical to design and deliver the packaging solutions that are both innovative and environmentally friendly. ✖

BIO

İhsan Necipoğlu is the President of Dow Turkey and Central Asia and a member of the Dow Middle East, North Africa, Turkey, and India leadership team. He joined Dow Turkey in 1983 and has held a variety of domestic and international positions in the company for over 35 years. Prior to being appointed president in 2012, Necipoğlu was sales director of styrenics and performance materials for Dow Middle East, Africa, India, and Eastern Europe and head of the Turkish operations.

inorganic EXPANSION

In line with its plans for expansion, Ak-Kim is looking at acquisitions to grow the company further and even go public.



Onur Kipri
GENERAL MANAGER,
AK-KIM

Ak-Kim has recently diversified its business through the acquisitions of Gizem Frit, Dincox, and Mega Color. What motivated these three acquisitions?

In January 2015, we acquired Gizem Frit, a completely separate business from what we do at Ak-Kim. Gizem Frit is successful in the high-performance coating field. It is the most important player in the Turkish market, with 70% market share. Globally, it is among the top-three companies in the field. About 60% of its products are exported, which is important for Ak-Kim because we were previously low on exports. Dincox is a chemical distribution company based in Dortmund, Germany. It was more of an integration for us to get closer to the customer and create new opportunities. It was a natural expansion for us. Finally, through Gizem Frit, we acquired Mega Color in 2017. It is located in Castellón, Spain, one of the largest areas for ceramic production in the world. The ceramic industry is now using jet printing technology, making this acquisition complementary to our product range. Mega Color has two subsidiaries, one in China, and one in Mexico, which are helping improve exports.

Among Ak-Kim's sectors of involvement, where do you expect to see the most growth in demand in the near future? Our paper products and water treatment segments are growing quickly. We are active in two growing segments in paper: tissue and recycled paper. Looking at growth in water treatment, we see new water treatment plants being developed all around the world. Water stress is coming, and it will get increasingly severe. Another area we are also working heavily on is the composite industry, or products such as carbon fiber. We have a sister company, DowAksa, with which we have a number of R&D projects involving composite chemicals. We have already produced some important products for that company.

What complementary or entirely new business lines is Ak-Kim developing?

We have a few mature and developing business,

such as textiles, paper, construction, and water treatment. Each group has about 50-100 different products. Part of the job is to constantly improve these products. We always need new products to complete the product range and develop new complementary products. These are ongoing, though some projects are more difficult than others. Some could require small tweaks and others could require entirely new innovations. We also have projects in completely new industries or businesses. One of these is plastics. Turkey is a large consumer of plastic products and perhaps ranks third in the world for plastic imports as well as PVC consumption. We are developing these products from scratch. This is a big industry, and we must do something. Most performance additives are imported. Another area is the composite industry, and we have been selling finish oils and such. The chemical business is a long-term business.

What are your most important expansion plans in the coming three to five years?

We are starting an investment in hydrogen peroxide. We are one of two players in Turkey. We had 40,000 tons of capacity and are investing in another 40,000 tons of capacity. Demand for this product is growing globally, and this is one of our important projects. We are also after some inorganic growth initiatives. The target of the company is to make acquisitions, especially in Europe, in the EUR300-400 million range. It could be something with synergies or something new. We have a few targets in mind. We want to acquire one of these assets, combine it with our existing EUR300-million company, and eventually grow to a EUR600-700-million company. We can also attempt an IPO, probably in Europe. This is the big vision for the next three to four years. We need to identify the correct targets and raise the capital over the next year, and then we will work on merging companies and optimizing the business. The acquisition will more than double the size of the company. ✕

BIO

Onur Kipri has been the General Manager and a board member of Ak-Kim since 2014 and was appointed an executive board member of Akkık Holding, Ak-Kim's parent company, in 2019. Prior to joining Ak-Kim, he worked at Organik Kimya as a sales manager and then as managing director. Kipri is also a board member of Akkim's subsidiaries Gizem Frit and Dincox Handels GmbH. He graduated from Boğaziçi University with a business administration degree.

INTERVIEW

SOARING
success

Nurol Holding's defense and mining businesses continue to grow in line with the most important trends shaping the Turkish economy.

Kerim Kemahli
CFO,
NUROL HOLDING

“We have set up a subsidiary to design software for the flight, fuel, and landing management systems that can go into Turkey's fighter jets.”

How has Nurol Holding diversified its operations over the past decade?

Since its creation, Nurol Holding's diversification has followed Turkey's economic growth, though we have adopted a more strategic mode of planning further diversification, as evidenced in our defense sector investments. Nurol started its involvement in the defense sector in 1989 through a JV with a US defense company then known as FMC, which has since been acquired by BAE, which remains our partner. At the time, the Turkish armed forces wanted to develop a fleet of armored personnel carriers called the M113, which FMC agreed to produce in Turkey with Nurol. That partnership eventually became known as FNSS, of which Nurol is currently a 51% shareholder, with BAE holding the remaining 49%. That project was extremely profitable, and at that time Turkey was starting to push growing the indigenous defense industry to the top of the national agenda, so we began to further expand our presence in the sector. First, we set up another 100% Nurol subsidiary, Nurol Makina (Nurol Machinery) to create components for FNSS. In time, Nurol Machinery started its own R&D and began producing its own vehicles as well.

Outside of vehicles, how is Nurol further involved in the defense sector?

Turkey has been and remains a major purchaser of international defense products, but it has long been growing its indigenous industry to maximize local content, including armor. Before we decided to enter the armor sector, we invested around USD100 million into R&D to design and produce armor around 60% lighter than traditional steel armor. It is chiefly used in body armor, but it has also been a big success when used in armored and civilian vehicles. Only the US, China, and Germany have this technology, and

we have been able to sell it so far to 27 countries. Those three companies make up the majority of our defense business, but we are also beginning to work in the aerospace industry. Turkey has begun a program to build its own indigenous fighter jet program. The government has mandated that the jet be as locally produced as possible, which will further develop the broader aerospace industry in Turkey. We have set up a subsidiary here to design software for the flight, fuel, and landing management systems that can go into that aircraft. The subsidiary, BNA, is a JV with BAE, which has been operational now for two years.

What is the status of your precious mineral mining operations?

Our gold mine in Lapseki is already operational and produces between 5,000 and 6,000 ounces of gold per month. This is the first mine in Turkey that entirely abides by international standards, and the project financing is from a consortium of banks including EBRD, which has strict environmental and social impact policies. Our second gold mine is in Ivrendi and is expected to produce around 10,000 ounces of gold per month once operational. For our mining operations, our production costs—including financing costs—are at about USD550 per ounce, so at today's gold prices that equates to a minimum 55% EBITDA margin, which is excellent. The 2018 turnover with only six months of operations of the smaller facility was TRY305 million, and it will rise to over TRY1 billion this year. The mining share of the total business turnover in 2018 was only 4% and will rise to 9% in 2019 and 14% in 2020. This is while defense business sales are exponentially growing, so we can see the impact of the mine business on total turnover.

Over the next 12 months, what are your top operational objectives?

For 2019, one of our key objectives is to open the second mine facility, which hopefully will be just as successful as the first. Our biggest challenge in 2020 will be to make sure that the second mine performs as well as the first. ✕

BIO

After graduating from Heriot-Watt University in Edinburgh with a BA (Hons) in business organization, Kerim Kemahli began his career with West LB in 1990, where he held several posts ranging from credit analyst to corporate marketing manager. He also established West LB Istanbul's treasury marketing unit. Between 1996 and 1998, he managed the corporate marketing activities of Finansbank's main branch, and in 1998 he moved to Finansbank's international division. Between 2007 and 2010, Kemahli held CFO positions at Abaloğlu Holding and Çelebi Group. He joined Nurol Group in late 2010 as its CFO as well as board member of Nurol Bank, and later as board member of Nurol Holding and FNSS.

smart MOBILITY

As part of its smart mobility vision, Temsa is positioning itself as a pioneer in advancing innovations and smart products in the local transportation segment.

Hasan Yıldırım
CEO,
TEMSA



While Temsa is broadly known as a bus manufacturer, it is working toward being known as a technology company. How does this change Temsa's corporate and operational strategy?

Temsa took action long ago to prepare for technological advancements and completed the necessary R&D work, and our electric vehicles are now ready for serial production. Turkey's first 100% electrically powered buses are produced by Temsa. We are indeed evolving into a technology company with the advent of new technologies. In addition to value-added production in our bus and midibus business, we also generate solutions tailored to the needs of our customers and offer new automotive technologies developed by Turkish engineers. All our investment plans for the near future are shaped around the smart mobility vision that defines the future of the automotive industry. We allocate approximately 5% of our annual revenues on R&D activities. In addition to our leading position and experience in manufacturing electric vehicles, we also have the capability to create new segments based on the needs of domestic and international markets. We combine all of these with price advantages and advanced technologies. We already predict the transformation that the transportation and shipping industry will experience and work toward meeting our customers' future needs.

Beyond electric and autonomous buses, what other important technologies is Temsa currently working on?

Temsa continues to offer products with high technology for various segments. We strive to bring customers the most useful solutions. Across multiple segments, we are setting new standards for safety, ergonomics, and energy sav-

ings and helping every passenger safely reach their destination each day. Temsa is working on energy storage systems for buses. We are developing a new battery management system for these energy packages. We are able to build our own battery packs with our own battery management software, and this system will be ready by 2020. Another project is telemetry hardware for all transportation vehicles. We are working together with STM on Fleetics fleet management system. This system delivers vehicle data to the Amazon cloud system, allowing customers or manufacturers to track the information of the vehicle via STM's graphical user interface.

Temsa has a strong market presence in 70 markets. From which regions do most of its revenues come?

Temsa offers its broad product range to Turkey as well as the world's leading markets. As of 2019, we have exported over 12,000 vehicles to 66 countries. Today, there are 5,000 Temsa branded buses on the roads of France alone. In addition to France, Germany, the UK, and Italy are among our major markets, and we are increasing our market share in the US rapidly as well. A strong sales and service network development is the key to success in our business. We have opened Temsa North America (TNA). By establishing a more direct relationship with our North American operators, we are setting a customer-centric foundation for major growth in the years ahead. We aim to quickly increase our market share in the US. Our first electric bus in the coach segment will be on American roads within a short time. Our biggest priority in the near future will be to grow our presence in the US and increase our

market share through TNA. We will also continue strengthening our position and taking a larger market share in Europe, especially France, Italy, the UK, and Germany, which are priority export markets for us.

What are Temsa's plans and primary objectives for the next 12 months?

Our investments in R&D, technology, and innovation will continue at full speed in 2019. The digital transformation that started within the organization will also proceed with further actions. Our organizational structuring will also expand in export markets. Our priority will be growing through value-added exports in the months and years ahead. The focus of our work will be more environment friendly, green, and next-generation technologies, and particularly electric and autonomous vehicles. ✕

BIO

Hasan Yıldırım graduated from the department of economics at Nürtingen-Geislingen University of Applied Science, Germany and completed his Executive MBA at Steinbeis University. He started as a marketing executive at Fraunhofer Gesellschaft in Germany and later became its marketing manager and business development manager. He was previously a marketing analyst with Daimler-Benz, global product manager with MAN AG, and global product marketing manager with Iveco in France. Yıldırım was the global marketing manager global demo fleet, tender manager, and Far East area manager with Iveco France and Italy. Finally, he served as the general manager of 18 countries in the Far East region. He was appointed CEO of Temsa in 2017.



Image: Seyepphoto

MANUFACTURING

Constant innovation and finding ways to add value to the final product ensure manufacturing companies stay ahead of the competition.



Yunus Teksan
GENERAL MANAGER,
TEKSAN

THE AIM OF TEKSAN'S SECOND FACTORY in Kocaeli is to expand our capabilities for manufacturing. Now that we are exporting to more than 130 countries and are targeting more markets, we needed a second facility. The bottleneck at our original factory limited us to 6,000 units per year, and we faced production problems. The lead time was long, and we were not able to meet certain large orders from customers. After the second factory opened, we were able to provide our customers with more flexible solutions. The factory is designed to give us the capability to produce with short lead times and maintain stock. Kocaeli is an assembly facility whereas our Istanbul factory is a production plant, and we are using advanced manufacturing systems there that allow us to become more efficient. We are investing in technology in two areas: production and process. In this factory, we have a robotic process for critical quality and current operations. We are also putting great effort into automating our processes. Ultimately, our target is to reach maximum customer satisfaction; we want to respond to customers as fast and as accurately as possible. We also use remote monitoring technology to track our products after the sales. The main target of this solution is to have remote maintenance done on our products.



Ersin Şahin
GENERAL MANAGER &
BOARD MEMBER,
ERİN MOTOR

ERİN MOTOR IS A RECENTLY ESTABLISHED COMPANY based on Şahin Metal, which dates back to the mid-1970s. Şahin Metal works in the aluminum die-casting sector and is 100% focused on the automotive industry and exports, supplying to companies like Mercedes and Porsche. With our partners, we sought to work to create a final product with added value. Erin Motor was thus created to build internal combustion engines. Ours are industrial diesel engines, namely off-highway engines, which are engines for vehicles and machines that are not on the road. These include tractors, generators, boats, and vehicles for agricultural irrigation, for example. Our main business is producing engines, but we also provide support to different sectors and produce our own products. The biggest market we serve is the diesel engine market, which accounts for around 40% of our revenue. That's followed by generators, which make up around 30% of our revenue. Both of these sectors have high level of competition. The remaining 30% of our revenue is broken down into other sectors. Our new product is a silent generator for villas. Moreover, the company produces motor pumps for agricultural irrigation. Not all agricultural areas in Turkey have access to electricity, so diesel motor pumps are used for irrigation. We also produce marine engines for fishing boats between six and 10m.



Hakan Altınay
CHAIRMAN OF THE BOARD,
ALTINAY TECHNOLOGY GROUP

IN 1990, we set out to improve industrial robot technology with local resources in partnership with Istanbul Technical University. Our aim was to create a robotics industry in Turkey with local resources. However, venture capital investment was extremely hard to find, and we instead focused on creating systems and lines based on existing robots. For example, we are building a production line for a vehicle company that produces 100,000-150,000 cars per year. We use robots from major robot manufacturers around the world in our systems, and we do all the engineering infrastructure, system engineering, production engineering, and employee training after the installation of the line. The development of robot technology in the 1990s enabled us to work in other fields such as glass technologies, house appliance technologies, and food technologies in the 2000s. We also started to enter the control technologies of aircraft with the knowledge we accumulated over the years, and we have since established our company in aviation and advanced technologies. In 2012, we established a vehicle engineering company, and in 2015, we split the glass technologies department from the main corporation and turned it into a new company working only on glass technologies. Finally, we have started looking into electric vehicle technologies and energy storage technologies, such as battery and BMS technologies.

VOICES FROM THE SECTOR



Ahmet Coşkun
GENERAL MANAGER,
DÖNMEZ DEBRİYAJ

Dönmez Debriyaj has its roots in the automotive parts trade and distribution sector but later developed into a major producer of heavy-duty clutches. Can you provide a brief overview of this development?

Hasan Dönmez, our founder, created the company in 1986. Prior to opening production facilities, he was dealing with trade, first with food and then with transportation and spare parts for automobiles as a trader and distributor. He moved from trading and distributing to opening Dönmez's production facilities because there were no clutch producers in Turkey at that time—most were imported from Western Europe. In 1998, we moved from our small workshop to the Atatürk Industrial Zone. Each year, we add value to our business, and in 2007 we made two large steps: we began our export activities and we began supplying parts to OEMs. We have expanded our product range and currently have the second-largest selection of heavy-duty clutches in the world. We currently produce around 150,000 sets of clutches per year, 25% of which are supplied to OEMs with the rest going to independent after markets. We produce for almost all European truck and bus manufacturers, including Ford, DAF, Volvo, Scania, Renault, Daimler, MAN, and more.

What investments has Dönmez made to improve its production facilities and R&D capacity?

We produce all our stamping tools in-house. We have stamping machines, heat treatment machines, CNC machines, and assembly and testing equipment. We mainly buy raw materials and then do almost all of our operations in house, except for a few small operations that are outsourced. Our current location is 10,000sqm. Since our capacity is insufficient for our development plans, we decided to move to a new 20,000-sqm location in order to increase our capacity and be able to work with other OEMs. In 2016, we opened a R&D center with the support of the government. We now design brand-new models entirely produced by our company, which has helped improve our relationship with OEMs. We can now produce new and patented designs. Part of our development plans and capacity increases are a result of our ambitions to work with more OEMs. We need new investments and machinery. We will move to this new location at the beginning of 2020, and there we will have a significantly leaner process flow internally and increase optimization. The new facilities will reduce total lead time from six to eight weeks to four to five weeks and will increase capacity by 50% at minimum.



Sinan Gider
CEO,
BANTBORU

Bantboru initially produced pipes for the white goods sector, but eventually expanded to the automotive sector as well. From a manufacturing standpoint, how has the company evolved since its founding?

Bantboru was established in 1972, which means we have nearly 50 years of experience. We were initially established to supply the Turkish white goods sector in the early 1970s. In the early 1980s, the company introduced its products to the automotive market, with the first customer being Renault in Turkey. We then expanded our customer base to Ford and global original equipment manufacturers (OEMs) in Turkey. We are still involved in these two sectors, with around 85% of our current business coming from the automotive sector and 15% from the white goods market. In 2008, we moved our manufacturing facilities from Istanbul to Gebze after a huge investment that started in 2006. With the move to our new facilities, we increased our production by around 50%. We have two separate facilities in Gebze. One is our main production site and the other is our chemical operations site. We have an additional plant in Izmit and our most recent expansion location is in Saarbrücken, Germany, where we have a 1,000-sqm warehouse, with an additional 1,000sqm of land to expand. In Germany, we manufacture many of the machines that are used at our production site in Turkey.

To what extent are your investments in both the automotive and white goods sectors a hedging strategy?

When the 2008 crisis hit, the automotive sector was down by 35% to 40%. At that time, we were fully invested in the industry. We needed to diversify our business and reinvest in the white goods industry. We began producing products and developing new ones for the industry. Within the white goods sector, we do not have much local competition, as all the competition comes from Europe or China. We had to offer high-quality products to compete against European ones, but we also had to offer the best cost for the customer to compete against China. Many of our R&D investments from the automotive sector helped us find the right balance to compete against Europe and China. It was tough, but we are a well-known company in Turkey. Taken together, these are the reasons why we were successful in penetrating the market and are developing new products still.





Cengiz Eryılmaz
CEO & CHAIRMAN OF THE BOARD,
CONSOLID GROUP, CEOMAX

As an inventor, you recently developed and patented a new energy-saving device for boilers and especially for vehicles with the brand name Ceomax. Can you tell us about the technology, and how it allows for increased fuel efficiency?

I am the inventor and owner of the patent. The patent is applicable in the US, Japan, the EU, Switzerland, Turkey, China, Russia, South Korea, India, and Indonesia. Ceomax is the registered brand for our new invention, an improved and more effective and efficient energy saving device which could be installed onto the vehicles or boilers only in 15 minutes and has a long-term warranty. The apparatus is simple—it is mechanical, not electric, and when we install it in a vehicle, we do not modify any part or unit.

What is your business plan to go to market?

The potential market for Ceomax is huge. The strategy for our business marketing plan is to negotiate our invention directly with vehicle manufacturers themselves. My patent is granted in all countries of

the relevant vehicle manufacturer companies. So our next step will be to present our invention to the vehicle manufacturers around the world. However, the market is not limited to be used by the vehicle manufacturers and end users. The device is compatible with generators, yachts, airplanes, and any other kind of fuel-consuming engine—including the consumption of benzine, gasoline, diesel, propane, and natural gas. Up to this point, Ceomax has invested in R&D and the application and follow up costs for the patents to be granted. Soon, we will give presentations to the car manufacturers, and if we will get a positive response, we will formulate our next steps. We are focusing on producing this product in two main countries: Germany and Turkey. We would like to run and operate this business via our company in Berlin, which is one of the most important cities for global vehicle manufacturers. I want to be realistic, so we will invest EUR10 million to establish a huge factory to produce our apparatus. We may look for some partners, though we do not need investors since we have the financial capacity to invest ourselves.



WHERE PACKAGING MEETS ART



INTERVIEW



Turan Erdoğan
CEO,
VESTEL GROUP OF COMPANIES

PICTURE *in picture*

Vestel is navigating the consequences of decreased domestic demand after the devaluation of the lira in 2018, while trying to capitalize on the resulting competitive advantage in exporting its electronics overseas.

BIO

Turan Erdoğan earned his bachelor's degree in mechanical engineering from Istanbul Technical University in 1976 and his MBA from Brunel University in the UK in 1979. Following his return to Turkey, he served in managerial positions in various companies in the private sector before joining Vestel in 1988. Since 2013, Erdoğan has been serving as the CEO of Vestel Group of Companies. He served as the president of the Turkish Foreign Trade Association for two periods between 2002 and 2006. He also served as a board member of Europe's largest ICT Confederation, DIGITALEUROPE, between 2010 and 2014. He was the first Turkish citizen to be elected to DIGITALEUROPE's board.

How difficult has the development and market introduction been for Vestel's smartphone business?

The initial development was fairly difficult, though the process was aided by our experience producing television sets, smart appliances, and other devices that require processors. We invested a great deal in the R&D and production side. However, because it is a personalized item, design is extremely important. We had to develop the latest technologies in design. The introduction to market was smooth for us, as we were able to work with all of the big operators in Turkey—Turkcell, Vodafone, and Türk Telekom. Soon after release, we reached almost 10% market share, though there is now a huge influx of Chinese-made mobile phones that has reduced our market share to around 7%. Chinese mobile phone manufacturers benefit from their economies of scale and offer attractive prices. To compete with the Chinese mobile phones, as well as major players such as Samsung and Apple, we are now expanding our range and offering high-end models, entry-level models, and mid-level model phones. Our goal is to reach 20% market share in Turkey, which will allow us to benefit from the economies of scale that other large manufacturers enjoy. Once we reach that scale, we can start to export on a larger scale. Broadly speaking, having a smartphone business significantly boosts Vestel's image as a high-tech company. Our smartphones are the only fully locally designed and produced phones on the market.

How will Vestel's partnership with Google to produce Android TVs be received by the market?

We recently signed an agreement with Google to produce Android TVs, which fits in well with our broader technology strategy. For our mobile phones, we are using the same Android platform that will be used in our Android TVs. This makes production easier for us; for customers, it means if they have an Android-based mobile phone, tablet, or computer, there will be interactivity between the TV and their device.

How has the lira's depreciation affected Vestel's business?

Domestic consumption for almost ev-

"We want to position Vestel as a technology company rather than a manufacturer of appliances or consumer electronics."

ery category of our products has fallen because of the depreciation of the lira. However, it helped our exports, because a great deal of the costs in our operations is in lira. A strong lira is not good for exports, and the devaluation helped all exporters, including Vestel. The depreciation is one reason why we were able to increase our exports in 2018 and turn a solid profit. We were able to significantly increase our overall combined profit in 2018, which is reflected in our share price, which saw a 100% increase after the release of our financials.

How is Vestel investing to expand in software and other high-growth sectors?

We want to position Vestel as a technology company rather than a manufacturer of appliances or consumer electronics. That is why we are increasing our investments in R&D. We have 1,600 engineers and will increase that to a minimum of 2,000. We are investing significantly in the software side, rather than hardware and manufacturing, because software allows us to increase our value-added projects. We will continue to grow our consumer electronics and white goods manufacturing and sales, though currently our emphasis is on growing our technology projects. A result of this emphasis can be seen in our investments in the automotive and healthcare industries. We recently established a company that will penetrate the automotive electronics parts market, most notably with electric car chargers. We have installed many of these already in Turkey and abroad. We are working to expand our exports to high-growth electric car markets. We are also investing significantly to improve the connectivity of medical systems. We have extensive experience with connected devices, and these digital and connected services create new areas to offer our services and devices—such as in the health and automotive industries. ✖

strong SIGNAL

Adem Atmaca
CHAIRMAN,
ATMACA GROUP

Atmaca Group has been in the electronics business for 40 years and is preparing for the next wave of technology by investing heavily in its R&D arm.

Why has Atmaca chosen to focus its future strategy around TVs?

For the past 40 years, we have been in the consumer electronics sector. We have a good understanding of consumer needs. Atmaca Group has made many different kinds of electronics, but today it is specialized in the TV segment. A TV is no longer just a TV. Now, it is capable of many things, much like how smartphones have become extremely versatile devices. We feel fortunate as a company to offer something that people need. We are in a highly competitive market and are focused on staying ahead of the competition.

What role does R&D play in Atmaca's development of smart TVs?

Technology is getting cheaper every day and, in a few years, a smart TV will be a basic item. Our advantage is that we have our own R&D center, with around 40 engineers. There are 900 R&D centers in Turkey, and we are one of them. We do all types of designs, namely hardware, software, industrial, and mechanical. From the idea to the product, it is all done in-house. This gives us a great opportunity to cooperate with technology providers. We can easily develop the most up-to-date solutions and get them to the TV. We follow the latest trends and needs.

Atmaca is one of the largest Turkish exporters of electronics. What are the regions where you

are most focused on expanding sales?

Most of our exports go to Eastern Europe. Our export business has been going well, especially since 2018. In 2017, around 5-7% of our revenue came from exports, but in 2018 it rose to 17%. In 2019, we hope it will be more than 25%. Exports are thus rapidly increasing. The main reason for this is that our quantities are increasing, which is giving us an edge on the competition.

How does the company account for tariffs when looking at potential markets?

There are high customs taxes for some countries. In those cases, the best approach is to find a partner or invest in a plant. It is easy, in theory, but not so much in practice. Entering a market by investing in a plant is not a simple decision to make. We tried to start a facility in Egypt, but scrapped these plans in 2014.

What investments have you been making in more efficient means of production?

We have an excellent maintenance and development department in our factory. We design and produce the majority of our products. We are also producing our own robots for our production lines and transportation. We have a great team focused on efficient production. There are ways to increase production, but it is important to make it ourselves, because we know our needs better than anyone else. When we design a TV, we are not only try-

“We are in a highly competitive market and are focused on staying ahead of the competition.”

ing to make the best TV for the consumer, but one that is also most efficient to produce.

What are your goals and objectives for the year ahead?

We are trying to prepare our 8K TVs. That technology is on its way. The market is moving and we are following it. Success comes if you can follow the market and its demands. We are trying to apply the latest technology to the screen as soon as possible. We want to launch these products in 2019. ✕

BIO

Adem Atmaca has been the chairman of Atmaca Group since 2013. Prior to this appointment, he worked in Atmaca Group's foreign trade, production, and R&D units. Atmaca graduated from Marmara University with a degree in finance.

INTERVIEW



Onur Özyurt
GENERAL MANAGER & BOARD MEMBER,
KOPAŞ KOZMETİK

SKIN *in the game*

Cosmetic products are in big demand in Turkey and the region, resulting in rapid growth of Kopaş' product lines to the global marketplace.

BIO

Onur Özyurt graduated from Boğaziçi University's business administration department and received his MA degree in finance from the same university. He went on to study in Harvard Business School's management program. Özyurt joined Kopaş Kozmetik in 2013 as board member. He has served as general manager since 2014. Before joining Kopaş Kozmetik, Özyurt worked in the private equity and investment banking industries for over 13 years, participating in several transactions in Turkey, the Balkans, and the Middle East. Throughout his career, Özyurt has held board level positions in the entertainment, retail, and pharmaceutical industries.

Kopaş is a market leader across its brands, which are found in four main market categories. What drives Kopaş' considerable growth?

We doubled our turnover in the past three years. We plan to do it again in the next three. We have four main categories and four main brands, the biggest being baby care, Dalin. Dalin has 45% market share in this category, whereas the second player only has 21% market share. The category is growing by double digits, and Dalin helps drive growth in the category, which is supported by strong population growth and other positive demographic trends in other consumer businesses in Turkey. We are growing our market share within the category by increasing penetration and improving customer perception of our products. The second-biggest category is hair removal products. Its market size is bigger than baby care products for toiletries. Our Sesu depilatory product is the number-one selling item in its specific category, where we have 24% market share. In that category, demographics and penetration do not drive our growth. Instead, it is about introducing new products. The third pillar is perfumes and deodorants. Our brand is XO in that specific category. We did a re-launch in August 2018 and more than doubled our market share in only five months. It has been extremely successful for us, though this category is highly fragmented. The fourth category is hair colorants. Our products are being sold in the professional channel, namely to hairdressers.

Kopaş also has two additional business lines: a distribution services portfolio and contract products. How much do each of these contribute to Kopaş' turnover?

The distribution services portfolio business line provides distribution services to multinational companies seeking to enter the Turkish market without establishing their own sales and marketing operations. We provide distribution services only if we believe in and feel these are complementary to our own branded portfolio. This business line is relatively new—we are halfway through it, and in

“Over the next two to three years, we will expand our logistics and warehousing infrastructure because our existing production capacity is good enough.”

the past two years, we have introduced five brands to the market.

Looking to Kopaş' exports, where do you expect to see growth, and what new markets do you want to penetrate right now?

In overall consolidated sales, our export figures account for less than 10%, though our plan is to increase that figure to 40% in five years. In the most recent strategic plan, we determined three business units based on geographies. The first is called Turca, which is Turkey and Central Asia. The second geographical category is EMEA, namely Eastern Europe, the Middle East, and Africa as a whole, but particularly sub-Saharan (Nigeria and Kenya). We are in Egypt, Tunisia, and Libya already and will be in Algeria soon. We hope to be in Morocco in 2019 as well. For 2020, the big target is Nigeria and Kenya. The third geographic unit is APAC, which stands for Asia Pacific. We are currently in Malaysia and will soon be in Myanmar, Vietnam, Indonesia, Singapore, and the Philippines. We selected these regions because they have the youngest populations in the world combined with generally high GDP growth rates.

From an investment standpoint, what are your biggest plans over the next two to three years?

Over the next two to three years, we will expand our logistics and warehousing infrastructure because our existing production capacity is good enough. Abroad, there are plans to start local manufacturing, one in Africa and one in Southeast Asia. Turkey has a free trade agreement with some of these countries like Malaysia and Morocco. ✕

TISSUE growth

Lila Group is upgrading machinery to compete in the global market for tissue products, from Turkey to the US.



Orhan Ögücü
CHAIRMAN,
LILA GROUP

Lila Group was established in the mid-2000s as its parent company's investment into the tissue sector. How did the tissue sector fit into the larger company's competencies, and why did you choose to invest in this area?

Before entering the tissue business, we started in the textile business in Gaziantep, where we have more than 250 years of history in textiles. At the beginning of 1980s, we relocated to Istanbul. We were one of the five largest textile companies in Turkey but wanted to diversify and began looking for opportunities in different industries. We decided on the tissue sector because the paper industry is a big industry, and the tissue sub-sector is one of the fastest growing parts of it. The tissue industry's growth follows demographic and economic trends—as long as the GDP and population of a country is growing, tissue consumption will increase. In the tissue industry, there are two main production components—the paper mill and spinning mill. We are a fully integrated tissue company. That is why we invested in both. When we started our tissue business in 2005, we constructed green-field paper mill facilities in 2006 and made our second machine investment in 2012. On the spinning side, we started our first converting facilities in 2008 and expanded our converting capacity again in 2010 and 2015. Our production capacity is currently 150,000 tons per annum. We are also investing in the third tissue machine.

How does your sales strategy differ in Turkey versus internationally?

We are a major player in the Turkish market. Within the FMCG sector, we distribute all our products to every city of Turkey and at every sales point similar to multinationals in Turkey. Internationally, we compete with all of the major multinational FMCG companies. We export about 75% of our production, and about 70% of our revenue comes from the export business. Today, we export to 78 different countries. Internationally, we export to many converters, who buy our paper product and convert

it to tissue to meet the needs of their specific end users. We are competitive internationally because every customer is extremely important to us, big or small, and we serve them all with the same attitude and in the same manner.

What market conditions in the US led to your entry and growth in the market?

The US is a large country, and the demand in the US is extremely important for us. Mills in the US are mostly from the 1970s and 1980s and are outdated compared to the technology we use in our mills. These market conditions are some of the important aspects to our expected growth in US market share.

As a fully integrated tissue company, you compete in two separate—but related—industries. How does your operating strategy differ for each?

Looking at the two divisions—fully integrated versus converters—fully integrated companies hold about 85% of the global market share, while the remaining 15% is held by independent converters.

How does Lila Group's investment timeline differ from its multinational competitors?

For tissue production investments, multinationals make their decisions based on a period of five years. We make our decisions and react much faster than multinationals. Our investment period is about 2.5 years. Our third machine investment decision was made at the end of 2017, and we expect to have the machine running by the end of 2019 or early 2020. That will be a 50% capacity increase, which means another 75,000 tons per annum. At the same time, we are increasing our converting capacity. Today, our converting capacity is 100,000 tons per annum, and we will increase it to 120,000 tons. With the new capacities, we will serve the existing regions that we are selling today, though there are at least another 120 countries that we have not reached yet. Our target is to reach other 25-30 of those. ✖

BIO

Orhan Ögücü has been the chairman of the Lila Group since 2007. After graduating from Gaziantep Private College, he went to the UK to study mechanical engineering at the University of Manchester. Graduating with a master's degree, he returned to Gaziantep and worked as a lecturer at Middle Eastern Technical University. He started his career at Güneydoğu İplik manufacturing. In 1984, he established the Lila Group and a yarn spinning mill with his father and brothers.

INTERVIEW

Belgin Oil is on the lookout for new markets and partners to deliver oil products for both cars and factories.



SLICK *move*

Bülent Araslı
GENERAL MANAGER,
BELGIN OIL

Belgin Oil exports to around 50 countries around the world. What are your most important export markets, and in which regions are you hoping to expand?

Due to Turkey's location in the middle of Asia and Europe, around 40% of our exports go to Middle Eastern countries, 30% to Africa, 20% to Europe and the rest for the Americas and other countries. We are growing in Asia, which is one of our main goals. In Asia, we are planning to enter with all of our product lines, but most importantly with our automotive and metal working oils. In China, in particular, we want to enter with automotive oil, whereas India is a prospective market for industrial lubricants. We are equally distributed between industrial oils and automotive oils.

How does Belgin's JV in Germany support exports in the European region?

This small JV is a standalone entity manufacturing highly niche products for automotive industry. But, before that, we are continuously checking Western European companies, especially in German-speaking countries, to find an opportunity to form a JV or acquire a company. It is not easy to find a suitable company to form a JV.

Can you tell me how the strategy to market and export metal working oils and automotive oils differs?

For metal working oils, you need to understand customers' processes very well, define the needs clearly, and work to develop the business because entering a market is not easy. It requires a lot of trials, approvals, and certificates, for example. But once you are successful, it is a long-term business. Automotive oil, meanwhile, is not that difficult. It is quicker to form relations. The marketing and sales activities are easier to do.

Given the difficulty of the segment, how is Belgin working to penetrate new markets in the Middle East for industrial and metal working oil?

The key is finding the right channel or the right business partner. We work mainly through distributors who have experience in the sector, cer-

tain financial strength, and strong relationships in the relevant industries. Once we find such a business partner, we discuss and design short-term and long-term strategies together.

What are the main challenges Belgin faces in its global supply chain?

We have suppliers in and outside of Turkey. One of the main challenges for not only our company but almost all the companies in the sector is establishing long-term agreements and reliable relationships with suppliers. Another important challenge is digitalization, including automation in production and the use of big data. Our company has a large customer portfolio, exceeding 3,000 industrial companies, and we have regular, ongoing business relationships with at least 50% of those. Therefore, we have a huge data base and a lot of information to manage effectively. Another important component is connectivity with clients. In brief, in the whole supply chain process, we have a digital transformation challenge that we have already included in our investment plans.

Within the R&D field, what investments have you made, and how have they yielded new products for Belgin?

Our company's vision statement declares: "We strongly aim to grow beyond borders through high technology products." This is how we plan to proceed. We have highly knowledgeable and experienced experts in R&D, and we are hiring new ones. We have invested heavily in R&D over the last two decades. In 2018, we acquired official R&D Center Certification from the Ministry of Industry and Technology so that our R&D and innovation activities will benefit from the governmental incentives. R&D is one of our main strengths, and we want to add more competencies on top of this. Every year, we are launching new, value-added products for several industries such as tubes and pipes, defense, automotive, aerospace, home appliances, aluminum, iron, and steel. ✕

BIO

After getting a business administration degree from Middle East Technical University, Bülent Araslı continued his education with an MBA at Boğaziçi University. In 1982, he joined Çukurova Foreign Trade Co. In 1985, he started at M.A.N. Bus and Truck Co. He then joined Kordsa Tire Cord Fabric Co. in 1986, where he would spend 30 years of his career. In 2010, he was assigned the role of vice president of KordsaGlobal, responsible for global sales for all products. Since 2017, he has been the general manager of Belgin Industrial Oils Trading and Manufacturing Co.

spin it TO WIN IT

Everyone needs tires for their vehicles, and the Kanik Group of Companies is there to sell them small and large, no matter what the client is able to afford, thanks to technological innovation and strategy.

Mehmet Şerif Kanik
FOUNDER & CHAIRMAN,
KANIK GROUP



The Kanik Group of Companies serves a variety of sectors through its three subsidiaries: Özka Lastik, İlka Plastik, and IRC Automotive. What major competencies do these companies share?

Kanik Group and its subsidiaries manufacture based on a fully domestic capital model. All of our subsidiaries are large exporters to the world's major markets. We also create our technological infrastructure ourselves and produce our own machinery in-house by Turkish engineers and workers in our R&D units, without having to import. Looking to our three subsidiary companies, there are obvious common features between IRC and Özka—IRC is in the automotive sector and Özka is in the tire sector, an automotive sub-industry. Also, Özka provides some raw materials to IRC. Second, there are major competencies between tires and plastic—the sector where İlka operates. Plastic factories produce some of the mid-products used in production of tires. All three have connections to each other.

Could you break down Özka Lastik's revenue by sector and where you expect to see demand growth in the near future?

Özka Lastik manufactures tires in the fields of agriculture, construction, logistics, and defence with a daily capacity of 130 tons in the categories of garden/field, trailer, tractor, combine harvester, construction machine, forklift, pickup/van, and military vehicle tires. Whereas 72% of our annual turnover is from the agricultural group and 25% is from the industrial group, the group that produc-

es pickup and van tires constitutes the 2% and the defense industry 1% of our annual turnover. In the agricultural and industrial group, radial tires constitute the 25% of our total turnover, while the conventional tires constitute 75%. According to the market research we have carried out, we have found out that the agricultural tire market we are involved in has a market share of 60%; the industrial tire market has 33%; and other OTR tire market has 7%. It is projected that these shares will be stable in the near future. However, in the near future, a growth in the radial tire production is anticipated both in agricultural and industrial tire groups, mainly in European countries and all around the world. We also aim to increase our work on the defense and aerospace industries in the future. They are difficult sectors to work in, but they are areas where we have capabilities and would like to expand.

IRC Automotive exports 90% of its products. What hedging strategies do you employ to shield the company from an individual market's auto sales slowdown?

Although the vehicle sales are stable in the current business cycle, a decrease in sales are anticipated in the long term. That is a factor that will cause economic stagnation. One of the ways to cope with such a global effect is to diversify the market strategy as much as possible. Today, more than 90% of our total sales are from exports. We have a system that watches and monitors world markets in our sector constantly. As a result, we have diversified our markets.

"Our goal for Özka Lastik is to increase our market share in the markets we are involved in and to enter new markets such as Latin America."

What are your plans and primary objectives over the next 12 months?

Our goal for Özka Lastik is to increase our market share in the markets we are involved in and to enter new markets such as Latin America. By continuing with our success from 2018, in which our exports grew by 440%, in 2019 we plan to reach our goal of a turnover of TRY681 million. With our new investment that will be completed by 2020, our daily production capacity of 130 tons will be increased by 55%. By being able to produce 200 tons a day, we will be able to meet the needs in current and new markets. ✕

BIO

Mehmet Şerif Kanik is the founder and Chairman of Kanik Group. He has served as chairman of the board for the Kocaeli Chamber of Industry and Kocaeli Free Zone Founder and Operator Inc. (KOSBAŞ) as a member of the Organized Industrial Zones' enterprising committee.

INTERVIEW



55ksqm
indoor manufacturing
facility

BIO

M. Süleyman Öncel has been the chairman of the board of directors of Sentez Grup since 2003 and oversaw the development of Turkey's largest integrated manufacturing facility. Öncel started his career as a mechanical engineer and formerly served as the general manager of Mehtap Kitchenware, one of the world's leading kitchenware manufacturers. In parallel, he served as finance manager at Biofarma Pharmaceuticals Industry. Öncel also serves on the board of Selçuklu Holding, is a part of the Turkey Cardboard Packaging Manufacturers Association (KASAD) management team and is the association's vice chairman of the board.

Sentez Grup was originally founded to serve the packaging needs of Selçuklu Holding, but later developed into a global packaging producer. Can you outline the most important steps along Sentez Grup's timeline?

The purpose of Sentez Grup's establishment in 1992 was to manufacture boxes for pharmaceutical companies. Later, when Mehtap Kitchenware joined the holding, we started manufacturing boxes for housewares as well. Realizing that it is a promising market, we decided to increase our packaging production using our experience in the pharmaceutical sector. We also expanded through our subsequent acquisitions of Gül Offset and Naturel Packaging, two of the leading packaging companies in Turkey. We held three facilities, employing roughly 550 people. In order to benefit from the shared competencies of these structures, we decided to gather these three facilities under a single roof in 2011. Since 2014, we have been operating in our current Dilovası facility, which has 55,000sqm of indoor area. Our operations here are an example of an industrial profile that is rarely seen around Turkey or even the world. The logic underlying our establishment is to be able to produce any kind of packaging the customer may demand.

How has the growth of the food sector driven Sentez Grup's expansion and helped shape its product offering?

The increase in the volume of our business and the packaging industry could only have been possible with the growth of the food sector. Today, we hold a global market share of around 1%, which is fairly large considering the size of the market. We constantly develop and produce various products ranging from inner and outer packages to flexible packages in order to fulfill all the packaging needs of our customers, which are mainly in the FMCG sector. We target a balanced growth in these packaging groups within the framework of our customers' demands. Since our establishment commenced its operations with cardboard packaging, our production volume in this group is

MARKET *leader*

Sentez Grup has invested continuously over the years in a state-of-the-art facility that is able to produce any kind of packaging customers want.

M. Süleyman Öncel
CHAIRMAN OF THE BOARD,
SENTEZ GRUP

larger than the flexible packaging group. Currently, 25% of our packaging is flexible and 75% is cardboard. We are one of the three-largest cardboard packaging producers in Turkey. We continue our efforts to balance our flexible package production and cardboard package production.

What percentage of Sentez Grup's overall revenue comes from exports, and in what markets are you working to expand your global market share?

Our current export rate is around 25%. However, we plan to increase that figure in the near future. In the short term, we are working toward the goal of attaining a rate of 35%, and then reach a balanced export rate of 50%. We primarily export to European countries and neighboring countries of Turkey, though we want to have a more diversified export base. To achieve this, we have recently begun cooperating with an American firm that has facilities at various different regions of US. The trading volume of the packaging industry is much higher in the US, so it is our most important target market in the first phase. There is also a huge trading volume with our southern neighbors as well. Iraq is a major market for us, but the political situation there affects the business tremendously. Likewise, Syria has the same problem. If everything goes smoothly in global politics, that would be a huge benefit to Turkey's exports. Looking to Europe right now, we are primarily engaged with northern Europe. We also aim to expand to central European countries.

"We primarily export to European countries and neighboring countries of Turkey, though we want to have a more diversified export base."

What challenges do you face in the sourcing of raw materials?

Our pricing is mostly based in euros in our domestic sales and exports. Sometimes our suppliers can give their prices in dollars. The fluctuations in USD/EUR parity may cause problems in our costs time to time. This is not an operational issue related to the supply chain. However, we do have alternative suppliers that can offer pricing in both currencies, though such supplier shifts do not always occur easily. Our top priority is always maintaining quality. A few years ago, the Chinese government shut down many cardboard facilities due to environmental concerns, and this had a huge impact on world trade. Aside from the increase in paper prices, firms were forced to find alternative suppliers. The recent trade dispute between US and China and the restructuring of global trade have caused producers to act much more carefully and sensitively.

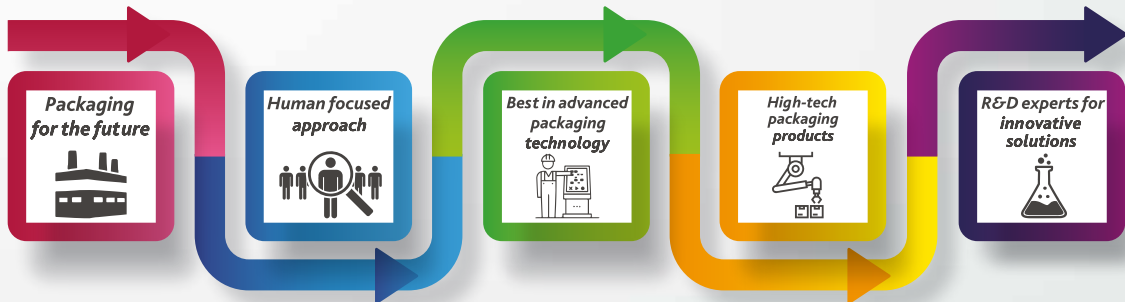
Over the short term, what are Sentez Grup's investment plans and primary objectives?

We do not plan to make a huge investment especial-

ly in machinery and facility in the near future since we have arrived at this stage with continuous investments. We recently signed a subscription contract worth of EUR6.5 million with Heidelberg, a leading company in offset printing technology, and can now produce what we used to produce with four machines using only two machines. We have a capacity that will fulfill our mid- and long-term targets. We have been working on a project for seven years to develop our enterprise resource planning (ERP) system and are working with a Portuguese company to achieve that upgrade. Currently, all our ERP modules are integrated with each other. However, the project requires a second step, which we started in 2018. We have an intense schedule to complete this upgrade within the next 18 months. We call it the "Completion Project," as it will finalize all the other projects we have done so far within the scope of Industry 4.0. It is a structure that enables the control and tracking of all processes within our facility. We can currently do it with a 60% flow rate, and this project will increase that to 100%. Moving forward, we will emphasize increasing efficiency. ✖



***We are looking for a solution
to the packaging needs of the future***



•Cardboard packaging •Flexible packaging •Kornet sleeve •Micro corrugated packaging •Paper cup •Stand

INTERVIEW



Livio Manzini
CHAIRMAN & CEO,
BELL HOLDING

BOX *populi*

Bell Holding operates companies that produce packaging of all varieties, and it is looking to expand to larger facilities and markets.

BIO

Livio Manzini has been the Chairman and CEO of Bell Holding since 1993. He is also the chairman of REED Specialist Recruitment, a joint venture with REED Global in the UK. He is president of the Italian Chamber of Commerce and Industry. Manzini is currently a member of TÜSIAD, where he holds the presidency of the French Network; Rotary, and YPO. He graduated from École des Hautes Études Commerciales in Paris. Born in Istanbul, he is fluent in Italian, French, English and Turkish.

How have Bell's operations changed over the years, and where have you had the most success?

As of today, Bell Holding is mostly a consumer packaging group. The holding controls seven operating companies, which are based on state-of-the-art manufacturing processes, high product quality, and service. We produce plastic packaging and aluminum packaging materials. In terms of plastic packaging, we produce items such as bottles, caps and closures, as well as IML tubs and lids; our aluminum products line largely comprises collapsible tubes and aerosol cans. At the end of the day, what drives our business are the industries we service. We produce the packaging that brand owners turn into consumer products. The sectors we service are mostly FMCGs, personal care, home care, pharmaceuticals, food, and industry. We try to establish long-term relationships with our customers, because most of our production is tailor-made, premium packaging material. The companies we work with are mostly blue-chip companies, both multinational and local, which is obviously a good place to be. They value not only our operational excellence but our business agility, entrepreneurial ability and breadth of packaging formats to deliver packaging solutions in a fairly volatile and growing regional market.

What aspects of Turkey's economy and demographics drive Bell's business?

The fundamentals of Turkey are positive, in particular for a company like ours. The economy is structured to support export activities and has clearly had significant investment in improving infrastructure. In recent years, Turkey has been experiencing high urbanization and birth rates.

In which of your four main product segments—personal care, home care, pharmaceuticals, and food—are you seeing the most revenue growth?

Since the EU-Turkey Customs Union went into effect, there has been significant growth in imported products as well as the development of larger factories to service a wider geography. There have, of course, been winners and losers but, overall, this treaty has greatly boosted trade and consumer choice. While the effects

“We try to establish long-term relationships with our customers, because most of our production is tailor-made, premium packaging material.”

have shifted over time, the one sector that has been the most resilient is food. That is certainly a sector that has seen growth for us. The sector requires a certain number of additional safety measures. There are some non-tariff barriers to import, such as tastes, which change from country to country. Apart from that, all of our segments have developed considerably, but not always for the same reasons. Looking at pharmaceuticals, for example, 20 years ago the state was covering only half of the population's needs. Now the entire population is covered. That has given a boost to the domestic pharma sector. If there is one sector that is underdeveloped, it is cosmetics. In Turkey, cosmetics consumption is still low, and many products are still being imported. It is an area that we are not necessarily geared to service, but the sector needs to grow.

What are your objectives and investment plans for the medium term?

Our plans are usually set over a four-year period. We have been unlucky with a volatile lira, but we consider this to be short-term. It does not necessarily affect our long-term plans. We have a big investment project where we are set to start building a new factory in Turkey. Most of our tube and aerosol can production takes place in central Istanbul. That is not sustainable because we have reached the physical limit of growth. Therefore, we bought an 80,000sqm plot of land in Thrace where we will build a 40,000-sqm factory and gradually move all this production, while at the same time increasing capacity. Strategically speaking, we are developing our regional production footprint, looking at opportunities to either partner with other players or set up in the EU and other countries. ✕

PACKAGING

Turkey is a major exporter of plastic products. Turkish players in the sector are focused on adapting to new market trends and manufacturing capacities.



Selçuk Yarangümelioğlu
GENERAL MANAGER,
ELİF



Mustafa Tacir
VICE PRESIDENT,
SÜMER PLASTİK



Mehmet Onur
PRESIDENT & CEO,
RAVAGO GROUP TURKEY

WE ARE INVOLVED IN F&B, personal care, and home care sectors. All three have seen positive growth, though F&B will have the highest demand in the future because of new regulations and trends in the market. The circular economy is shaping the F&B packaging sector. Today, packaging materials in the food sector contain PET and aluminum, which are not recyclable. Over time, all brand owners will change their packaging to polyethylene- or polypropylene-based products, known collectively as polyolefin structures. The goal for the future is to have a mono-layer or multi-layered structure composed of these two main polyolefin materials. Elif is a producer of mainly polyethylene, so this trend will provide us with a significant opportunity to take a further position in the near future in light of these regulations and the circular economy. Demographic characteristics shape the market dynamics/trends. Decreasing family member sizes in Europe and low purchasing power parity in the emerging markets lead the population to buy and consume small portions but more packaging material with different appeal and storage features. In 2019-2020, our investments in innovation will gain priority and intensity in all sectors in which we operate. In line with our goal of creating value for its customers, we are investing to create new alternative recyclable or reusable materials for the flexible packaging sector, based on polyethylene and polypropylene.

SÜMER PLASTİK EXPORTS 30% OF ITS PRODUCTS. The fastest-growing emerging markets are in Africa. Despite that rapid growth, we are focused on Western markets because our present technology is better suited there. The Turkish packaging industry has long served large, sophisticated markets. It has the right infrastructure to serve Western markets. In 2018, our sector exported 2.3 million tons of packaging to 180 countries. We do not export in large quantities to East Asia at the moment, though we will begin increasing our exports there in the middle to long term because it is now more suitable for our products. Western markets are conscious about the quality and environmental impact of their packaging products, so we have added many features in our product portfolio to meet these needs. Sustainability is key to our market strategy—both in the longevity of our customer relationships and the environmental impact of our products. Sümer Plastik's sustainability policy has a proactive understanding that a combination of quality, R&D, continuous productivity improvement, and providing healthy products for society and the environment are keys to success. Turkey is the world's second-largest importer of plastic raw material inputs after China. Our largest import partners are from Middle Eastern countries such as Iran and Saudi Arabia. We purchase from the West as well. The US will be a significant source of supply after the trade wars end.

RAVAGO ESTABLISHED ITS BUSINESS IN TURKEY IN 1998 with a small business unit mainly active in distribution. In the following years, we established other distribution channels and, in 2004, we started a TPE production company called Enplast. Up until 2010, we took some big steps; however, due to the local and global crises in 2008, Turkey's economy remained unstable for three to four years. Nonetheless, Ravago posted growth during every period of crisis because of the company's service capability and financial structure. In 2010, we decided to diversify the company into construction plastics. Back then, Turkey was expecting a boom in construction, so we decided to buy several companies. One of those companies was an expandable polystyrene production (EPS) company in Izmir, with 75,000 tons of capacity. Today, its capacity is 200,000 tons. Moreover, we started focusing on other related coating and chemical activities. We did not want to stay in the petrochemical plastic area, so we looked at moving from being a leading plastics company to becoming an integrated petrochemicals company. Thus, we merged five companies under one roof in 2013, and our turnover has increased from around EUR250 million to EUR900 million. We are also looking at environmentally sustainable practices. This is a quickly evolving area for our sector. In only the last three years, the circular economy has refreshed again, with a stricter approach from the big producers.

connecting the ECONOMY

Üntel Kablo makes a wide variety of cables for a range of uses and demonstrated its expertise by participating in the prestigious Istanbul Airport project.



Ali Ömer Alemdar
GENERAL MANAGER,
ÜNTEL KABLO

Üntel Kablo is well diversified across a number of cable subsectors. Could you break down your revenue stream by sector and identify from which sectors you expect to see the most growth in the near future?

In 2018, more than 30% of our revenue came from the mining industry, a quarter from the marine and offshore industry, more than 10% from industrial and instrumentation cables, and around 15% each from railways and airports. In the future, we are expecting the most growth from the mining industry. We are preparing for this by investing in our mining capabilities and increasing our certifications for the sector—we are now working for new market certifications in for different countries around the world. Having these new certifications for the mining industry will make the sector more exciting in terms of revenue and budget, both of which we expect to grow in the coming years. Relatedly, another area where we want to expand is crane cables, where many of the cable types are similar to the mining sector.

What capabilities does Üntel have in the marine sector, and in which marine subsectors are you seeing the most growth?

Üntel is a well-known brand of marine cables globally. With our high-quality products, know-how, and experience in marine cables, we had the opportunity to serve the shipbuilding and offshore industries in leading maritime countries such as Norway and the Netherlands. One of our most important projects in the marine sector was the national warship project, which is an amphibious assault ship called the TCG Anadolu. This ship was built by Sedef Shipyard, and we produced the cables for it. This was a prestigious project and is one example of our work with all the major Turkish shipyards for naval and commercial vessels.

Approximately what percentage of your annual turnover comes from exports, and which countries are most important for your sales?

Currently around 65% of our sales can be attributed to exports. We export to 70 countries across six continents. Germany, Netherlands, and the UK are the large buyers right now. We are nearly everywhere internationally, but we are positioned in different ways depending on the region. We prefer to work directly both with the end users and the big wholesalers in Europe, the UAE, and India. We have exclusive agreements with wholesalers.

What strategies have you implemented to minimize supply chain interruptions?

Europe is our main provider of raw materials, especially Italy. Most of our compounds have been imported from Italy for 15-20 years. We also import from Asia. We are always in search of new suppliers with better quality and more competitive prices. Our suppliers, like our customers, are our friends. We have worked with them for many years. Üntel is a company that does not change suppliers just to get a slightly better price. We check for new technologies and products every day with our R&D team, but we do not change suppliers often.

One of Üntel's most recent major projects was the new Istanbul Airport. How do you expect this experience to benefit the company?

We have served the industry for around 15-20 years with airport ground lighting. Üntel has certifications from all the major airport markets, including the US, Russia, and Europe. We supply our cables for nearly every airport in Turkey, including cables for new airport constructions as well as repairs. The new Istanbul Airport was a huge project. The competition was obviously really tough. Many producers around the world tried to get that project. As a domestic producer, with domestic product certification, we had an advantage. For the first phase of the airport, we delivered around 5 million meters of ground lighting cables. This was a prestigious project that boosted the Üntel brand all around the world. ✖

Produces over

15k

cable types

65%

of sales are exports

BIO

Ali Ömer Alemdar has been the General Manager of Üntel Kablo since 2013. Prior to joining Üntel, he was with the consultancy Ernst and Young, working with the finance, pharmaceutical, automotive, and advertising sectors. Alemdar is from Istanbul, but attended high school in Trabzon before returning to Istanbul to complete his degree in business administration from Istanbul University.

CABLES

Turkey's wire and cable industry features dozens of companies ready to serve specific needs across a range of sectors both low and high tech.



Erkan Aydoğdu
FORMER CEO,
PRYSMIAN GROUP – TURKEY



Mehmet Kavaklıoğlu
VICE CHAIRMAN,
PAMUKKALE KABLO



Mehmet Dereli
FOUNDER & CEO,
2M KABLO

THE COMPANY HAS BEEN IN OPERATION FOR THE LAST 140 YEARS and has extensive experience. Our Turkish operations, established in Bursa in 1964, were acquired by the group in 1999. Prysmian acquired more cable companies until it became the largest cable manufacturer. With its acquisition of General Cable, which is extremely dominant in the US, Prysmian Group has become a giant within the sector. We are far larger than the second-largest group. The group extends across 52 countries, with 112 plants and EUR11 billion in turnover. This is one of the reasons we have such a wide variety of products within our portfolio. We strive to maximize our synergies and efficiencies to operate as effectively as possible in existing markets and enter new ones. We are also leveraging the wider product range at our disposal. This allows us to meet consumers' needs in every way possible. In Turkey, we are in a unique position; we can produce over 22,000 different cable types, such as energy and telecommunication cables, including copper and fiber, under one roof. We also have different capabilities within Turkey that allow us to make significant contributions to the group from an R&D perspective. We have developed a great deal of value in Turkey over the last 54 years, and we try to leverage it. We like to look at the medium term and beyond. Our challenge is not to maximize everything in the short term. We link Turkey to the future, and we seek to play a key role in this transformation by operating across numerous areas.

RENEWABLE ENERGY USE IS INCREASING ALL AROUND THE WORLD, and Turkey has many investments in renewable energy—most recently in solar energy. We are cable manufacturers, so we have a specialty in power cables, such as those used for solar energy plants. We are supporting solar projects. Different renewable energy techniques use different types of cables, and for solar energy we are manufacturing cables with cross-linkable, halogen-free, insulated, and tin-copper conductors. The cables are simple and regular products all around the world, so we can sell it to Turkish, European, and Middle Eastern buyers. Today, renewable energy projects are only a small share of our business, but we hope to expand their share as investment in the sector increases. In Turkey, we manufacture all kinds of power cables: telecommunications cables, fiber-optic cables, low current cables, and some special cables with aluminum conductors. We are manufacturing these cables for many sectors of the economy. The Turkish cable industry is one of the biggest in Europe. There are approximately 100 cable manufacturers in Turkey, 15 of which are large companies. Including Pamukkale, Turkish manufacturers mainly export low-voltage power cables. The country's geographic position makes it favorable for exporting. In 2018, we exported more than USD2 billion as an industry. Of that, 65% was to Europe and the other 35% to the Middle East, Russia, and African countries. In 2018, we exported approximately USD120 million worth of cables, and we will continue to concentrate on our export business.

AROUND 40% OF OUR PRODUCTION IS IN CONTROL CABLES. This product is used in industrial facilities, conventional factories, and buildings. The second-most produced cable is for power industry, which makes up around 30% of our total production. In contrast to classic power cables, we focus on producing specialized types of power cables that are fire resistant and durable. Our primary clients for this product are from petrochemical, iron, and steel industries. Approximately 25% of our production is composed of instrumentation cables, which are third on the list. We produce this type of cable for gas and petroleum refineries as well as the iron-steel industry. The remaining 10% production is generally for specific clients such as original equipment manufacturers and data centers. 2M Kablo has become a R&D center registered by the Ministry of Science, Industry, and Technology. 2M Kablo is the first local low-voltage cable manufacturer with a registered R&D Center. The R&D center is in Tekirdağ, located in an organized industry complex at Çerkezköy. There are currently eight engineers working in the R&D center, where we use the most advanced software. We use a program called a “cable builder” and have loaded almost all the cable standards into this program. We can easily and quickly produce the cables in our portfolio at any standard and pace. We also have an effective Axapta ERP system to track production. Our Axapta system consists of seven different integrations. All production orders go to the machines, and the operators fulfill those production orders.



Image: Seyephoto

TEXTILES

The textile industry is one of the gems of the Turkish manufacturing sector, and these three firms, Taypa, Aytim, and the ORMO Group, are finding new ways to respond to customers' demands across the world.



M. Mesut Toprak
CHAIRMAN,
TAYPA



Sevdâ Aydın
GENERAL MANAGER,
AYTİM GROUP



Giray Öcalgiray
CEO,
ORMO GROUP

THE TEXTILE MARKET HAS TRANSFORMED ITSELF SIGNIFICANTLY, and we have evolved along with it. We are a large company and currently produce around 850,000 pairs of pants a month; however, what has really boosted our success is our design. We have a brilliant R&D department, and through its efforts we not only satisfy the needs of our customers, but also respond to their expectations. We see our customers as our strategic partners. We have some customers with whom we have been working for decades. I call them our strategic partners because they know our strengths and we know theirs. We have a strategy called “five Fs” that sets us apart from our competitors: fast, fashionable, flexible, focused, and friendly. We have been cooperating with the world’s leading brands for many years. For this reason, we have a deep knowledge about their ways of doing business. We really know what they expect from their partners, which gives us a huge opportunity to respond their needs. And we have adopted the principle of sharing this know-how with universities, as well as with all our business partners and employees. There are some old subcontractor factories in eastern Turkey that are not well operated. We have a team of our own in those regions that is working to set these factories in motion by training people there and teaching them how to do things right.

GERMANY IS OUR MOST IMPORTANT EXPORT COUNTRY. We have been exporting there for about 40 years as a family and 25 years as Aytim. Apart from Germany, we are also exporting to Spain. In 2019, we sent our first invoice to the US. Aytim always aims to be a premium producer, and we focus on developing our relationships with European clients. We aim to produce products with higher added value by designing and developing them ourselves. We have thought of ways to increase our added value rather than simply expanding to new locations. As a result, we invested in creating a new premium streetwear brand 10 years ago, which is now among the top 10 in the world. Aytim has not been affected directly by the volatility of the lira and the economy. If we carry on with our innovations, concentrate on adding value, and make ourselves indispensable to our customers, a company such as ours will have no problem. In fact, 95% of our revenue comes from exports. That means domestic foreign exchange fluctuations do not affect demand for our products. However, that volatility does affect our suppliers, because they have many hard currency inputs, which requires us to be more sensitive to their situations. We have challenges procuring the right kinds of fabric, because our clients require us to be innovative. What differentiates Aytim from other garment manufacturers is the manufacturing of added-value products, along with its innovation.

OUR OPERATIONS HAVE RECENTLY BECOME MORE COMPLICATED and sophisticated. Both from a production standpoint and a logistics standpoint—due to the increased number of products, customers, and shipments—everything is becoming more complex and detailed. Around 60% of our revenue comes from global retailers under a private label and 40% from Nako, our primary yarn brand. We see growth coming from both areas, as we consider the private label business as one of our “own” brands. Most of our customers do not have factories. That is why we consider ourselves as the factory for their brands. We believe in these long-term partnerships; they will be a great source of revenue in the future. We do expect our export revenues to grow. There will be a global recession sometime in the coming years. Usually, as more people stay home, they tend to knit more. Western markets are more important and significant to us, as the businesses there tend to be toward “hobby” users. Therefore, we can sell at higher prices. Eastern markets are more need-based markets, which means they are more price competitive. We wanted to have an additional production center in Europe. Serbia has offered us the best deal. Opening another production center is a long-term goal. If it ever happens, it could be in the US. We have been making significant investments in terms of capacity and machine renewal in the last few years. As for the next 12 months, we will focus more on optimizing operations to cut costs and become more competitive.

INTERVIEW



CURRENT *affairs*

Diversifying its portfolio of products, services, and sectors, Eaton is prepared for slower global and domestic growth.

Yılmaz Özcan
COUNTRY MANAGER – TURKEY,
EATON

As the manager of Eaton's electrical business in Turkey, how does your business segment fit into the company's overall operations?

Eaton has three legal entities in Turkey. One operates our hydraulic manufacturing facilities, another is our electrical operations business, Eaton Elektrik. The third is Ulusoy Elektrik, operating our switchgear factories in Turkey. I am responsible for Eaton Elektrik's operations. From a business point of view, we are focusing very much on the construction sector, including commercial and industrial buildings. In addition, we are also providing electrical products to machinery OEMs. We are also actively targeting some specific industries, such as cement, metal, and oil and gas.

Why did Eaton enter the shipbuilding industry, and what subsectors are you focused on growing?

The Turkish marine industry is well developed and large, and the country has more than 70 shipyards. There is huge potential in Turkey. Eaton's product portfolio fits the marine industry's requirements extremely well. We offer various types of products such as CCTV systems, UPS backup power, and circuit protection products. The niche shipbuilding industry in Turkey has grown considerably in recent years, and we have expanded with the sector. As a result, we work with shipbuilders that are building commercial fishing boats, ferries, and tugs. We work with all segments of the marine industry, and it is one of the key sectors we are focusing on.

How has Eaton's diversified business helped ease the burden of last year's economic slowdown?

This is definitely a strength of ours and an advantage in terms of our competitiveness. Eaton's wide portfolio has allowed us to approach other sectors as some have slowed down and others have grown. Moreover, we are fairly active in the original equipment manufacturer (OEM) industry, which is more resilient than purely domestic-focused companies. Our OEM customers in Turkey export their machinery to Europe and other regions. We saw great advantages working with our

OEM customers; export business has continued to support the wider Turkish economy and our business.

Can you break down Eaton's annual revenue in Turkey between products and services?

Our service-related revenue is around 10% of our total revenue. However, our service business is an important growth factor for us. We sell many products, and most of them require servicing. If one has a proper service organization, they can also bring a great deal of added value to their customers, generate additional revenue, and enable their customers to use their products more efficiently, reliably, and for a longer period of time. Our strong service offering is an important driver of growth for us, and we made investments in 2019 to capture more of the service market. We are strengthening our service organization and increasing our staff numbers. The cost of ownership is important to a business—companies should consider not just the cost of buying a product, but also the cost of running it. To use a product efficiently, one needs regular maintenance—preventative maintenance is key. In the past, the industrial sector had a reactive service approach. Today, new technologies allow businesses to monitor the operations and condition of its equipment and determine if maintenance is required before a product fails. This prevents costlier fixes for failed pieces of equipment and money lost from stopping production. Even if the cost of fixing the product is minimal, stopping production is always costly. We call this a proactive service approach.

What are your investment plans and primary objectives for the next 12 months?

We have already started to improve Ulusoy Elektrik's product portfolio. We plan to use our international resources to expand our product portfolio over the next 12 months. We will also increase the diversity of Ulusoy Elektrik's product portfolio. It is particularly focusing on construction, industry and the marine segments in Turkey right now, and we will continue to target these in 2020. ✕

BIO

Yılmaz Özcan is country manager for Turkey, Azerbaijan, Georgia, and Uzbekistan in the electrical sector of Eaton. During his career, Özcan has gained broad experience across various heavy industrial, machinery, and oil and gas sectors, with senior sales and marketing management roles in automation products, process control, electromechanical drive systems, and service businesses. Özcan received a bachelor's degree in electrical engineering from Yıldız Technical University in 1998. He later received an MBA degree from Milano Bocconi University in 2012.



Turan Koçyiğit
CEO,
VEFA GROUP

UNDER *one roof*

Vefa Group produces prefabricated shelters for refugees and social housing, meeting a growing need in Europe, Africa, and Central Asia.

BIO

Turan Koçyiğit is a founding partner and the CEO of Vefa Group. He is also chairman of the board for the Turkey-Ghana Council for Foreign Economic Relations. Koçyiğit founded Vefa in 1990 after a career as a manufacturing and factory manager in the prefabricated construction sector. He holds degrees from Marmara University and Lefke University.

From a revenue standpoint, in which of sub sectors has Vefa Group been the most successful, and where do you expect to grow?

Our prefabrication work is carried out through Vekon, one of Vefa Group's subsidiaries. We have 30 years of experience and have done projects in more than 100 countries. In these projects, we use four different building systems: prefabricated panels, modular containers (living containers), lightweight steel, and structural steel. Through these structures, we have been involved in many different projects around the world such as worksite structures, commercial structures, public buildings, as well as camps for the military, refugees, mining facilities, and so on. In addition, we run social housing projects. As per revenue, our profitability is high in social housing, schools, hospitals, and camp projects, as they are relatively big and centralized projects in terms of execution. Our focus for the future is on transferring our know-how and technology abroad.

How challenging has it been for Vekon to convince price-sensitive sectors to invest in high-quality prefabricated units?

Being a strong brand brings about high production capacity and high quality. In the prefabrication sector, one of the most important things is speed. When our customers make an inquiry, they say "We need it yesterday." Fast and high-volume production capacity is essential because the material we produce is used in emergency situations, such as refugee camps. We generally work with top companies, both international and domestic, and these companies have already accepted the fact that we are 10-15% more expensive than the standard market prices. They still purchase our products because they know they will have a long-term gain by using our products.

How did you end up building a production facility in Afghanistan?

The proposal to build a factory came from the Afghan government. The minister of environment and urban planning visited our facilities and our offices. He informed us that Afghanistan required a factory to produce prefabricated units and asked for an offer. After we sent an official offer, they invited us to Kabul to make a presentation alongside an-

"Fast and high-volume production capacity is essential because the material we produce is used in emergency situations."

other company from Ankara and one from Dubai. In the end, the Afghan government decided to go ahead with us because our delivery time, price, and quality surpassed our competitors. The project is worth USD11 million in total. It took us 14 months to finalize it as promised. Before the project, the Afghan government sent a group of 30 architects and civil engineers, and we trained them in our facilities for three months so that they can now run the factory in Afghanistan. We have also been providing a consultancy service for the factory for a year now and is due to finish soon. Afghanistan's primary need at the moment is schools. Everyday, the factory produces 1,000sqm of two-story schools. However, the facility can also produce hospitals or houses in the future if needed.

Which countries or regions are the most important for Vefa's exports, and into which new markets are you hoping to expand?

We work on projects in 30-35 different countries annually. Currently, we are working on projects in 10 different countries, including South American countries, Africa, Turkic countries, and those in the Gulf. We hold a Turquality Certification and have chosen five target countries within the scope of this certification to export to. Those countries are Indonesia, Ethiopia, the US, Kazakhstan, and the UAE. Africa and South America have always been our target markets because premixed concrete is extremely expensive in these regions, or sometimes unavailable. For this reason, our products are suitable for building schools, hospitals, or mass housing projects in Africa. We have an excellent competitive edge in the countries where the cost of labor is expensive, such as the US and UK. There is currently a social facility project under construction in the UK by using our products. We have a distributor in the UK and export our products there. ✕

VOICES FROM THE SECTOR

Caner Karaloğlu
GENERAL DIRECTOR,
MODÜL ÇELİK

What is the breakdown of your revenue by region?

In 2018, our revenue was USD110 million. In 2019, we are expecting that figure to rise to around USD125 million. Approximately 80% of our revenue is from abroad, and the rest from Turkey, but currently all our transactions are in euros. Looking at our international projects, we recently finished a skyscraper project in Azerbaijan. We have one more there that is nearing completion. In Europe, we have finalized the Arçelik factory in Romania, two projects for TC group, and a project for a chemical company in Hungary. We are building a chemical factory in Russia. Outside of the region, we have a project with a Belgian company that is taking place in Algeria, and we have ongoing projects in Turkmenistan. We are stable in the Middle East and Central Asia, but it is more competitive there because Russian manufacturers are also present. Many of our jobs are in Europe, where we expect to grow in the future. We have jobs all around the world and we will continue looking to new regions.

How has the lira's depreciation affected Modül Çelik's cost drivers?

The biggest cost reduction for us has been labor. Our clients know this and many new companies are coming to us for projects because they know the situation. For us, it does not matter, because our profit rate is the same. We do not want to change our rates, because the market is already competitive in Turkey. We operate the single biggest factory in Turkey and Europe. It is about 80,000sqm. We employ quality systems and talented engineers. Therefore, our costs are higher, but our advantage is that our quality is also higher. We are capable of manufacturing more tonnage than other manufacturers. Our clients know this, which is why they pay a premium for our products.

Are you expecting a slowdown in Modül Çelik's domestic business because of the currency depreciation?

The change is difficult to anticipate, and the portion of our business that is in Turkey is always fluctuating. Even if we see demand slowing down in Turkey, when we do a project paid in lira, we have mechanisms to reduce our exposure to currency fluctuations. For projects in lira, we require higher advance payments. We buy all materials for the project in the beginning.



Derya Hatiboğlu
GENERAL MANAGER,
ASAŞ ALÜMİNYUM

Asaş Alüminyum exports its products to many major Western markets. What are its most important export markets?

We currently export 60% of our production to 80 countries. The single-largest market is the US, which receives 20% of our exports. The rest goes mostly to EU countries, including Germany, Spain, Italy, the UK, and Poland. We have a wide range of product groups for different sectors, such as aluminum extrusion profiles, flat-rolled products, composite panels, architectural systems, uPVC door and window systems, as well as roller shutter systems. We are working directly with the vast majority of our customers in the industrial segment, such as automotive, railway, trailer, and transportation industries. In the construction segment, our business goes mostly through dealers and distributors. We always seek to find new customers in the industrial segments and develop our relationships with reputable dealers in all markets.

Considering the recent unpredictability of global trade, is Asaş hedging its business by looking to develop new markets?

We would like to develop in regions where we have less presence, relative to other places, for example the Balkans. If the geopolitical situation improves, we are keen to develop our presence in the Middle East. The GCC market is competitive. However, we might have opportunities for our architectural systems and some aluminum, flat-rolled products. As for the rest of the world, our competitive edges are our quality and integrated production facilities. Asaş is an ideal solution partner for clients worldwide who aim to deal with a one-stop shop partner and avoid the complexities involved in dealing with many different suppliers. Therefore, we focus on the solutions and industries that need special technical and design capabilities. Two good examples are the automotive and rail transportation industries. Architectural systems, including all accessories, is the other example from the construction segment.

From a sectoral standpoint, who are the end users of Asaş' products?

Some 20-25% of our revenue comes from the construction sector. Another 20-25% is packaging, including pharmaceuticals and food. And then 15-20% is automotive and rail. The rest is spread over various sectors. We expect to see more demand and growth in the automotive and rail transport sectors. Aluminum is replacing steel in many industries because of its lightness and environment-friendly features.

Image: mustafack



Defense

Turkey's defense industry, which has been the country's fastest-growing export sector over the past two years, is accustomed to adaptation. Its initial development was spurred by a 1974 arms embargo placed on Turkey by the US following the Cyprus crisis. Today it is the world's 14th largest defense exporter, yet still finds itself adapting—and strengthening—in response to a changing geopolitical landscape. 2019 has seen Turkey's defense exports penetrate or expand in a number of markets, largely in Asia, Africa, and Latin America. Many of these region's countries are wary of falling too far under the influence that comes with American, Russian, or Chinese defense purchases, which makes them prime targets for Turkish defense companies.

Turkish defense exports are also particularly well-suited for these markets, which have small, but growing, militaries. For example, Turkish defense companies TAI and Bayraktar produce UAVs that are highly advanced but cheaper than the competition. Similarly, FNSS—a JV between Turkish holding Nurol and BAE—produces 4x4 armed vehicles in high demand by African militaries not advanced enough for larger, more sophisticated vehicles.

However, Turkey's increasingly aggressive international ambitions have begun to limit the defense sector's ability to open new markets. Notably, the sector has not penetrated some of the world's leading weapons importers, such as Saudi Arabia, Iraq, and Egypt—countries that have objected to recent Turkish foreign policy decisions.

Turkey's procurement of Russian-made S-400 surface-to-air missile systems in July 2019 defied NATO norms and resulted in the ousting of the country from the F-35 fighter jet program. While the Turkish firms omitted from the program were dealt a crushing blow to their business models, the broader sectoral impact was relatively limited.

In a more telling example of the importance of the industry's relationship with the West, the Turkish military's October 2019 incursion in northern Syria resulted in the suspension of arms sales to Turkey by a number of EU nations. Though the nations stopped short of an all-out embargo to their NATO partner, this episode has laid bare the defense sector's dependence on foreign partnerships. While Turkey is quite capable of producing finished defense products, it is still highly dependent on Western defense components manufacturers and licenses. An ongoing export ban could prove highly disruptive to the Turkish defense supply chain.

While the Turkish defense industry has been successful in regional export diversification, these ongoing diplomatic spats represent existential threats to the Turkish defense industry. The US and Germany alone account for just under 50% of all Turkish defense exports. A loss of the Western market cannot be replaced by one-off arms purchases in the developing world. ✖

HAVELSAN IN 19 COUNTRIES FOR NOW

HAVELSAN is a global technology company.



HAVELSAN is an Establishment of
Turkish Armed Forces Foundation.



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plug AND PLAY

HAVELSAN produces a range of defense industry products for Turkey and its allies, including cybersecurity solutions and flight simulators.

Ahmet Hamdi Atalay
CEO,
HAVELSAN



What are the most important products and solutions for HAVELSAN's export business?

We have four main lines of business—two primarily in the defense field, one in the civic e-government area, and one in homeland security. In training and simulation field, we have developed numerous advanced technologies, products, and services, and are one of the top-five companies in the world. We have aircraft simulators, sniper simulators, submarine simulators, and parachute simulators—it is a diverse product line. We are not just selling the simulator itself; our main business is to establish turnkey training centers along with the simulators. The second line of business is command and control, which involves command, control, communication, intelligence, surveillance, and security systems. It is a large-scale segment, and we are one of the top-five players in the world in this area. The third line is management information systems, which are software-based solutions primarily for governments. This line is one of our long-established businesses and is aimed to provide information systems for critical infrastructures. Our fourth line of business is homeland security, which also includes cybersecurity. Up until now, our products have been available in 13 countries, including South Korea, Kazakhstan, Turk-

menistan, Georgia, Azerbaijan, Oman, Qatar, Kuwait, Malaysia, and Pakistan.

What is HAVELSAN's strategy for penetrating new markets?

South America is one of our target markets. The company is already selling training services to some South American countries, such as Colombia, but we want to continue growing there. As a way to expand future exports and develop commercial relations with other countries, we have developed some training centers in Turkey for the Turkish Armed Forces, including some slots we are able to sell to foreign countries. There are two limiting factors to our export business. In the defense sector, the exporting country has to have a good relationship with the customer's country. Second, there are some big markets in Western Europe where it doesn't make sense to expand because either such markets are highly competitive or they offer no room to grow.

In the cybersecurity field, what is the advantage of technology transfer versus exporting ready-made products?

Our strategy in the technology transfer area is limited to countries with strong diplomatic ties to Turkey. We have offered technology transfers to countries like Pakistan, Qatar, and Azerbaijan. In cybersecurity, if you do not have some control over your services, you are not on the safe side.

How have HAVELSAN's roots as a technology company allowed it to be involved in high-tech infrastructure and IT projects?

We are the biggest software technology company in Turkey and the region. Our headcount is 1,800, our subsidiaries employ around 400 people, and we have more than 400 subcontractors in our ecosystem with around 2,500 employees. Tallying those

numbers means about 5,000 people, and around 75% of them are electronics and computer engineers. That is why we are defining HAVELSAN as a regional power, and hopefully in the near future, as a global power. Since we are a technology company, we have to not just follow the technology but also create and develop it.

What are HAVELSAN's most important plans to implement its product-focused strategy in the near future?

The company was established in 1982 and moving forward, we are excited to do business in Turkey, the region, and the world. The previous business model at HAVELSAN was a project-oriented one where we worked on tailor-made projects for individual customers. Two years ago, we changed our business model and at present, we are trying to create our own products and solutions and target more than one customer. We call this model productization. We have already finished our productization period and have 25 products in the pipeline, which we are expecting to put on the shelf. Future growth will be defined by how well we sell these products through different channels and direct sales. This will be our focus for 2019 and 2020. ✖

BIO

Ahmet Hamdi Atalay has been the general manager and CEO of HAVELSAN since 2015 and was previously a member of its board. He has been the chairman of the Information Security Association Board since 2012. Previously, Atalay was the general manager of PROBIL Information Technologies, an executive board member for NETAŞ, and a board member for KRON Telecommunication. He graduated from Yıldız Teknik University's electronic and communication engineering department.

“South America is one of our target markets.

The company is already selling training services to some South American countries, such as Colombia, but we want to continue growing there.”

INTERVIEW



HAWK *and dove*

TAI is making the next generation of unmanned vehicles, while also looking into commercial and civilian aviation designs.

BIO

Temel Kotil has been the president & CEO of TAI since 2016. He graduated from Istanbul Technical University in 1983 and received his master's degree in aeronautical engineering from the University of Michigan in 1986. He received his second master's degree in 1987 and his doctorate in mechanical engineering from the University of Michigan in 1991. Kotil served as a member of the board of directors of TUSAŞ between 2015 and 2016.

Temel Kotil
PRESIDENT & CEO,
TURKISH AEROSPACE INDUSTRIES (TAI)

TAI's ANKA unmanned aerial vehicle (UAV) program has produced and delivered finished products to the Turkish Armed Forces and is undergoing development for new, more advanced models. What does the future of the ANKA program look like?

So far, we have delivered more than 18 ANKA-S UAVs. We are also in the process of securing some export deals. Regarding development, our newest UAV ANKA-AKSUNGUR has twin engines but the same control system as the ANKA-S; hence, it was not a big leap to develop. AKSUNGUR incorporates some additional capabilities—it has more payload, uses bigger cameras, and has an improved rudder for better land observation. The ANKA system is mature, but we want to develop it further.

What new technologies does Turkish Aerospace's Gökbey Helicopter use, and what are your production and sales targets?

Gökbey uses the latest design, and is a lighter and stronger helicopter with new systems, including a transmission system. The company is going through the certification process and once that is completed by 2021, Gökbey will be really successful and will likely sell several hundreds of units. At present, Turkish Aerospace builds 25 helicopters a year, but once the new technology program is complete that number will jump to 100. Our objective is to be a key player. In 2019, it is not hard to build aircraft and helicopters, but to be a key player requires having a strong brand and good products.

TAI is producing the T129 under license from AgustaWestland, based on its A129 model. What additional capabilities does the T129 ATAK Helicopter have?

We have the license to produce it, but we are currently the only producers because AgustaWestland stopped producing it. The engine has changed from the A129 model, and the T129 is a new machine in terms of structure. The T129 ATAK helicopter is a great product, but our target is to produce a bigger version. For example, the current version weighs five tons and we are targeting to increase it to 10 tons, adding a bigger, better engine and replacing the 20mm guns with 30mm ones. The bigger model will be completely produced in Turkey. Given that we are able to design

“In 2019, it is not hard to build aircraft and helicopters, but to be a key player requires having a strong brand and good products.”

a new transmission, which is a crucial part, and we have new milling machines and so on, we can do all the process at the micro level easily.

The T129 ATAK Helicopter's export has been in doubt because of US export license restrictions.

Why is it important to resolve it?

We are still working on this and since NATO countries have invested in the company, all countries should support us. There is no conflict with the US—it is just an ongoing process.

What percentage of Turkish Aerospace's revenue comes from making components for commercial airlines?

In 2019, our total revenue will be about USD2 billion, and a quarter of that comes from exports. We make about 30% of our overall revenue from the commercial side and moving forward our plan is to expand that to 50%. If we want to make money and reinvest in our company, we have to rely on commercial products because the market for defense products is volatile. Undoubtedly, our future will be in the commercial aerospace sector.

How will TAI ramp up production over the next 12 months?

We have been investing heavily on both the labor and the infrastructure side of the business. We have a great deal of construction going on and are ordering new equipment and machines. The important and difficult part is the labor. We are hiring about 1,000 engineers and technicians and training them. Finding the right people is not difficult but training them is. Our plan is to grow TAI's presence on the global stage. This is why we have offices in London and Seattle, and there are plans in place to open an office in Malaysia. ✕

Murat İkinci
CEO,
STM

the next WAVE

STM is deeply involved in the country's defense sector, building ships and submarines for export to Turkey's allies, as well as developing cybersecurity products.



STM recently completed several significant projects for the Pakistani Navy. How important is this strategic relationship for STM's future?

Turkey has close relations with Pakistan as we have deep historical ties. STM and the Pakistani Navy have been and are still working together in the training area, especially with young naval officers. That training relationship has brought us an opportunity to improve our business relations with Pakistan because its navy wants to use the same platforms and technologies in Pakistan.

STM has signed a contract for the development of four corvettes for the Pakistani Navy under the MILGEM program. Why does the contract call for the building of two vessels in Turkey and two in Pakistan?

Many countries want to develop their technology, especially for the defense industry, because it has strategic importance for national security. Similar to Turkey, Pakistan wants to establish its domestic defense industry. One cannot depend on other countries for their defense requirements. With that in mind, we offered to build two ships in Pakistan. It improves the country's capabilities and localization, which is vital for the Pakistani Navy to strengthen its overall infrastructure and increase the capability of its human resources. The difference between STM and its western competitors is that STM doesn't see a country as an open market; on the contrary, it offers to transfer its technology. Many countries such as Malaysia, Indonesia, Brazil, Peru, and Colombia are demanding such contracts. We offer them the same service, and they are impressed by our offer.

What regions or specific countries will have a high demand for STM's products?

In terms of regions, Asia, South America, and Africa are our target markets. Moreover, Indonesia, Malaysia, and the MENA region are our focus areas at present. It is not easy to compete within the penetrated developed markets in Europe and

North America. Due to that, we are investigating emerging markets, especially those seeking an opportunity to build their own technology. Our focus countries are interested in the MILGEM Corvette program chiefly, and also submarine modernization. Cybersecurity is a hot market across the globe, and STM's cyber capabilities allow it to penetrate this market as well. We have remarkable cybersecurity capabilities, which we use for the government and other strategic institutions in Turkey. We are following our export strategy for all our products and aim to improve our export potential. Our teams are working hard to find new clients. At the same time, we are focused on developing our business in the international market, including products such as navy platforms, submarines, cybersecurity solutions, and drones. After that point, we want to use our leverage and engineering capability to create a new business area, which can be a new area for the market. On the other hand, there are numerous technologies in the international market that companies in Turkey are unaware of. We plan to find these and bring them to Turkey in the long term.

What share of STM's cybersecurity revenue comes from the private sector?

About half of our revenue within the cybersecurity segment comes from corporates. Cybersecurity is not a government issue only, as every corporate and company has to defend itself, especially as data is becoming a strategic target. We offer our products to both the government and corporates and are trying to improve our offerings in line with future requirements. That is why we included AI services in our list of services; it acts as a leverage point because corporates can acquire our AI services at a reasonable cost. Otherwise, companies have to hire a separate team, which requires substantial investment. Incurring such a cost is not probable for SMEs. ✖

BIO

Murat İkinci was promoted to his current position in 2018. Before this, he was a deputy general manager responsible for engineering and consulting, including naval programs, defense procurement, consultancy services, and airworthiness consultation services. Prior to that, İkinci had served in different positions at STM since 2000. He earned a bachelor's and a master's in computer science from Bilkent University in Ankara. He completed the executive MBA program at the same university in 2011.

FOCUS

Defense exports

TURNING A NEW LEAF

Over the last decade, local defense companies have expanded beyond the domestic market to become international arms exporters, with a rapidly growing clientele in Southeast Asia.

THE TURKISH DEFENSE INDUSTRY saw its arms exports rise 170% between 2014 and 2018, according to the Stockholm International Peace Research Institute. This is the direct result of decades of investment and R&D that has helped Turkey's defense companies fine-tune products to grow beyond domestic security demands.

Well-established arms manufacturers are developing their export markets by appealing to international clients in Africa, Asia, and beyond with high-quality arms that tend to be more affordable than those from competing weapons exporters. Turkish weapons have particularly attracted interest in countries like Pakistan, Malaysia, Indonesia, and the Philippines, helping the industry diversify beyond traditional customers in the Middle East, Central Asia, and the Caucasus.

"In the coming period of 10 years, Turkey will become one of the leading defense exporters in the Asia Pacific region," Arda Mevlütoğlu, a defense industry analyst, told the Nikkei Asian Review, noting that Turkey's long-held ambition to create an indigenous arms industry has been achieved, and the nation is increasingly looking for opportunities outside its borders.

Turkish Aerospace Industries (TAI) is currently finalizing the sale of 30 multi-purpose ATAK helicopters to Pakistan. The USD1.5-billion deal, when confirmed, will be the largest sale to date for the Turkish defense industry. At the same time, defense electronics maker ASELSAN is delivering remote-controlled turret guns to the Malaysian coast guard as well as 5,000 night-vision devices to the Philippines army.

Such developments have helped Turkey increase weapon sales from USD245 million in 2017 to USD364 million in 2018. Behind the rapid expansion is the country's streamlined production and export of arms. In the last five years, Turkish weapons companies have exported aviation equipment, high-tech defense vehicles, and armed personnel carriers.

Turkish-made helicopters and unmanned surveillance drones have also garnered high interest due to their extended endurance

at medium altitudes. TAI CEO Temel Kotil said the company had confirmed contracts in Indonesia, Malaysia, Cambodia, Thailand, South Korea, and the Philippines.

In recent decades, Turkey's membership in NATO has helped its defense companies benefit from production licenses and technology transfers. Western defense companies such as the US' Lockheed Martin, Italy's Leonardo, and the UK's BAE Systems have worked closely with Turkish weapons manufactures on a variety of joint production projects, spurring the growth of the Turkish defense industry.

On the back of these recent developments, Turkish arms exports are expected to increase rapidly through 2028, as domestic manufacturers have already established production systems to meet new orders rapidly. Kerim Kemahlı, CFO of Nurol Holding, said his company has worked for decades to create armored personnel carriers under the FNSS partnership, in which Nurol is currently a 51% shareholder, with BAE holding the remaining 49%.

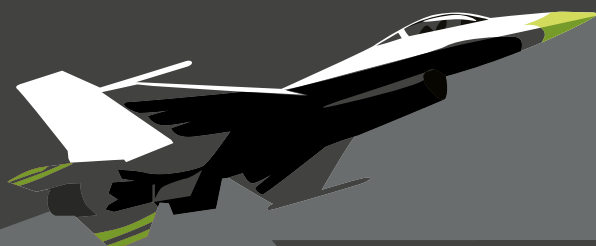
Through the FNSS partnership, Nurol developed armor 60% lighter than steel and more durable than traditional materials, helping the company gain international clients for its vehicles. Following export agreements with Oman and Saudi Arabia, Kemahlı said the company is working with Indonesia on the joint production of a medium-weight tank and is also looking for expansion opportunities in Africa.

"We see that Africa needs considerable defense products to better equip themselves against terrorism threats. They currently have underdeveloped vehicle fleets," Kemahlı told TBY. He also highlighted that "African armies are not sufficiently developed to use 6x6 and 6x8 vehicles, but are keener on the 4x4 vehicles, so Nurol Machinery focuses on that continent."

Nurol and other defense companies in Turkey are keen on exploring new markets in Latin America and Southeast Asia as part of their mission to expand further and push Turkish arms industry into a new era. ✕

THE TURKISH DEFENSE INDUSTRY HAS LONG BEEN A STRONG SECTOR FOR THE ECONOMY, BUT THE GOVERNMENT AND INDUSTRY LEADERS ARE HOPING TO TAKE IT TO THE NEXT LEVEL BY DEVELOPING NEW AND INNOVATIVE WEAPONS AND MATERIALS.

PERCENTAGE RISE
IN DEFENSE
EXPORTS BETWEEN
2014 AND 2018



WEAPON SALES

**USD245
MILLION**

2017

**USD364
MILLION**

2018

NEW TARGET EXPORT MARKETS



PAKISTAN



MALAYSIA



INDONESIA



THE PHILIPPINES

TRADITIONAL EXPORT MARKETS



MIDDLE EAST



CENTRAL ASIA



THE CAUCASUS

LARGEST SALE

BUYER



PAKISTAN

VALUE



**USD1.5
BILLION**

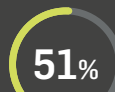
PRODUCT



30
multi-purpose
ATAK helicopters

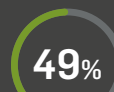
NEW DEVELOPMENT

FNSS PARTNERSHIP



Nurol

INTERESTED MARKETS
Oman, Saudi Arabia, and
Indonesia



BAE

NEW INNOVATION

Armor
that is



lighter
than steel

POTENTIAL USES
light tanks and APCs



Image: İsa Yurtsever

the need FOR SPEED

Kale Pratt & Whitney manufactures key components for Turkey's role in the F-35 program. Although the F-35's future is in doubt, the company is finding ways to adapt.

Akgün Filiz
GENERAL MANAGER,
KALE PRATT & WHITNEY



Kale Pratt & Whitney was founded in 2010 and began its operations in 2014 manufacturing aircraft engine parts and subassembly groups. Can you outline how the competencies from both Kale Group and Pratt & Whitney combined to create effective R&D and manufacturing capabilities?

Our company's JV contract was signed in 2010. The company was founded in 2011 in a small rented building within the Izmir ESBAŞ free zone, and our new plant building opened in 2014. It is a 16,250-sqm building on a 100,000-sqm land within the ESBAŞ free zone. In the first few years, competencies were gained both with experts from PW and Kale Group. Kale had been active in the aerospace and defense industry for some years, and it had experts made available to Kale Pratt & Whitney. Today, Kale Pratt & Whitney has developed its own qualified workforce staff in engineering, production, and quality. Together with all these achievements, we have an effective process development and continuous improvement projects in place.

What percentage of Kale Pratt & Whitney's revenue can be attributed to each the F-135 engine and the F-100 engine, and what additional aircraft parts does it currently manufacture?

Our company was founded in large part to manufacture F-135 engine parts, which is used in F-35 fighter jets. F-100s are also manufactured, though their share is small. Throughout the years, we began manufacturing commercial aircraft engine parts, especially for PW1000G GTF new generation engines used by Airbus for its NEO aircraft. Actual revenue share for F-135 military

“Actual revenue share for F-135 military engine parts is 30%, while the share of commercial engine parts is 70%.”

engine parts is 30%, while the share of commercial engine parts is 70%.

How will Kale Pratt & Whitney adjust its business model following the decision made to exclude Turkish manufacturers from the F-35 program?

We do have a significant F-35 business that accounts for 30% of our revenues, and our business will be adversely affected by losing this share. To reduce the potential impacts on our business and employees, we are working actively together with Pratt & Whitney to receive additional commercial parts to maintain the level of work we have. Pratt & Whitney's orders for GTF engines are continuously going up, and our JV in İzmir is growing in parallel. However, there will be a few years of setback before we replace F-135 parts manufacturing with the commercial engines. In addition, during our last general assembly meeting in 2019, we gained approval to enlarge our field of business aircraft structural parts.

What investments are needed to shift away from F-135 production?

We are in the process of checking the necessary investments. A total amount of USD90 million in investment has been already made, and investments in special processes such as hot forming, hot expander, hydroforming, plasma/HVOF coating, chemical lines, painting, brazing, electron beam welding, and so

on have been made for sheet metal high Ti and Ni alloy sheet metal fabrications.

In the coming three years, what are Kale Pratt & Whitney Group's primary objectives?

We want to strengthen our position and be the first choice of our customers. With continuous improvement and implementation of lean philosophy in our shop, we want to become a Pratt & Whitney gold-level supplier. We will also continuously invest in knowledge and expertise of our employees to excel in all our processes. On the other hand, we also want to achieve success in our new field of activity, the structural parts for aircraft industry to balance our workload between aircraft engines and wing and fuselage parts. As a result, we plan to increase our actual sales to USD100 million in a few years. ✖

BIO

Akgün Filiz has been the general manager of Kale Pratt & Whitney since 2016. Previously, he worked as a technical plant manager and in other positions for Bosch Group in Turkey. Filiz also worked for Bericap and AEG ETI in Turkey, and ITT Automotive in Germany. He has a master's degree in mechanical engineering from Heilbronn University in Germany.

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Shipbuilding

FINDING ITS NICHE

As East Asian shipbuilders have come to dominate the global shipbuilding industry—China, Japan, and South Korea account for around 80% of all merchant vessel orders—it may seem as if they have crowded out all the competition. China alone has grown its global market share from the single digits in the early 2000s to over 40% of total deadweight tons, and all three countries' industries have benefited from considerable government support.

However, when interviewing shipbuilders on the ground in Turkey, we found a confluence of timely strategic decisions and market conditions that has carved out several niche shipbuilding sectors where Turkish companies have thrived. Instead of focusing on big vessel production, where builders would find themselves in direct competition with the Asian giants, Turkish companies have specialized in tugs, ferries, offshore vessels, commercial shipping vessels, and other high value-added vessels.

These vessels, usually built on contract for a specific buyer rather than to be sold on the market, often incorporate advanced technologies such as hybrid- or electric-powered engines and autonomous navigation systems. Many are marketed to the northern European market, where customers are conscious about quality and prefer working with Turkish builders rather than their Asian counterparts.

This Europe-focused strategy has paid off.

While the Asian market segment—bulkers, oil tankers, and other big vessels—was hit hard by the global recession starting in 2008, Turkish builders saw a steady stream of orders from European customers. One builder—Cemre Shipyard—has delivered 50 vessels to a single Norwegian customer.

Turkish builders also operate within an industrial sector highly complementary to shipbuilding. Steel—a primary input for shipbuilding—is readily available in the Turkish market. While Asian builders also benefit from highly capable national steel industries, the Turkish marine equipment industry has made considerable improvements and now is able to provide a wide range of high-tech components—and a competitive advantage—to local shipbuilders.

Turkey has also increased its capabilities in naval shipbuilding, both for the Turkish military and for international customers. Ares Shipyard has taken an approach similar to the commercial niche builders—rather than chasing large-scale projects the builder has focused on offshore patrol and fast attack vessels. As a result, Ares was able to complete 11 new builds in 2018, a record for a Turkish shipbuilder.

The international nature of the Turkish shipbuilding industry has proved it is an important sector in an economy working to increase its hard-currency receivables. Its ability to find its niche in a highly competitive market has proved it is a resilient sector as well. ✖

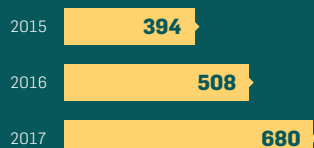
FISHING VESSELS EXPORTED (USD MLN)

SOURCE: MINISTRY OF ECONOMY



CRUISE SHIPS EXPORTED (USD MLN)

SOURCE: MINISTRY OF ECONOMY



SHIPBUILDING EXPORTS (USD MLN)

SOURCE: MINISTRY OF ECONOMY

2015	996
2016	970
2017	1,308



Image: Camre Shipyard



the coast IS CLEAR

Sefine Shipyard builds boats and ships across the world. It has navigated difficult waters in terms of competition and the lira's value.

Demir Koloğlu
GENERAL MANAGER,
SEFINE SHIPYARD

Can you break down Sefine's exports to Europe and, more broadly, where the company hopes to grow in the future?

Sefine Shipyard has been involved in many 'firsts' in Europe. We were the first Turkish company to begin making turn-key ferries for Norway, which is where we still have our strongest European presence. After our first work in Norway, we produced two ferry boats for the Estonian market, again a first for a Turkish company, which also represented the largest single Turkish export to Estonia. In 2018, we built a hybrid LNG-diesel electric ferry for Italy, the first LNG powered ferry in the Mediterranean. We are seeking to broaden our market to other Scandinavian countries, like Denmark, Finland, Sweden, and Iceland because we specialize in two types of vessels—ferryboats and live fish carriers. Scandinavian countries in particular use these two types of vessels, so we have plans to continue growing our market share in those markets. We have had 40 new builds to date, almost all for the European market, with five or six of them in Turkey. It is difficult to expand beyond Europe because we are a boutique shipyard and not like a huge Korean-type shipyard. It is hard to compete with the East Asian shipyards, which is why we focus on tailor-made ships for European countries. For this reason, we will not go to markets beyond Europe.

Sefine Shipyard is also involved in the repair and conversion of vessels. What projects has the company done in this field?

We have completed six cement carrier conversions for the Italian market and two livestock carrier conversions for the Gulf. Ship conversion is a different market; one never knows when the next

conversion project will come. One cannot market this service in the usual way; people will seek them out for specific projects. Sefine Shipyard is successful in conversion projects because we have a great design office, and we are more economical than other companies.

The local shipbuilding industry is known for its versatility and capabilities in niche sectors. What niche markets has Sefine defined for itself?

In Turkey, we generally do tailor-made jobs, so our advantage is that local shipbuilders are able to enter niche markets, as we did. In our case, we used to produce bulk carriers, tankers, and tugboats like everyone else in the world; however, we later realized we needed something else to give us more competitive advantages. We entered the ferryboat market before anyone else and now dominate the segment. Sefine Shipyard is now the leader in the ferry market. However, that was not enough to survive and keep the business sustainable. We had to find other markets and after conducting some research. For example, we identified an opportunity in the live fish carrier segment.

The depreciation of the lira has benefited many exporters in Turkey. How has it impacted Sefine Shipyard?

Initially, the depreciation was difficult for us, because although our labor costs are in lira, everything else is in foreign currency, such as euro, dollars, or even the Norwegian krone. We had to wait two or three months for the lira to stabilize to find the correct costs for us. Sometimes, our suppliers and sub-contractors were afraid to even provide us with quotes. But once the currency stabilized, we

were able to start pricing accurately for our customers again. We have not benefited as much as other exporters have from the depreciation.

What are Sefine Shipyard's biggest plans and primary objectives for the coming 12 months?

We are almost at full capacity for the next two years, so we need to invest in our shipyard infrastructure and buildings; for example, we have a new social building because we previously had 1,500 employees and now require facilities for 4,000 people. We are also investing in more workshops. Our primary objective for the year is to complete all our infrastructure investments to continue growing Sefine Shipyard. ✕

BIO

Demir Koloğlu graduated from Indiana State University with a master's of business administration. After graduation, Demir launched his career in Izmir, where he began as general manager. After two years, he started working in the family company Kolin Tourism and Construction as a member of the executive board. Currently, he is the general manager at Sefine Shipyard, one of the leading ship building establishments in Yalova region.



ARENA
OFFSHORE

**A STATEMENT
ON TRUST
SINCE 1998**



global ASPIRATIONS

Having made a name for itself in markets close to home, Arena Offshore is now expanding its presence across Asia, Africa, and South America.

M. Ömer İnce
FOUNDER,
ARENA OFFSHORE



Arena Offshore operates in three primary business segments: sale and purchase, chartering and brokerage, and shipbuilding and ship design. How does each segment fit into Arena Offshore's overall strategy?

At present, around 60% of our revenue comes from the brokerage business. We are focused on providing the offshore industry with the highest standard of sale and purchase, chartering, and market intelligence services. Due to our high deal flow, in 1998 we assumed an active role as a bridge in the offshore industry, facilitating coordination among the buyers, sellers, and charterers from all over the world. Shipbuilding and design go hand-in-hand with each other as a lot of our design work ends up supporting our shipbuilding process as well as the brokerage side with its technical knowledge in deals. We are seeking to increase our brokerage business while maintaining our current levels of design and building. Our clients have been happy with our shipbuilding work and the majority have become repeat customers. Our customers' satisfaction is both a result of our quality work and of their trust in us. These aspects hold true for many Turkish shipbuilders; we offer high-quality services and products and value our relationships

“Our decision to build vessels abroad is a business decision, and it came down to some price structures that make it advantageous to build in countries like China, Singapore, and Indonesia.”

with clients. Arena Offshore built trust first through its brokerage services, and that relationship of trust carried on into the shipbuilding and design businesses.

In 2011, Arena Offshore acquired a 35% stake in Alfa Marine Design—a Turkish naval architecture and design company. Why did you seek this acquisition?

Having a design department or office is a huge advantage for any shipbuilder. Prior to our acquisition, our new build process sometimes faced a bottleneck at the design stage because we were contracting out the work. Firms with strong design capabilities don't face this problem. This advantage was the primary motivator for our acquisition. A short, efficient production process is one of the most important parts of the shipbuilding business. Therefore, our acquisition was not purely profit motivated; rather, it was a way to run a better vertically integrated shipbuilding company.

Arena Offshore is now building some of its vessels abroad. Why did you decide to diversify your production facilities, and how does it provide you with a competitive advantage?

In our new build business, we are constantly seeking competitive advantages that allow us to offer top-quality vessels at attractive prices. Our decision to build vessels abroad is a business decision, and it came down to some price structures that make it advantageous to build in countries like China, Singapore, and Indonesia. The dynamics of the global shipbuilding industry have evolved over time. Since there are only a few shipyards in Europe, the world considers Turkish shipyards to be the leaders. However, competition is getting stronger. The input prices and labor costs for Asian shipbuilding industries are lower than ours due to the dynamics of interna-

tional trade and their national economies. I now offer my clients the opportunity to build their vessels in a different part of the world with the same maker list at a lower price. We control all aspects of the process to make sure the delivery date and quality of the vessel is determined by my company, not by the shipyard we are working with.

Within Arena Offshore's shipbuilding business, what kinds of vessels are you currently focusing on?

Our new-build vessels are mainly for the offshore oil and gas and marine construction sectors. These vessels are capable of operating in marine constructions, harbors, towage, and offshore extracting activities.

Where are you expecting to see demand in the future?

We have greatly diversified our customer base so that we are not overly-dependent on a single market. While we have dealt or built mostly for the European, Mediterranean, and Middle Eastern markets in the past, we have diversified into Asia, Africa, and South America of late. In order to reach these markets, we have offices in Singapore and Nigeria. ✖

BIO

M. Ömer İnce founded Arena Offshore in 1998 with a primary focus on vessel brokerage and chartering services, largely for the offshore oil and gas industry. He later set up the shipyard department and started Arena's new building program, which to date has delivered more than 25 vessels. İnce studied international trading.

INTERVIEW

OWN THE
waterfront

Cemre Shipyard builds increasingly sophisticated classes of ships and vessels in Turkey and Europe, catering to a more environmentally conscious customer.

Orhan Gülcek
CHAIRMAN,
CEMRE SHIPYARD

Cemre recently delivered its 50th vessel to Havyard Group, a Norwegian shipping company. Why did Cemre begin working with northern European companies, and what future plans do you have with them?

We started to work with Havyard in 2005 when northern European countries showed their interest in Turkey's shipbuilding sector. We rented a place at Istanbul Shipyard from the Ministry of Defense and started looking for clients. When we came into contact with Havyard, all the Turkish shipyards were working at full capacity. We won our initial contract with Havyard because we had capacity, but we won follow-up work because of our performance. Later, we continued to work with it because we provided high-quality ships and delivered on time due to our entire team's hard work. We have delivered Havyard 50 ships so far and are working on 10 more ships, hopefully with more to come. This partnership has a win-win model and is based on mutual trust. We think it will strengthen and grow in the future.

Other than Norway, which European countries are you most interested in?

We consider Europe as one bloc, so it is not wise to look at a single country from a business development standpoint. We prefer to construct project or niche ships, such as the ships we construct for the energy sector that service offshore windmills. These ships are often used by more than one country and are extremely versatile. We have constructed ships for Norway, Denmark, Iceland, the UK, and France. The most popular ships of late are fishing vessels, ferries, and energy-support ships.

Why did the company choose to focus on niche sectors of the shipbuilding industry?

Turkey's construction of classical ships has decreased substantially because of competition from East Asia. We have focused on project ships based

on our client's needs, or on a tailor-made basis. One of our goals is to construct cruise ships and to grow our presence in that area. We see great growth potential for ships that use advanced technologies, such as hybrid power. There is growing demand for hybrid and battery-powered ships because the environmental factor is gaining prominence, especially in northern European countries. Hydrogen-powered ships are also being designed and people are beginning to realize the future of autonomous ships. We have to follow the technology. We have to target the ships that involve technology and demand more engineering contribution.

What benefits do hybrid vessels offer, and do those benefits justify the higher cost?

We have different technologies for our hybrid solutions. The key benefits are fuel efficiency, silent working ability, and environmental impact. So far, we have built hybrid ships primarily for ferry companies. Eventually, I believe all ferries will use electrical hybrid solutions, especially in Norway. Regarding cost, hybrid technologies will become cheaper in the future. For example, the batteries were expensive last year but now their prices are dropping. With time, all of the associated costs will be more balanced. When it comes to the market for the first time, the prices are higher because of the R&D costs.

How has the lira's depreciation impacted your input costs and export demand?

For us, the lira's sudden depreciation or appreciation is a disadvantage. Although we export and an increase in the value of foreign currency may seem to benefit us, that is not the case. Around 60-70% of our costs depends on foreign currency. Once our suppliers accept the foreign currency exchange rate and calculate costs accordingly, pulling the

BIO

Orhan Gülcek is the chairman of Cemre Shipyard. He founded Cemre Engineering in 1996, a company that initially specialized in painting ships. Since 2005, Cemre has been building ships, and has since become best known for its shipbuilding capabilities. Gülcek is a member of the Turkish Chamber of Shipping and the Istanbul Chamber of Commerce, serving as a board member for the Turkish Shipbuilders' Association (GISBIR) and the Yalova-Altınova Shipyard Entrepreneurs Industry and Trade Inc. Co. He is the vice chairman of Yalova Pilotage Inc. Co. He has an electrical engineering degree from Yıldız Technical University in Istanbul.

prices back is extremely hard. On the contrary, stable and small increases are better for us as that helps us plan ahead.

With Cemre's pipeline full for the next two years, what investments are you planning to expand your capacity?

We have always invested in expanding our shipyard capacity; each year we grow by 10,000sqm. We started ship construction in 2005 with a really small area and in 2007 we had our own 20,000-sqm shipyard. The first shipyard we had has grown to 70,000sqm. After expanding it yearly for a few years, we decided to purchase a larger plot of land. At present, we have two 70,000-sqm shipyards and a 10,000-sqm piece of land; however, according to our production plans, we need more space. There are 37 other shipyards in Yalova, and we plan to outsource some of our jobs to them. We want to invest more in technology, because the ships we construct are special ships and we want to con-

“We have always invested in expanding our shipyard capacity; each year we grow by 10,000sqm.”

struct these ships as quickly as possible with the best technology available.

In the future, how do you envision Cemre further diversifying its shipbuilding capabilities?

We recently acquired a facility security document, so we plan to work on military projects for foreign countries. Another alternative is that we want to construct small-sized passenger ships, especially because passenger ships are also sensitive to the environment and use hybrid technologies. With the advancement of technology, new routes are formed, which boosts demand for new ships. ✖



FOCUS

Exports to northern Europe



Image: Arena Offshore

ON PAR WITH THE BEST

Having evolved from an old traditional activity in Anatolia to an internationally recognized industry, Turkey's shipbuilding sector is giving its eastern counterparts fierce competition.

WITH A LONG TRADITION OF SEAFARING in the Black Sea, the Mediterranean, and the Aegean, Turkey has been home to shipyards for centuries. By the 16th century, the Ottoman Empire had become one of the leading shipbuilders in the world, with many shipyards working full-time around the Bosphorus and the Golden Horn.

That tradition is still alive and thriving today. Turkey is now home to just under 80 shipyards as well as over 580 smaller boat production workshops—mainly clustered around Tuzla, Yalova, and İzmit—whose competitively-priced products are on par with East Asian and European vessels in terms of quality.

The sector has experienced something of a rebirth since the early 2000s, with its annual turnover reaching USD2.5 billion, while attracting notable investments over the last 15 years, according to the Ministry of Transport, Maritime Affairs, and Communications. This healthy growth coincides with a period of stagnation in the global shipbuilding market.

In 2017 alone, the country exported over USD1.33 billion worth of vessels, based on data by Turkish Exporters Assembly (TİM). Norway and other North European countries, in particular, are keen customers of Turkish ships and yachts, buying almost a quarter of all vessels.

Of the USD3.3 billion worth of ships of various sizes and types built in Turkey between 2015 and 2017, nearly 28% ended up in Norwegian and Icelandic ports. And, pricing is not the only incentive for the buyers. Turkish shipbuilders are highly customer-oriented, making tailor-made products while following global industry standards, which gives the sector an advantage over Asian players.

Demir Kologlu, general manager of Sefine Shipyard, which regularly exports to Europe, said “It is hard to compete with the East Asian shipyards, which is why we focus on tailor-made ships for European countries.”

Turkish shipyards specialize in a range of products including tankers, sailing boats, mega-yachts, ferryboats, and tugboats that are mostly bound for Europe. The bulk of orders in recent years, however, have been placed for low-tonnage tankers, fishing boats, and mega-yachts, according to the Ministry of Economy.

The sector has also ventured into the more serious realm of military boats. Ares Shipyard, an Antalya-based shipyard with a presence in Bahrain, Qatar, and Oman, among other countries, manufactures coastguard boats and assault ships. Its chairman, Kerim Kalafatoğlu, is confident that, at least for his company, the “military and navy side of the business will dominate for the foreseeable future.”

Another winning card for the sector is the fact that Europeans prefer working with Turkish shipyards over Asian suppliers because post-sales services, repairs, and alterations can be arranged and delivered far more easily.

Indeed, the industry is by no means limited to the production of vessels; maintenance, upgrading, conversion, recycling, and subsidiary industries are just as lucrative. Boatyards across the country's western coast are active in this area, as well. Sefine Shipyard, for instance, has thus far completed a number of conversion projects, restructuring vessels into cement carriers or livestock carriers.

While the country's capacity for newbuilding is around 5 million deadweight tons per year, its maintenance capacity exceeded 25 million deadweight tons in 2015. Notably, it is estimated that maintenance services generate approximately USD1 billion per year.

Turkey's shipbuilding sector has certainly come a long way from a heritage industry to a world-class industry with the required know-how, capacity, and competitiveness to satisfy international customers from the Nordic Seas to the Gulf, and there is no doubt the sector will stay afloat for the foreseeable future. ✖

setting a NEW COURSE



ARES Shipyard today is the largest builder of advanced-composite and aluminum naval and working vessels in Europe, with highly advanced production facilities and success in system engineering.

Kerim Kalafatoğlu
CHAIRMAN,
ARES SHIPYARD

What is the most important factor behind ARES Shipyard's success?

In fact, I would say all of them, as a vessel that meets the requirements can be developed only when all of these components are brought together in harmony. For this reason, we are ambitious in all of these areas; but if pressed to explain briefly about all four factors, I would start with production. In 2018, we delivered 11 vessels in only 12 months, and this is in itself a record for Turkey, but we can go further and state we are Europe's largest manufacturer of composite hull vessels. When it comes to design, we are as ambitious in this area as we are in production, such that the point that we have achieved in design takes us a few steps ahead of our competitors and increases our sales capabilities dramatically. Our success in system engineering, on the other hand, is exemplified by our integration capabilities. Finally, we owe this harmony to our young, dynamic and energetic cadre.

You said that you are Europe's largest manufacturer of composite hull vessels. Can you elaborate on this?

ARES Shipyard invests most of its revenues into new facilities, investments, and infrastructure, and this allows us build three or four different vessels at a time and to manage these processes in such a way that they are not affected by each other. Of the 11 vessels we are able to deliver a year, most are in the 35-m and 48-m class, but we should not only talk about physical magnitude, as we also need to underline our technologies, quality, and speed of production. We are the only company in the world that builds composite hull military ships with epoxy resin and vacuum infusion technologies. We achieve all of this without compromising on quality; in addition, none of the vessels we have delivered to date have ever been returned to us.

You have experienced rapid growth since the establishment of ARES Shipyard in 2006. Would you tell us the story behind this growth?

We first started production in late 2006 on a 700-sqm production area that we had leased from Sie-

"ARES Shipyard invests most of its revenues into new facilities, investments, and infrastructure."

mens in the Antalya Free Zone. In 2008, we completed construction and commissioned our first 3,000sqm facility. After producing vessels for a French company on contract basis for a while, we realized we had to specialize in this field and turned our attention to two main branches, namely commercial and military projects. The economic crisis of 2008 hit the shipbuilding sector badly, and the sector has still not managed to recover. But we did not give up and found new businesses to undertake. Moreover, we did not lend any money to achieve this growth; we have been growing in a healthy way, making use of our own resources, ultimately becoming a globally well-known company that relies on its own capabilities and marketing strategy.

How about your growth in terms of investments?

Our most important ongoing investment is the new building we are adding to our facilities. The building will permit the construction of vessels of up to 90m in length. Our intention is to make use of this building initially for an offshore patrol vessel and a fast attack craft program if we are awarded with the contracts. Our existing facilities allow us to construct such boats, though with our new investment we will be able to increase production and offer higher quality products. I hope we will soon be offering to the market a number of new boats on the strength of this new facility, working with such partners as thyssenkrupp Marine Systems, BMT, and Rolls-Royce. We have also expanded our furniture factory, where we are operating with increased capacity and producing more different furniture styles. To accommodate all these additional works, the area of our facility has been increased from 26,000sqm to 40,000sqm. ✕

BIO

Following a degree in econometrics, Kerim Kalafatoğlu completed a master's degree in international economics at the University of Essex in the UK. He started his professional business career in early 1994 at the Trabzon Free Zone as the founder of a foreign trade and shipping company. He later founded Ares Shipyard in 2006, where he is currently the chairman. Under his guidance, the company has won awards such as Turkey's Fastest Growing Company, 2012-2016, and Largest Ship Exporter in the history of Turkey – 2017. Kalafatoğlu completed the distinctive Owner/President Management Program by Harvard Business School.



“Our quality and price have played vital roles in helping us gain a bigger market share.”

Why did Tersan move into the building of passenger and fishing vessels and away from cargo vessels and tankers?

The economic crisis that all shipping companies and shipyards in Turkey faced in 2008 and the balance of the supply and demand chain falling apart to our disadvantage caused us to move away from the cargo vessel and tanker sectors and pushed us to discover the potential in northern Europe and Scandinavian countries. After 2008, we focused on producing tailor-made, purpose-built, and technologically sophisticated niche vessels and worked on developing new business opportunities. As a result of our business development activities, we secured our first niche fishing vessel order from a Norwegian fishery company. We recently signed our sixth vessel contract with the same company, our 100th new building project.

Tersan exports its vessels to markets across the global and has a considerable presence in the European and North American markets. Which regions and countries are Tersan's focus?

We are mostly focused on the Scandinavian, Russian, and North American markets. Given that we offer optimum quality and price balance, ship owners from Norway, Iceland, Russia, Canada, and Denmark prefer Tersan. Logistical advantages, time zones, and cultural similarities also help us establish new partnerships with these countries.

Hybrid solutions in Tersan's new vessels have proved effective in lowering emissions, fuel consumption, and noise. Can you describe the primary technologies behind Tersan's hybrid vessels?

In accordance with the demands of ship owners and end users, we are increasingly applying new technologies to our products, especially to meet requirements such as lower fuel consumption, operational costs, and emissions. Apart from hybrid vessels, we also offer 100% electric-powered ferries. In fact, Tersan was one of the first shipyards to build 100% electric vessels. These ferries are charged at the automatic charging stations at both piers of the ferry route they operate, and they can sail to the other pier without using any addition-

GET ON *board*

Tersan will continue to focus on purpose-built, technologically sophisticated vessels for its clients, providing them with innovative solutions in the design, sales, and engineering stages.

Mehmet Gazioğlu
GENERAL MANAGER,
TERSAN SHIPYARD

al energy source and charge the batteries again during the loading and unloading of the vehicles. We also equip these ferries with autonomous navigation systems to reduce fuel and energy consumption. These types of ferries evaluate factors such as weather conditions during the cruise, including separation and docking maneuvers, and perform the course with minimum energy. During loading and unloading, instead of holding the ferry to the pier with propellers, which is the conventional method, the vacuum system on the pier holds her up. The energy stored in the batteries of these ferries also meets the targets of zero-exhaust emission since the energy is sourced from hydroelectric power plants. Apart from the battery technology, we apply waste heat recovery systems, permanent magnet synchronous motors, direct drive main panels, variable speed machines, and other new technologies to almost all of our vessels. We also incorporate regeneration technology into the vessels. Using this, we can store the invert energy generated from cranes and winches during the unloading and direct the converted energy to the consumers on the vessel. We work closely with our solution partners to apply renewable energy applications and closely evaluate the results of our applications.

The Turkish shipbuilding industry is on par with European companies in terms of quality and Asian companies in terms of prices. How has Tersan benefited from this position?

Our quality and price have played vital roles in helping us gain a bigger market share. We have focused on purposed-built, tailor-made projects as we can meet all the expectations of the ship owners from European and Scandinavian countries. We aim to maintain this position by satisfying our customers' expectations and ensuring high quality and on-time deliveries. We also provide flexible solutions to our customers in each and every step of the shipbuilding process, from designing and engineering to delivery. Apart from our performance, political stability and financial strength also play a significant role in maintaining the standing of the Turkish shipbuilding industry. ✖

BIO

Mehmet Gazioğlu is the general manager of Tersan Shipyard and a board member of the Tersan group of companies. He is in charge of new building, ship repair, docking, and conversion projects. Gazioğlu graduated from the High Maritime Faculty as a marine machinery engineer.

leading THE PACK

The global market for personal boats is in constant flux, but Numarine is staying ahead of the curve with high-tech offerings across its business lines.

Ömer Malaz
CHAIRMAN,
NUMARINE



What role does technological innovation play in Numarine's line of yachts?

Technological innovation in the yachting sector did not truly exist until we started in 2001. Everyone was building boats in the same way that they were doing in the 1960s—we were in the dark ages of production. In 2001, when I started Numarine, I felt we needed to do things differently, and our differentiator had to be lower prices than our competitors, the main European brands. At this time, vacuum infusion was something extremely high tech that only race sailing yachts were utilizing. The technology is environmentally friendly, as it emits 99% less styrene gas into the environment. I saw that the environment would be a key issue and selling point in the coming years, and the technology produces a light and strong product, so we invested heavily in developing the technology. We were the first shipyard in Europe to produce everything with vacuum infusion; by the time many other companies switched and started doing vacuum infusion, we were leading the pack. Another of our key technologies are lithium ion batteries, which we introduced two years ago.

How does your new yacht, Adonis, implement even more advanced technology?

Adonis is our collaboration with Furrion Design, a Hong Kong-based technology company that created Angle AI. It also does a great deal of work integrating AI into household appliances. Adonis mixes these two aspects of Furrion with yachting. It is wonderful—as one walks in, a smart camera recognizes them and sets the mood to their preferences, changing the music and learning their preferenc-

“Technological innovation in the yachting sector did not truly exist until we started in 2001.”

es. Sailors can ask about the weather in a certain location and request that the yacht navigate there. The yacht will take them there, and en route it will ask if they want to visit a restaurant. Then, it can select the best one. The temperature of water in the shower can be adjusted via voice recognition. In the future, this will all be standard. However, when it comes to extremely high-tech solutions such as Adonis, I am slightly cautious, as it is still extremely new and untested. If our boats are to sail all over the world, we need to ensure they are safe and can be serviced.

How do changes in taste drive Numarine's technology and yacht line?

10 years ago, speed was a selling point, though this has changed. Now, people want to be able to navigate quietly so that they are comfortable and can sleep during navigation. This is why our lithium ion batteries are popular as the technology is quieter. It is one of the reasons why our XP line has been successful, as the yachts are quieter and roomier.

What are the biggest operational challenges you face?

We used to face many challenges when we were new into the market and were learning; however, it has been 18 years, and we have produced close to 150 boats, so production-wise we do not face many challenges. On the marketing side, producing in Turkey and selling worldwide still has its challenges. Turkey had a fantastic image up until five or six years

ago—when I went to the GCC or Europe before, customs were extremely positive and processed us even without a stamp. However, we have lost that prestige over the last five years due to international politics. It is becoming harder to sell such an expensive product to a global customer from Turkey.

Over the next 12 months, what are your plans and objectives?

We have a new 45-m Explorer, which is our biggest project and one of the most exciting. It will present many challenges for us, though it will also bring many rewards because once it is out there, it will be the only boat of that size with those amenities. I do not know what the global economy or politics will bring in the future; however, we are focused on our growth plans. ✖

BIO

Ömer Malaz was born in Istanbul. He completed his high school education in the UK and his university education in economics in the US. In 1991, he began working for his family's company, Malazlar Kibrit, before joining Kartonsan. He then founded Teknik Kasa. In 2001, he moved into the yacht sector and founded Numarine Denizcilik.

TÜMAD

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TÜMAD is the mining flagship of Nürol Holding, a reputable Turkish group of companies engaged in a broad range of businesses including trade, defense, industries, construction, machinery, production, tourism, and finance. TÜMAD Mining Industry and Trade Inc. is a metallic mining group with businesses, projects, and exploration works in precious and base metals.

TÜMAD conducts advanced exploration and mining operations at potential mining sites with environmentally friendly methods and approaches at international standards, with a specific focus on the protection of human health. Our projects proceed with advanced technology and an integrative approach that combine economic and social development with environmental protection and sustainability, while creating a new force in Turkish gold production.

TÜMAD made a rapid entry into the sector with gold mine investments in Çanakkale Lapseki and Balıkesir İvrindi, all in accordance with international standards and in the framework of respect for nature, the environment, and human beings. These investments include advanced search and production operations and are fully sustainable. Upon decommissioning, the site will be covered with top soil and replanted.

“To strengthen our long-maintained position among the best performing mining companies of Turkey especially in the fields of occupational health and safety, environment and public relations; TÜMAD will relentlessly continue its businesses in full compliance with international standards.”

Hasan Yücel

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Mining & Metals

REALIZED POTENTIAL

With Turkey focused on increasing its exports in an effort to boost hard currency receivables and reverse its current account deficit, the mining sector has taken center stage. Still representing a relatively small share of around 2-3% of the economy's GDP, there is much room to grow.

Sitting on the Tethyan Metallogenic Belt, which runs from Southeast Asia to Southeast Europe, Turkey has a wide variety of mineral resources, including gold and other rare earths, natural stones, chrome, copper, nickel, magnesium, industrial raw materials, lignite, and boron. While natural stones account for around half of Turkey's annual USD5 billion in mining exports, much new investment is being poured into the sector's other areas.

Interestingly, Turkey's mining sector has recently been bucking the trend of international investment and seen a number of domestic conglomerates driving the sector's growth. While part of this capital movement is due to the perception of mining investment laws, it is also due to the increased capabilities of Turkey's industrial sector.

Gold is one such area seeing massive development from domestic capital. In the first two decades of the century, Turkey has turned a nearly nonexistent industry into Europe's largest producer of gold. Tümad Mining Industry and

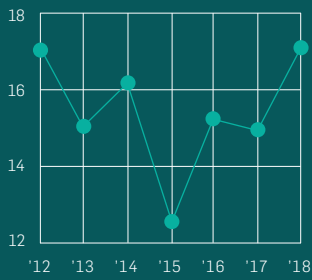
Trade, a subsidiary of Nurol Holding, is a prime example of how development in the sector is unfolding. Tümad's two new mines—one having started production in late 2017 and the other in 2019—are set to produce around 15,000 ounces of gold per month.

Turkey's nascent coal mining sector is another example of domestic development and is also shaping up to be a successful case of privatization. In late 2018, the government transferred the operating rights of seven high-potential coal fields to private companies, a move that is set to increase annual coal production by 20% to around 100 million tons per year. The move is in part to reduce Turkey's imported energy sources, on which it is nearly entirely dependent to meet consumption needs.

As raw minerals constitute the majority of mining exports, a number of initiatives are underway to include more of the value chain in Turkey before products are exported. Cengiz Holding's investments through its mining subsidiary, Eti Bakır, are notable in this area. Cengiz has poured over USD1.2 billion into its integrated metal recycling and fertilizer plant in Mardin—the largest ever private-sector investment in the eastern and southeastern region of Turkey. Plans to invest another USD450 million by 2023 will see the facilities capture more value through additional downstream capabilities. ✖

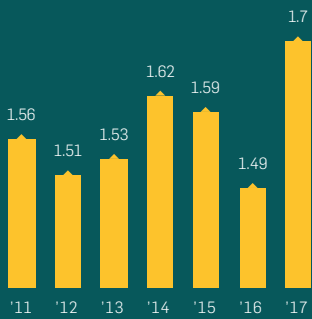
TOTAL COAL PRODUCTION (MLN TOE)

SOURCE: CEIC



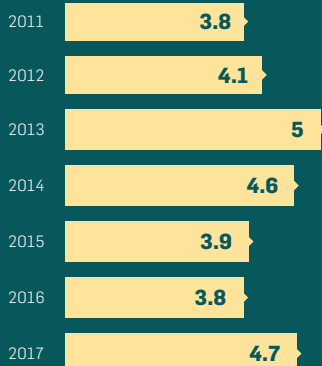
TOTAL ALUMINUM EXPORTS (USD BLN)

SOURCE: CEIC



TOTAL MINERAL EXPORTS (USD BLN)

SOURCE: ISTANBUL MINERAL EXPORT ASSOCIATION (İMİB)



doing it RIGHT

The ministry is working round the clock to increase the mining sector's contribution to GDP and ensure the companies operating in the sector are sensitive to the environment.

Fatih Dönmez

MINISTER OF ENERGY AND NATURAL RESOURCES



Turkey's mining sector accounts for around 1% of GDP but the government has a goal to increase that to 3%. How well positioned is Turkey to expand its mining sector?

It is important to increase the output of the mining sector in Turkey for a number of reasons—beyond just GDP growth. Mining activity in Turkey produces vital raw material inputs for the industrial sector; therefore, its expansion will reduce our dependence on imports. Turkey imported around USD27 billion worth of mining products in 2018; in comparison, Turkey's mining exports in 2018 stood at USD6-7 billion. Much of that USD20 billion trade deficit is due to gold imports, which amounted to USD8.5 billion in 2018. We also import other products such as copper and iron ore, among others. Contrary to what these figures might indicate, Turkey has significant mining resources—there are about 90 kinds of mining products in the world and 70 of them exist in Turkey.

What are the biggest challenges to expanding the mining sector's share of GDP, and how is the ministry working to decrease the sector's environmental impact?

Mining is a time- and cost-intensive activity. It can sometimes take 10 years between exploration and production. Investments in the sector are long-term commitments and therefore we need to be patient. The sector's expansion is also limited by environmental and location constraints. We don't initiate mining projects close to residential neighborhoods and cities as well as protected areas such as natural parks, national parks, SIT areas, and touristic areas. When you look at the remaining areas, they are often agricultural or forested land. In these cases, the Ministry of Agriculture or the

General Directorate of Forestry have to be consulted, and we engage in studies about the environmental and economic impact of initiating a project. There are protections in place to ensure that citizen land rights and forested lands are respected.

How is the ministry involved in the rehabilitation of land after mining projects are completed?

We are involved in the rehabilitation process, especially when it relates to forested areas. If a mining project is to be initiated in a forested area, the General Directorate of Forestry has a specific permit process that has to be undertaken in line with its own legislation overseen by its regulation boards. For example, it is prohibited to mine in dense forests. Moreover, there are per unit costs of cutting trees, and projects are required to plant as many trees as they cut in a different location. The General Directorate of Forestry also receives rent income to help improve the condition of forests around the country. Once the mining operations cease, the mining area needs to be rehabilitated, which involves a number of processes, including reforestation. Our ministry has also contributed by initiating a campaign involving a number of stakeholders from the natural gas, electricity, mining, and energy sectors aimed at planting 5 million trees around the country. Maintaining a fair balance between protection and production will enable the economy to realize the full potential of the mining sector.

Can you outline the importance of the mining sector?

Minerals are used in nearly every product we use on a daily basis. In Turkey, the

sector employs around 130,000 people. Its importance for the economy is clear. While Turkey's mining sector accounts for 1% of GDP, the mining sector in countries such as the US, Canada, China, South Africa, and Australia represents over 10%. While we are doing all we can to catch up, it is also paramount that we vet the companies operating in the sector to make sure they are sensitive to the environment and local communities. ✖

“Maintaining a fair balance between protection and production will enable the economy to realize the full potential of the mining sector.”

BIO

Fatih Dönmez has been the Minister of Energy and Natural Resources since 2018, having previously served as the ministry's undersecretary since 2015. He previously served as the commissioner and board member of the Turkish Energy Market Regulatory Authority (EPDK), as affiliates general coordinator for the Istanbul Metropolitan City Council (IMCC), and as CEO and board member for several of its affiliates. Dönmez also worked for the Istanbul Natural Gas Distribution Company and Turkish telecom firm Netaş. He graduated from Yıldız Teknik University's electrical engineering and electronics department and also completed his e-MBA certificate.

INTERVIEW



SETTING *the bar high*

As the first mine in Turkey to introduce a fleet management and mine control system, Çayeli Bakır is leading the sector with investments in technology and sustainability.

Murat Güreşçi
GENERAL MANAGER,
ÇAYELİ BAKIR

What recent investments has Çayeli Bakır made to improve the production and safety of its mine?

In the last few years, we have invested in the safety of our shaft hoisting system. It is an underground mine and the hoisting system corresponds to 50% of our production; therefore, the shaft is a critical element of the mining process. The mine has been in production for 25 years, so the system requires constant maintenance. This has been the focus of our investments. We have started using new safety systems to keep in line with the latest technology, such as new communication systems. We have also invested in equipment, as some of our equipment is 15 years old.

What automation techniques are you planning to introduce?

Ours is the first mine in Turkey to introduce a fleet management and mine control system. This improved the efficiency and productivity of our underground operations. After seeing the benefits of it, we cannot imagine a mine without a fleet management system now. We have also equipped our auxiliary ventilation with remote control systems to increase efficiency, reduce fan maintenance costs, and save energy costs. It enables us to operate and shut down remotely from the surface. Notably, it has reduced our ventilation energy costs by approximately 15%, which corresponds to USD250,000 per year. The third thing to mention is the personal tracking system underground. We implemented it before it was made mandatory.

What investments have you made to increase the energy efficiency of your mining operations?

We have an energy management team that consists

of engineers from the mine, maintenance, mill, and finance departments. They meet every month to look for opportunities to reduce consumption. Underground, ventilation is our main energy consumption, while on the surface, it is the milling side. At present, we are processing increasing amounts of low-grade material, which consists of clay, and when the clay comes into contact with water, it becomes hard to crush. We are working hard to improve the crushing equipment so that we can feed the running circuit as much as possible so that the energy consumed per ton falls. We have also engaged in campaigns outside of the production process to reduce energy consumption. We have replaced roofs with transparent roof covers to use sunlight instead of artificial light. Similarly, we have installed higher efficiency bulbs ones to further reduce our energy consumption.

Can you outline how your water recycling techniques work?

Our water recycling begins with underground drainage water, which is collected and pumped back to the surface. This water then accumulates in a large pond and is recycled to be used in other plants around our production facility, primarily the grinding circuit. Rainwater and runoff water are also collected in the same pond. The third thing we have done successfully on the flotation circuit is the copper overflow. After doing necessary tests, we found that using the grinding circuit does not affect the flotation. We recover, recycle, and restore the water at our facility. We use the rainwater for our processing needs and ensure that no water is discharged to the environment. It is not only about efficiency but also about making sure water from our site does not leak out.

BIO

Murat Güreşçi joined Çayeli Bakır in 2003 and since then he has held a number of positions in the engineering, planning, operations, and management departments of the underground mine and the ore processing plant. He became general manager and a member of Çayeli Bakır's board of directors in 2018. Güreşçi graduated from Hacettepe University as a mining engineer in 1999.

What is your operational and business plan leading up to 2022, when Çayeli Bakır's reserves are predicted to be depleted?

The ore is currently depleting, and as it depletes, we are back filling the mine at a rate of around 20,000 tons of backfill a week. This process goes on 24 hours a day, as we aim to replace the extracted ore with backfill soon after the production. Once the mine is completely depleted by 2022, we will have to look at the service facilities. Turkish mining laws say we need to return the mine site to as it was before the mine started operation. Beyond that, we want to do something more and leave a legacy if we

“We use the rainwater for our processing needs and ensure that no water is discharged to the environment.”

can. The mine has been in production for 25 years, and we plan to generate socioeconomic benefits for the environment and local communities. We do not want to leave a gap once the mine closes down. We have plans to do something that would bring some income to the community once we leave. Quantum Minerals, which owns Çayeli Bakır, is actively looking for opportunities all over the world. The plan is to find a project that can be beneficial for the company and operate it once the mine goes offline.


What are your primary objectives over the next 12 months?

We want to deliver budgeted revenue numbers and give return to our shareholders. In order to do so, we need to set targets and achieve them. Our target for 2019 and 2020 is achieving higher safety standards. Our second target is to acquire the right tones and grade from the underground. We also aim to reduce the operating costs of the mill. ✖

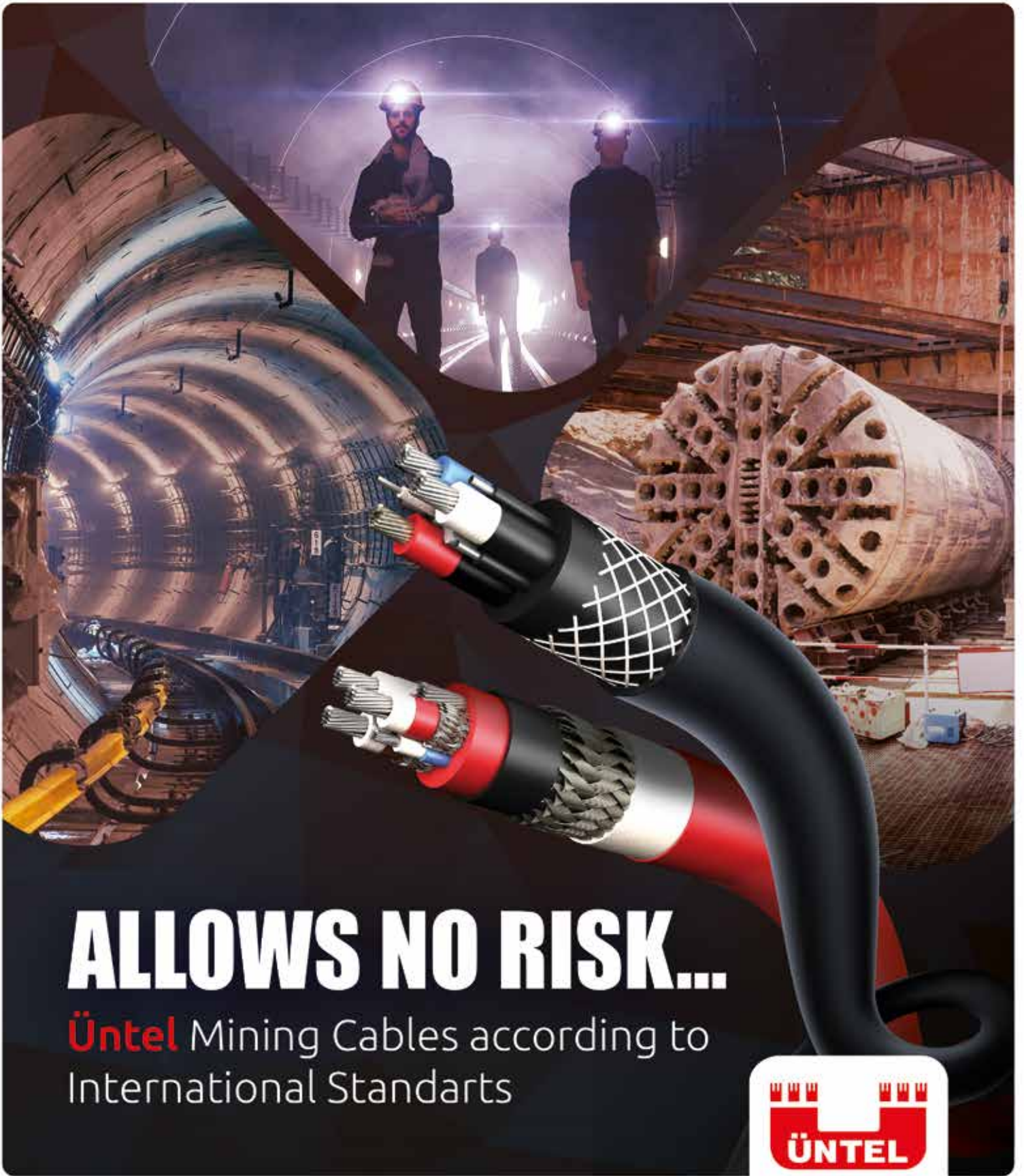
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sitting on a GOLD MINE

With around USD25 billion in annual mining imports, it is no wonder the government is drawing up new regulations to incentivize domestic production.

Ali Emiroğlu
CEO,

MINERS ASSOCIATION OF TURKEY (TMD)



New mining regulation passed in 2017 freed up the Ministry of Energy and Natural Resources' approval process to transfer mining licenses to private firms. How will this change in regulation encourage investment?

New regulations will mostly affect projects related to the transformation of coal into energy. Actually, tenders about this were made in Soma and Zonguldak. These will contribute to both the mining and energy sectors by converting and transforming existing idle reserves into energy. Large companies usually get them. Large companies with operations in Soma took them, partially because the government awarded incentives for this. They do not tax this, for example. They also gave incentives on investment, such as the restructuring which affected coal production, mining, and energy, which was a good one. It was an operation for the production of lignite resources in Turkey done according to national energy and national mining policies. We also support this effort as an association.

What progress has been made thus far to develop new lignite and hard coal mines as a result of the regulatory changes?

Turkey normally imports USD4 billion of coal each year, most of which is for energy-oriented power plants. This project is meant to reduce imported coal according to the national energy and national mining policy by substituting domestic resources for it. Some very large coal deposits were found in Alpu in Eskişehir and elsewhere such as Konya. Projects

and preparations for these projects are ongoing, and tenders for some of them have already been made. Some of them started operations, too. New production projects still continue, but they have not been finalized yet. Many of them will be in production in 2019 and soon thereafter. There will be an incentive for coal mines and power plants, whose target number we will reach after 2019.

Outside of coal, how have liberalization efforts impacted other mining sectors?

The regulation was not just issued for coal. A special incentive was given for coal, but an incentive for metals was also given, in addition to incentives to support metal mining and the production of metal. There were some serious incentives to build the sector for the end product. The incentive was 50% and was increased to 75% by the 2018 law. They still support it, because Turkey has about USD25 billion worth of imports related to mining. These consist of coal, gold, lead, zinc, and iron ore. There is research related to the reduction of imports and the substitution of domestic mines, which the regulations also include, be it related to gold, coal, lead, or industrial raw materials.

What role does the TMD play in helping shape regulations promoting liberalization and encouraging investment?

Both TMD and other components conducted studies on these issues in which we provide our opinions and sugges-

tions regarding the laws and regulations being made. We present them both to the ministry and the sector, in which we play an active role. We also provide reports, legislative proposals, and regulatory recommendations on these proposals. We take the examples you mentioned earlier on practices of other countries and check if they can be applied to Turkey; if they can, we present them to the Ministry of Energy and Natural Resources, the Ministry of Environment and Urban Planning, and the Ministry of Agriculture and Forestry.

Which mining sectors have been most affected—positively or negatively—by the depreciation of the lira?

Mostly the exporters have been affected. There are two kinds of products in the mining sector in Turkey: those aimed at the export sector and those for the domestic market. We have an export value of USD4.5 billion in total. Almost half of this is marble. The rest of it comes from metal exports and industrial raw materials. The most negatively affected parties are the ones that sell marble or other materials in the domestic market. ✖

“Turkey normally imports USD4 billion of coal each year, most of which is for energy-oriented power plants.”

FOCUS

Gold production

GOLDEN BULL

Turkish gold is making its way from deep under the ground to global markets, making it Europe's leading producer of gold in recent years.

ALTHOUGH ANATOLIA HAS A LONG HISTORY OF INVOLVEMENT WITH GOLD, and modest quantities of the much-loved yellow metal were produced in Ottoman times, the first gold mine in the modern Republic of Turkey did not come into service until the late 1990s. It did not operate for long. However, mining laws updated in 1985, alongside a favorable tax regime, have since led to a renewed interest in gold mining, and subsequent investments by international companies have turned Turkey into Europe's leading producer of gold in recent years. By the end of 2019, Turkey will produce over 33 tons of gold. The sector's production capacity could increase to 50 tons per year.

Turkey's significant gold reserves are scattered along a corridor stretching the length of the country, but larger deposits are often found in certain areas in the west. There, more veins of gold are trapped in quartz rocks, waiting to be discovered. The geology of Turkey is also favorable for gold mining. The western coast of Turkey is the meeting point of three tectonic plates—the Eurasian plate, the African plate, and the Arabian plate—which is usually where epithermal gold pockets occur.

Since the 1990s, over 15 major gold mines have become operational, most of which are run by the private sector in partnership with foreign companies.

The open-pit Kışladağ mine in Uşak province in the west is the largest gold mine in the country. It is operated by the Vancouver-based Eldorado Gold and its local subsidiary, TÜPRAG Metal, which also runs the Efemçukuru mine near İzmir. The combined output of Eldorado Gold's operations in Turkey forms up to 40% of the country's annual gold production.

Promising up to 6 million ounces of gold, the Çöpler mine is yet another significant reserve in the eastern province of Erzincan. It is currently operated as a JV that includes the US-based company Alacer Gold and Turkey's Çalık Holding.

The internationalization of Turkey's precious metals mining

sector has not only resulted in the transfer of world-class experience to the country, but has also raised the standards of mining practices.

Kerim Kemahlı, CFO of Nurol Holding, which operates a gold mine in Lapseki, is confident his company's activities are in line with the best practices of the industry. "This is the first mine in Turkey that entirely abides by international standards, and the project financing is from a consortium of banks including EBRD, which has strict environmental and social impact policies," Kemahlı said. His company is about to launch another one in İvrindi, in the Marmara region.

Adhering to high quality mining procedures is particularly important, since toxic substance such as cyanide are often used in upstream gold mining. If not handled correctly, these materials present serious environmental hazards. Mechanical processes and digital solutions, however, could make the mining of precious metals less dangerous.

"We started employing mechanized mining practices for chrome operations for the first time in Turkey in late 2018," said Alp Malazgirt, CEO of Yilmaden Holding. He added that "smart mining" has helped them increase the scale of their operations and production as well.

Because the industry is following strict standards, public attitude to mining has recently changed. Many foreign companies currently consider Turkey a mining-friendly country. Ümit Akdur, former chairman of the Turkish Gold Miners Association, believes the government has a pro-mining attitude. That attitude is reflected in the country's clear and well-structured mining regulations.

With large quantities of gold waiting to be discovered, a relatively mature precious metals mining sector, and companies following regulations in force, it is likely Turkey will continue to play a major role in the European and global gold markets in the next decade. ✖

Turkey is rich in a wide array of minerals, becoming Europe's leading gold producer in 2015

Image: Yasemin Yurtman Candemir



INTERVIEW

emerging LEADERSHIP

Having become a reliable and leading organization in the energy sector globally, Delta now brings its expertise and international standards to the mining sector in both production and trading.

Sami Habbab
CEO,
DELTA GROUP



Why did you choose to invest in the Turkish mining sector, and how is the company well suited to develop mining operations?

Mining resources in Turkey are fairly unexplored considering how widespread they are. Turkey sits on the Tethyan Belt—one of the most prospective mining belts in the world—yet the mining sector is still in an early growth stage due to the high capital investment and technical barriers to entry. The combination of high geological potential, whereby Turkey hosts about 0.5% of world metallic mineral reserves, attractive value-capturing opportunities, and the sector's ability to reduce Turkey's current account deficit through exports all made the sector interesting for us. The company is also well suited for the sector as a renowned local investor profile. Since mining is a commodity-driven business, and Delta has a long track record in the commodities business, whether it is in metals, energy, or other commodities, the pairing was natural.

What mining sub sectors has Delta invested in, and do you prefer to invest in greenfield or brownfield projects?

We have acquired both brownfield and greenfield projects and are open to both depending on how they fit our investment criteria, though our target investments focus on relatively quick time to market cash flow production (less than two years). We are developing a strong portfolio of mining assets mainly in base and poly metals, including chrome, lead, zinc, copper, and poly metal sites. For now, our mining investments are in Turkey, though hopefully in the medium term we will grow our portfolio internationally into parts of Europe, the Middle East, and Africa.

What efficiency-oriented practices does Delta implement for its new mining acquisitions?

The mining sector is a commodity-driven market; therefore, one usually acts as a price taker, which means we focus our investments on what we

can change. With our acquisitions of brownfield projects in particular, we can improve cost management, investment skillsets, and R&D management. Looking at our chrome sites, we have spent a great deal of time and money developing exploration tools such as new exploration and drilling equipment and in R&D, with a new laboratory for metallurgical testing and 3D software systems to scan and analyze mineralogical alterations on the surface and identify resource areas for development. As a result, we have been able to extract significantly more resources from our mine sites. We employed an expert technical team of geologists and mine engineers to build an effective network team, and we continuously provide training and workshops to enhance the technical expertise and development within our organization.

What is your current strategy to gain a larger market share within the mid-stream oil and gas sector?

Our appetite is to continue our investments in mid-stream assets in storage, logistics, transport, shipping, trading, pipelines, and port infrastructure development. At the moment, we are eyeing investments in the international market. Our areas of interest include the Middle East, Europe, Africa, and southern Europe, as well as the Black Sea region. Africa, for example, is a great growth story, though the infrastructure is still insufficient, so there are many opportunities there for development and management. It could involve developing a greenfield project development from scratch, rehabilitating existing infrastructure, or management contracting, where we bring our own expertise in international standards and oil and gas market knowledge to existing projects in order to add value and bring projects to fruition.

What are Delta's investment strategies to invest in markets where Turkey has competitive advantages?

We have always worked with international trading companies, majors, and state companies;

BIO

As the CEO of Delta Group, an international energy and mining group of companies, Sami Habbab manages the group's activities and strategy, which includes a metals mining portfolio of assets, its midstream oil and gas activities as well as its commodities trading field. Prior to his role as CEO, Habbab lead and grew Delta's midstream investments, including the largest independent Turkish oil storage, logistics, and port infrastructure assets, and led its negotiations with major oil refiners and state and international oil companies. He previously worked in the investment banking sector in London and New York and has an MBA from Kellogg and a bachelor's from Wharton.

from that perspective, the quality of receivables is important for us. As a company, we want to be more of a market maker, and our investments demonstrate that. For example, in mining Turkey is one of the top three largest producers of chrome in the world, and we are one of the leaders and biggest exporters within Turkey. We are looking to expand not only into extracting chrome ore but also investing in horizontal developments such as plant developments, enrichment plants, and possibly smelting plants as well. The state is offering attractive incentives to that effect. Our goal within the mining sector is to be truly international and integrate and capture more value through our mine portfolio of assets. We also see similar market opportunities in the midstream energy and petrochemicals markets. Turkey has considerable market power in the midstream area as well as in industrial production and chemical plants. It has a strong domestic demand and sits in a geographical region, where it can provide an

export production and/or a logistics hubs regionally to take advantage of the international flow and nearby demand markets.

What is Delta Group looking to invest in right now?

We are looking at both local as well as international acquisitions. We have a dynamic team looking at acquisitions mainly in base metal mining, namely chrome, lead, zinc, and copper. Second, we are looking into energy and chemicals, so anything to do with mid-stream assets, logistics, and even industrial production plants especially with the export possibilities to international markets and chemical plants. Those are the specific areas that we target investing in. On the mining side, we want to be a truly international company, and in the coming years we want to continue to develop and build a sustainable and strong portfolio and list in international markets. We want to develop the other part of the business, which is the energy, chemical, and petrochemicals side. ✖



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BENEFIT *thy neighbor*



Cengiz's investment in the Mardin Mazıdağı Metal Recycling and Integrated Fertilizer Plant was the largest private investment in the history of southeast Turkey.

Ömer Mafa
CEO,
CENGİZ HOLDING

Will have invested over

USD 1

billion in Eti Bakır's facilities by 2023

Cengiz Holding has invested hundreds of millions of dollars to renovate Eti Bakır's operations after acquiring it. Can you give me an overview of these investments and what operational benefits were achieved?

Eti Bakır is Turkey's largest mining metallurgical and chemical company, operating mines in Küre, Murgul, Cerattepe, Adıyaman, and Siirt, as well as a smelting plant in Samsun, and a metal recycling and integrated fertilizing plant in Mazıdağı. In the past 15 years, we have made investments into Eti Bakır plants totaling USD635 million to increase production capacity, modernize the equipment, and help other valuable fields such as the environment and occupational health and safety. We have become one of the most modern underground and open-pit mining and metallurgical plants in Europe thanks to these investments. As an example, the Samsun smelting plant was producing intermediate quality blister copper, which had 98-99% purity before the investments, but can now produce 99.999% cathode copper with LME A-grade quality. Before the privatization of Eti Bakır's Samsun smelter plant, it was damaging the tobacco fields in the surrounding villages due to its outdated technology, as it could not hold all the SO₂ gas coming out of the chimneys. This is why we initiated a major investment and improvement initiative in the facilities following the privatization process. Today, its emission rate is one-third of that allowed by EU standards, and the waste gases that previously damaged farmers' crops are now recycled back into production thanks to the investments. The ammonium sulfate fertilizer plant that we built in Samsun captures the SO₂ gas, converts it to fertilizer, and sells it back to the local economy, producing 580,000 tons of fertilizer annually.

What investments were made to increase mineral production to meet the increased capacity of the renovated plants?

The renovation of the factory was not enough to increase production, as the amount of raw materials supplied needed to increase as well. For this reason, we drilled and found new reserves in the copper mines of Küre and Murgul. We also acquired new mining companies in Adıyaman and Siirt. Thus, with these new investments, we increased

our annual production from 32,000 to 75,000 tons.

In the future, what specific renovations and modernization efforts will Eti Bakır focus on?

We are finalizing a new investment plan that will see another USD450 million invested by 2023. These investments will be in zero-waste technology, high value-added end products, and finding additional mine reserves. We are also establishing an R&D base with an investment of USD5 million and conducting more than 200,000m of drilling per year to expand our mine reserves. In addition to these investments, the Mardin Mazıdağı Metal Recycling and Integrated Fertilizer Plant, which we designed and built from scratch, was completed and began operations in 2018. The USD1.2-billion investment in this facility is the largest private-sector investment in southeastern Turkey to date.

From a turnover perspective, can you break down Eti Bakır's revenue by product? Who are the primary end consumers of your products?

Broadly speaking, cathode copper sales account for 60% of our revenue, sulfuric acid and antimony sales account around 10%, recycled metals around 15%, and DAP or phosphate-containing fertilizer 15%. Digging into the uses of these products, cathode copper is a key high-purity industrial product used in copper wire and plates production, especially in the production of various alloys such as brass-bronze alloys. The demand for copper is high in Turkey because only around 20% of the demand can be sourced domestically. Sulfuric acid is used in many industrial fields, including the ore-leaching process and widely in the chemical industry, thermal power plants, sugar factories, and production stages of the iron and steel industries. Our metal recycling and integrated fertilizer facilities output precious metals, including zinc, iron, and cobalt, which are largely sold locally. Cobalt, which is used in battery production, has become a product of strategic value for our country, especially with the increasing interest in electric vehicles. Almost all of Turkey's phosphate resources are located where we operate in Mazıdağı, Mardin region, and are key inputs to fertilizer products. ✕

BIO

Ömer Mafa has been the general coordinator of Cengiz Holding since 2004. Prior to this, he served as Cengiz Enerji's general manager. Previously, Mafa worked for Balen, a Cengiz Holding subsidiary, SASIM, Caterpillar, BMG, and BSN Givors. He has degrees from Saint-Joseph French College and the Institut National des Sciences Appliquées in Lyon.



Vehip Kaçi
PRESIDENT,
DMT GmbH & CO, TURKEY



Ulrich Ruppel
VICE PRESIDENT,
DMT GmbH & CO, TURKEY

more than MAKING DO

Turkey is a perfect mining springboard not only for expanding one's operations regionally, but also for helping the country inch closer to energy independence.

Can you outline DMT Group's involvement in the coal mining sector in Turkey?

VEHIP KAÇI DMT's work in the coal—and more broadly, mining—sector mostly involves greenfield projects. Before investing in an un-mined area, our clients want to be sure what is underground and whether it is feasible to mine there. Our expertise lies in scoping, pre-feasibility, and feasibility as well as bankable feasibility studies that determine what is happening underground and whether a project makes financial sense. In the last 10 years, we have had more than 20 customers in the coal and metalliferous mining industry. These range from new entrants to the mining industry that are interested in small deposits all the way up to the top five multi-industrial Turkish companies that are big players in a number of sectors and want to invest in the coal mining industry to produce energy. Our work in the coal mining sector in Turkey is part of a larger country-wide push for energy independence; however, we believe it is good for the country to reduce its dependency on imports for energy sources.

How useful are Turkey's coal resources for power generation?

ULRICH RUPPEL The calorific value of coal deposits in Turkey range from 1,000 up to roughly 5,000 kilocalories per kg. Everything above 1,200 or 1,500 is usable with new thermal coal power plant technology to produce energy, while anything below 1,000 is very poor. However, if one does not have anything of better quality, they have to make do with what they have. At the end of the day, energy is energy, and new technologies have been created to allow power plants to better utilize low-calorific coal. In Turkey, there are several power plants that can utilize this coal. It also makes sense to use domestic coal from a strategic standpoint, as it reduces Turkey's dependence on imported energy sources.

Can you give an overview of the different needs of your clients?

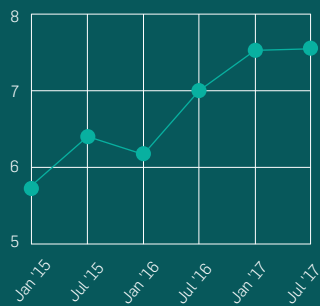
VK First, we provide services to so-called junior companies in coal and metalliferous mining that generally do not have much know-how in-house and need guidance from the beginning to the end. We also work for bigger companies that usually have excellent knowledge of mining and are able to solve problems on their own, but who come to us when they have specific problems our experts can solve. Our third group of clients are state-owned companies whom we help present reports according to international standards to possible Turkish investors at the international level, in addition to assisting with valuations.

What are your goals for diversifying DMT Turkey's revenue stream?

UR For DMT's global operations, of 2018's EUR120-million turnover, roughly 20% was related to mining. This diversification is due to the decline of the mining sector in Germany, where the underground coal sector no longer exists. We were forced to change our operating structure. In Turkey, where we are currently much smaller, 100% of our revenue is from the mining sector. In the mining industry, some of our clients are private investors that are curious about financing a mining project by bank loans. At the end of the day, our strategy is to develop our mining know-how in Turkey. Turkey is a great place for us to do so because there is also the possibility of making connections with Central Asian as well as African companies with whom the Turkish government has good relations. Additionally, Turkey has a large youth and many highly skilled mining experts and geologists. The mining core of DMT Group could be in Turkey in the next 10 or 20 years. Our vision is to have Turkish experts being trained by our British and German experts to complete knowledge transfers in five years' time. ✕

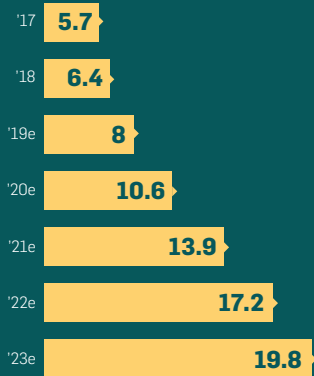
INTERNET SPEED (MB)

SOURCE: TRADING ECONOMICS



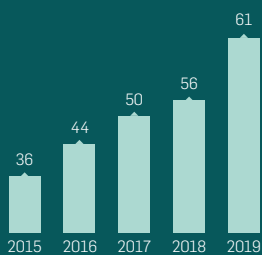
GROWTH OF E-COMMERCE IN TURKEY (USD BLN)

SOURCE: STATISTA



PERCENT OF POPULATION USING A SMARTPHONE

SOURCE: STATISTA





IT & Telecoms

FULL SPEED AHEAD

Technology companies seeking international growth have found an ideal launchpad in Turkey. At the same time, multinational tech giants have begun expanding more aggressively to capture market share of Turkey's young population.

While Turkey has long had a young population keen on new trends, only in recent years has it begun to have tech penetration to match. Mobile phone subscription penetration has reached 99.5%, while fixed broadband penetration stands at 16.8%. Though these figures trail OECD averages, more telling for the future of the Turkish ICT sector are investments in next-generation connectivity like 5G and fiber optic broadband.

The development of the 5G network is an important area of cooperation between Turkish and international tech companies. Turkcell—the largest mobile operator with a 42% market share—has partnered with Huawei, Ericsson, and Samsung to introduce 5G network technologies in Turkey. Turkcell's investments in the area are in line with its ongoing transformation from a traditional telecom company into a 'digital operator' - a move that has prompted its major investments into digital business solutions, services, and fintech solutions.

While the rollout of the 5G network is forthcoming, investments into fiber optic infrastructure are progressing full steam ahead. Türk Telekom has invested significantly, its 289,000-km fiber network constituting 79% of the overall

network. Its reach will serve as an important platform for the broader tech industry.

These market conditions have attracted the attention of multinational tech giants interested in claiming their share of the pie. E-commerce is a particularly attractive area for them, as shown by the entrance of Alibaba and Amazon last year. The comparative success of their different entrance strategies might help determine the future of the Turkish tech landscape. Alibaba entered the Turkish market by acquiring a majority—but undisclosed—share of Turkish e-commerce giant Trendyol for USD728 million. On the other hand, Amazon introduced its own marketplace. The results are to be determined, but Amazon's bet on a Turkish adoption of its own product seems riskier than Alibaba's acquisition of a tried-and-tested market leader.

It is not all smooth sailing ahead for global tech giants in Turkey. A draft digital services tax law is expected to be implemented soon, and will levy taxes on digital platforms and content providers that do not have a physical presence in the country.

This move on multinational tech companies may work to the benefit of their domestic competitors. Investors are also sure to act on this, and continue their binge on Turkish tech startups. Among the 41 transactions involving private equity funds in 2018, 29 were acquisitions of IT companies. This surge of capital into the sector is sure to provide stability as start-ups scale up into regional markets. ✖

THE RIGHT HOST *for the right party*



Turkcell's 1,000-plus R&D engineers and developers not only place customers first, but are also working around the clock to make the company Turkey's premier ICT service provider through its digital business solutions in three years.

Murat Erkan
CEO,
TURKCELL

How will Turkcell's ongoing focus on digital services change its domestic priorities, and how has it impacted Turkcell's revenue growth?

Backed by Turkcell's strong mobile and fiber infrastructure, our strategic focus areas comprise digital business solutions, services, and fintech solutions. Turkcell has spearheaded the digital transformation of the telecommunications industry and continues to lead the digital transformation of Turkey. Its 1,000-plus R&D engineers and developers place its customers first, and its unique ability to combine telco and OTT abilities have helped it achieve its objectives. We have constantly expanded what users can do with our digital services, recently removing language barriers on BiP. It now knows more than 100 languages and provides users with real-time translation. Leveraging the power of AI backed by our engineers, Turkcell's digital services like fizy, Dergilik, and TV+ now offer personalized content recommendation. Our AI-powered personal assistant Yaani will be launched by the end of 2019, and we will continue to develop technologies that augment the capabilities of our customers. Our fintech solutions serve as a backbone for our digital services, and our digital business solutions continue to improve as we add new products and features. In the domestic market, we have successfully captured a strong revenue growth of 21.3% in 2Q2019, as we generated TRY6.2 billion in revenues. Through our customized solutions in providing connection, cloud, cybersecurity, and surrounding IT and integration services, we facilitate the digital transformation of companies in both the public and private sectors. Our subsidiary digital business services combine ICT and telco abilities and offer end-to-end solutions to enterprises in Turkey. We aim to become the top-of-the-line ICT service provider through our digital business solutions in three years.

How will the digital transition change Turkcell's international operating strategy from one of acquisition to digital penetration?

The immense impact of next-generation technologies and 5G pushes telecom operators to the center of digital transformation. At this point, the fundamental global strategy shifts to providing digital services and solutions to customers. Our strategy to capture global expansion and growth focuses on our digital services instead of providing traditional telecom services. Turkcell's "Turkey's data should be hosted in Turkey" strategy applies to this field, as we have gathered our global operator collaborations under one roof. Our digital services and solutions help other telecom operators in the world host their data in their country, too.

How is Turkcell's strong subscriber base helping the company's growth in the fintech area?

Our investments in the fintech area are part of our vision to expedite the growth of Turkey's digital economy, i.e. we see fintech as an opportunity not only for Turkcell but Turkey at large. Turkcell's subsidiary Paycell, in this sense, serves as a backbone in its strategic focus areas—it offers payment solutions for Turkcell's digital services, ranging from the instant messaging app BiP to the music streaming app fizy. The transition to a digital operator required a mobile payment solution for our customers combining OTT and telecom abilities, our know-how in technology, our stores all over the country, and the largest customer base in the market, which have helped us become an important player in the fintech industry. Our established experience with mobile users in Turkey and thorough knowledge of the financial behavior of our customer base also uniquely positions Paycell as a financial service provider in the Turkish market. ✕

BIO

Murat Erkan began his career at Toshiba before becoming an application engineer at Biltam Engineering. After being the premier system engineer in Turkey at Cisco Turkey, he served as chief officer at Cisco Systems in charge of technology, sales, business development, and channel management for 10 years. He joined Turkcell Group in 2008 as the general manager of Turkcell Superonline, and from 2015-2019 was executive vice president of sales. He graduated from Yıldız Technical University in electronics and telecommunication engineering and completed the Strategic Marketing Program at Harvard Business School.

leading by EXAMPLE

With the most extensive fiber infrastructure in the country covering 80% of the entire fiber network, Türk Telekom stands ready to continue to lead Turkey's digital transformation.

Ümit Önal
CEO,
TÜRK TELEKOM



How will 5G factor into your mobile growth strategy in the coming years?

Once 5G is up and running, it will create a global platform encompassing the next generation and digital society. As the operator with the most extensive fiber infrastructure—i.e. 80% of the entire fiber network in Turkey—we will continue to be by the side of our customers and country every step of the 5G transition. One key area of focus for us will be providing a better customer experience and creating a sustainable subscriber gain across all our service channels, especially mobile. We already offer innovative, attractive packages and tariffs, especially on the mobile side in order to meet our customers' rapidly changing communication and technology needs. We are on the right path and became the fastest operator to increase its mobile subscriber market share in the past 12 years, from 15% to 28%. We are Turkey's number-one porting champion, with a net subscriber port of 7.4 million since 2008. This proves consumers appreciate the quality of service we provide. Going forward, we will continue to grow our digital products and services with our three main subsidiaries Innova, Argela, and Sebit and provide the highest quality of network and infrastructure.

How does Türk Telekom work with its subsidiary Argela to develop 5G capabilities?

At our Türk Telekom Innovation Centre and Argela 5G Centre of Excellence, we develop local products and technologies that create added value for the national economy and accelerate national development. This helps Turkey reach a position where it not only produces but also exports new technologies. With our network slicing smart software ProGRAN, developed by Argela and its Silicon Valley affiliate Net-

sia, we have raised our productivity to the highest level through our use of AI in the optimization of fixed and mobile networks. Most importantly, we have reached a position where we now deploy patented 5G products for leading global operators such as Telefonica, Verizon, and Orange, furthering our contribution toward the national economy. Adding onto the success of ProGRAN, Argela continues its work on 5G with products such as Virtualized Radio Access Network (VRAN) and Software Enabled Broadband Access (SEBA). VRAN provides a network-virtualizing feature, a highly important step on the journey to 5G, while SEBA provides the opportunity for configuration between different networks as well as compatibility between various devices. Moving forward, we will continue to develop flexible systems and next generation mobile communication technologies.

What investments has Türk Telekom made in cybersecurity?

We have built Turkey's largest cybersecurity center, successfully increasing the diversity of traditional and innovative cybersecurity services we provide. As a result, we have become Turkey's largest cybersecurity operator. Ensuring that Turkey's data remains in Turkey and is secure in the best possible way is one of the most valued responsibilities we have taken upon ourselves. In addition to providing cybersecurity to 500 of Turkey's largest companies as well as many private and public institutions, we are systematically preparing them for the switch to Industry 4.0.

What are Türk Telekom's most exciting plans and primary objectives over the next 12 months? Digitalization and the proliferation of internet usage are key for Turkey to actual-

ize the development leap it is aiming for. In order to realize this, we will continue to focus on extending the fiber infrastructure. We will strive to be the operator that carries out the most investments, provides the most advanced customer service, leads the digital transformation process, provides the highest-quality network and infrastructure, and develops the most innovative digital products and services. Türk Telekom will continue to work in line with Turkey's 2023 vision and be the driving force for its economy, so that Turkey can become self-sufficient in the ICT area. ✖

“Digitalization and the proliferation of internet usage are key for Turkey to actualize the development leap it is aiming for.”

BIO

Ümit Önal has been the CEO of Türk Telekom since July 2019. He joined Türk Telekom in 2016. Önal previously worked for Turkuvaz Media Group and was CEO of Digitürk. He is the former chairman and current board member at TV Monitoring and Research Committee (TIAK) and Committee Chairman at the Association of TV Broadcasters (TVYD). Önal graduated from İstanbul University's department of advertising and public relations in the faculty of communication.



Demirhan Şener
CEO,
MULTINET UP



Koray Gültekin Bahar
CEO,
FORIBA

TECHNOLOGY

New regulations are helping push Turkey's technology sector in the right direction, but more help from banks is needed if fintechs are to reach as many customers as possible.

What are some of your market growth strategies?

DEMİRHAN ŞENER Up until 2019, the group mostly focused on B2B. But we believe that B2C will catch up in the coming years, which is why we made strategic acquisitions to help to grow in that segment. On the B2B side, we believe enhancing our service set is the key to growth and are investing in several new services related to corporate and employee expenses. In 2019, we introduced MultiTravel, a corporate travel solutions platform where companies can get plane tickets, hotel accommodation, airport transportation, and short-term car rental in a single portal. Within that, company policy can be inserted so that each employee can access the portal within those. It is cost effective and easy to run.

KORAY GÜLTEKİN BAHAR We actually have two product portfolios. One includes products based on government mandates, including electronic invoicing, electronic ledgers, electronic archiving, and electronic delivery notes. We also have complementary products that are available if a customer wants to transform their operations above and beyond what is required by the government. These digital tools allow companies to be more flexible and cost-effective and to operate in a more optimal manner. We offer, for example, software that allows companies to integrate their operations with the software of their banks. Such tools help our customers operate more optimally and save money.

What does the future hold for the technology sector in Turkey?

DŞ The fintech ecosystem should definitely grow. However, when we look at the players in the system, the support given to fintech companies is not equal to what is being said. The support from banks and regulators is not as much as it should be. Help is needed from the bigger players, especially banks. Banks cannot reach micro and small customers, but fintech companies can, so banks should see fintechs as channels to cover every customer segment. As the number and power of fintechs grows, the revenue problem will be solved, and we can already see growth in fintech volumes as well as the number of

joint projects between banks and fintechs. Moving forward, there should be more cooperation rather than competition in the market. Growth is inevitable as banks cannot fill the gaps that fintech can. There are many fintech companies in Turkey; the problem is finding the technical power and finances needed to run the business. As for us, on the B2B side we will maintain our strong market share in sectors such as meal cards, fuel expenses, and flexible perks, and enhance our service portfolio, like corporate travel expense management. When it comes to the B2C part, we are the market leader in terms of market share. We will maintain that position, bring new features to our services, and try to increase the gap between us and the runner up. On the investment side, we are always looking for new opportunities. As a technology company we will continue in investing IT infrastructure and software solutions. But these are not the only area of investment for us. AI, RPA, and machine learning are our hot topics currently. We have introduced our first machine learning solution in our operations recently and have seen the benefits from the first day.

KGB Our biggest challenge is continuing to develop our local know-how as we open up new markets. When we enter a new one, we need to dive deep into local regulations and requirements before we launch a new product. Our team knows how to leverage local knowledge and develop a strong sense of moving forward, though it is still a difficult process, and it will likely remain a challenge as we move forward and enter new markets in the East. But overall, we have made strong progress and will continue to develop well. For our business, there are not many changes in terms of industries, because e-government changes impact every area of the economy. It is more about the size of the company rather than the sector. In Turkey, for example, these requirements were only relevant for companies with revenue greater than TRY25 million in 2014, which then dropped in ensuing years. For Italy, all invoices have to be electronic, and this means that everyone has to be compliant. There are different thresholds in different markets, and every government has a different roadmap. The ultimate target is to mandate all companies to use these new processes. ✕

ALL A CLICK AWAY

The e-commerce sector has seen tremendous growth in recent years, a trend that offers enormous promises if players can capitalize on high-volume, low-price sales.

E-COMMERCE IS IMPOSSIBLE TO IGNORE IN TURKEY, and not just for businesses, but in traffic on the street, where scooters branded with e-commerce company logos weave in between crawling rush hour traffic.

It is a traffic pattern that mirrors the economy itself. Multinational retailers in Turkey are mired in uncertainty over macroeconomic trends and slowed growth, while more nimble e-commerce companies take advantage of the literal and figurative agility of a mobile marketplace. What slows down bigger, brick-and-mortar shops does not slow down e-commerce services that connect smartphone owners with products on demand. However, just like driving a two-wheeled motorbike, there are risks. E-commerce is not only competitive, but also potentially subject to unexpected shocks in its way. Purchases from apps are sometimes impulsive and can easily entice customers to part with their money, but that process relies on what's in their wallets to begin with. Companies that cannot adapt to the ebbs and flows of consumer desires and needs will suffer, just as they would in the analog marketplace.

As a middle-income country, international retailers should not expect to see the kind of big-ticket items flying off the digital shelves as they might in the US, so the name of the game is selling by volume. Deliverable lunches, last-minute gifts, and smaller, impulsive purchases, conducted at scale, are a better long-term bet than relying on more expensive selections. Those could be more vulnerable to currency shocks and credit crunches than the less volatile costs of fast-food or same-day-delivery flowers.

Turkey, however, offers a number of advantages for e-commerce companies, including the rapid growth rate of the industry itself. This signals consumers' comfort with the practice of buying online for products they have never seen or tasted, a big psychological step.

Amazon and Alibaba are already on the scene, but are following different models. Amazon has opened its online marketplace, while Alibaba decided to purchase established Turkish e-commerce player

Trendyol in 2018. Getir, Yemeksepeti, and Çiçek Sepeti are also popular marketplaces for consumer goods, meals, and gifts.

A report from market research firm Nielsen puts the overall value of e-commerce in Turkey at EUR5.7 billion, a 38% increase over 2017. That represents 5% percent of retail sales nationwide. On an individual basis, however, Turks spent EUR160 per capita in 2018. That is far lower than the global average per capita spending on e-commerce of EUR735. Nevertheless, the widespread acceptance of e-commerce should be read as good news for the industry overall and investors who dare to learn the rules of the road.

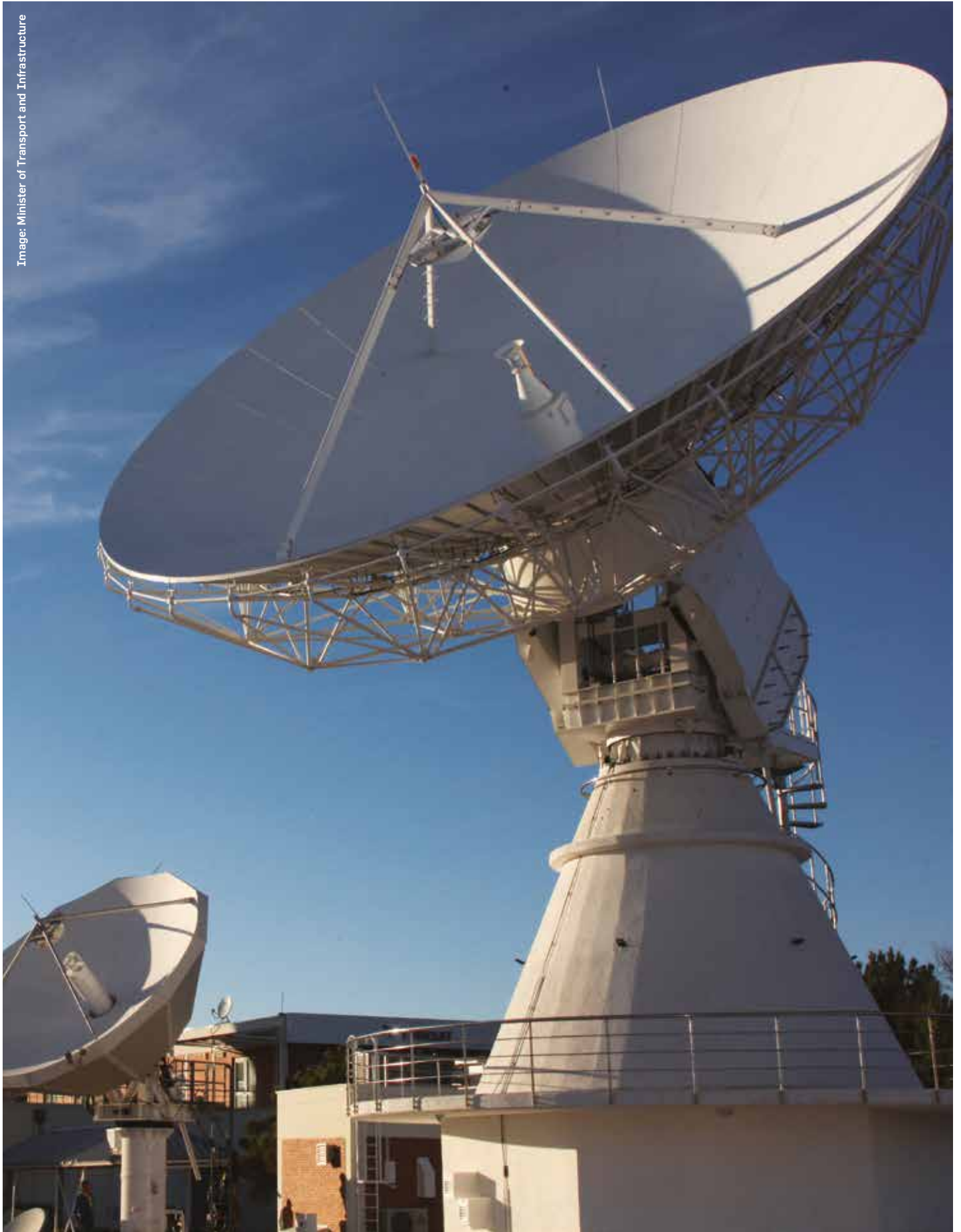
"The most popular product categories are shoes and clothes (68% of consumers buy these online), followed by consumer electronics (58%), personal care and cosmetic products (49%), and books, movies, and games. Ordering food from restaurants is also popular (47%)," according to the site ecommercenews.eu.

Growth trends are also strong for e-commerce, according to Eshopworld, an e-commerce branding company.

"There are currently 31.39 million e-commerce users in Turkey, with an additional 6.72 million users expected to be shopping online by 2021." That figure could rise to 38.11 million by 2023, when the annual per capita spending on e-commerce is set to reach USD253.

Eshopworld also found that 76% of online sales are done on desktop, 16% on smartphones, and just 3% on tablets. The share of desktop purchases suggests that people make their shopping choices online at work or at home, and that the average shopper is wealthy enough to own such a device. A trend to watch would be more purchases by smartphone, suggesting that lower-income consumers are embracing the convenience of e-commerce as well. As that share increases, e-commerce companies may need to adjust what specific consumers they are targeting, expand or change product selection, or offer discounts to encourage repeat purchases. With per capita spending likely to remain relatively low, volume will remain the make-or-break factor in Turkey's e-commerce sector. ✖

Image: Minister of Transport and Infrastructure



a service TO RELY ON

By partnering with some of the biggest telecom operators in the country, ULAK has become a reasonable alternative to the existing global telecom vendors in critically underserved parts of Turkey.

Metin Balcı
GENERAL MANAGER,
ULAK COMMUNICATIONS



What were the chief goals that drove the establishment of ULAK Communications?

ULAK is the result of a vision that began in 2013 that communication infrastructure has a strategic significance in a country's life. It has an economic, technological, and cybersecurity aspect. Since then, the Defense Industry Directorate (SSB) has initiated two major communications infrastructure R&D projects. One is ULAK 4.5G, a base station project, and the other is MILAT, a network infrastructure project with 5G technologies such as software-defined networking and network functions virtualization. We are starting to see solid results from these projects after four years and considering the necessity of additional steps between R&D projects and product realization, which is why SSB decided to establish ULAK Communications Corporation. Our first task was to turn the results of exciting R&D projects into products and then commercialize them. The second is to continue research by enhancing the telecommunication network's capabilities through 4.5G, 5G, and 6G with solid roadmaps and apply the results to existing product lines. Finally, we set out to increase our intellectual property rights and patent portfolio. Finally, concentrating in the telecommunication sector, we want to utilize the overall ecosystem in Turkey to enhance the capabilities of the ecosystem.

What role does ULAK play in providing telecommunication services to areas that are economically unviable for telecommunications operators?

Our first challenge was the Universal Ser-

vice Project, which provides communication services with government funding to areas that telecom operators deem unfeasible, like villages and rural areas. It has been a challenge for us in terms of productization lifecycle and getting the products in an operational state. We have delivered around 500 base stations that we call Universal Phase I and around 400 for Universal Phase II, both on time as planned. Phase I enhanced the existing 2G technologies on base stations with 4.5G technologies, which we completed along with Turkcell. Phase II is establishing new base stations, a task which has also been given to Türk Telekom and Vodafone.

How well integrated is ULAK's network with telecom operators?

Thanks to the Universal Service Project, we have proven our capability by partnering with telecom operators. Having a strong installed base and real footprint in the Turkish telecom infrastructure with this project, we successfully made Ulak base stations available to telecom operators. We have become a reasonable alternative to the existing global telecom vendors in the market and a strong supporter of Turkish mobile operators, considering the licensing agreement conditions. We want to emphasize that Turkcell has been truly supportive of this project from the beginning. Universal Service Phase-I would not have been possible if we had not had the support of Turkcell, which played an important role by managing the project, risks, supporting us, and relying on us. Working within a commercial telecom infrastructure was another

challenge, but Turkcell again got the lead when we signed an agreement covering the utilization of around 2,650 base stations for the next four years. Besides providing the radio equipment, we also provide babysitting and operation services for the telecom operators, which greatly helps our cooperation with the operators. ✕

"Our first task was to turn the results of exciting R&D projects into products and then commercialize them."

BIO

Metin Balcı graduated from the Naval War Academy and got his MS in CS from NPGS in California and his PhD from Boğaziçi University. As a proud member of Turkish Navy, after serving four years on board of different ships, he joined the Turkish Navy Software Development Center and TN Research Center Command (TNRCC) as one of its core team members. After playing an active role in mid- to large-scale projects, he was in charge of the TNRCC for five years and the TN R&D Department for one. After retirement, he joined Argela, the R&D company of TurkTelekom, before becoming the first CEO of ULAK in 2017.

RAPID *development*



Bengü Atamer
CO-FOUNDER & COO,
BUZZMYVIDEOS

BuzzMyVideos provides a data-driven, measurable and scalable platform to more effectively entertain and engage audiences globally.

"I have been witnessing a great uptake of entrepreneurial initiatives emerging from Turkey, with start-up culture and entrepreneurship being supported by various different groups."

BIO

Bengü Atamer is the co-founder and COO of BuzzMyVideos, a digital media company that entertains audiences globally. BuzzMyVideos powers scalable creation, curation, distribution and monetization of online video through its innovative technology platform. Atamer is an entrepreneur and online video expert, now living in London, with a successful career in tech and digital. She has over six years of experience from Google, first by leading the YouTube Online Partnership program launches across Europe, the Middle East, and Africa, followed by being the first hire for the YouTube Next Lab EMEA heading up their audience development team based in London. In 2013, she co-founded online video startup BuzzMyVideos, a now fast-growing international company.

As a Turkish entrepreneur based in London, how would you compare the creative industries of Turkey and the UK?

There are definitely a few distinctions, the main one being the size of the creative industries and their contribution to the respective economies. There are a few elements that contribute to each country's strengths when it comes to the creative industries. In the UK, the ease of operation, for example being able to register a company online easily; ease of accessibility, given the UK is the ultimate networking hub, via its events, industry talks, and conferences, allowing one to easily reach out to high-level executives. There are also the various levels of support for innovation, such as incentives or funding available for new innovation hubs to back creative industry start-ups purely focusing on R&D all contribute to its strength in the creative industries. Meanwhile, Turkey has one of the most tech-savvy and young demographics at hand, provides innovation hubs and incentives to support R&D as well, and is an extremely quick when it comes to adopting new technologies. Therefore, even though it might seem like it is playing catch-up in the creative industries, Turkey is stepping up at a quicker pace.

You provide optimization services for YouTube creators around the world. What is your evaluation of the challenges the platform faces in different geographies?

There are some general challenges that the platform faces globally, as it grows in reach and popularity. In the early days, the main challenges of the platform revolved around managing its scale and rapid growth while setting the ground rules for its users and content in terms of its policies. As the platform started localizing into different territories, I assume the challenge then would become more of adapting to the local rules and regulations in order to be able to operate in a specific geography and amplify its growth in that region. Apart from that, in terms of YouTube creators' evolution and

adoption of the platform, there are a few similarities. For example, individual content creators are quick to learn and adopt usage of the platform compared to institutional or traditional media owners or players, which results in the rapid growth of user-generated content.

Brain drain is a common challenge for emerging markets like Turkey. How can incentive programs encourage graduates to stay in the country and set up businesses?

I have been witnessing a great uptake of entrepreneurial initiatives emerging from Turkey, with start-up culture and entrepreneurship being supported by various different groups such as angel investors like Galata Business Angels, institutional VCs such as Revo Capital, and accelerators. US- and UK-based funds like 500 Istanbul are also investing in Turkey and launching a base in Istanbul. These initiatives might be encouraging for graduates to stay in the country and set up a business. I also hope other initiatives are launched to attract back talent that have left the country to set up a new business here or expand their existing businesses to Turkey.

How significant is YouTube as a platform for brand promotion?

YouTube is the second-largest search engine after Google and the second-most popular social media platform with 1.9 billion users. There is definitely a massive reach available on YouTube and an audience for any type of content, which, if utilized in the right way with the right strategy, can be highly effective for brand reach. However, many brands have not yet fully taken advantage of the platform or do not fully understand the platform. It is also important to note that once you optimize your content for YouTube, you are indirectly optimizing your content for Google search as well. One of our missions as a business is to make sure brands and content owners are fully aware of the size of the opportunity available on YouTube. ✕



Emre Evren
CHAIRMAN,
EMFA SOFTWARE AND
CONSULTANCY

EMFA has considerably grown both its product offering and market share since its founding in 2013. How it has evolved since then?

We started with software process development consulting in Turkey, where we consulted software companies on how to produce quality software. We gained a substantial amount of knowledge from this business. As a result of that experience, we became a lot better at producing our own products and from 2013 to 2019 established five major products in the market that are now being used by both private and public companies.

Why did EMFA choose to invest in its domestic AV forensic solution, EDIS, and which entities are the primary users of this system?

When I first began investing in EDIS, there were some internal objections to it, but I did it anyway. It is an AI-based application with a sound analysis algorithm running in the background. EDIS is Turkey's first local and national product of its kind. We did not take a product and change its interfaces for example; there is an academic team and an R&D team working on this. The academic team works on algorithms, and the R&D team puts these into code.



Recep Palamut
CHAIRMAN OF THE BOARD,
CPM

Why did you decide to invest in CPM, and what potential does it have in the Turkish market?

Palamut Group, the materials company specializing in footwear that I am chairman of, had been using CPM's system for three years when I heard in 2015 that CPM's original founders wanted to sell their shares in the business. We were interested and acquired 60% of CPM shares and thus entered the software industry. With CPM's ERP, any company can gain a better control over their operations. CPM ERP offers unique options in terms of productivity, profitability, and performance since its modular services are optimized for sustainable growth and make it easy for you to manage the entire business process from a single panel.

Can you tell us about the functions of CPM Analytics, and what Qlik does for it?

Around 60% of companies, including banks and the financial departments of large corporations, use Qlik for their professional reporting. It is a business intelligence program that helps companies with resource allocation and other financial decisions. CPM has Qlik integrated into its programs. For example, if you want 10% growth, it will tell you the resources, capital, and infrastructure needed. It is able to digest huge amounts of data faster than its competitors or a similar program CPM had originally developed internally.



Irmak Pakdemir
CEO,
SOFTWAREONE TURKEY

In February 2019, SoftwareONE completed its acquisition of COMPAREX. Why did SoftwareONE seek this acquisition?

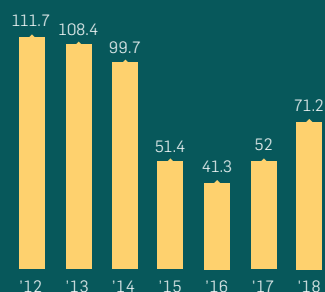
We were extremely pleased with the completed merger of SoftwareONE and COMPAREX, two software sales giants. Now, we have a combined company that manages over USD10 billion in annual software sales in more than 90 countries with over 2,000 employees. However, this merger does not just expand our market to 90 countries, it also give us in Turkey—and in each of our markets—an understanding of 90 other countries and the global practices that we can implement here. The new organization will be among the top three software sellers worldwide and top 15 software services companies worldwide.

In what material ways have your operations in Turkey changed, and how have they most benefited from SoftwareONE's acquisition?

Three years ago, when we were operating as COMPAREX, we created a 2020 plan. With the merger, we have almost delivered on all of those plans. Now, we have 2022 plans for our operations in Turkey as a combined company. These are largely focused around transforming the company into a digital services company. We want to retain our position as a leader in the software selling business as well as structure our offering to our end users around digital services.

PRICE OF CRUDE OIL IMPORTS (USD)

SOURCE: OECD



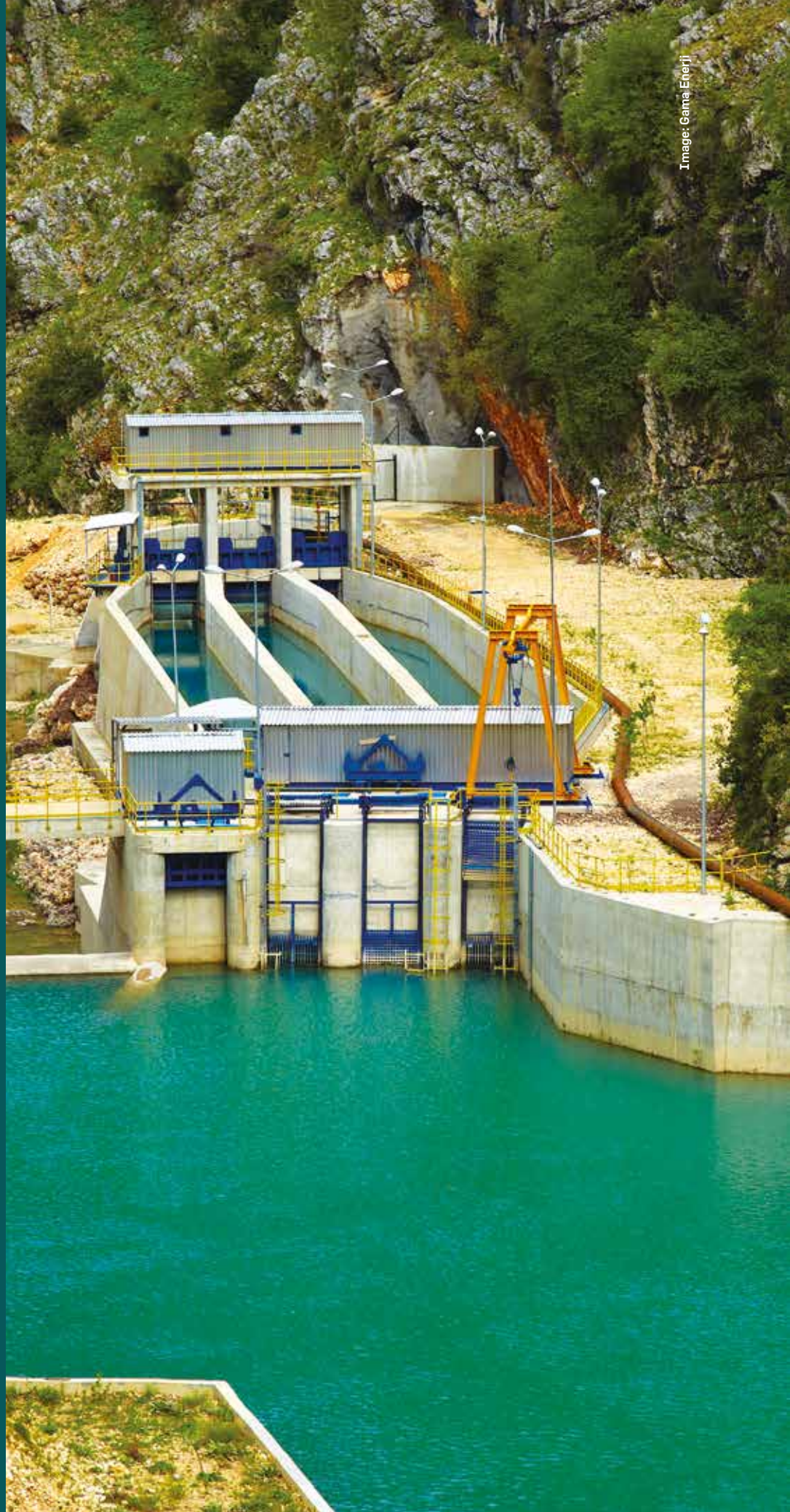
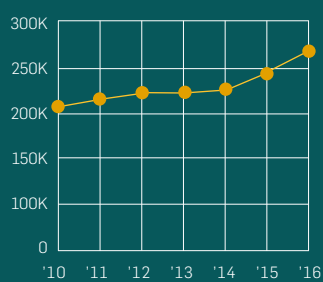
TOTAL RENEWABLE ENERGY (MLN TOE)

SOURCE: OECD

2012	12.155
2013	13.087
2014	12.06
2015	15.645
2016	17.135
2017	17.989

ELECTRICITY GENERATION (GWh)

SOURCE: THE WORLD BANK





Energy

INVESTING IN SECURITY

One of Turkey's most pressing economic and geopolitical concerns is largely out of its control. Energy security—or lack thereof—influences a number of Turkey's trade relationships and development plans because of the country's relative lack of hydrocarbon reserves. But, as is often the case with scarcity, innovation and targeted investment are Turkey's tools of choice for decreasing its dependence on imported energy sources.

Outside of Izmir on a piece of land jutting out into the Aegean Sea lies the newly opened STAR Refinery, built by Azeri state oil company SOCAR. Its USD-6.3 billion price tag makes it the largest ever foreign investment in Turkey and its 10-million-ton annual crude oil processing capacity will decrease Turkey's current account deficit by USD1.5 billion. SOCAR's investment also breaks the oil refining monopoly held by Tüpraş, which also has a major refinery on the same piece of land.

While the STAR Refinery certainly decreases Turkey's dependence on imported refined products, it doesn't fix the root of the issue - lack of raw hydrocarbon reserves. Turkey's state-owned oil company TPAO has been tasked with helping solve this issue, and it has recently ramped up its exploration efforts in a number of areas to boost its own hydrocarbon production. One of those promising areas is in the waters surrounding the

Turkish- and Greek-held island of Cyprus, where TPAO has deployed two offshore drill ships and a seismic exploration vessel to begin development of the offshore gas fields there. Turkey's exploration in these waters is not without controversy though, and overlapping claims have bubbled into a growing diplomatic dispute between Turkey and the EU.

The private sector has also been involved in the development of Turkey's nascent hydrocarbon industry. In the Thrace region, where the majority of the country's natural gas reserves exist, Valeura Energy - a Canada-based company - is expanding its operations. Though natural gas production has existed in Thrace for decades, Valeura's exploration has uncovered some promising unconventional gas plays that the company intends on developing over the next couple years.

Turkey's renewable energy sector—long a dandy among global investors and environmentalists—has come under hard times recently due to financial and regulatory constraints. On the financial side, renewable energy companies have struggled to meet their euro or dollar debt obligations since the value of their lira receivables plunged as the currency depreciated. The regulatory landscape has not been accommodative enough, and these companies are undergoing debt restructurings to stay afloat. ✖



Mesut İlder
GENERAL MANAGER,
SOCAR - STAR REFINERY

FUEL *of the future*

In addition to reducing Turkey's annual current account deficit by around USD1.5 billion, STAR Refinery will also reduce diesel fuel imports from 60% to 40% and LPG imports from 80% to 70%.

BIO

Mesut İlder has been the General Manager of STAR Refinery since 2017. He previously worked for Tüpraş as the Izmir refinery manager, the Izmit refinery manager, and deputy general manager for technical affairs. İlder has also worked for the Ege Gaz Aliağa LNG Terminal and the Istanbul Oil Refinery. He holds a degree in chemical engineering from Ankara University.

Upon completion in late 2018, SOCAR's STAR Refinery—Turkey's single largest FDI—underwent a testing phase and has now reached full development. What did the testing phase involve, and what are the refinery's production targets for 2019?

The STAR Refinery is one of the newest names in the refining industry. We held the opening ceremony in October 2018, which was followed by a period of pre-commissioning and commissioning activities. These take six to eight months and involve clarifying conditions and looking into the typical challenges faced by large facilities during the start-up stage. During this and the performance testing period, the EPC contractor is responsible for ensuring all units are working as per the design. We are currently close to the end of testing, and the refinery will soon be fully handed over to us. The refinery is currently operating at 100% capacity and is producing all its intended products. It is designed to process 10 million tons of crude oil per annum. Until the end of 2019, we will operate at the maximum capacity and process 7.5 million tons of crude oil.

How is the STAR Refinery reducing Turkey's energy import requirements?

STAR Refinery will reduce Turkey's annual current account deficit by around USD1.5 billion. Petkim, SOCAR's petrochemical facility adjacent to the STAR Refinery, will receive a large share of the refinery's production, much of which was formerly supplied by imports. Besides raw materials produced for the petrochemical industry, the refinery produces a number of products that Turkey currently imports, such as diesel fuel, jet fuel, LPG, sulfur, and petroleum coke. Some 60% of the annual 24 million tons of diesel fuel consumption is currently supplied by imports, so STAR Refinery's 5 million-ton annual diesel fuel production will reduce that figure to below 40%. The refinery will also produce 300,000 tons of LPG on an annual basis, reducing the import rate of LPG

"The refinery is currently operating at 100% capacity and is producing all its intended products."

in Turkey from 80% to 70%. Turkey also imports 3-3.5 million tons of petro-coke on an annual basis, and the refinery's annual production of 700,000 tons will substantially reduce those import figures as well. STAR Refinery will also annually produce 200,000 tons of sulfur—another imported product in Turkey. Finally, and notably, STAR Refinery will produce approximately 1.5 million tons of jet fuel on an annual basis, providing a substantial contribution to the ever-increasing need for jet fuel in parallel with development of the aviation industry. In recent months, SOCAR Aviation won the tender to provide 700,000 tons of jet fuel for the aircraft at Istanbul Airport on an annual basis for a period of five years. A substantial portion of the jet fuel produced at STAR Refinery will be supplied to Istanbul Airport, as well as many other airports around the country.

What percentage of the refinery's petrochemical production will be off-taken by Petkim, and what percentage will be sold in the domestic market or exported?

Our refinery will annually produce 1.6 million tons of naphtha, which will go toward meeting Petkim's entire naphtha demand. In addition to naphtha, Petkim will offtake approximately 200,000 tons of the refinery's 1 million-ton production capacity of reformat and xylene. The remaining 800 million tons will be exported in the short term. This will change once SOCAR's planned investment in a pure terephthalic acid facility in Aliağa is completed in 2023. Upon completion of this, the entire combination of reformat-xylene produced at STAR will be used as raw material domestically. ✕

the power of UNCONVENTIONAL PLAY

Through content to help serve a captive market, Turkey's current crop of producers are well-poised to export before long.

Sean Guest
CEO,
VALEURA ENERGY



Can you give us an overview of Valeura's operations in the Thrace Basin, and how the basin's distinct geology impacts exploration?

There has been oil and gas production from the Thrace Basin for a number of decades now. It has been heavily explored and developed, so there is a long history there. Valeura came in with a partnership with Transatlantic when we purchased Thrace Basin Natural Gas in 2011. At the time, we recognized that the reservoirs there were quite tight with low permeability, and we thought that by drilling horizontal wells and stimulating them we could increase production in the existing fields. For the first three or four years, there was a lot of activity to work our way toward gas production in the area. While we were doing drilling and research on these reservoirs, we found the potential for a deep unconventional gas play. In 2017, we brought in Statoil, which is now known as Equinor, as a partner to help the company fund and explore for that deeper unconventional gas play. Once we drilled the discovery well, Yamalik-1, in 2017 we then brought in our reserves auditor DeGolyer & MacNaughton, which conducted an evaluation and came up with a prospective resource estimate ranging between 3 and 20 trillion cubic feet of recoverable gas. It really speaks to a potential world-class gas opportunity, though we still have work to prove this and demonstrate that we can flow this gas commercially.

Beyond funding, what role does Equinor play in the operations at Trace Basin?

It is a funding partnership, though

Equinor also puts in a great deal of technical work. We recognized the potential for this play but also understood that we needed large amounts of capital to drill these deep wells and stimulate and test them, which is when we looked to bring in a partner. There were several companies who put offers on the table, but Equinor was the best at the time. Once it has fully earned its interest, Equinor has the right to request Valeura to transfer the operatorship of the deep unconventional play to it. If it does so, Valeura will retain a working relationship with approximately a 50-50 split with Equinor and maintain operatorship of all the shallower sections and production facilities, while Equinor would have operatorship of the wells that are drilling deep into the unconventional play.

What pricing risks do you face here due to the volatility of the Turkish lira?

Pricing is extremely important. Currently, the prices are set by BOTAŞ and are in lira. For foreign investors in different sectors this might create uncertainty given the volatility around the lira, but when converted to dollars, the BOTAŞ price has historically closely tracked the euro gas price in the region. One positive step in 2018 was a new monthly review and update of the price by the government. We have been pleased with the new Minister of Energy and Mining and how he has communicated with the entire oil and gas industry. He sat down and listened to the issues the industry is facing and the list of things we need to support it.

"If we look at upscaling this project and its potential to be extremely large, exporting is an option."

Does Valeura have plans to export?

If we look at upscaling this project and its potential to be extremely large, exporting is an option. Having a pipeline like TANAP that will run into Europe creates that opportunity. However, we tend to run all our economic and development scenarios assuming the gas is going into the Turkish market, which is a captive market with great fiscal terms where 98% of gas is currently imported. ✕

BIO

Sean Guest has been working internationally in the oil and gas industry for more than 25 years. Prior to joining Valeura, he was CEO of two private junior companies. Bukit Energy is a Calgary-based start-up focused on Indonesia, and Pexco Energy holds production and exploration assets in the Australia-Asia region and East Africa. Prior to these roles, he also worked for Woodside in Australia and Libya, for Shell in the Netherlands, Australia, and Malaysia, and with Schlumberger in Egypt. He holds a BSc in geological engineering and a PhD in geological sciences from Queen's University.

RENEWABLE ENERGY

Wind energy has established itself as a leading source of Turkey's diversifying energy mix. Despite recent financial difficulties, the sector is here to stay.



Tamer Çalışır
BOARD MEMBER
& MANAGING DIRECTOR,
GAMA ENERJİ



Zeki Aybar Eriş
CEO,
POLAT ENERJİ



Burak Kuyan
CEO,
DOĞAN ENERJİ

WHEN YOU CONSIDER THE PRESENCE of a euro-supported mechanism, the incentive for governments to encourage renewable investments was not effective for renewable energy because the market price was higher, and there was a need for a constant scheme. For this reason, institutions such as the Energy Market Regulatory Agency (EMRA) changed the mechanism and indexed it to the dollar, a move considered more reputable in terms of developing financing. However, after a few years, changes in market conditions, including increases in installed capacity, decreasing pricing mechanisms, and currency fluctuations, among others, dropped the prices so low that while this mechanism became essential for making new investments, it also had distortionary effects on the market. It damaged the market system somewhat due to the variance among compensation mechanisms, which is why decision makers in current and past governments have been aiming to differentiate the mechanism through auction adjustments and other methods. While we require extra solutions if we are to continue increasing our renewable energy capacity, price is not the only consideration. If there is a support mechanism, it must be designed to be in place for longer than 10 years to act as a financial instrument hedging alternative. When you look at the European alternatives, you note many different mechanisms, all covering longer periods. This makes projects much more bankable on the financing side and should be our principal focus.

POLAT ENERJİ GOT ITS START as a business in 1999 with the decision to invest in renewable energy because we recognized it would be an economic and environmental necessity for the world and help reduce a country's dependency on imported resources like gas and oil. Second, we recognized the cost of renewable energy equipment would continue to go down over time. We are certain the cost of renewable energy will easily compete with fossil fuels. The third reason is that the renewable energy industry also resulted in an industrial boom for countries investing in it. Germany, Spain, and Denmark, for example, started to manufacture all the equipment for renewable energy generation, which is the next step to reducing import dependency. These countries not only stopped importing fossil fuels but also started manufacturing equipment and technology in country. Looking at all these aspects, we decided investing in renewable energy was the way forward. Indeed, renewable energy is our field, regardless of the means of generation, which includes solar, wind, geothermal, or any other source. EDF Energies Nouvelles—which has been a 45% shareholder of ours since 2008—targets zero-carbon emission investments, which include renewables in every aspect. We have the expertise of EDF and a full procurement, design, yield assessment, and operation team active throughout the world, with thousands of megawatts not only in wind but also in solar.

WE STARTED INVESTING in the renewable energy business in 2007, when we acquired two hydroelectric plants as part of a partnership. We moved into renewables because we are focused on future trends and want to have a long-term vision for our group based on where the global market will be, not just in terms of energy but in conscious terms regarding the environment and economy. Renewables are the future, perhaps not the immediate future. But in the long term, wind and solar will be key to our development in the energy business. We currently have two wind assets that we acquired and since enlarged. We went from a total of 126-MW installed capacity in Mersin and Bandırma to 168MW, which will be expanded by another 60MW with a project named Taşpınar WPP in the near future. We have targets for wind power and hope to leave a positive mark here. Regarding solar projects, we have 9.4MW of installed PV capacity in Çorum and recently finished an additional 25-MW project in Erzurum. As for our portfolio going forward, wind and solar will come ahead of hydroelectric generation. In hydro, there is not much development; however, in solar and wind, there is room to grow in terms of technology, especially around storage. With wind, in 10 years the turbines will be upgraded to become much more efficient, which is great for the country and world.

ROAD TO SELF-SUFFICIENCY

To keep up with the rising demand for natural gas, Turkey aims to tap into hydrocarbon-rich layers in the Thrace Basin and off the coast of Cyprus.

NATURAL GAS WAS NOT AN EVERYDAY CONVENIENCE IN TURKEY

before the 1990s, when most heating systems relied on kerosene, firewood, or charcoal. Though wood-burning stoves are aesthetically pleasing objects and nostalgic for those who remember the golden days, they are both prone to hazards and polluting for the environment.

The transition to natural gas, both in houses and industries, began in 1988, and by the early 1990s gas was delivered to houses in Istanbul and Bursa for the first time. As of 2019, natural gas is available in all 81 provinces, and its use for heating is on the rise.

As a result of this transition, however, each year Turkey has to import roughly 50 billion cbm of natural gas to meet its consumption needs, mostly via the Blue Stream pipeline from Russia (47%), but also from Iran (16%) and Azerbaijan (15%).

Although it is believed Turkey has untapped reserves, currently the country's domestic production capacity is not even enough to cover 2% of its consumption. To move toward greater self-sufficiency, Turkey has embarked on a series of exploration activities in locations such as the Thrace Basin in the northwest and off the coast of Cyprus.

Gas exploration and production has not been unheard of in the Thrace Basin. Since 1970, natural gas has been produced in modest amounts in Kırklareli for industrial purposes, long before the first largescale imports and widespread transition to gas-based heating began. However, in early 2019, the Ministry of Energy and Natural Resources announced the discovery of more hydrocarbon reservoirs in the basin, adding that the field would be subjected to further examinations and surveys.

Weeks later, Calgary-based energy company Valeura disclosed the news that its test wells in İnanlı—and later in Yamalık—had yielded positive results, increasing its confidence in the region's potential. The company's confidence was further strengthened during drilling activities, when it came to light that an unconventional gas plate may be lying deep under the area.

Field exploration and development operations for unconventional plates, however, are not possible without deep drilling,

which in turn calls for deep pockets. Although several companies were interested in the project, Valeura finally teamed up with Statoil—currently known as Equinor.

Most likely, the field's output will be earmarked for local consumption to decrease Turkey's dependence on hydrocarbon imports. However, the field is also well-positioned to export its natural gas to Europe. Sean Guest, CEO of Valeura Energy, believes that “from an engineering and infrastructural point of view, it would be natural to export our gas to Europe,” adding that “having a pipeline like TANAP that will run into Europe creates that opportunity. However, we tend to run all our economic and development scenarios assuming the gas is going into the Turkish market.”

Given Turkey's plans for turning into a natural gas trading hub, signing swap deals with Russia, Azerbaijan, or Iran is also a possibility.

Far from the Thrace Basin, similar efforts are in progress along the southern coast of Turkey, though not without diplomatic controversies. Sizable deposits of natural gas were discovered in 2011 in the Eastern Mediterranean, between the southern shores of Turkey and the northern tip of Cyprus.

Offshore exploration activities in the region led to diplomatic disputes in February 2018, when Turkey stopped the progress of an Italian drillship in the service of the Cypriot government, while dispatching a Turkish drillship to the region instead.

In June 2019, Turkey sent yet another ship—colored in red and patriotically adorned with a white crescent and star—to search for oil and gas off the coast of Cyprus. Although both attempts were opposed by the EU, Turkey has remained steadfast, insisting on the rights of Turks and Turkish Cypriots to the region's hydrocarbon reserves.

Turkey's determination to secure oil and gas resources is not difficult to explain: Europe's and Turkey's demand for natural gas has been on the rise in recent years. What's more, Turkey is eager to reduce its reliance on Russia and Iran, especially as the latter may halt the transfer of natural gas due to political developments in the region and beyond. ✖

NEW ISTANBUL AIRPORT IN NUMBERS

SOURCE: TBY RESEARCH

Covers an area of

76M sqm,
the largest in Europe

90M

passengers a year in Phase I

200M

passengers by Phase IV

Total cost of

USD 12B

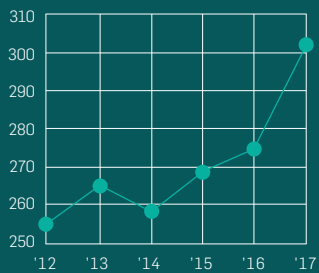
Served

16M

passengers and handled
100,000 flights in 90 days

SHORT SEA SHIPPING (MLN TONS)

SOURCE: EUROSTAT



FREIGHT TRANSPORTED BY ROAD (MLN TON-KM)

SOURCE: OECD

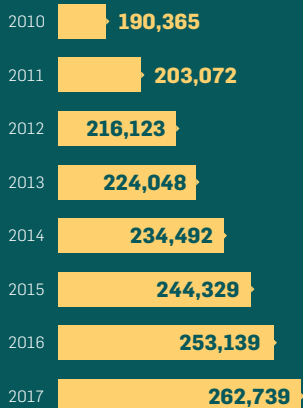


Image: Turkish Airlines



Transport

STREAMLINED

While the headlines from the Turkish transportation and logistics sector have been dominated recently by megaprojects—most notably the opening of Istanbul’s new airport—a number of undercurrents have more quietly transformed the sector.

The lira’s depreciation starting in late 2018 made Turkish exports relatively less expensive, which boosted demand. This increased exports by around 8% YoY, though in our interviews we found that these gains were generally cancelled out by increased financing and import costs. While the increase in exports might seem to be a boon for logistics companies, it too was washed out—this time by an equivalent 8% decrease in imports, wrought by falling Turkish purchasing power. These import-export logistics companies now find themselves leaving Turkey with containers full and returning with containers considerably less so.

The rise of e-commerce—a development not exclusive to Turkey—is also transforming the operations of logistics companies. In August 2018, one month after Alibaba’s majority takeover of Turkish e-commerce site Trendyol, Amazon entered the Turkish market. With the two global e-commerce giants now present—amidst an already crowded Turkish space—the market has taken off, driving up volumes and driving down prices.

While the e-commerce boom has considerably increased shipments, margins have fallen and changing consumer demands have strained networks. Logistics companies with large, resource-intensive networks have lost demand to companies with leaner, tech-intensive opera-

tions. A raft of acquisitions and mergers in Turkey and around the world have followed, as incumbents and newcomers adapt to the new norms.

Indicative of this restructuring trend was private equity group Turkven’s acquisition of MNG Kargo. In it, MNG’s conglomerate holding company offloaded a business unit with shrinking margins, while Turkven saw an upside in digitizing and streamlining a cargo operation to claim its piece of the growing e-commerce pie. Notable for its size was Danish shipping company DFDS’ EUR950-million acquisition of U.N. Ro-Ro, a move to expand its intermodal network and penetrate the Mediterranean Turkey-EU trade market.

Transportation and logistics companies have also adapted their operations to Turkey’s changing infrastructure. Like the skyscrapers that redrew Istanbul’s skyline in the first decade of the 2000s, infrastructure megaprojects have reshaped Turkey’s transportation networks in the second decade.

After months-long delay—now seemingly customary for new international airports—Istanbul’s new airport opened on April 5, 2019, significantly boosting the city’s passenger and cargo capacities and cementing Istanbul’s position as a major transit hub.

Also highlighting the spate of projects opened or in progress around Turkey are new highway and rail networks, revamped port infrastructure, new or upgraded regional airports, and an ongoing expansion of Istanbul’s subway system. Many of these projects have been financed by public-private partnerships (PPPs) or by private capital. ✖

GREAT *expectations*



Turkish transit and aviation ambitions go beyond being a mere global hub; before long its also seeks to develop its own world-class aircraft.

Mehmet Cahit Turhan

MINISTER OF TRANSPORT AND INFRASTRUCTURE

What are the primary commercial benefits of the newly opened, 426km-long highway project between Istanbul and Izmir?

This project affects the region since it is considered the backbone of the national economy and is where approximately one-third of the population lives. It also makes a significant contribution to commercial activities as well as solving problems such as road safety, emissions, and traffic. The route passes through Istanbul, Yalova, Bursa, Balıkesir, and Manisa, paving the way for new investments in the region.

What is the significance of the new Istanbul Airport for Turkey and the broader region?

Istanbul Airport will satisfy the needs of not just Istanbul and Turkey, but also the greater region. This project will also raise Istanbul to its deserved position in the international airline market and make the country a major center and a bridge among nations. Turkey's commercial aviation industry has grown considerably in recent years, and the growth potential will gain greater momentum when Istanbul Airport, one of the largest in the world, reaches full capacity.

What are the ministry's development plans for nationwide port infrastructure?

We are currently in the top 20 in terms of maritime transportation and shipbuilding, and Turkey's overall maritime trade fleet is 29 million DWT. Our national shipbuilding industry has also been successful in commercial shipbuilding and maintenance and nationally designed and 100% domestically built warships, and is one of the top three industries globally for yacht building. We currently have 175 port facilities open to international vessels, though we have considerable investments ongoing in order to increase our maritime trade volume. Çandarlı container port in the north Aegean Sea will be Turkey's biggest port and one of few container ports around the world. We planned this facility as a hub for the combined transport chain, which is the result of potential traffic between Europe and the Middle East. The port will have a capacity of 4 million TEUs per year in the first stages, while the final capacity will be

12 million. We also started the construction of Filyos Port, a major transportation route to the Black Sea. It will have a final capacity of 25 million tons per year once completed and will lighten the burden on Marmara ports and the Istanbul straits.

What have been some of the major developments of the commercial rail network?

Almost 98% of our railways were single-track until 17 years ago. We completed the renovation of all our conventional main rail lines, including the Izmir-Aydın one, which was renovated for the first time in 150 years. While improving our existing railways, we completed major railway projects such as Marmaray, high-speed train lines, and the Baku-Tbilisi-Kars Railway. We increased the length of the conventional railway from 10,959km to 11,527km and reached a grand total of 12,740km, with the addition of 1,213km of YHT lines. We also inaugurated and carried more than 50 million people on the Ankara-Istanbul, Ankara-Eskişehir, and Konya-Istanbul YHT lines. İZBAN and Başkentray raised the standards of urban railway transportation in Izmir and Ankara.

What are the ministry's investment plans and main objectives in the next 12 months?

We plan to complete the 82-km Mene-men-Aliğa-Çandarlı highway and will partially complete 119km of the Ankara-Niğde highway by the end of 2019 and the remaining 211km by 2020. Additionally, some of our important tunnel projects such as Malatya-Hekimhan, Ilışar, Honaz, Alacabel, Asik Festival, Karasu, Güzeldere, and Ilgar tunnels will also be opened to the public as soon as possible. The construction of a 3,953-km-long railway line will also continue, as will the Ankara-Sivas high-speed railway line, whose trial runs will start by the end of 2019. We also plan to finish the Ankara-Izmir high-speed railway by completing the Polatlı-Afyonkarahisar-Uşak section in 2020 and the Uşak-Manisa-Izmir section in 2021. And the Ankara-Bursa railroad will also be completed in 2020. The construction of Port of Filyos, which has great importance to Turkey, is 75% complete. ✖

BIO

Mehmet Cahit Turhan has been the Minister of Transport and Infrastructure since 2018. He previously served as CEO of the construction consortium for the North Marmara Highway and was a senior advisor to the Presidency and a member of the Council of State. Turan also worked for the General Directorate of Highways as an engineer, controller, and director, and later as the Director General of Highways from 2005 to 2015. He graduated from Karadeniz Technical University's department of civil engineering in 1981 and received his master's from the same university.

Turhan Özen
CHIEF CARGO OFFICER,
TURKISH AIRLINES

the largest NETWORK

With 23 freighters and 240 aircraft, Turkish Airlines has one of the largest cargo fleets in the world.

How has the opening of the new Istanbul Airport impacted Turkish Cargo's operations, and what is the investment plan for the airport's new cargo hub?

In addition to its own fleet of freighter planes, Turkish Cargo utilizes the belly cargo space on Turkish Airlines' passenger fleet for its operations. On April 5, 2019, Turkish Airlines moved its entire passenger operations to the new airport, which meant our belly-held cargo operations also moved there. Continuing its freighter fleet operations at Atatürk Airport, Turkish Cargo will join its new premises at Istanbul Airport, where the carrier will offer its services in the largest air cargo hub in the world. Turkish Cargo's investment, Smart Istanbul, is set to be one of the most technologically advanced infrastructures in terms of smart operations and AI in the sector. The cargo hub will be operational by late 2020 and will have a capacity of 2 million tons, which is expected to increase to 4 million in 2021.

From a capacity and operational strategy standpoint, can you break down Turkish Cargo's split between belly-held and freighter-held cargo?

We use a little more than 240 aircraft. With 23 freighters, we have one of the largest cargo fleets in the world. Belly cargo provides about half of the capacity. The passenger/freighter decision for each leg is determined according to customer time constraints as well as the size of the shipment.

What impact has the growth of e-commerce and the increasing customer demands had on Turkish cargo?

The e-commerce share in our portfolio is doubling almost every year and currently represents 15% of revenue. The e-commerce boom requires strong physical and technological integration. Air cargo, similar to passenger, is a fragmented industry. In cargo, there is an agent, forwarder, or logistics company for warehousing, as well as customs clearance if it is cross border. There is



“Turkish Cargo’s investment, Smart Istanbul, will soon be one of the most technologically advanced infrastructures in terms of smart operations and AI in the sector.”

also the airport authority and final-mile delivery companies, which are both different at every destination. In total, a chain of about six to seven entities make it work. Data integration is critically important—you must provide updates for every movement the package makes, not just for the different entities involved in the transit but also for customers, who increasingly demand their package's movement data and delivery at a specific time. Turkish Cargo is one of the few global air cargo carriers that have taken so much exposure in the global commerce market. There are two reasons for this: we have the largest network, and Turkish Airlines and Turkish Cargo operates with port-to-port business focus. In order to enable our capabilities, in 2018 we initiated a strategic partnership with ZTO—one of the leading Chinese and global parcel companies. We built a strategic facility in Hong Kong with it in 2018 for an e-commerce focused, door-to-door integrated virtual company called We World Express. It can pick up packages anywhere in East Asia from any supplier or producer of components, electronics, or manufacturers from AliExpress, China Post, or other channels. It can deliver those parcels to the nearest airport where Turkish Airlines flies, and Turkish Airlines makes the fastest connection between the origin city and our 260-plus destinations around the world. For the last mile, we have started to form partnerships with delivery companies on the ground. All this shows how dedicated Turkish Airlines is in the e-commerce business. This industry will grow even more and will be the main drivers for cargo operators in the future. ✖

BIO

Turhan Özen has been the chief cargo officer for Turkish Airlines since 2016. Prior to that, he served as the managing director for the Middle East, North Africa, & Central Asia for CEVA Logistics. Özen previously worked for CEVA in its health sector and business development groups, for TNT in the distribution and operations fields, and for the Koç Group's automotive affiliates as a logistics manager. After graduating from Galatasaray High School, he graduated from the department of management at Boğaziçi University and the Executive MBA program at Koç University.

FOCUS

Istanbul's new airport



STAY FLY

Increased capacity and facilities at the new Istanbul Airport, paired with the city's location, have encouraged several global logistics players and cargo airlines to use it as a regional hub.

ISTANBUL AIRPORT WENT INTO FULL OPERATION IN APRIL 2019, after a soft opening in the fall of 2018. Turkey's latest and largest air travel hub is set to handle more than 90 million passengers annually, with its new facilities poised to make the airport a key logistics hub for global cargo and shipping companies.

In the coming years, Turkey's landmark transportation facility will continue to expand through four stages of construction, which will make it one of the world's largest airports with projected passenger capacity of 200 million per year. It could handle 5.5 million tons of air cargo a year, too. The massive facility has caught the attention of international shipping companies such as UPS, DHL, and FedEx, which have all submitted bids to lease areas of Istanbul Airport to support their global cargo operations.

Claus Lassen, the managing director of DHL Express Turkey, said the company was preparing to establish a 42,000-sqm logistics center at the airport to serve as the DHL regional hub.

"The new airport is key for us, logistics-wise," Lassen told TBY in an interview. "From an investment point of view, for DHL the airport will start the largest project we have ever had in the country. We think it has the right location for our business as a hub and is a way for us to grow new trade links."

Lassen said DHL has been operating in Turkey since 1981, and the country's geographical location, set between London and Lahore and Mecca and Moscow, gives it a significant edge in the international shipping sector, with transit routes between Europe, Africa, and Asia. About 60 countries can be reached within a three-hour flight from Istanbul, Lassen said, noting that the city would become a major sub-hub to support DHL's headquarters in Leipzig, Germany.

Behind the push to expand operations is the boom in global e-commerce, which has increased demand for cargo capacity and distribution centers worldwide. In 2015, the global e-commerce market was USD300 billion, and it is expected to reach USD1 trillion by 2020. As a result, Lassen said the trend has increased DHL's e-commerce shipment volumes in Turkey by 63% YoY.

"Our operations have to adapt to changing customer needs, which are much more immediate nowadays," Lassen said. "To accommodate, we had to invest heavily in our capabilities. Hubs and gateways can ensure demand can be met, and new technology here is key to meet customer demands for flexibility and choices."

While pursuing its expansion in Turkey and worldwide, DHL will also strive to cut carbon emissions to zero by 2050. To do so, Lassen said the company is increasing its operational carbon efficiency by 50% compared to the DHL's 2007 baseline. The company will also reduce local air pollution by 70% by using more electric vehicles and maximizing shipping efficiency that will also speed up delivery capabilities.

Meanwhile, competing global shipping companies as well as Turkish Airlines' cargo division, which carried 1.4 million tons of cargo in 2018, will continue to expand their presence at the new Istanbul airport. Growth in the cargo sector has already seen companies like DHL partner with Turkish technology firms to facilitate new operations.

"We follow the patterns of the economy as we are facilitators of trade. Whatever happens in Turkey is reflected in our capabilities," Lassen told TBY. "With DHL being present in 220 countries and territories, our trade is spread out, but we are centralized in Europe. That is why our Turkish operations are key." ✕



S. Serim Çetin
MANAGING DIRECTOR,
ASE ASIA AFRICA SKY EXPRESS



Ali Tanrıverdi
GENERAL MANAGER & CHAIRMAN,
TGS FOREIGN TRADE

EXPORT FACILITATION

Long an expert in facilitating trade between Asia and Europe, Turkish firms are now doing more than anyone to connect the former CIS, along with vast swathes of Africa, with the global economy.

What has driven your recent growth?

S. SERİM ÇETİN My father founded the company in 1992 after the fall of the Soviet Union to improve trade relations between Turkey and the newly formed CIS countries. The idea was to establish a door-to-door delivery network between all of these countries, not just between Turkey and the individual CIS states. We have considerably expanded this network in recent years to Asia and Africa. Turkey has more connections to Asian countries than most European countries; one does not have to go to Europe or Moscow to send something to Almaty or Baku. We provide faster and more economical services, which is how we gained a name for ourselves and survived against the larger infrastructure of our global competitors.

ALİ TANRIVERDİ As per regulations in Turkey, it is obligatory to establish sectoral foreign trade operations before applying and becoming a foreign trading company. Thus, from 1999—when it was founded—to 2003, TGS operated as a sectoral foreign trade company within the textile industry. Since we applied and were granted the right to be an international trading company, we have since

been able to serve in every sector of the Turkish economy. Since 2007, we have been growing and improving our performance. In 2012, we were able to expand further by listing on the Istanbul stock exchange.

What sectors and countries are most important for you?

SSÇ The CIS countries still get a solid volume share because of our existing routes. Europe is also important because it is Turkey's biggest trading partner. Even though we do not promote Europe in our services, we receive a great deal of shipments and projects from Europe because of natural trade flows. We work with the Turkish government and have extensive experience with different countries around the world—we have likely shipped to every country in the world some kind of shipment, whether it is generators to Palestine or drilling machines to Niger. That said, we see major growth in Turkey's trade with the Middle East, Asia, and Africa. There is a huge e-commerce potential in the Middle East, which is where we will invest more in 2020 to grow our network there. We now also get many requests from China

to import B2C e-commerce shipments into Turkey because of a recent regulation change that makes it harder for them to use postal services. Our expansion into Africa has been difficult, because most African countries have not developed much of an economic relationship with Turkey. However, these relationships are beginning to develop, and our plan and vision is still to set up regional networks and grow our market in North Africa and sub-Saharan Africa. If we can make a difference in Africa, similar to how we made a difference in Central Asia, then we will consider the endeavor a success. As for our split between exports and imports, we are still dominated by exports, because most of our customers are exporters. However, our vision for this year and the next is to grow our import business. We are not a big network, so we do not get many inbound requests; however, we are currently in talks with several customers that want to utilize our import and last-mile delivery services in Turkey. Our target volume is a 60/40 split between exports and imports.

AT In 2018, automotive was our fastest-growing sector. However, textiles have always been our business. Every year since we began operations, we have maintained growth in our textile business. The growth rates of our textile and automotive sectors are expected to be more or less equal. The automotive sector is the locomotive of Turkish industry and constitutes the biggest share of its exports. Our operations will also follow this trend in the foreseeable future, because it is a field of development and expansion for us. We started it in 2018 and aim to keep it going in 2019 and beyond. When it comes to export markets, our focus is on countries that have foreign trade agreements with Turkey. We generally focus on the US, Europe, and other countries with established trade relations with Turkey. In the short term, we intend to grow and have established a regional directorate in Bursa as a local investment. Through this directorate, our goal is to achieve a wider, more expansive sector profile. Our target is to diversify further. We want Bursa and its hinterland, especially rapidly developing areas such as Eskişehir and Balıkesir, to benefit from our corporate structure, discipline, and services in parallel to a developing country. ✖

TOUGH AND *knowledgeable*



After Leipzig, DHL has plans for Turkey to be a major sub-hub in the region, which is why it is investing EUR135 million in a new 42,000-sqm building using the latest green technology at the new airport.

Claus Lassen
MANAGING DIRECTOR,
DHL EXPRESS TURKEY

How will the opening of the new Istanbul Airport impact your operations?

The new airport is key for us, logistics-wise. From an investment point of view, for DHL the airport will start the largest project we have ever had in the country. It has the right location for our business as a hub and is a way for us to grow new trade links. 60 countries and 120 destinations can be reached within a three-hour flight from the airport. DHL has been present in Turkey since 1981, and we are a market leader—with more than 53% of the market—and first mover in many areas. For the DHL group, Turkey is an emerging market. It has a clear road map whereby it wants to increase its revenue share from 22 to 30% over the years. We are one of the 11 countries within the DHL group nominated as an investment area. As a result of this, and because of the new airport, we are going to invest in a 42,000-sqm building located at the new airport. It will be a EUR135-million investment with a green build set up using the latest technologies. While DHL's main hub in Europe is Leipzig, we see Turkey as being a major sub-hub in the future.

How do you see the transition from Atatürk to the new Istanbul Airport?

As a transition, going from Atatürk to the new airport is a big step; however, this is not new to us. DHL has transitioned many times before. For Turkey, it is new. But those working with us are a global team that know what to do from an experience point of view.

Which regions are using DHL Express Turkey the most?

Most of our shipments go to Europe. We follow the patterns of the Turkish economy as we are facili-

tators of trade. Whatever happens in Turkey is reflected in our capabilities. With DHL present in 220 countries and territories, our trade is spread out, but we are centralized in Europe. That is why our Turkish operations are key. Germany is one of our biggest destinations inside Europe. Outside of it, we see tremendous growth in the US and in new areas as a result of e-commerce.

What impact has e-commerce had on your operations?

E-commerce has significantly changed our operations. We are traditionally a B2B company, picking up and delivering shipments during work hours. For the last five years, when e-commerce began booming, we have seen our e-commerce volumes in Turkey grow by 63% YoY. The global e-commerce market will likely have gone from USD300 billion in 2015 to USD1 trillion by 2020. Our operations have to adapt to changing customer needs, which are much more immediate nowadays. To accommodate, we had to invest heavily in our capabilities. Hubs and gateways can ensure demand can be met, and new technology here is key to meeting customer demands for flexibility and choices. Choice is essential to this industry, and data is essential to knowing our customers, providing options, and having availability, all so that you can get to the right destination as soon as possible. We are also finding that e-commerce is making us focus more on speed than capacity.

What challenges do you face in Turkey?

From the simplest perspective, Istanbul is massive; therefore, logistically it is difficult. Our couriers are tough and knowledgeable. They have the technology to route deliveries effectively. That being said, Istanbul's size gives us plenty of opportunities. ✖

BIO

Claus Lassen has been in the logistics industry for more than 30 years. Starting his carrier at DHL Express Denmark, he worked in various functional and management positions in product management, marketing, and sales. After working as the managing director of DHL Express Denmark for seven years, he was appointed DHL Express Turkey CEO in 2017. Lassen speaks four languages and has a BA in business administration and an MA in economics and marketing from the Copenhagen School of Business.

delivering SUCCESS

Though the growth of e-commerce has positively boosted the sector, MNG Kargo is working on innovative systems and technologies to deal with the overwhelming requirements.

Salim Güneş
CEO,
MNG KARGO



Two years ago, MNG Kargo's acquisition by outside investors was completed. What was the reason behind the acquisition?

This is an industry mostly established by Turkish companies and entrepreneurs with classic methods and cargo logic. However, in the last decade a number of foreign investors have entered the market through acquisitions. This showcases the foreign interest in this strategic industry and appetite for investment into a high potential business. Seeing this potential, Turkven and Sancak Group acquired 100% of MNG Kargo and decided to invest and transform the industry. As someone involved in these processes, these investments have made a major contribution to the industry and contribute to establishing the corporate infrastructure of the industry.

How has MNG Kargo benefited from the e-commerce boom within Turkey, and how has e-commerce affected your operations?

The growth of e-commerce positively influences not only MNG Kargo, but also the entire industry in terms of volume. However, since industry business model was not designed to meet the requirements of B2C in a cost-efficient way from the beginning, the industry cannot fulfill this in terms of costs, performance, and customer satisfaction at the moment. Especially on the last-mile side, there is a culture of the consumer in Turkey of

delivering everything to homes coming from cargo, namely the B2C end. Since this culture creates a similar expectation on e-commerce side, our costs and operation infrastructure cannot keep up. The costs of operations are rising, as the mail and B2B side shrinks and the small parcel side of the industry expands. Here, we seek to differentiate the pricing mechanism between customer pick-ups and home deliveries. We are also working with e-commerce companies to change this in order to reduce their costs and facilitate our costs and operations.

Outside of pricing mechanisms, what solutions is MNG Kargo working on to meet the challenges presented by e-commerce?

There are two dimensions to our solution. First, we strive to make the last-mile side more technological and accessible for customers; second, we seek to improve sorting systems suited for e-commerce. With last mile, we are investing in pick-up and drop-off points to better reach customer preferences. For sorting and separation systems, there will be full automation, and we will move toward a structure where the cargo will go to distribution points directly and where we can reduce the number of handling and dispatch the last mile directly from the hubs. We also have plans to invest in some locations in 2019 and 2020. We will not eliminate branches; they will serve as a customer contact point, a pick-up point, and so on.

How have MNG Kargo's international operations changed with the growth of e-commerce?

Our first priority is using the right technologies and ensuring customer satisfaction. The world is turning into an integrated market with the development

of e-commerce. The key transformation made by our international business, INTER, has been to integrate our processes with large international e-commerce companies such as Amazon and AliExpress, which ship products to Turkey. Therefore, as much as we can manage this effectively within Turkey, we can become a right and established partner in international trade. A healthy formation of this integration will also lead to Turkish products and market transforming to e-export on the e-commerce side and will make us reverse logistics provider in that sense. We will collect the cargo from within Turkey and transfer it abroad, reaching out to the world with our network there.

What are your primary objectives over the next year?

We are doing an in-depth study of all our 25 existing hubs, calculating where they will experience bottlenecks when we grow at a projected rate every year. In relation to this, we have projected a 15% physical growth necessary in the next three to four years and have shaped our investments accordingly. Our second project is to review our vehicle fleet. We are renewing around 300 vehicles in 2019 and will renew our vehicles every year. ✖

BIO

Salim Güneş has been chairman of the executive board of MNG Kargo since 2019. He has also been the chairman of the executive board of Atasay since 2015. Previously, Güneş served as general manager of Aras Kargo and assistant general manager of Atasay Kuyumculuk and Yaşarbank. He graduated from Ankara University's economic department and completed his MBA at Koç University.

“The costs of operations are rising, as the mail and B2B side shrinks and the small parcel side of the industry expands.”

INTERVIEW



HISTORIC *headwinds*

Apart from transporting huge amounts of textile goods, machinery, automotive parts, and finished vehicles from Turkey to the rest of Europe, DFDS is also expanding the amount of reefer cargo it brings to Europe.

BIO

Lars Hoffman has been the senior vice president of DFDS's Mediterranean business unit since 2019. He was previously director of all shipping ferry operations and terminals in Denmark for DFDS and managed DFDS's Baltic Sea agency. Prior to joining DFDS in 2015, Hoffman served as general manager and member of the board of directors at various companies in the shipping sector.

Lars Hoffmann

VP AND HEAD OF MEDITERRANEAN BUSINESS UNIT,
DFDS

DFDS entered the Turkish market in 2018 through its acquisition of U.N. Ro-Ro, the second-largest Turkish acquisition of the year. Why did DFDS seek this acquisition?

DFDS sees the Mediterranean and Black Sea regions as having huge potential. We are not doing any business within the Black Sea region for now, though our acquisition of U.N. Ro-Ro makes it possible to enter that area. We felt it was a great acquisition because it linked our network to the Mediterranean and broader MENA region. In addition, we added 12 vessels to our portfolio, all of which fit fairly well into our fleet because they were built in the same shipyard in Flensburg as DFDS' existing fleet. When one runs a pool of as many vessels as DFDS does, it is beneficial that they are extremely similar so we can easily swap them among routes.

From a management and operational standpoint, what challenges did DFDS face with the integration of U.N. Ro-Ro into the larger DFDS system?

There is certainly the issue of integration. U.N. Ro-Ro was a standalone company in Istanbul that has become a major business unit in our system, and it was a huge task to bring it into our system. We have our core corporate and headquarters functions in Copenhagen, with everything like insurance, procurement, and fleet management located there. Aligning all these things has been a huge task, though my predecessor and the team in Istanbul and Copenhagen have done well, and we are satisfied with the integration. As far as operations go, it is business as usual—we have to treat our customers well. U.N. Ro-Ro is now owned by DFDS, a Danish company. We want to incorporate DFDS' values onto our operations here while still respecting the difference in cultural and operational styles. The big difference between DFDS and U.N. Ro-Ro's previous owners is that we are an industrial buyer rather than an investor. We are not here to sell; we are here to develop. We will connect our intermodal system, which is one of the reasons why we acquired this company.

In addition to the 12 vessels, DFDS also acquired two terminals from the transaction. How do those fit into DFDS' broader intermodal system?

“The slowdown came faster than we had hoped and expected, though it has not changed our mindset. Based on the numbers, Europe is still an important partner for Turkey and vice versa.”

There are certain procurement synergies, and we can optimize the new terminals with our IT and gate systems and other operational efficiency-oriented systems. The terminals are extremely similar to the rest of our system, so they fit in well, and the locations are strategic for us. Trieste Port—one of the two that were acquired—is in Italy and is one of the major entrances to Europe. It is the only free port in Italy in that region, so it has a special status. With its extremely well-connected intermodal system, it is an important strategic point in terms of development.

Can you break down the big categories of Turkish goods that fill your cargo volumes to Europe?

We transport more or less everything produced in Turkey, such as textile goods, machinery, automotive parts, and finished vehicles. The only cargo we partially carry is reefer cargo—fruit and vegetables. There is a fair bit of fresh produce in Turkey that ends up in European supermarkets, so it is an interesting market for our business that we have not truly dived into yet.

How has the current state of global trade and Turkey-Europe trade in particular impacted your Mediterranean operations?

It is no secret that we acquired U.N. Ro-Ro when everything peaked. The slowdown came faster than we had hoped and expected, though it has not changed our mindset. Based on the numbers, Europe is an important partner for Turkey and vice versa. Trade volumes will recover, and we have not been shaken by this. ✖

in pursuit of the ONE-STOP SOLUTION

Advanced digital solutions may be the trick to resolving logistic barriers in rural areas across Turkey.

Erik Leiss
CEO,

DB SCHENKER ARKAS



Can you outline the key competencies between DB Schenker and Arkas and how the joint venture fits the needs of the economy?

DB Schenker has a long history in Turkey, with its first activities dating back to 1889, not long after the company was founded in Vienna in 1872. Turkey was one of the first countries into which the DB Schenker organization expanded. At the time, DB Schenker worked with different partners primarily in Istanbul, Izmir, and Ankara. The cooperation in Izmir with Arkas turned out to be the most successful and best matched DB Schenker's competencies. Arkas is an operator that physically moves cargo, and its core businesses are shipping, running a steam ship line, and moving containers within Turkey. DB Schenker is a global network provider that designs, implements, and runs supply chains. As a result of the synergies between Arkas and DB Schenker, we formed a joint venture with Arkas in 1995. The resulting DB Schenker Arkas company became a full network member of the DB Schenker organization. Combined, we are capable of providing the entire portfolio of a logistics company. From a capital perspective, DB Schenker controls 55% of the company and Arkas the remaining 45%. From a management perspective, we are

a fully network compliant DB Schenker organization. One of the strengths of a global network company is that we do business in the same manner all around the world. We are able to provide local companies as well as multinationals global logistics solutions.

Can you break down DB Schenker Arkas' revenue by its three primary services and identify where you expect to see growth?

Around 35% of our annual revenue can be attributed to ocean freight. Ocean freight is a turnover business that does not have high margins, though it is Turkey's most important contribution to the multi-modal import export model with Europe. Around 30% of our revenue comes from land traffic, 15% comes from air freight and contract logistics, and 5% from our work doing projects, fairs, and exhibitions. For future growth, we are no longer looking at particular freight services. Rather, we are looking at solutions. Customers increasingly want integrated services from us, and we consider ourselves an integrated logistics service provider with two-fold integration. In the first fold, we integrate all traffic modes required by a supply chain under a tailor-made solution for our customers. The second part of the integration is the value-added services found within the contract logistics environment and in logistics centers. We create value for our customers by providing services like pick and pack, repacking, labeling, light maintenance, and quality control. These value-added services are especially well suited for the rise of e-commerce.

How have falling imports into Turkey impacted DB Schenker Arkas' services?

Our land traffic from Europe has been the most impacted by declining imports into Turkey. Ocean and air freight are doing well, though their performance has mainly been supported by exports. With

contract logistics, we do not see growth, though revenues there are stable.

What is DB Schenker Arkas' strategy for capturing e-commerce growth?

E-commerce has three aspects for us. First, we have value-added e-fulfillment services in our logistics centers with pick and pack, repacking, labeling, light maintenance, and quality control. We see excellent growth potential in this area. Second is delivery, where DB Schenker Arkas is domestically active mainly in B2B. Third is digitalization, an area where DB Schenker offers a platform to its e-commerce customers called Netlivery, a one-stop shop platform that allows our customers to communicate more intimately with us and connect with their own customers more easily. In the past, we looked at the point of production to the point of sales, whereas today we look from the point of production to the point of consumption, which makes a huge difference. There is a fairly advanced logistics infrastructure in and around the big cities, though rural areas remain a challenge that we are working to solve through our focus on e-fulfillment centers and providing advanced, digital solutions. ✖

“One of the strengths of a global network company is that we do business in the same manner all around the world. We are able to provide local companies as well as multinationals global logistics solutions.”

BIO

Erik Leiss has served as DB Schenker Arkas' CEO since 2007. He began working for Schenker's global operations in 1994 in Vienna, and later worked for the company in Switzerland, Hong Kong, Korea, and again in Vienna.

INTERVIEW



TRIPLE *delight*

Providing world-class logistics solutions to the firms laying the monumentally important TurkStream pipeline is but one of Ceynak's many contributions to the logistics sector.

Ali Avci
CHAIRMAN OF THE BOARD,
CEYNAK

How do Ceynak's different logistics services and infrastructure work together to form an integrated network for its customers?

Over the course of our 50-year history, we have developed ports located in major domestic and foreign trade centers, logistic centers, free zones, and container and liquid terminals, and offered logistic solutions to our customers with our efficient transport fleet management system. We are a success story of the development of the logistics industry in Turkey. Ceynak provides logistics services for 20 million tons of cargo annually with its four ports, two free zones, seven logistics centers, and two land terminals. We have always planned our investments around the strategy of offering integrated logistics solutions. Therefore, an increase in any logistics service directly affects the growth in other services. For example, a customer that brings bulk cargo to Samsunport has an integrated logistics solution to unload the product from the vessel, store it in our warehouse, pack it according to market demand, load it onto wagons or trucks, and deliver it to the final buyer by rail or road. Our customers can fully focus on the commercial part of their business after they have delivered their goods to us.

Can you outline Ceynak's capabilities for large-scale infrastructure projects?

Infrastructure and energy investments in Turkey require serious logistic organization and capability. We contribute to this process with our ports and shipping fleet. The TurkStream natural gas project signed between Turkey and Russia will be one of the largest energy projects in the region. Samsunport shouldered Turkey's part of the pipeline that will be built under the Black Sea. The pipeline building process is a challenging one and needs strong logistic support. The unloading, transportation, storage, and reloading of approximately 30,000 gas pipes, each weighing 12 tons, was completed successfully in thanks to the technical and professional competence of our port. The company conducting the TurkStream gas line project and the company that built the pipeline both thanked us for the successful logistical support we provided. They had previ-

ously been involved in similar projects around the world and did not receive such quality of service. These comments made us extremely proud and demonstrated the great progress made by Turkey's logistics sector.

What are the primary uses of Ceynak's storage facilities?

When we established our first logistics facility, a 10,000-sqm closed area in Mersin in the 1980s, Turkey had adopted a neo-liberal economy and opened its borders to the world. As the economy has developed further, we have invested in response to the needs of different sectors. Today, we have a total of 165,000sqm of horizontal warehouses and 560,000 tons of silos in Samsun, Kocaeli, Istanbul, Tekirdağ, Izmir, Mersin, Adana, and İskenderun. These are in service for all our customers, though we primarily serve the agricultural sector. We have the largest storage capacity after the Turkish Grain Board and can offer 1.5 million tons of storage all at once in bulk cargo, which mainly comprise grain and fertilizer.

Why does Ceynak want to move into port operations and this sector in general?

We acquired Samsunport for USD125 million in a privatization auction. Later, with an additional investment of some USD50 million, its business capacity tripled to reach 11 million tons. The annual freight handling figure, which was 1.5 million tons, tripled to 4.5 million tons. Our port, which did not receive container cargo before 2010, has become a favorite of the world's major container lines and handles 75,000-TEU containers today. It has also become one of the most important logistics grounds on the Turkey-Russia trade route. Agricultural exports to Russia are mainly carried out through Samsunport with regular Ro-Ro voyages, while grain products imported from Russia are unloaded and stored in our facility. We aim to increase the number of ports we operate in line with the strategic goals of our group. As a step in this direction, we undertook the operational services of Erdemir Port, where we unload approximately 11 million tons of goods annually. Our group now annually handles 17 million tons of cargo. ✖

BIO

Ali Avci is the Chairman of the Board at Ceynak. He transformed the company from a local transport company into an international logistics company and was key to the company's establishment of logistics terminals in the Mediterranean, Aegean, Black Sea, Trace, and Marmara regions. Avci is a member of TÜSIAD, vice chairman of TURKONFED, and chairman of SEDEFED. He graduated from Çukurova University's faculty of economics and administrative sciences.

an eye for EXPANSION

Laser focused on both organic and inorganic expansion opportunities in India, the growth outlook is very bright for firms such as Çelebi.

Thomas Konietzko
EVP, SALES AND MARKETING,
ÇELEBI AVIATION HOLDING



Çelebi Aviation has been rapidly expanding its ground handling and cargo business in India. Why has India been a target for Çelebi's ongoing international expansion?

Train travel has always dominated transportation in India. Only recently has its aviation sector established itself as a safe, affordable, and credible alternative. The number of passengers traveling with Indian airlines has more than doubled over the past seven years, compared to just a 6% increase in railway passengers. The growth is not only in passenger traffic, but also evident in the volume of air cargo transshipments, bolstered further by growing pharmaceuticals and perishables. Moreover, as the world's largest democracy with a population of over 1.3 billion, India's potential for further growth and industry development is clear. We expect air passenger numbers to, from, and within India to increase by 3.3 times over the next 20 years to more than 500 million passenger journeys per year—increases underpinned by a growing middle class increasingly able to travel. Çelebi Aviation is already seeing its investment opportunities grow in India. This strong growth outlook for air passenger demand will see India overtake Germany, Japan, Spain, and the UK within the next five years to become the world's third-largest air passenger market. The air transport market in India employs more than 390,000 people and supports another 570,000 more in the supply chain. Overall, the industry contributes some USD30 billion annually to India's GDP. These are exciting times for air transport in India and for Çelebi Aviation's Indian subsidiaries.

How does the privatization and commercialization of an aviation sector—such as the case of India—dictate into which markets Çelebi enters?

India is one of the two mainstays of Çelebi Group's ground handling and cargo business; the other is our home market, Turkey. Çelebi will stay focused on both organic and inorganic expansion opportunities in India for the foreseeable future, such as a selection of independent ground handlers at all

airports operated by the Airport Authority of India and divestment of the ground handling business of Air India. That being said, Çelebi is always on the lookout to widen its footprint. The privatization and commercialization of new aviation markets has been an ongoing trend in our business for quite some time now and will definitely continue at an increasing pace. In this context, we are closely following opportunities in certain countries in ASEAN and Africa. Where the incumbent service providers are mostly government owned or controlled, the trend is now catching up with them, and they are eyeing opportunities to monetize and divest their ground handling and cargo-related businesses.

More broadly, in which regions is Çelebi interested in for expansion?

The Middle East is always a focus for reasons of growing trade and new airport projects that indicate an ever-growing region of interconnecting flight hubs and transfer points. Northern and Eastern Africa are other areas of interest, as there is an emerging middle class and increasing capacity and demand for regional exports that will inevitably fuel air traffic growth. The economic hubs of APAC and ASEAN are other regions we are focused on. Large populations with steady growth, coupled with major economic growth and proximity to other export and manufacturing bases, make those regions not only highly attractive but also fiercely competitive.

How has the opening of the new Istanbul Airport impacted and challenged Çelebi's operations?

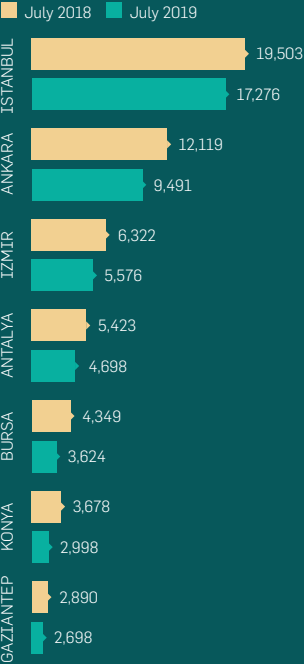
The preparation for that was challenging, though surprisingly, within the third day we were almost at the right on-time performance level in terms of our handling. In terms of challenges, the average taxi for aircraft is about 22 minutes and can take up to 40 minutes. Çelebi Aviation's costs have risen by about 30-35%, mainly because of the distances involved, and we have had to increase our workforce to serve the same number of passengers. ✖

BIO

Thomas Konietzko is the executive vice president of sales and marketing for Çelebi Aviation Holding. Previously he served as a vice president for Swissport International; in business development roles for Hilti, CWS-BOCO, and GAKO in Switzerland; and for the Denver World Trade Center and Hapag-Lloyd in the US. He holds an MBA from the University of Denver.

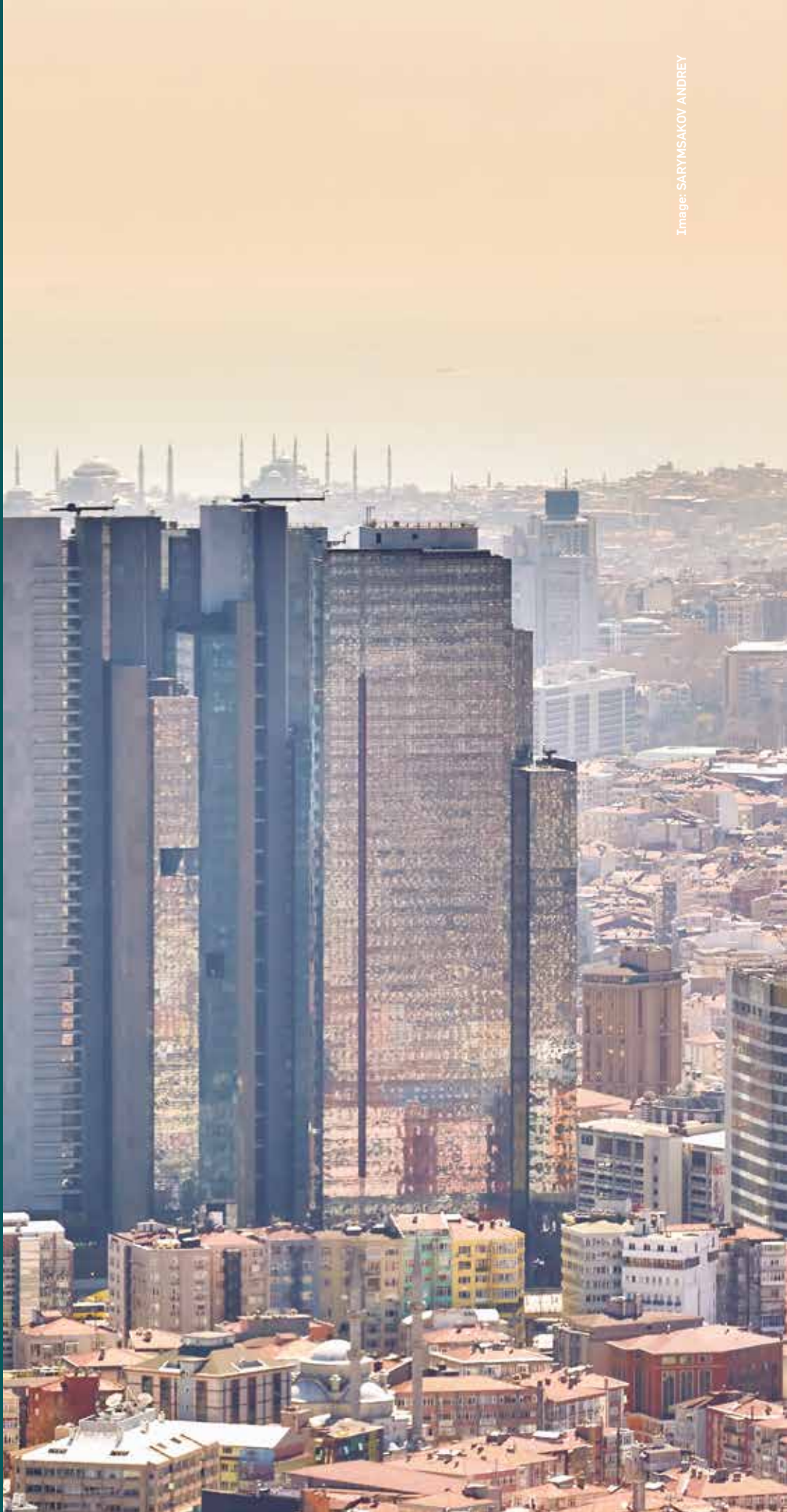
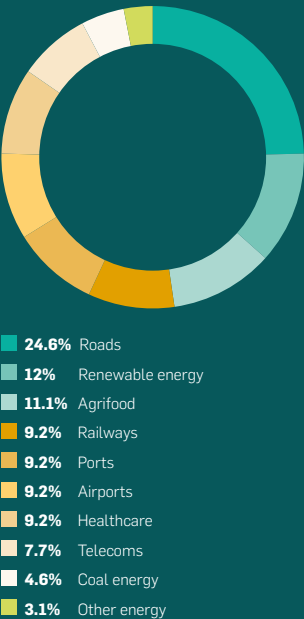
TOTAL HOME SALES

SOURCE: TURKSTAT



BREAKDOWN OF EXPECTED GOVT. INVESTMENT IN INFRASTRUCTURE (2019-2023)

SOURCE: PWC





Real Estate & Construction

SEEKING STABILITY

Turkey's explosive construction growth has been a primary driver of the economy's expansion over the past decade-and-a-half. That growth came to a grinding halt following last year's currency crisis, which was followed by a surge in the relative cost of imported construction materials and sky-high interest rates.

The high interest rates—imposed by the central bank in a bid to counter runaway inflation—were a double whammy for the real estate and construction sector. It made their considerable foreign debt pile more expensive to service and severely reduced demand for housing as a result of higher mortgage costs for consumers.

Officially, the non-performing loan pile within the construction sector is around USD3 billion, but that number could be as high as USD10 billion. The government tried intervening to tackle the first issue of construction sector debt but has been bogged down by disagreements over the value of unfinished construction projects.

Stimulating housing demand has proven an easier task for the industry. Turkey's central bank—in line with many of its global counterparts—began reducing interest rates at the end of July, a move that was followed by subsequent cuts as inflation continues to fall. State-run banks have also eased the market by offering below-market interest rates on mortgages to consumers. Finally, to boost demand among foreign

buyers, the minimum real estate investment for citizenship was lowered from USD1 million to USD250,000.

The move to reduce the real estate investment component for citizenship ushered in a 69% increase in foreigner home purchases through the first half of 2019. Iraqis, Russians, Saudis, and Afghans were the largest foreign buyers of Turkish homes in 2019. The regulation change was especially helpful in reducing the oversupply of luxury homes built during the credit splurge only to be left unsold on the market when demand dried up.

While the buildup of the construction sector has caused some of the troubles currently faced by the economy, the growth of large contractors has enabled them to expand internationally. Turkey's contracting industry is the second largest in the world—only behind China's—and 44 Turkish firms are among the world's 250-largest contractors. Turkish contractors expanded their Middle East market share by 10% during 2019, while their market share in Africa stabilized following a period of growth.

Part of Turkish contractors' success abroad can be attributed to their domestic experience working on infrastructure megaprojects. Their growth in the future will hinge upon their ability to win infrastructure contracts in Africa, an area ripe for infrastructure development and where the Turkish government is strengthening its diplomatic ties. ✖

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INTERVIEW



SIGN OF *the times*

Core Media relies on local knowledge and relationships, as well as its extensive experience, to further its business.

Umut Şenol
MANAGING PARTNER &
CHAIRMAN OF THE BOARD,
CORE MEDIA

Core Media has undergone a number of restructurings since its creation over two decades ago. Can you outline the changes and reasons for them?

In 1994, the company was called Magic Advertising. Initially, we did advertising on municipality buses. Magic Advertising was acquired by Clear Channel, an international media company, in 1999 and became a strategic partner of Istanbul Municipality. Initially, it was one of the two big suppliers of bus shelter advertising around the city before expanding its business into Anatolia, winning tenders in cities like Antalya, which is the biggest tourist center in Turkey after Istanbul, and Kayseri, an industrial hub near Cappadocia. Between 2002 and 2013, Clear Channel was fairly successful in Turkey. Then, due to Clear Channel's concerns with the global economy, it decided to exit some of its emerging markets. I was CFO when we acquired the business from Clear Channel. Now our firm is called Core Media.

How have Core Media's operations changed since you acquired it from Clear Channel?

Clear Channel Turkey was a financially healthy company when I acquired it in 2016. When the coup attempt happened, it brought some instability to our business. The elections, referendum, presidential elections, and changes in the administrative and municipality systems all followed the failed coup, making the last three years difficult, especially since we were no longer backed by a multinational company. But having local knowledge and relationships has been more important than having multinational support. Our business is heavily dependent on local dynamics and experience both to sell advertising and win tenders. We have become leaner as a result of Clear

Channel's exit and have outsourced much of our operations, so we can focus on sales. We no longer have the quarterly financial reporting obligations of a listed company, so we have reduced the amount of bureaucracy in the company. We are able to make decisions faster. Core Media is a big company in our industry. Now we have gone from moving like an elephant, powerful but cumbersome, to moving like a cat, quick and crafty.

Across your markets around Turkey, what different revenue streams do you have?

Core Media has different types of revenue streams. In Istanbul, we have a bus advertising business, free-standing units in urban areas, and the metro bus line, which is the backbone of the city. These components complement each other, because in this industry you have to sell the units as networks. Therefore, the metro bus line and free-standing units together are becoming a good network for us. In the shopping malls, we run digital advertising units and have high end shopping malls in our portfolio. Among others, we operate in the top two malls in Istanbul—Zorlu and Kanyon—in addition to the Mall of Istanbul, where many tourists visit. We manage more than 300 digital advertising screens in malls, all from a central control point, so it is much more efficient than traditional forms of advertising. However, it is also more capital intensive initially, as you have to invest in the technology. We also run the advertising units for Yalıkavak, one of the top five marinas in Europe. Aside from Istanbul, we run billboards and all the bus stop advertisements in Antalya, Kayseri, Edirne, Kırklareli, and Kahramanmaraş. We provide advertising spaces in some shopping malls in Izmir and Ankara as well. ✖

BIO

Umut Şenol began his career at PwC before working as a senior finance manager for multinational companies. He completed his undergraduate studies at Boğaziçi University, earned a master's degree in professional leadership from Harvard Business School, and holds a CPA certificate. He has been a member of the Beşiktaş Congress since 2007 and was elected as a member of the board of directors of the Boğaziçi University Alumni Association in 2010, where is currently Vice President. Since 2018, he has been a board member of the Boğaziçi University Foundation and since 2013 a full member of the BJK Board of Auditors.

monitoring PROGRESS

Hakan Gümüş
GENERAL COORDINATOR,
GABORAS

The digitalization of property infrastructure will not only help consumers, investors, and individuals, but also make it easier for the government to monitor and understand crucial developments in the real estate market.



What steps is GABORAS taking to accomplish its goals?

GABORAS seeks to develop a real estate environment that creates trust. In our sector, there are many different real estate values being quoted. For example, property appraisal institutions and insurance companies both have values that differ from the market price. Investors, both local and international, are not sure which value is correct. GABORAS seeks to digitize the entire real estate sector's operations and provide concrete and technical information about each and every piece of real estate in Turkey. We have 183,000 title deeds in total and can provide information about all of these, whether it be earthquake issues, new legislation affecting the property, or the market price over the last 24 months. GABORAS seeks to digitize, standardize, and provide property information, as well as create indexes and then later come up with a real estate stock exchange. We have done 10 years of hard work on big data, algorithms, and creating technical information. We have finished that first stage of big data, and the second stage is monitoring one's real estate portfolio. This is crucial, for example, for a general manager who needs to know exactly what real estate assets the institution has, along with their current value. Property values change over time, and valuation reports take time to do, so we need to digitize the valuation process. We want to create a real estate declaration control system because there are a number of real estate listing services and web-

"We have 183,000 title deeds in total and can provide information about all of these, whether it be earthquake issues, new legislation affecting the property, or the market price over the last 24 months."

sites in Turkey, though these are not controlled so they are easy to manipulate, for example, by using fake valuation declarations or prices. We want users to be able to access all the legal documentation relating to a property, such as construction permits and real estate broker documents and then work with the various real estate listing services to verify the information. The third stage includes various systems, such as providing contact details for a list of the best real estate brokers, appraisal institutions, and planners in each area (i.e. grid system) for people who want to verify information on the ground. This way buyers can verify if the online information about a property is true or not. We have all the smart data ready and can provide external services to government officials as well.

What is GABORAS' strategy to ensure its real estate platform always has the most up-to-date information?

The information is instantly updated because we use open source data on the internet, which is always being updated. We also use government data relating to any special analysis, and if there is a decision that is announced publicly from the government, it will immediately go into our system. This is the most up-to-date real estate information you can access in Turkey.

Has GABORAS received any support or push back from the government? What hurdles do you face under the current regulations?

The government has different institutions and ministries. When introducing something new, such as a digital model that has not been used before, some may oppose it. However, the president has explicitly stated that a real estate stock exchange market should be established in Turkey, that studies for this should be accelerated, and that we do not have time to waste in this area. Some ministers are also highly supportive of this idea. Thankfully the government has been extremely supportive, and this idea and project are getting bigger. In six months, we will be talking about something more. ✖

BIO

Hakan Gümüş attained his city planning degree from the Middle East Technical University's faculty of architecture, where he was the AEGEE-Ankara president and an AEGEE Europe board member in Brussels. Between 2004 and 2005, he was the project coordinator of the European Union Turkish Youth Council project. Later, he worked for the Turkish Education Association as an international projects expert, for Carrefour as a real estate development expert, and at Best Buy as a real estate development and leasing manager. After a time as the leasing manager for Jones Lang LaSalle, he developed a residential project in Kağıthane before joining GABORAS as the spokesman and general coordinator.

THE RIGHT *kind of growth*



Tamer Çiçekçi
CEO,
REHA MEDİN GLOBAL

With two-thirds of residential units in Turkey not up to earthquake code, there is significant room for growth in sustainable housing across the country.

BIO

Tamer Çiçekçi is an entrepreneur and the CEO of Reha Medin. He invested in Reha Medin's real estate network of 50 offices after 10 years of experience in the industry. Çiçekçi also brought Dubai's biggest private construction company, Damac Group, to Turkey, established a real estate company in the US, created a national coffee brand in Turkey, and owns a software company. He has a degree in economics from Istanbul University.

How has the reduction of the minimum real estate investment for citizenship impacted your sales?

Following the reduction of the minimum real estate investment for citizenship to USD250,000, there was a 40% increase in sales to foreigners. Reducing the requirement was a correction to the standard in the global market, as most countries giving residency permits use similar values. Compared to the local market, foreign sales account for about 10% of sales. It is not a big market for Turkey, though the change in regulation has helped.

How do you seek to grow the number of sales to foreigners within Turkey?

We are a real estate network with around 50 offices. In Turkey, we started selling real estate to European markets in tourist areas and began selling in Istanbul four or five years later. We have almost 10 years of experience in the European market and have an operation in the US as well. We see significant growth from the Iranian, Iraqi, Afghani, and Pakistani markets. We do local business through our branches and system and the international business in our headquarters as a separate team. We have a network of sub agents, similar to a franchise system, and have organic balance in many countries.

Considering the depreciation of the lira, how have your customers been impacted?

The depreciation of the lira and the reduced real estate investment for citizenship combined have increased foreign sales by 40%; however, there is still room to grow. Domestically, the impact

“We have a network of sub agents, similar to a franchise system, and have organic balance in many countries.”

comes down to financing. As a developing country, customers do not live on cash and need mortgages. If the rates are high, they have to wait. TRY400,000 is a psychological limit for people to purchase; no one can take out all the cash to purchase when the interest rates are so high. However, this has happened before and will happen again. The real estate market is cyclical. The demographics of the market will result in future growth. Turkey has a young population that demands real estate. There are 21 million housing units in Turkey, and 14 million of them were not built up to code according to the earthquake law. There is a great deal of room to grow, and foreigner movement is just a small piece of the journey.

What elements of technology have you incorporated into your business?

We have a conventional agency system and are also extremely strong in digital. We are doing most of our operations digitally now and have a software company with sales office CRMs, applications for real estate dealers, and online payment systems for property management stuff. We are also doing software products for marketing. ✖

WHOLE NEW LATITUDE

Local contractors are winning more tenders for infrastructure projects in Africa and possibly beyond.

DURING TURKEY'S CONSTRUCTION BOOM OF THE 2000s, many firms were formed in the country to undertake the task of building the new roads, bridges, and schools key to the country's development. This expansion was accelerated as a result of the availability of cheap credit lines, a highly skilled workforce, and access to European expertise.

When the construction boom showed signs of slowing down, many firms decided to take their skills elsewhere, including infrastructure projects abroad. Venturing into Africa seemed a viable option, as a few Turkish firms had already had some successful early experiences in North Africa in the 1970s.

Throughout the 2010s, Turkish contractors expanded their operations across the Middle East and North Africa region (MENA) as well as sub-Saharan Africa, winning a notable number of tenders. They did so often in a tough competition with Chinese companies, active on the continent for well over a decade.

At one point—between 2012 and 2013—Turkish companies were entrusted with over USD30 billion worth of contracts across the MENA region. Though business declined due to unrest in Libya, Iraq, and Syria in 2014-2015, work is once again gathering momentum.

With a good understanding of the region and its culture, such contractors have made a name across Africa, especially in the construction of public buildings, airports, and hospitals. The Tripoli Convention Center in Libya, Blaise Diagne Airport in Senegal, and the Kigali Convention Center in Rwanda, host to the 2016 African Union Summit, are just a few major projects in Africa built by Turkish construction companies.

Turkish contractors have also contributed to projects in over 120 countries over the last half a century, including 81 projects completed in Africa in the year 2017 alone, according to data released by the Turkish Contractors Association (TMB). It is estimated that these enterprises have generated over USD380 billion since the early 1970s.

Ankara is supporting those companies active overseas, not least thanks to its well-established diplomatic ties with countries across the MENA region. By 2015, Ankara had finalized some 39 trade and economic cooperation agreements with African states—almost doubling the number from 2003.

The Republic of Turkey currently has FTAs with Egypt, Morocco, Tunisia, and Mauritius, while more agreements are currently under negotiation to facilitate the operation of construction firms on the continent.

After competing against Turkish contractors, Chinese companies are now keen to team up with the Turks, especially in North Africa, where Turks have a better grasp of the region's political dynamics and business practices. The Chinese, meanwhile, can help by providing financing for projects, as they have across Africa already. Co-operation between Turkish construction companies and Chinese-financed infrastructure projects in Africa could boost Beijing's One Belt, One Road initiative, which seeks to build, literally, a global supply chain that ferries raw materials to China and products for export out of China.

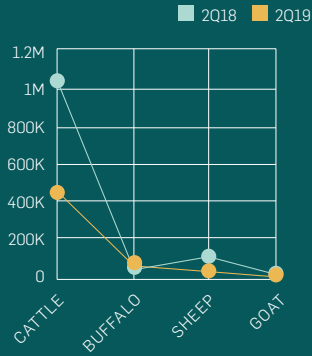
Emre Aykar, senior vice-president of the Confederation of International Contractors Association, believes Turkish contractors can go farther, perhaps as far as South America, when the volume of their contracts in Africa begins to slow down.

Mithat Yenigün, chairman of TMB, believes the ASEAN region, India, and Latin America could be the next markets where Turkish contractors can find success.

Even if Africa sees a slowdown, that will not be a large threat to Turkey's overseas construction sector, as the current USD500-billion international market is still predicted to grow to USD750 billion in the 2030s. Turkish firms will continue to maintain their solid reputation in this sector and can increase their market share—whether or not they choose to partner with Chinese counterparts. ✕

BREAKDOWN OF PRODUCTION OF RED MEAT

SOURCE: TURKSTAT



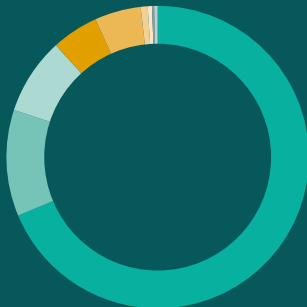
PRODUCTION OF OLIVES & NUTS (TONS)

SOURCE: TURKSTAT

	2017	2018
Olive	2,100,000	1,500,467
Hazelnuts	675,000	515,000
Walnuts	210,000	215,000
Almonds	90,000	100,000
Pistachios	78,000	240,000
Chestnuts	62,904	63,580
Total	3,215,904	2,634,047

DAIRY PRODUCTION (MLN TONS)

SOURCE: TURKSTAT



- 65% Collected cow's milk
- 11% Drinking milk
- 8% Yogurt
- 5% Ayran
- 5% Cheese from cow's milk
- 2% Milk powder
- 1.5% Butter
- 1% Cheese from other milk
- 1.5% Cream





Agriculture & Food

FOOD FOR THOUGHT

It is no surprise that a culture renowned for its cuisine has an agriculture sector to back it up. Turkey is the seventh-largest agricultural producer in the world and around half of the country is agricultural land. Agricultural products account for around 13% of Turkey's exports, and Turkey is the world leader in a number of products, including hazelnuts, cherries, figs, and apricots.

Looking domestically, the agriculture sector accounts for around 8% of GDP, a figure that has steadily decreased as modernization has grown the share of Turkey's industrial and service sectors. However, the sector holds an outsized influence in the Turkish labor market. Though its contribution to GDP trails far behind the industrial or services sectors, around a quarter of employed Turks work in the agricultural sector.

The sector's labor dynamics have resulted in some vexing questions for policymakers, chiefly around the issue of land inheritance. Current law in Turkey often results in the division of inherited land into small scale plots—the average farm size in Turkey is less than half of that in Europe. This practice is good for employment; small-scale farms employ more people than commercial farms and contribute in unquantifiable ways to the quality of life for Turkey's many rural inhabitants. However, small-scale farms are inefficient and struggle to compete with commercial

farms, which constitute much of the global agriculture market.

Regulators, eager to support employment, have developed different support schemes for small-scale farms. This is common practice; however, Turkey is behind in developing programs for R&D, skills training, and productivity. One notable private-sector success in the area comes from Işık Tarım, a major dried fruits and nuts producer. Its "Happy Village" initiative focuses on villages or groups of farmers—rather than individuals—to institute crop management training systems aimed at growing and harvesting techniques that increase raw-material quality.

Turkey's success in the global agriculture market is in large part due to the abundance of high-value agricultural products suited for the climate, like hazelnuts, apricots, cherries, figs, olives, tobacco, and tea. However, Turkey has seen much of the economic value of commodities like hazelnuts slip through its grasp by exporting raw, rather than processed, products. For example, raw hazelnuts constitute almost 60% of total hazelnut exports. As a product consumed primarily in its processed version—Ferrero alone uses 25% of global hazelnut supply for its chocolate products—Turkey's hazelnut producers are increasing their investments in processing facilities to capture more value. ✖



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the therapeutic TOUCH

By providing the end consumer with the health benefits of every flower used in its production process, Altıparmak remains at the forefront of healthy living in Turkey and across the world.



Özen Altıparmak
CHAIRMAN,
ALTIPARMAK

How is Altıparmak working to grow its domestic market share as well as its exports through the introduction of new products?

We are the top brand in our category in Turkey. Our market share is 57%, excluding discount brands, and 42% with those. Our company has been around for 40 years. We first targeted the domestic market but have been exporting for 25 years. Right now, our exports are small, representing about 4% of our total production, and our goal is to export 20% of our products by 2020 and subsequently grow that to 50%. We are able to increase that figure quickly because we have more innovative products and in general a wider selection of products that appeal to the international market. We have two important products that are more competitive in the global market. One is Apitera, which uses apitherapy, a branch of complementary medicine done with bee products. Apitera Peak products include royal jelly, honey, pollen, and propolis. These are all phytotherapeutic products. We also used herbs like ginger, cinnamon, pepper, ginkgo biloba, and ginseng to combine aromatherapy, apitherapy, and phytotherapy to create a medicinal line. They are also innovative in their packaging, using single-use, practical, and hygienic packaging.

How has the lira's depreciation impacted your exports?

The lira's depreciation has been an advantage for our exports. We can provide international customers lower prices than previously determined before in foreign currency. This makes us more competitive.

In which markets do you see export potential for non-traditional products, such as Apitera?

These are products with great profit and added value because honey is available everywhere around the world, and competition is much steeper; however, these products allow us to reach out to differ-

ent market segments. Our expectation with these products is to have high demand in the US and Japan because of the nature of the product. This product doesn't exist in the US or Japan and is an on-the-go product that can be carried in one's pocket. It is a practical product and fits in with American culture. As for the regions and countries, we work with Germany, France, Austria, Belgium, China, Japan, Singapore, the UAE, and Qatar, and hope to enter Saudi Arabia soon.

Apitera and many of Altıparmak's new products fit within the health segment. How do you stay in touch with changing consumer preferences?

If one wants to progress in their category, they have to innovate. It is impossible for us to copy a product from the competition. We cannot be the leader. For example, for these products, we thought about the mixture that would be used. One of the most important factors of gaining market share is differentiating one's product. We need to know our consumer and their needs. Thus, for Apitera we wanted to make practical but healthy products that customers could carry in their pockets. This is not our discovery. However, putting it into such a format with products inside is something unique: only we do this.

What marketing tools has Altıparmak used to educate the market about its health-conscious products?

We focus on how to earn the trust of consumers as best we can. We have a QR code on our products to provide customers with additional health and ingredient information. With this, we not only provide an analysis of the product to the customer, but also supply them with information about the flower the product comes from. Consumers can read this before purchasing the product. This will enhance the trust between Balparmak and its consumers. If only all food products had such a thing. ✕

Domestic market share of

57%

Goal to export

20%

of products in 2020

BIO

After graduating with a degree in management from Ankara's Middle Eastern Technical University, in 1980 Özen Altıparmak helped found the Altıparmak Pazarlama Kolektif Şirketi with his father and brother. They later launched Balparmak under their family brand, which by 1989 became the country's best-sold honey. Balparmak has been the country's market leader every year since 1989.

A DELICIOUS *pipeline*

Already with a large presence in Europe and the Middle East, Assan is breaking into the East Asian market with a variety of sustainable and exciting new products.



Hakan Koçoğlu
GENERAL MANAGER,
ASSAN FOODS

What investments has Assan made for its production facilities in the areas of robotics and automation?

Thus far, we have invested more than USD50 million in industrial investments. Two years ago, we invested EUR6 million in a fully robotic system and are the only food company in Turkey that has acquired such a modern and efficient system. This is because we have been growing by double digits for the last five years, and much higher than 10%. In 2018, we also experienced significant growth, and 1Q2019 was as successful as planned. We, therefore, have to invest in the production line, and not for machinery growth. We also focus on know-how, and this shows how the group believes in Assan Foods.

How have you vertically integrated to minimize some of the supply chain issues typically faced by food and agriculture operations?

We have been working with many international companies such as Heinz and Nestlé. The issue of general supply is important in food because of the ingredients. We invest significantly in ingredients like tomatoes and have been working with more than 450 contracted tomato farmers in the region. We give them seeds, fertilizer, and know-how. We have contracts with them to follow the entire process all the way to harvest. We also give them the necessary equipment to have great results. Two years ago, we started a smart farming project. We have a base on that farm that collects all the information from the ground and the plants. We measure 11 parameters, such as the wind and humidity, for example, and send updates to the farmer saying it is time for watering, and so on. In the first year, we saved 50% water and almost 60% pesticides. We are working with the Scientific and Technological Research Council of Turkey (TÜBİTAK) and would like to bring this technology all over the valley because at the end of the day it is good to have a smart farm and sustainability. We are part of a sustainability program with many other international companies in which we supply them with raw materials and products. We also produce their brands.

What is the breakdown of your revenue in terms of private label production and your own brands?

It is around 50/50. We have also been expanding our private label business into new markets. For example, in mid-2018 we signed an agreement with eight countries in East Asia. We entered countries such as Cambodia, Hong Kong, Singapore, China, and so on with their private label products.

How has Assan changed its product offering to adapt to consumer demands for healthier, more organic products?

It is important to have strong suppliers. We also certify them; the supply part is extremely important in the first stage. We also need to have a healthier way of producing all these products. We have all kinds of certification and have been checked by many international companies. As we develop, R&D becomes more important. We continue to develop this in a healthier way. For example, we started using sunflower oil in mayonnaise but are now also working on olive oil. Moreover, we do not add preservatives. Current trends are definitely moving toward healthier and cleaner labels.

What is the breakdown of your revenue from Turkey and your international markets, and where are you looking to grow?

Our revenues are 60% Turkey and 40% international. We have been in Europe for a long time, and a new market for us is East Asia. Our entry into Wal-Mart China was a large step with our own brand and recipe. GCC countries are also close, and we know their taste profiles extremely well, so we can supply many products. Not all are our products, as we also produce for international brands.

What new products are coming out soon as a result of your R&D efforts?

We have a marketing and R&D team whose target is to launch three new products every year. Our main focus right now is value-added products, such as sauces, mayonnaise, and ketchup. There are always 10-12 new products in the pipeline. ✕

BIO

Hakan Koçoğlu has been the General Manager of Assan Foods and Ege Assan since 2014. Previously, he was Procter & Gamble Wella Professional's Turkey division head and managing director and CEO of the Bahçeşehir Education Group. He has also worked in the US, Turkey, and Russia for Unilever. He graduated from Boğaziçi University's business administration program.

TURKEY IN A NUTSHELL

Turkey's diverse agriculture production and strong trade links have drawn international agribusiness investors, particularly in the hazelnut industry.

TURKEY HAS LONG BEEN ONE OF THE LARGEST FOOD PRODUCERS for Europe and the Mediterranean. Now, international agri-food companies are seeking to invest in developing the nation's export potentials. The country has a strong position in global food trade as a result of large tracts of arable land, abundant water supplies, a 1996 Customs Union with the EU, and FTAs with another 27 countries.

With a favorable climate for the production of Mediterranean food products, Turkey is currently the world's top producer of hazelnuts and apricots. It is the second-largest producer of cucumbers, pistachios, watermelons, figs, lentils, and chestnuts. Turkey's hazelnut industry, which supplies 70% of the world's production, has drawn domestic and international investors for its quality food products and unmatched market dominance.

The local hazelnut industry received a notable boost in 2014 when the Italian brand Ferrero, best known as the maker of the Nutella chocolate spread, acquired Turkish hazelnut company Oltan. Five years later, Ferrero continues to expand its Turkish hazelnut production. In 2019, the company plans to invest EUR2.19 million to support its six existing facilities in the country. Four of them are near the Black Sea coast, where most of the nation's hazelnuts are harvested.

The investment seeks to boost Turkish hazelnut exports, which during the 2017-2018 season totaled 287,000 tons, earning producers more than USD1.78 billion. Turkish firm S.E.P. Gıda is one of several notable hazelnut producers, harvesting 5,500 tons annually, 80% of them for export.

Kivanç Çubukçu, general manager and board member of S.E.P. Gıda, said partnerships with international companies such as Kellogg's, Ludwig Schokolade, Seagram's, Pedigree Petfoods, Uncle Ben's, and Benckiser have helped the company grow over the years. Çubukçu said the top importers of Turkish hazelnuts are Italy, Germany, France, and Austria. Meanwhile, processed or value-added

food products, such as praline and croquant, have helped the company increase its profit margins.

"Our praline and croquant products are what chocolate makers need but often times are reluctant to produce themselves," Çubukçu said in an interview with TBV. "This gives us a great opportunity to transfer all the knowledge that we have acquired throughout the years from our confectionery business."

To foster continued growth in the industry, hazelnut producers like S.E.P. Gıda are investing in more efficient sorting technologies to remove shells, leaves, and rocks that come with the harvesting process. They are also investing in industrial-grade ovens to roast nuts before distribution. Yet as with many sectors in Turkey, hazelnut producers are keeping a close watch on currency fluctuations. They are implementing protective mechanisms to minimize trade losses.

"In 2019, we are positioning ourselves to limit the impact of the current economic volatility," Çubukçu said. "We would not want to fall into the same issues we saw in 2018, when new buyers came in to take advantage of currency fluctuations."

Overall, agri-food companies are also diversifying their markets and products to improve resilience through market swings. Apart from the EU, Turkish food exports are increasingly reaching new destinations, such as Russia, Eastern Europe, the Middle East, and the Balkans. The push into emerging markets, coupled with growing demand from domestic consumers, has helped Turkish food producers grow quickly over the last 10 years.

Moving forward, agri-food companies will continue to seek foreign investors to further expand existing agriculture staples such as citrus, olive oil, and fresh vegetables. Meanwhile, significant increases in the production of beef and chicken have placed Turkey among the top meat producers in Europe, with opportunities for growth in export markets. ✖

TURKISH CUISINE

Turkish cuisine is revered all over the world around and these companies have taken it upon themselves to satisfy the cravings at both home and abroad.

Kaan Demirağ
CHAIRMAN OF THE BOARD,
HD HOLDING

Abdullah Kavukcu
CHAIRMAN,
SİMİT SARAYI

Nadir Güllü
OWNER,
KARAKÖY GÜLLÜOĞLU

MY FATHER OPENED our first iskender kebab restaurant in 1995 in Ankara. We did not expect it to eventually become a brand, but it became the cornerstone of our expansion. In 1995, there were only five or six shopping malls in Turkey, but hundreds opened over the following decades. Given these market conditions, we decided to turn our brand into a chain. At present, we have four main brands: HD İskender, HD Döner, Pidem, and Pideko. Pidem is a pide restaurant, which is one of the other classic Turkish dishes. Pidem opened in 2010, and at present we have 170 stores and will have over 200 stores by the end of 2019. We established Pideko as a competitor of Pidem to quash the competition before it can begin. We have over 270 restaurants across Turkey, and just 2% of them are franchises. We are the leader in the Turkish market, and we plan to have more 300 stores by the end of 2019. In 2018, we were in around 30 cities and in 2019, the figure grew to 50. In the food business, there are not many companies like us, because often, after opening five or six restaurants, companies start to franchise their brand. That often leads to a lack of control over the system, resulting in lower quality. That is one of the reasons we are so selective. Just in the pide business alone, there could easily be 2,000-3,000 stores in Turkey. There is great potential for growth.

AT PRESENT, around 70% of Simit Sarayı's revenue comes from abroad. Our goal is to increase that figure to 90%. We will do that by differentiating ourselves from the competition. All global brands produce in the countries where they sell; we do not think that model is necessary. In our Turkey and UK factories, we produce enough for 2,500 stores globally. This is one of our competitive advantages: to be completely self-sufficient from a production standpoint. We even complete the construction of facilities ourselves. Because of these capabilities, we have been able to reduce our costs by up to 10% compared to the cost of our first stores. We have approached 25 countries and have signed 220 contracts in 2019 thus far. We have signed agreements for 150 new franchises in Germany and aim to open them in five years. We are expanding in North Africa, Tunisia, Algeria, and Morocco. The Middle East has always been strong for us, especially in the Gulf, and we now seek to open in Palestine and Israel. At present, East Asia excites us the most. Our growth in the UK is based in London, where we have 22 stores. Our target is to have 150 shops in London in five years. It is a different situation in the US—there is a large demand for franchises there. We are trying to figure out the system in the US, and we have come a long way.

CURRENTLY, 60% OF OUR PRODUCTION is sold to international consumers. Over half of the customers who come to our store are foreigners, and we send many products internationally by cargo. Our strongest presence is in Arab countries, and we are particularly interested in growing our presence in the GCC market. In particular, we have seen growth in Qatar, in part because the former Qatari Emir Sheikh Hamad bin Khalifa al Thani visited our store and encouraged us to expand into Qatar. This is followed by Saudi Arabia, Dubai, Kuwait, and Bahrain. We also have a strong presence in the broader Arab world in Jordan, Iraq, Libya, Algeria, Tunisia, and Morocco. On top of this, we have many Greek and Russian customers. I have received numerous offers to open foreign branches, including partnership offers from across the Arab world. We are not interested because we follow a specific production process that is difficult to duplicate elsewhere. We do not want to forsake quality in the name of expansion. Our e-commerce channel is working actively, allowing people around the world to order our baklava. Moreover, our R&D department has recently made high-quality frozen baklava a possibility in Turkey. As of February, we will be producing baklava with a long shelf life using frozen dough technology and sending it to Qatar and Dubai.

know YOUR FOOD

As one of Turkey's biggest and oldest organic food companies, Işık Tarım's goal is to promote adoption of organic farming and export healthy products to more markets.

Mehmet Ali Işık
CHAIRMAN,
IŞIK TARIM



When Işık Tarım began organic farming practices in the 90s, what was the competitive landscape like?

At the end of the 1980s and the beginning of the 1990s, several international companies came to Turkey and started to produce organic products, primarily seedless grapes. They went through contracted manufacturers. We never had contact with these companies. Instead, we decided to start our own organic farming because our background and land were suitable for it. The 90s were a strategically important milestone for us. We are the first Turkish company to independently begin organic farming. We expanded to different areas and started to produce organic figs and apricots. Today, we produce more than 30 different products.

How did you develop an international network of buyers and business partners?

We expanded internationally by participating in international exhibitions. We first started exporting to Germany and at present, we export to 40 countries. Our second strategic move was to invest in production geared toward the intermediate food industry. That means companies that produce chocolate, biscuits, and baby food. Entering this sphere was not particularly difficult for us; since we directly buy from the farmers, we were able to supply the products easily.

You invested in an individually quick frozen (IQF) facility in 2013 and a hazelnut facility in 2015. Why did you invest in these facilities? The dried fruits segment makes up 74% of our revenue stream. After our success in the organic dried fruit segment, our

customers began demanding IQF products and hazelnuts. In the early 1990s, we had already started producing these products through our contractors but over time, this resulted in quality problems. To overcome this issue, we rented some facilities to produce frozen fruits. By 2013, we decided to invest in our own facilities. The same story goes for hazelnut. We started to process hazelnuts in 1995. Eventually, we opened our hazelnut processing facility and became an exporter.

Işık Tarım's two main revenue streams are organic products for consumers and intermediate food products for businesses. Which segment are you working on growing the most?

In the beginning, our intermediate food products segment was bigger than our retail segment. However, over the years, the demand for B2C products has grown larger and larger, and today, 60% of our revenue consists of intermediate products and the remaining 40% comes from retail products. Our primary goal within the B2C segment is to develop our 'Happy Village' brand. We aim to supply healthy products to our consumers.

Which regions and specific countries are most important for your export strategy?

98% of our sales materialize through exports. Canada, the US, Germany, France, and Switzerland are our main markets. We also export to Russia and Eastern Europe. In the east, we export to Japan, Australia, New Zealand, China, Hong Kong, Singapore, and South Korea. Organic products are usually consumed by health-conscious customers. Although there is a perception that organic foods

are mostly purchased by wealthy consumers, we have realized that the middle class in highly developed economies is more inclined to buy organic foods.

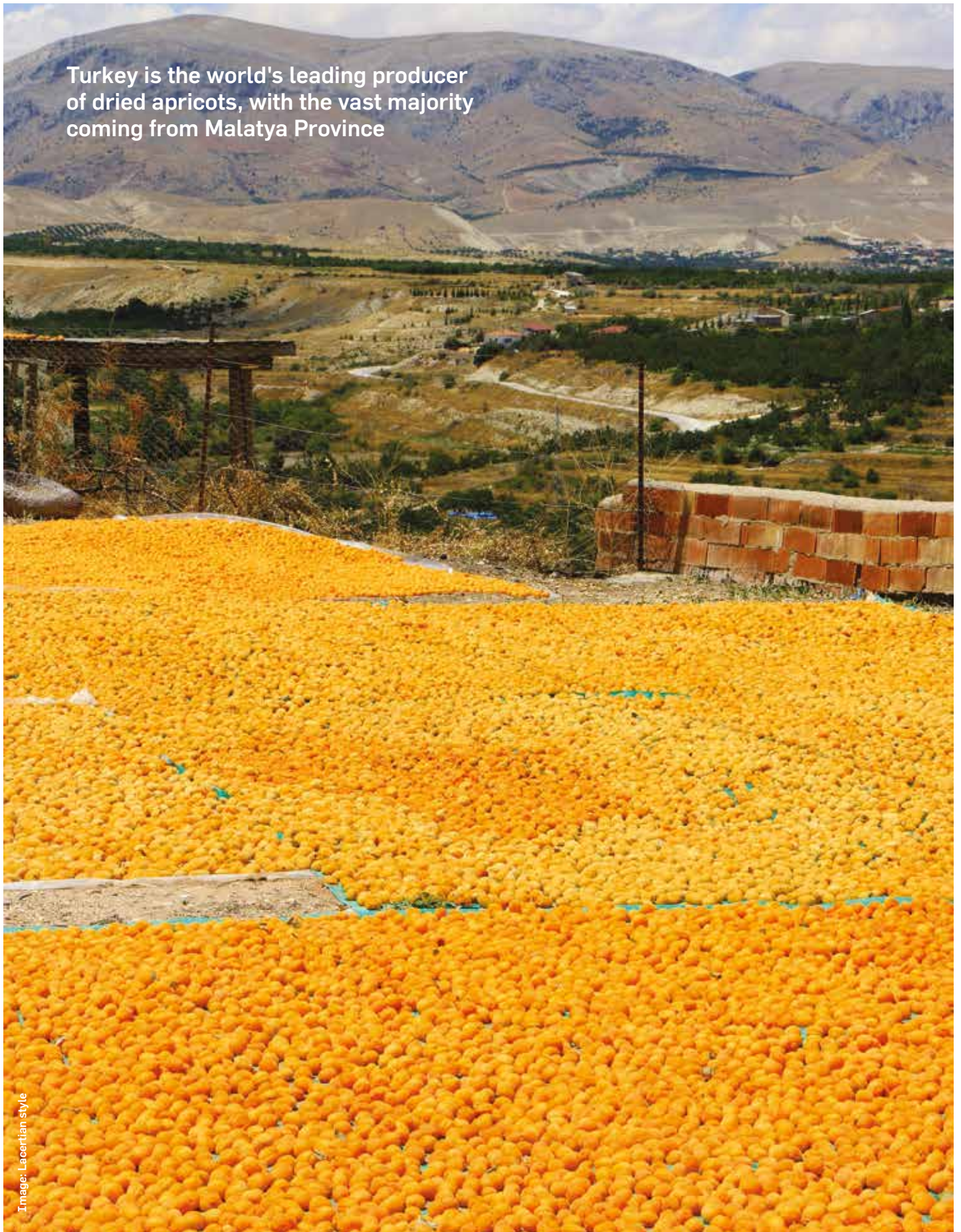
What are Işık Tarım's primary objectives over the next 12 months?

We have two primary objectives. First, we want to protect lands both in Turkey and the region. Successfully initiating investments in organic farming for the past 35 years is the result of this philosophy. We strive toward expanding lands where organic farming is done. We have 12,000ha of organic farming land in Turkey and 20,000ha of land in Turkish-speaking countries in Central Asia. We plan to increase this over the next 12 months. Our second objective is to serve healthy products to our consumers. To do that, we try to introduce dried fruits outside our existing markets, such as East Asian countries, Eastern Europe, South America, Africa, and the Middle East. ✕

BIO

Mehmet Ali Işık is the Chairman of Işık Tarım. Belonging to a family of artisans, Işık was involved in trade throughout his life. He graduated from Dokuz Eylül University's food technology department and started his dried fruits business in 1974. He is also vice chairman of the management board of Aegean Dried Fruit Exporters' Associations and president and founder of Happy Hazelnut Project and Happy Village Project.

Turkey is the world's leading producer of dried apricots, with the vast majority coming from Malatya Province





Kivanç Çubukçu
GENERAL MANAGER &
BOARD MEMBER,
S.E.P. GIDA

Prior to S.E.P. Gıda's separation as a stand-alone company in 2001, how did the company's predecessor develop its hazelnut business?

S.E.P. Gıda's history begins with Sezginler Gıda, a company that started as a hazelnut trading business in the late 1960s by purchasing hazelnuts from the Black Sea region and processing and packaging them to send to Europe. Later, the company developed more versatile processes, providing more added value and selling hazelnuts to more established clients. As the company grew, it started to penetrate different businesses such as cosmetics, distribution, and cash and carry.

How has S.E.P Gıda developed its processing capabilities since 2001?

Today, S.E.P Gıda produces about 5,500 tons annually, 80% of which is exported. We have developed value-added products in line with demand from our major European customers. We offer all sorts of hazelnut products. We are capable of producing everything from natural to fully roasted hazelnuts to sliced and diced ones as well as hazelnut paste, praline, and croquant. It is fair to say S.E.P. Gıda is an all-round supplier of hazelnut products working with customers from all over the world. Every order we receive is processed in house, which is essential to maximize output.



Kadir Durak
CEO,
DURAK FINDIK

How does Durak Findik's export strategy differ from its domestic strategy?

We mainly export to Europe. The countries we export to there are Germany, which constitutes 25% of our exports, Italy, the Netherlands, Belgium, and Austria. We also export to the US, Russia, Ukraine, South Africa, and Asia. We sell to almost all the large chocolate companies in Germany. Around 55% of our revenue comes from exports, while the remaining 45% is from domestic sales. In 2019, approximately 50% of our domestic sales went to Ferrero, which entered the Turkish market recently.

What percentage of your overall turnover comprises raw hazelnuts versus processed ones?

Raw hazelnuts constitute 70%, while processed hazelnuts make up 30% of our turnover. Of our entire processed category, whole roasted hazelnuts comprise 50%, diced hazelnuts represent 25%, and hazelnut paste makes up the remaining 25%.

Can you give us an overview of your processing facilities and your investments in them?

In the last 13 years, Durak made approximately EUR30 million worth of investments. We have now four packing plants for raw hazelnuts: two in the eastern Black Sea region and two in the western Black Sea region. We also have a processing plant with three production lines in Hendek, Sakarya.



Hüdai Yılmaz
GENERAL MANAGER,
EKSUN GIDA

Can you outline the company's development since its inception?

When we first started, our production facility was capable of producing 150 tons of flour per day, and now that facility can produce 700 tons per day. We can produce another 700 tons per day at our factory in Konya. In addition, we have two supply centers in Romania and Ukraine and a storage depot in Ghana through which we organize our supply chain from surrounding countries. Our export revenue is around USD50 million a year. We are based in Thrace—the 'wheat center' of Turkey—in part because of its proximity to large ports.

What percentage of Eksun's overall revenue comes from exports, and what are its primary international markets?

25% of our revenue come from exports. West Africa, Indonesia, and the Philippines are our primary export markets. The Philippines recently enforced an anti-dumping policy, and this has slowed down our exports; we expect the situation to reverse by the end of the year. The Middle East is an important market for us. We have entered tenders organized by Turkey or the UN to support war zones such as Syria, Iraq, and Libya.

Koç University Hospital is a research and training hospital with 404 inpatient rooms and 73 intensive care unit beds

HIGHEST LIFE EXPECTANCY, BY REGION

SOURCE: TURKSTAT

Tunceli	84.2	77.6
Gümüşhane	83.5	77.4
Trabzon	83.4	77.3

■ Female ■ Male

TOTAL LIFE EXPECTANCY

SOURCE: TURKSTAT

2000	71
2005	74.4
2010	76.4
2015	78
2020e	78.6

TOTAL FERTILITY RATE

SOURCE: TURKSTAT

2001	2.38
2005	2.12
2010	2.08
2014	2.19
2018	1.99





Health

VITAL SIGNS

At the turn of the millennium, the Turkish health sector ranked near the bottom among OECD nations in most indicators. However, two decades of strategic planning and targeted investments has now made the sector the envy of surrounding nations and has prepared the healthcare system to face a new age of health crises.

Chief among the trends straining global healthcare systems is the rise of non-communicable diseases (NCDs)—including cardiovascular and respiratory diseases, cancer, and diabetes. NCDs are responsible for 87.5% of all deaths in Turkey compared to the global figure of 70%.

Turkey's particularly acute crisis with NCDs prompted the Ministry of Health to enact a Multisectoral Action Plan for 2017-2025 aimed at stymieing this trend. The plan targets both the causes and treatments for NCDs and runs parallel to a concerted effort among public and private hospitals to invest in NCD treatment facilities. These investments have yielded state-of-the-art hospitals that have attracted visitors to come to Turkey specifically for treatment.

With the modernization of the healthcare system has also come a number of vexing problems. Turkey has employed a PPP model to build massive “city hospitals” around the country—10 city hospitals are in operation, and nine new city hospitals will be launched under the PPP model until

2021. The model is proving extremely expensive for the government, at a time when budget deficits are skyrocketing. The government allocated USD900 million in 2019 for the hospitals, a figure that will almost double next year. As a result, the Ministry of Health has decided to scrap the PPP model for the future construction of hospitals, reverting to the traditional tender model instead.

Turkey's private hospitals are also facing financial strain. As with the construction and energy sectors, hospital groups used large sums or foreign currency denominated debt to fund their expansions. Their lira receivables were sharply reduced following 2018's currency crisis, and servicing their debt has since become more expensive.

An area of promise for the health sector is medical device manufacturing. Turkey's manufacturing prowess, along with targeted incentives from the government, has sparked the sector's growth. Formerly focused on lower-end devices, the sector has recently moved into higher-tech devices. Alvimedica—one of 19 companies benefiting from the Project-Based Incentive System—produces a number of cutting-edge stents and cardiac valves for the Turkish and international market. The market for these products and other advanced medical devices was previously dominated by western companies, a trend Turkey is determined to reverse. ✖

INTERVIEW



A CLASS *apart*

With 14 medical centers and 30 representation offices in 18 countries and a world-class university, Acibadem Healthcare Group is proving its mettle on the global stage one step at a time.

Mehmet Ali Aydınlar
PRESIDENT OF BOARD OF DIRECTORS,
ACIBADEM HEALTHCARE GROUP

Acibadem is a leader in the Turkish healthcare sector and also operates internationally. What are the greatest challenges in operating in countries that have different legal arrangements and health systems?

Acibadem has been serving outpatients from 21 hospitals in four countries; we have a total of 14 medical centers and 30 representation offices in 18 countries. We provide direct health services in Bulgaria, Macedonia, and the Netherlands in addition to Turkey. Each of these has different systems and dynamics in relation to each other. An interesting aspect of the health sector is that although one may operate in different regions, the fundamental problems are similar around the world. For example, we operate in 10 countries as IHH, though the problems we discuss with our board of directors are usually the same. We encounter the lack of qualified health personnel, growing costs, ways of using efficient work models against raising costs, as well as the impact of health policies and practices on the private sector. When making investments in a country, it is important to understand the relationship between the private and public sectors, as well as the payment system in the country. In some countries, we have a strong and sound foundation of general health insurance, while in other countries there is the exact opposite. In addition, the health sector is subject to a high degree of regulation from many different angles. Because of that, one has to provide the best service by prioritizing both patient safety and patient health. In the meantime, you plan and expect to earn the return you desire. This is not an easy task.

Acibadem entered Bulgaria and Macedonia through acquisitions, whereas it began its operations independently in the Netherlands. Why were these separate models selected?

When entering a country, you evaluate market entry options from many different angles, and many different factors can play an important role. For example, both Bulgaria's and Macedonia's health sectors are developing and are far behind in terms of regulations in comparison to Turkey. In such cases, the fact that there are already profitable elements within a certain quality of service justifies the acquisition. Besides, it is crucial to have local partners, especially in acquisitions, that understand both the country and the health sector well. The presence of partners that are familiar with the dynamics of the country is an important catalyst for one's goals. The Netherlands has a relatively highly developed socioeconomic structure, and its health insurance system is fairly developed. Using this structure in the Netherlands as a guide, we wanted to test ourselves by investing in an already-developed country for the first time. In summary, we took our model to both Bulgaria and Macedonia. Within the framework of our growth strategy, we prefer to move forward with both new hospital construction projects and possible acquisition projects. Our growth strategy abroad will continue on these foundations. This will vary slightly depending on the country and the conditions in which we aim to enter. Our growth strategy focuses on regions close to the areas where

BIO

Mehmet Ali Aydınlar is the President of the board of directors of Acibadem Healthcare Group. He founded Acibadem Hospital in 1991 and grew the company into a healthcare group of 22 hospitals and 15 medical centers. Aydınlar is currently a shareholder and member of the board of directors of IHH Healthcare Berhad corporation and a member of the board of directors of DEİK. Previously, he served as a member of the board of directors of Fenerbahçe Sports Club, as chairman of Healthcare Institutions Association, a member of the board of directors of TÜSIAD, and as 64th President of the Turkish Football Federation. Aydınlar graduated from Galatasaray University's business administration department.



Acibadem operates, rather than focusing on certain countries. In this context, we can count the Balkans, Central and Eastern Europe, the Middle East, and North Africa.

How has Acibadem University contributed to the group's employment policy? What role does Acibadem University play in educating doctors in the region and Turkey?

Acibadem University, which provides education in the field of health sciences and reflects our pioneering and holistic perspective in the health sector, is my social responsibility project. With a capacity of more than 4,000 students and 100,000sqm of indoor space, Acibadem University educates health professionals of the future with its world-class academic and technological infrastructure. In this sense, Acibadem University has a very important function in the terms of training qualified human resources. Young people who graduate from different faculties are not only doctors, but also nurses, health technicians, and administrators. As a result, individuals blended with the Acibadem culture at the start of their educational lives continue to be a part of our family. In this respect, Acibadem University has a significant complementary power. It is one of the best health science universities in the whole world. In addition to our strong academic staff, we also have our CASE Clinical Simulation and Advanced Endoscopic and Robotic Surgery Training Center, one of the most advanced medical simulation training centers in the world. We demonstrate our difference with our advanced technology student laboratories that offer practical training in the associate and undergraduate programs. CASE, our center of clinical simulation, is accredited by Europe and the US. It is also one of the two centers in the world that has a certificate of excellence. One of them is Acibadem University and the other is University of Toledo in the US. In four years, more than 15,000 specialists from abroad have been trained in this simulation center. One needs the highest test scores to apply to Acibadem University's school of medicine.



“Within the framework of our growth strategy, we prefer to move forward with both new hospital construction projects and possible acquisition projects.”

Over the next 12 months, what are Acibadem's primary objectives?

2018 was a difficult year for our country as a result of the economic fluctuation and the devaluation of the lira in the second half of the year. Nevertheless, we managed to increase our revenues by 32%. The volatility of foreign exchange had a negative impact on our foreign currency debt. Nevertheless, Acibadem has always succeeded in getting out of crisis. In 2019, we are taking important steps to reduce our foreign currency debt and strengthen our balance. In the short term, through the refinancing of our loans and through capital injection in the company, we plan to minimize our risks by reducing both our foreign currency debts and our remaining debts in more favorable conditions. Thus, Acibadem will be ready to make significant progress in the near future as a cash generating company with a strong balance sheet. We have two hospital investments in Istanbul, and we continue to work on them. We are doing it slowly to see what is ahead. ✖



high ASPIRATIONS

Government-backed incentives are helping Alvimedica to invest in R&D and make Turkey a hub for the global medical devices market.

Leyla Alaton
PRESIDENT,
ALVIMEDICA



Can you tell me about the evolution of Alvimedica since its founding a decade ago?

Alvimedica began as a start-up based on my father's idea to improve the quality of life. From a business standpoint, he looked at Turkey and saw that the country was importing 95% of medical devices. We acquired a small company and started to operate and manufacture catheters and balloons before moving into more sophisticated products. Around 2014, we decided that we needed to have a unique selling point, so we went out and acquired a company called CID, a spinoff of the Sorin Group in Italy, and started investing more in R&D. From there, we built our second factory in Çatalca. At present, that factory produces 900,000 drug-eluting stents per year. The annual demand in Turkey is around 350,000, allowing us to export the rest. At present, we export to more than 70 countries.

Why did Alvimedica acquire CID?

Within CID's portfolio is a unique drug-eluting stent called Cre8. The stent has a special selling point for diabetic patients, which is growing at a very fast rate. Our latest product off of the Cre8 line is the Cre8EVO. Its good market perception paired with our low production costs and high capacity indicate it will be a success.

What new products will you introduce in the near future?

Our R&D department is highly active. An exciting area we are entering is peripheral products. We will launch Nitides, a below-the-knee stent that works with the

Sirolimus drug, by the end of 2019. We will also launch it in Europe before expanding globally. I am also excited about Cre8EVO, which is developing quickly, especially in East Asia.

Broadly, is your export strategy to first succeed in Europe before you go global?

Yes, we aim to succeed in our own region before expanding further. This strategy also helps from a regulatory standpoint. Regulations for drugs and medical devices across Europe are strict. There are ongoing checks, which helps us improve our standards. There are similar systems in place in the US, but the approval process there makes life hard for all foreign companies. As a normal-sized European company, we want to focus first on Europe and then on the rest of the world.

What is Alvimedica's growth strategy?

At present, our revenue is around USD50 million per year, and we expect to reach USD80 million by 2020. Our main objective is to help Turkey become a hub for the global medical device market. The government is aware of the potential and has decided to give incentives to the medical devices industry. So far, Alvimedica is the only company that is on the list to receive incentives, which will include incentives for funding and skilled workforce, such as specialized engineers, and support for R&D projects. We have already partnered with the University of Ankara to do research on the mitral valve we are producing, a project that falls under the R&D incentive program. From an investment standpoint, we also hope to go forward with our IPO in two years.

What are the biggest challenges you face in the area of R&D and workforce development?

R&D is not a big problem because we have been heavily investing in the area since the beginning. Finding the correct workforce has been a challenge in Turkey, which is why we are currently building a new vocational school near our factory in Çatalca to educate the workforce on biotechnology.

What are your primary objectives for the next 12 months?

The primary goal is to launch our Nitides product. Big companies that would like to distribute it have approached us, and this will bring even better news for Alvimedica. Another objective is to continue producing Cre8 in Turkey at a different level using automation. ✖

BIO

Leyla Alaton is the president of Alvimedica and a board member of the Alarko Group of Companies. She holds degrees from Fairleigh Dickinson University and New York University. She was honored with the Légion d'honneur by the French government for her contribution to Turkish-French cultural and social relations. She was chosen as a Global Leader for Tomorrow at the World Economic Forum and as Business Woman of the Year by the National Productivity Center of Turkey. Alaton is a member of TÜSIAD, Turkish Women's International Network, the New Museum's New York Leadership Council, and a number of other global business and arts organizations.

INTERVIEW



SUCCESS *story*

Nobel İlaç seeks to grow its domestic market share and achieve its targets in its foreign operations.

Hasan Ulusoy
CHAIRMAN,
NOBEL İLAÇ

Exports to over 50 countries

Manufacturing facilities in Turkey, Uzbekistan, and Kazakhstan

BIO

Hasan Ulusoy is the chairman of Nobel İlaç, an affiliated company of Ulkar Holding and a front-running Turkish pharmaceutical manufacturer and exporter headquartered in Istanbul. Ulusoy studied chemical engineering (BSc and MSc) at Technical University, Berlin (Die Technische Universitaet Berlin), and business administration at Technical University, Aachen (RWTH). He joined Nobel İlaç in 1978 and has served as chairman since 1990. He is also chairman of Pharmaceutical Industry Association of Turkey (TISD) and a member of American Turkish Council (ATC) as well as Turkish Industry and Business Association (TUSIAD).

What impact did the annual adjustment of pharmaceutical prices have on Nobel İlaç's operations as well as the broader pharmaceutical industry?

This is not the first time that we have been through the annual adjustment. Since price increases are typically announced some time before the effective date, some companies choose to deliver products at the previous price as a sales argument. It is no different than common surplus or rebate practices, and it creates a demand from warehouses and pharmacies. As a company, we are not prone to compromise in sales and thus do not have any special implementations to apply in such periods. We do not experience problems in our product delivery either. Our supply system obliges us to make planning months in advance, and since we do not keep a large stock at the consumption channel, we cannot be open to extraordinary demands.

More broadly, how does the Turkish pharmaceutical regulatory structure support the healthcare sector, and what changes could be made to improve it?

Turkey is a global example in terms of drug legislation, production ability, and capacity as well as access to drugs. We have a sufficient number of factories and R&D facilities in GMP standards that can readily satisfy the national requirements. About 150,000 physicians and 25,000 pharmacies produce about 500 million prescriptions annually and we convey 2.5 billion boxes of drugs to our people. While the system is sound, what is missing on the regulatory side is national regulation of biosimilar products. Such regulation will improve the market for pharmaceutical companies. What is in practice at the moment is mostly from Europe and the US, and these regulations make it difficult for Turkish pharmaceutical companies to enter the market. Similar countries with success in biosimilars such as Russia, South Korea, India, and China have been operating with their own regulatory systems. Turkey can experience the same success with the implementation of a similar system.

How does the increasing strain on the health insurance system impact the industry and Nobel İlaç's operations?

Currently, save for a limited number of exceptions, the entire Turkish population is covered by health insurance. This is a benefit we should be proud of, as even some developed countries are unable to provide this. However, such an inclusive system also brings about financing problems. In the past 15 years, along with the growth of the population and average age, the improvements in access to health services and medication have unexpectedly increased the costs. In the past 15 years, the per capita number of referrals to a health center has increased four-fold. Currently, each of us visit a physician more than eight times, have six prescriptions issued, and consume 30 boxes of medication a year on average. About 80% of pharmaceutical consumption is financed by the public budget. We are proud of the level of services we have achieved as a country. However, the financial resources needed to enable this system are scarce. Drug prices have been in constant decline despite inflation and increasing foreign exchange rates, and thus the main agenda for companies in the sector has been to survive. Nobel enjoys a greater feeling of security due to the fact that our activities have not been limited to our efficient domestic operations; however, but we have also internationally expanded and become a net exporter. However, currently, we fear the pharmaceutical supply in Turkey will no longer be sustainable, and our culture of R&D and production will be damaged.

What investments has Nobel İlaç made—in part through the 2023 vision—in the area of biosimilar drugs?

One of the main reasons for the funding problem is that we are still considerably foreign-dependent in the field of drugs. Each year, the pharma industry incurs a foreign trade deficit of about USD4 billion. That is why reducing foreign dependency on drugs was introduced as a target in state programs such as the 10th Development Plan and the 2023 vision document to support the domestic development and

production of biosimilar drugs. We have been chosen as the first company and are working together with TUBITAK on this project. The first stage of the project, namely cell development, has already been completed. Next are the more advanced stages. We have made the necessary investments and have been progressing in a determined manner. This is very much in line with the general stance of our company as a champion pharmaceutical exporter with no foreign trade deficit. We consider the field of biotechnology one of the most crucial conditions for future existence and success.

Other key areas of investment for Nobel İlaç include injectables and hospital products. Why were these areas chosen?

We needed an injectables plant for the production of finished biosimilar products. The second reason for the investment is to increase our exports. We are operating in countries where injectables are highly used and plan a large number of exports to those countries. Domestically, the use of injectables in Turkey is also increasing. As the government has built city hospitals, which will enhance health tourism, the use of such products in hospitals will increase.

What are your most import export markets, and from where do you expect greater demand growth?

Currently, we have been carrying out marketing and

sales operations in 20 countries through our own teams. We have been active in an extensive geographical region from Central Asia to Eastern Europe, in part through our international production facilities in Kazakhstan and Uzbekistan, which were our first steps in international expansion that started 20 years ago. These countries had potential and were open to development. These facilities not only satisfy national needs but also provide a means for exports to the neighboring regions. More recently, our newest export destination is Russia, which is especially important to us as it holds a potential equal to the combined total of all the other countries we have been active in. It is difficult to gain a place in the Russian market but our initial results are extremely promising. As future endeavors, we have been considering Africa, the Middle East, and some European countries. We have already taken the first steps in some of them.

What are Nobel İlaç's most important ongoing investment plans and biggest objectives?

Our investments are ongoing in the biotechnology area, and our objective is to finish our facility and proceed with our project so that we can be in the market with these products by 2023 at the latest. Outside of that, we hope to continue to increase our domestic market share and to achieve our targets in our foreign operations. ✕

“We have been carrying out marketing and sales operations in 20 countries through our own teams.”



INTERVIEW



GLOBAL *ambitions*

Significant investments in industry leading technologies are enabling Medtronic to help treat chronic diseases on a global scale.

BIO

Ayhan Öztürk has 16 years of experience in the healthcare and medical devices industries, with a proven track record of achieving revenue, profit, and double-digit business growth in emerging markets. Before joining Medtronic, he established and managed various businesses in the healthcare, medical devices, and manufacturing sectors. Under Öztürk's leadership, Medtronic has increased its focus on building sustainable organizations with strong business models and expanded in emerging and complex markets. He holds an MBA from Özyeğin University and a BSc degree in international relations from American International University.

Ayhan Öztürk

REGIONAL VICE PRESIDENT FOR TURKEY, WEST ASIA, AND LEVANT,
MEDTRONIC

How do Medtronic's products and services help tackle the cardiovascular disease, cancer, and diabetes?

Medtronic is the best-positioned company to help treat chronic diseases on a global scale. Cardiac-related deaths are the leading causes of death around the world. Medtronic has an innovative portfolio of solutions to treat cardiac-related diseases, such as atrial fibrillation and heart failure. The smart algorithms in our devices manage a patient's condition to sustain life without suffering severe heart failure conditions. Medtronic has invested heavily in several technologies in the cardiovascular field. Our external heart pump is an example of this, as is the first lead-less pacemaker, Micra, which is implanted directly into the patient's heart via a minimal invasive technique without leads, removing the risk of misplacing or moving leads and reducing medical complications. On the surgical side, Medtronic has the most innovative portfolio of treatments for diseases ranging from obesity to cancer, colorectal, and thoracic. For diabetes, our insulin pump and continuous glucose-monitoring technologies are important tools to manage a diabetic patient's condition effectively to avoid associated medical complications from escalating. The future of this technology is artificial pancreas. In Turkey, around approximately 20% of the entire healthcare budget is spent on diabetes and related complications. Healthcare systems and governments can save money by paying for the value that we add with our technologies. Those savings can then be reinvested in other areas.

How has Medtronic introduced connectivity to its devices?

Technology is in our DNA; our technologies help hospitals and healthcare systems treat patients in a more efficient way with better outcomes. This in turn prevents patient complications and additional costs arising from low clinical outcomes. The company's CareLink network links its devices, enabling them to monitor remotely, gather data, and reach out to the patient for early prevention or diagnosis. We use CareLink technology for implanted cardiac devices like

pacemakers and for insulin pumps, and we are adding more devices to the network to gather massive amounts of data.

What are the biggest challenges of overseeing such a large region?

The majority of countries under my management are emerging markets. In Turkey's case, if we compare the population size and prevalence of disease with the number of surgeries performed, the ratio is low compared to developed countries. Increasing access to better healthcare is one of the main challenges in the region. At the same time, we have to keep in mind the differences between every healthcare system. In some countries, there is an advanced healthcare infrastructure. In Turkey, advanced PPP hospitals are being built, and there is universal healthcare coverage. Challenges in healthcare are too complex and require collaboration between industry, policymakers, and government bodies. The Turkish healthcare system is more mature than those of its neighbors. Other countries can learn and benefit from Turkey.

What role is training and research playing in Medtronic's future strategy?

Training and education are our primary means of increasing access to healthcare, helping physicians become more skilled, and consequently improving outcomes. Medtronic Innovation Center (MIC) in Istanbul, one of our seven training centers around the world, plays a critical role in training physicians. It has the capacity to train a few thousand physicians a year and hosts physicians from 35-40 countries.

What are Medtronic's goals for 2019?

First, through our training and education, we want to help the region treat more patients with better outcomes. Second, we would like to engage with our customers in a more meaningful way so they can better realize the value we provide with our technologies and solutions. Medtronic recently established its operations in Pakistan. In that context, we want to train Pakistani physicians and ensure the market has access to high-quality medical devices. ✖

SLICE OF LIFE

Turkey is a tried-and-true manufacturer of local products, a manufacturing base for numerous brands that are household names. Soon, those names could include Turkish-made medical devices as well.

TURKEY HAS AN ACTIVE PROGRAM of advancing local content across the economic spectrum, from electronic gadgetry for civilians to military hardware. It is also making headway in the medical equipment market, catering to the needs of specific local demographics while also tapping diverse foreign markets.

The Project-Based Incentive System, revealed in 2018, included the market for medical devices, initially with emphasis on cardiovascular devices. A particular focus was on stents for heart surgery. These tiny life savers have evolved from bare metal mechanisms to today's polymer-free medicated stents. For their makers, stents offer a high return on investment. Market data shows that annual state expenditure on stents averages at around USD200 million, the bulk being imported. The government hopes that stent sales can help reverse its current account deficit and bring more foreign capital into the country.

REGULATION

Medical devices are regulated by the General Directorate of Pharmaceuticals and Pharmacy Department of Medical Device Services, which is part of the Ministry of Health. Medical device production in Turkey must comply with the regulations on active implantable medical devices and in-vitro diagnostic medical devices, schemes that are largely in step with current EU directives. These certifications allow medical device makers to swiftly take locally produced products to market, both in Turkey and abroad. Of course, it explains the appeal of producing under license for foreign companies. Devices sold in Turkey are registered in the Turkish National Pharmaceutical and Medical Device Database (TITUBB), a key mechanism of the quality verification process that the health ministry relies upon, along with the social security department and public procurement authority.

In contrast to the pharmaceutical component of the healthcare

industry, medical devices in Turkey are not subject to state-defined reference prices. However, when it comes to reimbursement, there is a stipulated maximum price for each category. One recent challenge has been the tendency for exchange rate fluctuations in the lira to outpace adjustments to these price ceilings.

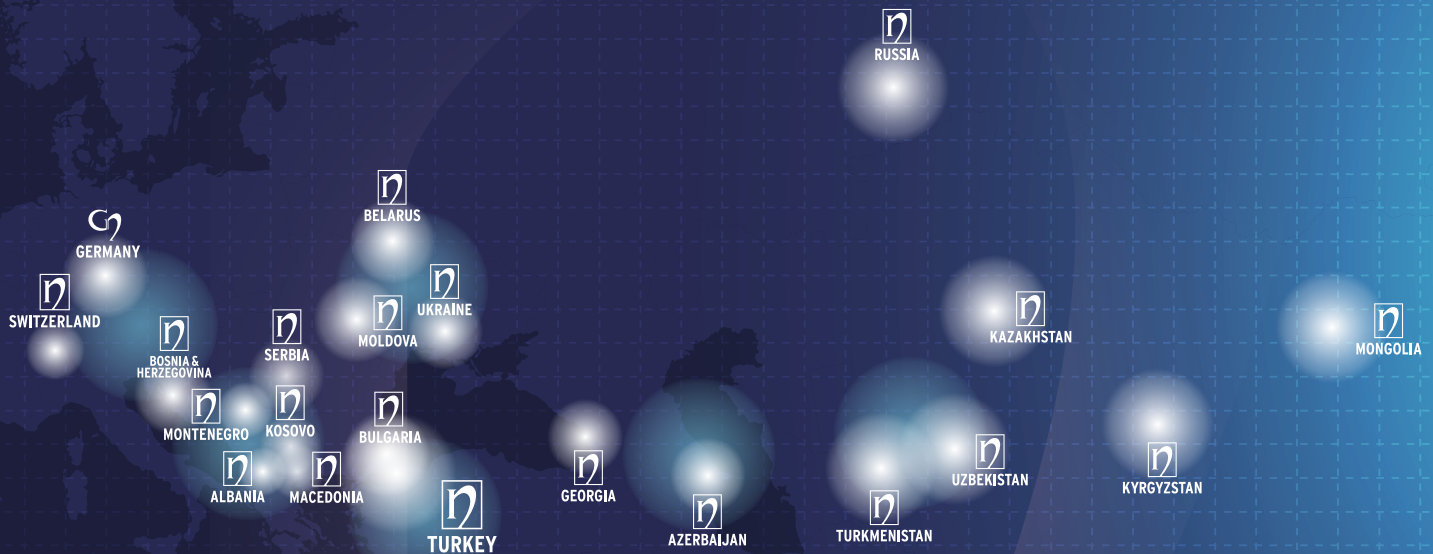
DISRUPTIVE FORCE

Souheil El Hakim, CEO of Bıçakçılar, a producer and distributor of medical devices, equipment, and disposable products, told TBY the company is not that focused on competing on price, but rather on the need to bring "disruptive solutions or innovation" to the market.

Alvimedica is a start-up seeking to make money while decreasing Turkey's import dependence on medical devices. Alvimedica's president, Leyla Alaton, notes that the firm, which manufactures 900,000 drug-delivering stents per year, exports to more than 70 countries. Alvimedica's expects its annual revenue of USD50 million to increase to USD80 million by 2020, leveraging incentives, "for funding, incentives for high salaries paid for skilled workforce, such as specialized engineers, and support for certain R&D projects." Meanwhile, in pursuit of growth opportunities, Alvimedica intends to identify a strategic partner.

In September 2019, it emerged that the Junior Chamber International (JCI), a global network of young professionals and entrepreneurs, had chosen two Turks for their list of "10 Outstanding Young Persons of the World." Both were from the medical world. One, Gözde Durmuş, an assistant professor of radiology at Stanford University School of Medicine, focuses on antibiotic-resistant infections. Her team looks to advance early diagnosis with a disease-diagnosing microchip that takes just 20 minutes to manufacture. These are the kind of innovations that Turkish medical device designers are bringing to the market for the benefit of their home country and the world at large. ✕

We work on the mission of raising the quality of life and to
provide reliable and accessible products in every corner of the
World for human health under the belief of
“Health is worth everything”



**HEALTH IS
WORTH IT** | 
NOBEL

striving for a BETTER FUTURE

What separates Bıçakçılar from its foreign counterparts is the determination to bring affordable solutions to patients in developing and underdeveloped countries.

Souheil El Hakim
CEO,
BIÇAKÇILAR



How does Bıçakçılar shape its investment strategy?

First, we need to determine the fastest-growing chronic diseases in Turkey, the region, and the world and then develop solutions to combat them. We want to grow into areas where we can compete and innovate. We have identified growth in lifestyle diseases related to heart and brain. While we have been traditionally distributors of therapies in these areas with the support of our extensive production facilities, we are working on making a direct impact on the healthcare trends. We are not competing against the established players; we want to bring in solutions that are within our specialty area and core set of expertise.

How does your growth strategy rely on innovation rather than price competition?

We started with a vision that focuses on the well-being of the patient. Ours is a vision that strives for a future where patients can live a quality life with easy and affordable access to quality healthcare. The patient is key to reach some of our targets for 2020. We will achieve our goals by investing in innovation and not by competing in terms of price. We already started developing a competitive edge by adding value and creating value proposals. We also want to increase our exports, which make the bulk of our revenue. These two strategies fit well together; in Turkey, localization and innovation are highly important whereas outside of Turkey disruptive innovation is the most important factor. The Turkish healthcare system is advanced. We have successfully penetrated the local market, which means we can also succeed internationally. Our strategy will help Turkey

become a hub for medical device manufacturing.

How are you rethinking your sales channels?

Our goal is to stay in close touch with all the stakeholders, who are themselves in touch with the patients. This is better than choosing a channel and limiting ourselves. That means we have to step back and look at expanding our channels, rather than focusing on one channel. This will enable us to get in touch with hospitals, government officials, clinics, and the companies that work with them. We are also segmenting the markets and researching which segments need the most attention. One segment we are increasing our focus on is pediatric packages. In the US and Western Europe, there are hospitals specifically for children, and we are really excited about serving them. We are doing it through market segmentation, providing solutions such as surgical space and technical services, which is a huge added value. Notably, we are the only Turkish company with its own technical service, as others are mostly outsourcing it.

What are Bıçakçılar's largest export markets and where would you like to expand?

In terms of percentage, Western Europe is our biggest market; however, we don't offer the full variety of our products there. Fortunately, the situation is changing; our standards and quality can compete strongly against everyone in Western Europe. We have another way of looking at markets. In sub-Saharan Africa and the Middle East, some markets cannot afford new solutions. The majority of products being produced in western countries are not designed for develop-

“One of our goals is to enter the US market because being able to sell in the US proves a company's competitiveness and quality.”

ing and underdeveloped markets. We grabbed this opportunity by bringing in affordable solutions that can still do the job. This way we can boost our sales volume rather than relying on revenues from a few big clients. We want to serve as many patients as possible.

What are your primary goals for 2020?

We are taking big steps. We started as a family business and are now planning to go global. This requires big changes in the organization. We have to first and foremost build the internal structure, bring in the right talent, and cultivate existing talent. One of our goals is to enter the US market because being able to sell in the US proves a company's competitiveness and quality. ✕

BIO

Souheil El Hakim has spent over 25 years holding responsibilities in a variety of multi-functional roles in the medical device industry. He is the CEO of Bıçakçılar Medical Devices, Turkey's largest medical device manufacturer. He holds a bachelor's in engineering, computer, and communications from American University in Beirut and a master's in biomedical engineering and a PhD in electrical engineering from McGill University.

EVOLVING *with time*



Abdi İbrahim is investing heavily to make Turkey a major player in the biosimilars field and prepare the company for the future.

Süha Taşpolatoğlu
CEO,
ABDİ İBRAHİM

Invested
USD100
million in biosimilar
drug research

How suitable was 2019's annual pharmaceutical price increase for Abdi İbrahim's operations?

Pricing in the pharmaceutical industry is controlled by the government, and this control mechanism has been developing against the pharmaceutical industry since 2009. The most recent price adjustment from 46% to 47% was needed. However, if we consider that almost all our costs are related to foreign currency, this figure still does not meet our costs. In recent years, pharmaceuticals production and import costs have increased more than prices, and 2019 is no different.

What regulatory changes are necessary to promote and advance the Turkish pharmaceutical sector?

Without the margins necessary for investments in R&D, we cannot become a regional or global player. We need resources to make these investments, and we can only create them through higher sales. However, unfortunately, the sector is unable to make the investments needed to be competitive as a result of the changes in pharmaceutical prices. Several laws and plans were introduced; however, they didn't make the sector more competitive. We work with the government on amending these laws, both as a company and as part of a union. One plan is to review the mechanisms of incentives and, if necessary, contribute through grants. Some countries have become significant players in the pharmaceutical industry over the last 10 years largely because they have invested heavily in R&D. In order to become a big player, we need to move away from the regulations seen in Europe and the US and tailor regulations to Turkey's needs. Finally, the sector needs more qualified human resources, and we have experienced and sufficient human resources in the production and development of conventional chemical products. However, the same cannot be said about biotechnology or other latest technologies. There is a need for government-funded incentives, doctoral programs, and overseas collaborations to further uplift the entire industry.

What does the opening of your biotechnology facility represent for your future direction?

We have divided our biotechnology investments into several stages. The first stage is called fill and finish, where we acquire the active substance from abroad and complete the formulation and filling processes in Turkey. The second stage is the production of biosimilars, which are devised in other countries from the cell through technology transfer. The third stage is producing our own biosimilars and biological products, which is the most difficult for a number of reasons: it requires a great deal of investment; there is a lack of related human resources; and the biosimilars field is new. Healthcare professionals and the related public authorities around the world are still skeptical of biosimilars. At Abdi İbrahim, we have invested USD100 million in this area in order to make Turkey a major player in this field and to prepare our company for the future. This number will continue to increase because one has to continue to invest when they start to work in this field. By doing so, we are now focused more on biological products.

Why did you choose to invest in production facilities in Algeria and Kazakhstan?

We studied both markets in terms of their market potential, access, and ROI, among other factors. Kazakhstan and Algeria are both big countries and big markets. Moreover, both countries enable us to access more markets. From Algeria, we can access Maghreb countries, and from Kazakhstan we can access Georgia, Azerbaijan, Belarus, and Russia. Another factor that works in our favor is Turkey's reputation in these countries. Both countries offer different advantages to investors.

Which export markets are you focused on growing?

Currently, the share of international markets in our total turnover is around 17-18%, and our goal is to increase that figure to 50%. To that end, we are working with more than 10 countries excluding Algeria and Kazakhstan, such as Azerbaijan, Georgia, Bosnia, Iraq, and Gulf countries. ✖

BIO

Süha Taşpolatoğlu has been the CEO of Abdi İbrahim since 2013. He previously worked as the general manager of Roche Turkey and served in managerial positions in the sales and marketing departments of various national and international pharmaceutical companies. He graduated from Ankara University's faculty of medicine and served as a physician in the Ministry of Health for three years.

Education

While a skilled workforce has always been one of the Turkish economy's greatest strengths, in the last decade, this workforce has become widely educated as well. Increased private sector investment in the education sector combined with strong international ties have boosted into Turkish education systems into the ranks of its OECD counterparts.

Currently in Turkey, around one-third of people aged 24-35 have attained tertiary education, a 100% increase over the last decade according to the OECD. The rapid growth of Turkey's higher education sector can be attributed primarily to the expansion of the private foundation university system beginning in the early 2000s. In the first 15 years of the millennium, the number of private foundation universities increased fourfold and the number of students in the system increased by ten times.

The buildup of the higher education system in Turkey has had a more recent focus on short-cycle tertiary programs, mostly specific to a certain occupation. Around 48% of first-time entrants to tertiary education enroll in short-cycle programs, the highest share among OECD countries. This bodes well for the future of the Turkish industrial sector. The growing high-tech manufacturing sector will increasingly demand the type of skilled workers produced by the education system, and foreign investors will continue citing workforce as a key Turkish resource.

Rapid growth and an increasing focus on short-cycle programs have prompted change among some of Turkey's universities. After a major growth in students, Bilgi University has shifted its focus from quantity to quality, a change it sees necessary to surviving in a competitive landscape. Bilgi has also expanded its number of two-year programs in line with demand for career-oriented programs.

Along with the growth of the higher education system has come a notable internationalization, both from an institutional and demographic standpoint. Turkey in 2010 annulled the notoriously bureaucratic process for foreign students to come to Turkey, instead delegating the process to the higher education institutions themselves. In the time since, these institutions have grown their knowledge sharing and exchange student partnerships with international universities. Now, around 150,000 foreign students are enrolled within the Turkish higher education system, up from just 10,000 foreign students 15 years ago. ✖

Istanbul Bilgi University

- Founded in 1996 as one of the first foundation universities in Turkey with the motto "**Learning not for school but for life**"
- More than **20,000 students** and more than **40,000 alumni**
- More than **150 programs** in its **7 faculties, 4 schools, 3 vocational schools and 3 institutes**
- Around **500 student** exchange and collaboration agreements in **40 different countries**
- Erasmus+ agreements with more than **250 universities** in **27 countries**
- Vibrant social life with more than **1,000 events** and almost **100 student clubs**



- BiLGi has reached the **4-star level** according to the evaluation of **QS**, one of the most prestigious higher education rating institutions
- Among the top **4 foundation universities of Turkey** according to **QS 2019 rankings**
- BiLGi Faculty of Engineering and Natural Sciences' five programs have been accredited by the Association for Evaluation and Accreditation of Engineering Programs (**MÜDEK**)
- BiLGi ranks in the A group universities according to "Turkey's University Satisfaction Survey (**TÜMA**)"



+90 444 0 428 | www.bilgi.edu.tr



**Istanbul
Bilgi University**

Çağrı Bağcıoğlu
PRESIDENT OF THE BOARD
OF TRUSTEES,
İSTANBUL BİLGİ UNIVERSITY

the right APPROACH

As Turkey's third-oldest foundation university, BİLGİ has achieved great success by being adaptable to market demands and focusing on STEM fields.



BİLGİ and the local higher education system have undergone considerable expansion in the last two decades. What challenges has this posed for BİLGİ?

When looking at figures for both the higher education system and BİLGİ, the impact of the education sector's broad expansion over the last 15-20 years is evident. The increase in student and faculty numbers has made the Turkish higher education system, with over 7 million enrollments, the second-largest higher education market in Europe after Russia. When we examine BİLGİ — Turkey's third-oldest foundation university—you see a reflection of that growth. Such a rapid development brings in several challenges. This is why BİLGİ has gone through a stabilization, consolidation, and adjustment period in the last two to three years. We have entered an era where both the local higher education system and institutions need to focus more on outcomes and quality in order to survive in a swiftly changing market.

How have changing economic conditions and education trends impacted the popularity of different programs offered by BİLGİ?

Our four-year programs continue to enjoy strong demand. Our architecture, law, psychology, and engineering programs have undergone significant expansion in recent years; however, we are starting to feel the pressure of changing dynamics and a possible fall in demand in the near future. Furthermore, the last two years have seen students leaning more toward career-oriented programs closely linked to the economic outlook of the country. We have seen a rapid growth in two-year programs, which is a relatively new field for BİLGİ. We see it as a part of our mission to be inclusive and help those who are eager to join the workforce after completing a high-quality two-year program in line with market demands. On the other hand, the increasing number of international enrollments has been an important factor. The number of degree-seeking international students went up from 25,000 to over 148,000 between 2010 and 2019. This marks an increase in the number of students from Africa, the Middle

East, Pakistan, India, and Europe.

How has BİLGİ integrated technology?

Almost 25 years ago, BİLGİ started its academic life as a social studies university. It took us over 15 years to introduce programs like engineering. However, due to our multidisciplinary approach, the elements of STEM were always part of the curriculum, especially in our wide array of post-graduate programs. We have opted for a new approach that aims to incorporate the industry's technology needs into our courses. We are looking at how some countries have successfully created value-added outcomes and made an impact on the development of an industry through this model. Top technology companies such as Apple actually enhance the findings of universities' research products. This is why it is critical for us to focus more on STEM; however, we need to make sure we do it in the selected fields where we have the necessary resources and capacity.

In which social sciences fields is BİLGİ the strongest?

BİLGİ was established with a focus on social sciences and law. In 2009, we revised our vision to become a comprehensive higher education institution and have since added the colleges of architecture, engineering, and health sciences and schools of vocational and applied-professional programs. Nonetheless, the university still maintains its vanguard position in the field of social studies. Our research centers in specific fields including migration, human rights, and civil society play an active role in creating a positive impact on society. Our center for migration research, for example, is the first migration research center in Turkey to carry out large-scale, multi-dimensional scientific research that contribute to policymaking processes at both national and international levels. Equally significant, our human rights law research center has conducted many projects and researches focusing on women's human rights, domestic and international human rights protection mechanisms, anti-discrimination, minority rights, and freedom of expression. ✕

“Our research centers in specific fields including migration, human rights, and civil society play an active role in creating a positive impact on society.”

BIO

Çağrı Bağcıoğlu is the president of the Board of Trustees of İstanbul BİLGİ University. He previously served as the vice president of the Board of Trustees and worked as secretary-general at BİLGİ. Bağcıoğlu also spent considerable time in the US working in different capacities for higher education institutions. He obtained his BBA in finance and economics and MBA from the University of North Alabama. He received his doctoral degree in higher education leadership from the University of Liverpool.

EDUCATION

Turkey's education sector has developed immensely over the years on the back of government policies and strong collaborations with renowned international institutions and bodies.



Mustafa Aydın
PRESIDENT,
ISTANBUL AYDIN UNIVERSITY
(İAÜ)

WE ESTABLISHED ANADOLU BIL VOCATION-AL SCHOOL IN 2002, and in 2007 we transformed the associate's degree programs into bachelor's degree programs, which marked the official establishment of Istanbul Aydın University. We established a university with a strong social environment with over 40,000 students, of which 6,000 are international students. We have 16 faculties and vocational schools of higher education, 34 research centers, two UNESCO chair programs, two think tanks, and collaborations with 500 international universities. One of the university's differentiating factor is that there are sector-work councils in each department. Academics and professionals come together and revise their programs and curriculums every six months. As a result, we are investing more in areas related to technology, such as AI, coding, and other elements of the fourth and fifth industrial revolutions. We have 34 research centers in various fields of studies, from renewable energies to cybersecurity. Some focus on technology and others on health. We are also interested in blockchain. As a university, we should lead the way for the public by showing people this new reality, how it is being used, the dangers, and the opportunities. Applied training is one of the things that we are extremely proud of. Our students are not sent there as a student or intern; they are sent to work one or two days a week like any other employee at that workplace. I adapted this model from Japan. We have about 50,000 graduates, and 75% of them are in the workforce.



Bahar Akingüç Günver
PRESIDENT,
ISTANBUL KÜLTÜR UNIVERSITY
(İKÜ)

OUR HISTORY AND EXPERIENCE IN THE EDUCATION SECTOR is one of the ways we distinguish ourselves from other universities. Another important characteristic is that we are not a university for a certain socioeconomic group. Since it is a foundation-based university, we award considerable scholarships. At present, İKÜ has 16,000 students and over 1,000 academic and administrative employees. We have eight faculties, two vocational schools, one institute, and research centers. We are focused on integrating technology into all of our operations, especially in resource planning. Touching on the challenge of multidisciplinary work, we are working on a technology transfer office that will better allow research and technology to move throughout the university. We are also establishing a design factory, one of the first in Turkey, for students interested in start-up projects and will also have an incubator center. We recently opened new laboratories for voice and image research. In addition, our architecture department has excellent distance learning programs and relations with international universities. On the other hand, topics focused on digital transformation are being carried out within the scope of curriculum studies in order to ensure that students meet the requirements of the technological era. These courses include blockchain, AI, IoT, cybersecurity, and machine learning. Notably, we have the fifth-largest body of international students in Turkey.



İrfan Gündüz
CHAIRMAN OF THE
BOARD OF TRUSTEES,
İBN HALDUN UNIVERSITY (İHÜ)

İHÜ BEGAN OPERATIONS IN 2015 but opened for students in 2017. Several years ago, the UN launched the Alliance of Civilizations, a global forum co-chaired by Spain and Turkey. For this global forum, Turkey founded an institute that was initially a part of Fatih Sultan Mehmet Vakıf University. In 2015, when İHÜ was founded, this institute became a part of our university instead. We decided to specialize in social sciences. We also focus on graduate and doctoral programs. We teach in Turkish, English, and Arabic. We have an international student quota of around 35-40%. We have students from 75 countries. Building bridges between cultures through goodness and kindness is central to our goal. We have international students from all over the world, including Europe, Asia, Africa, and the Americas. This is due to both the İHÜ name, a great historic figure, and our vision to create a new civilization. Students choose our university not only to learn about eastern and western cultures, but to have a comparative education. We receive between 7,000 and 10,000 admission requests annually, but we can only take in 60 or 70. We have plans to open architecture and fine arts departments. We also plan to build sociological parks in our campus similar to technological parks in other universities. Even though we are undertaking this expansion, we want to stay a boutique university, which means we will not exceed 5,000 students.



Ali Altınbaş
CHAIRMAN OF THE
BOARD OF TRUSTEES,
ALTINBAŞ UNIVERSITY

IN ACCORDANCE WITH INTERNATIONAL EDUCATION STANDARDS, our university has been lecturing in English since the day it was founded. At the same time, it is part of a global education network, cooperating with 68 universities in 30 different countries and working internationally with 135 universities in 35 countries as a part of the Erasmus program. Our students also have the opportunity to gain work experience during their education. Furthermore, we facilitate long-term internships for our students, primarily at international companies. All our bachelor's and associate degree programs enjoy significant demand, especially our medical degrees. Medicine, dentistry, and pharmaceutical faculties and our school of health services enjoy the highest demand. Likewise, demand for psychology, interior design, and gastronomy, is also high. Additionally, in the future we will place more focus on our lifelong learning center, thereby diversifying our education field with certification courses. Turkey's share in the global education sector is only 1%; that said, as a country we have made considerable steps. According to recent data, our universities host around 150,000 international students from 180 different countries. Four years ago, that number was 25,000. The industry aims to boost that number to 500,000 by 2023. Expediting the bureaucratic process is crucial. As a country, we need to establish an education agency to attract more students.



Enver Yücel
CHAIRMAN,
BAHÇEŞEHİR KOLEJİ

BAHÇEŞEHİR KOLEJİ WAS ESTABLISHED IN 1994, though as a broader organization we have 51 years of experience. Since its establishment, it has undertaken the mission to bring innovation to Turkey, our organization, and the industry. When we look at the recent years, under the Industry 4.0 drive, a new education-training approach has become a trend. As part of this advancement, we became one of the first institutions to start the STEM program in Turkey, and at present, we are ranked one of the most important institutions for STEM education. We attach importance to international relations. We operate institutions all over the world including Asia, Europe, and the US. In terms of partnerships, we collaborated with the Carlyle Fund in the field of international finance. Indeed, finance is important for our growth in Turkey and for our projects across the world. With our knowledge and experience, we are able to find the locations where a school is needed. A part of our mission is to introduce quality education to everywhere in Turkey; we do not consider the profitability of our educational institutions in some parts of the country. By doing this, we bring high-quality education to marginalized parts of the country. We constantly train our current teachers and managers. Our top priority is maintaining the quality of our employees. We attach more importance to our human capital than the physical factors.



Ahmet Şahin
RECTOR,
ACIBADEM UNIVERSITY

THANKS TO OUR CLOSE COOPERATION with Acibadem Health Group, our students have wide opportunities for clinical practice trainings and internships. We believe that with the diversity of clinical practice trainings, our students' experience will contribute positively to their professional lives. In our research laboratories, which enable all kinds of research in the field of life sciences, 60 different projects in various disciplines such as medical microbiology, biotechnology, molecular biology, and genetics are currently being carried out. Within the scope of our university-industry cooperation, we carry out joint projects with key national and international companies. In addition, we support initiatives related to health technologies thanks to our incubation center. The center has supported 181 projects since its establishment in 2017. In 2018, our school of medicine and nursing department were accredited, and we plan to start the accreditation processes for several more departments in 2019. Collaboration with external partners positively correlates with academic excellence, which is why most of our faculty is actively involved with external organizations. We plan to build further opportunities for international research partnerships with other world-class institutions. We are also establishing new laboratories and centers within the university.

Antalya is Turkey's primary sun, sea, and sand tourist destination, located on its Mediterranean coast

MOST VISITED COUNTRIES BY TURKS IN 2018 ('000)

SOURCE: TURKSTAT

Bulgaria	844
Greece	782
Georgia	777
Germany	348
Iran	293

TOTAL REVENUE FROM TOURISM (USD BLN)

SOURCE: TURKSTAT

2014	34.3
2015	31.46
2016	22.11
2017	26.28
2018	29.5

NUMBER OF FOREIGN VISITORS TO TURKEY (MLN)

SOURCE: TURKSTAT

2014	35.85
2015	35.59
2016	25.27
2017	32.08
2018	38.95





Tourism

COME ONE, COME ALL

Since bottoming out in 2016, Turkey's tourism sector has been surging. Global factors—a booming middle class and cheap airfare—combined with domestic factors—tourism diversity, safety, and a depreciated lira—have boosted the sector's economic contribution to around 12% of GDP.

Through the first nine months of 2019, Turkey attracted 36.4 million visitors—a 14.5% rise from an already strong previous year. Arrivals were boosted by the opening of Istanbul's new airport in April. In its current phase, the airport can handle 90 million passengers - a figure which will rise to 200 million after additional phases, making it the world's largest airport.

Representative of the industry's diversity, in that same nine-month period, Istanbul wasn't even the most popular destination for tourists. Antalya, the Mediterranean resort city, attracted 12.6 million visitors compared to Istanbul's 11.3 million. Following Antalya and Istanbul are a raft of regional tourist destinations, which have seen growth in line with the Ministry of Culture and Tourism's diversification plan, which targets developing areas of tourism like gastronomy, health, educational, sports, faith, and the MICE segment.

The industry's diversity extends to the visitor profile as well. While Germany and Russia hold

the top two spots for foreign visitors, the resurgence of visitors since 2016 brought with it a growing share of Middle Eastern and Asian tourists. The UAE alone accounts for around 14% of visitors, and Iranians, Kuwaitis, and Qataris are all within the top seven visiting nationalities. In Asia, Chinese tourists have been flocking to Turkey as the number of direct flights from the mainland to Istanbul grows.

While airport arrivals are still led by Europeans, Istanbul's numerous malls are better reflective of the changing tourist profile. When looking at tax-free spend figures for the first seven months of the year, GCC tourists accounted for 27% of total sales while Chinese tourists increased their tax-free purchases by 85%—bringing their share to 22% of total sales. Visitors from these regions have buoyed the luxury sector as domestic consumer demand has dwindled along with the lira's depreciation.

The tourism industry's performance has ramifications for the entire economy. Beyond its significant contributions to GDP and employment, the building of new hotels—where activity is expected to increase along with increased visitor figures—has partially offset the construction sector's slowdown in the residential and infrastructure segments. ✖

SUNNY DAYS *ahead*



With 33 years of experience in the Turkish tourism industry, Jolly is investing in technology to create the perfect experience and stay one step ahead of the competition.

Mete Vardar
CHAIRMAN,
JOLLY

Received investment
from Goldman Sachs
in 2015 and

2018

Serves

1M

tourists annually

How has Jolly kept pace with tourism growth in Turkey?

Jolly is a company with 33 years of experience in Turkey tourism industry. We have operations in leisure, business travel, and MICE. We have been working with both local and global suppliers to enable Turkish tourists to travel around the world. All business units have recorded strong healthy growth in last 10 years. This ongoing trend has bloomed with Goldman Sachs' investment in our company. Goldman Sachs first invested in Jolly in 2015, and it chose to buy a second stake with us in November 2018. Now, we have a foreign investor within our company. It has minor shares, and the management is still done by the Vardar family.

How has Goldman Sachs' investment allowed Jolly to expand outside of Turkey?

This was an important step for us, turning the Jolly brand into an international tourism company. We want to contribute to Turkey's tourism sector. The first step for us was to overhaul the entire technological infrastructure of our company. After three years of hard work, we have developed our own ERP system, which was also funded by Goldman Sachs. We have made an important start in our short-, medium-, and long-term plans. After a full deployment in Turkey, we plan to export this technology around the globe as well. We will also work on expanding our outbound operations in key markets. With our previous partners Germany's Öger Tour and Russia's Moss Tour, we brought in 2.6 million tourists to Turkey in the 90s. Now, we will start our incoming business again.

How will this strategy change impact your customer profile?

Jolly annually serves around 1 million Turkish tourists. 80% of this is inbound, and 20% is outbound tourism. We have reached an extremely important point in our future strategy. In this new period following Goldman Sachs' second investment, our

goal is to work our brand in foreign countries too, starting in 2019. We will sell our local contracted hotels to providers in foreign countries within our system. We are the biggest operator in Anatolian tours, and our goal now is to bring our international guests, especially European guests, on Anatolian tours. Last but not least, another focus area for us will be MICE. We currently serve more than 300 companies in organizing meetings, business trips, or congresses. We will also start providing this service to foreign companies.

Across Jolly's products, where do you see the most revenue growth and profitability right now?

In our packaged tours, individual hotels, airplane tickets, and all the other tourism products, price is the most important variable. Our two-most important products in volume are flight tickets and hotel accommodations, and we have identified the hotel segment as an area of focus for us. In 2019, our goal is to get 7,000 hotels in Turkey on our website. We created an extranet for this. Hotels define their own prices, capacity, and programs on our site. We used to make contracts and then entered them into our system, but now we give hotels their own platform for this.

How has Jolly changed its operations and strategy to adapt to changes in technology and how people book vacations?

We established a technology company called Gordion technologies in 2012. Goldman Sachs became a partner of this company too. In terms of what we call end-to-end tourism mobility, we can carry out operations with a technology program from a guest's first purchase to their last. Thanks to our technological infrastructure, our guests can buy concert tickets in their destination, train tickets, make reservations in any restaurant they like, or buy football match tickets. We have many ideas and plans and will realize all of them in the new era. ✖

BIO

Mete Vardar has been the chairman of Jolly since 2003, when he took over the chairmanship from his father Sinan Vardar. He also serves as chairman of Gordion Technology. He graduated from Istanbul University's Tourism Department and worked in different departments of various hotels before joining Jolly. Vardar has also served as the president of Anadoluhisari and Beylerbeyi sports clubs and as the manager of Beşiktaş Sports Club.



TRAVEL

...Turkey and see its magnificent cities. Travel beyond mountains, seas and dreamlike landscapes.



DISCOVER

...new lands, cultures, people and new horizons. Discover your true self, on the go.



LOVE

...what your senses see, taste, touch and smell. Reignite your passion for life, and for one another.

Explore Turkey's hidden gems with Jolly's privileges and be ready to fall in love. With 33 years experience, let us help you make unforgettable memories on your perfect holiday. Our travel experts can help organising all your travel needs from your romantic getaways to business trips.

You're in good hands with Jolly, Enjoy!

Jolly
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customer IS KING

Swissôtel's multinational team focused on improving guest experience ensures no stone is left unturned when fulfilling guests' personal preferences.

Uğur Talayhan
REGIONAL VICE PRESIDENT TURKEY &
GENERAL MANAGER, SWISSÔTEL



Could you give us a brief history of Swissôtel The Bosphorus?

Swissôtel is one of Turkey's first five-star luxury hotels. Our location, formerly the garden of Dolmabahçe Palace, makes us even more unique. The original owners of the hotel were Japanese, and since then we have undergone many changes. Our name, however, has remained the same throughout, and this consistency has made us a renowned Turkish institution. 70-80% of people working in leading institutions within the local hospitality industry built their careers, in part, at Swissôtel. We have been essential in training the very best talent for Turkey's hospitality industry, and we are still a market leader across every segment we operate in.

Which regions or countries are you focusing on?

At present, Swissôtel is concentrating a great deal on Asia. Russia is a key focal point, as is South America. All hotels in Istanbul want to expand the diversity of their client base, as relying only on one demography carries too much risk. Many hotels suffer because of over-reliance on a single segment or demography, and we want to avoid this mistake. I am personally focused on Asia; specifically, I am keen to bring Chinese tourists to Turkey. Additionally, AccorHotels—our management company—has a great presence in the Americas, which gives that market a certain appeal. Russian business travelers also represent an interesting market. My goal with respect to the Russian market is to maintain the momentum that we have already built. Our broader strategy is to diversify as much as possible. In Antalya, in the south of Turkey, the industry has seen the negative effects of in-

vesting too much in a single market. The advantage of Istanbul is that the city appeals to people from around the world. Saudis are still the number-one visitor group from the Middle East, but we are seeing growth from Qatar and Kuwait, as well as Iran.

What percentages of your clients are leisure and business travelers?

Leisure comprises nearly 80% of our business. Business travel, on the other hand, is presently trending downward, but we are looking forward to promoting it, particularly among US and European visitors. Istanbul's luxury cruise sector has been declining over the past two years but is showing signs of reversal of late.

What is your strategy for capturing the business segment?

We pride ourselves on being able to offer the best experience that business travelers can receive. The value they get from us is unparalleled. As a destination, Istanbul itself is amazing, enriched by thousands of years of history. I recently attended a panel with German travel agencies, and they are interested in bringing customers back to Istanbul. In recent seasons, German travelers have sampled alternative destinations like Spain, Portugal, and Greece and have consistently found that the value they receive in Turkey is far superior.

What efforts or investments has Swissôtel made to improve guest experience?

Swissôtel Istanbul has a separate multinational team focused on improving guest experience. The company utilizes a strong set of tools to track and fulfill a guest's personal preferences. The goal

is to create an excellent experience for visitors of all backgrounds and build an emotional connection with them. This is why Swissôtel Istanbul has the highest guest satisfaction rating as well as the highest employee satisfaction level out of all of our global locations.

What are your biggest goals and plans for 2019?

Our number-one goal is to focus on guest experience. Maximizing that will increase our average daily rate. Guests reflect on their experience and pay accordingly. Additionally, we want to expand our reputation in Asia and South America. We are working very hard on this and believe we are on the right track. We want to be able to offer experiences that justify higher rates. ✕

BIO

Uğur Talayhan has been the Regional Vice President of Accor Luxe brands in Turkey currently operating Raffles, Fairmont, Swissôtel, M Gallery, and Pullman and the General Manager of Swissôtel The Bosphorus since 2017. He has over 30 years of experience in the hospitality industry and was previously managing director and general manager of Starwood/Marriott and Raffles hotels in China, the Middle East, and Europe. Talayhan graduated from Westminster Kingsway College.



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tourism MAGNET

Mehmet Mengü
MANAGING PARTNER,
MERCAN TOURISM

Mercan Tourism is targeting new markets and segments to capitalize on the opportunities created by Istanbul's new mega-airport.

How will the new Istanbul Airport improve Turkey's tourism industry?

The new Istanbul Airport will soon have an annual capacity of 150 million passengers, making it the largest airport in the world. It was built on 80,000ha, which is seven times larger than Atatürk International Airport. Turkish tourism has lately made a rapid recovery. By the end of 2019, Turkey expects to receive 48 million tourists. Our expectation in the near future is 70-80 million tourists. During peak seasons many groups travel on charter flights, constraining the runway and disturbing the entire operation. The new airport's size and capacity fits perfectly into this equation.

How does Mercan formulate its strategy around evolving consumer habits?

We closely track the buying behaviors of Middle Eastern markets, which represent the majority of our customer base. People from Middle Eastern countries tend to buy our tour packages, even on a last-minute basis. With this in mind, we take care of block-booking on flights, special room agreements, guides, and all other relevant ground services, then wait and sell most of our packages close to the deadline. This is called mass tourism, and we have been engaged in this for the last 10 years. 60-70% of our revenue is generated from this segment.

Which region represents your primary market and where are you planning to expand?

Around 90-95% of our business comes from the GCC, the Middle East, and North Africa. The growth in our current markets is good, and we monitor arrivals from these countries on a monthly basis. These markets are growing by 15-

"Around 90-95% of our business comes from the GCC, the Middle East, and North Africa."

20% annually, and we are expecting even higher growth with the new Istanbul Airport. Our target is to add new markets to our operations, particularly Asian markets. To that end, we are closely looking at China, India, and Pakistan because tourist numbers from these countries have witnessed a major boom. While people from these countries do not have the same buying habits and language as the Middle East, the concept of tourism is similar and we know how to please them.

What is your strategy for entering a new market?

First, we study the market in terms of what products and cities it prefers, the languages they speak, and all of their quality requirements. To get to know the new market, we do all the necessary research, starting with the resources provided by Turkey's Ministry of Tourism and Culture. Thereafter, we attend tourism fairs and exhibitions in the target market and form a specific marketing strategy to penetrate the market.

How does Mercan position Turkey against competing tourism destinations?

In 2014-2015, prices in Turkey declined by 50-60%, which squeezed the industry but also created new opportunities. As a result, tourists going to resort destinations such as Egypt, Tunisia, Greece, and Cyprus started considering Turkey. For example, we often check the rates in Sharm El Sheikh when we do comparison for Middle Eastern tourists interested in Antalya.

Are you keen to expand into the MICE segment?

The majority of our guests are leisure tourists; however, we do have some business travelers from the Middle East. During the last five years, we have arranged several MICE organizations. At present, we are managing a number of new MICE requests. We have an efficient and professional MICE team capable of handling all operations. In 2018, our MICE department marked a notable improvement, and we are even more optimistic about 2019.

What is Mercan Tourism's online strategy?

In 2014, we became a destination management company (DMC) that can handle all travel arrangements, offline and online. We shaped our strategy and three years ago created a booking platform to serve our clients via the Mercan online system. In terms of back office processes, we are leveraging software to improve our service quality and optimize costs. Our in-house IT department oversees these improvements and manages IT-related projects. ✕

BIO

Mehmet Mengü serves as Managing Partner at Mercan Tourism. He has been working in the tourism industry since 2009, and during this period he has earned prestigious international awards. He holds a bachelor's degree in industrial and systems engineering from Istanbul Yeditepe University. He is currently pursuing a master's degree in tourism management at Istanbul University.

A Unique Choice for your stay in a hotel building with a history



Tomtom Suites is an oasis where elegance meets tranquility and history meets the 21st century. A witness to the last century of Ottoman Empire's capital city, Tomtom Suites' story goes back to the 1850s. The building seen today was built in 1901 as the Soeurs Garde-Malades Apartment, where there had once been an outbuilding of the French Palace, reserved for the Franciscan nuns.

Tomtom Suites does not merely offer a luxurious accommodation, but a way of life.

Suites of Tomtom are all designed as spacious living and working environments. Every suite is furnished with custom made furniture and the architectural features of the building are preserved through high ceilings and solid wooden floors. The soft and natural colors that identify contemporary design are enriched with modern and traditional works of art such as prints, paintings, handmade rugs and ceramics which project each room's unique character. In Tomtom Suites every detail is elaborately conceived for a complete personal comfort.

The Art of Eating and Drinking

'Nicole' Restaurant a chef restaurant has a modern design and a marvelous view overlooking Bosphorus, the banks of Golden Horn and Sultanahmet. Modernized Turkish Cousine served with a generous wine menu.

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tomtom



Ramazan Bingöl
PRESIDENT,
TÜRES

What prompted the establishment of Türes?

The idea behind the establishment of Türes was to solve the problems and extend the views of the restaurant sector because it is as important to the Turkish economy as any other industry, which is a fact many people overlook, especially when comparing us to the industrial or construction industries. The sector employs a lot of people; the smallest restaurant in Türes employs 50 people and some of our members are restaurant chains that employ 4,000 or 5,000 people. In that aspect, our industry is a solution to unemployment, and a major driver of the tourism industry. Türes was established as a platform that all the restaurants can use to unite their voice and solve their problems. In addition, we showcase the sheer quality of Turkish cuisine.

How does Türes work with the government?

Cultural diplomacy is a major part of our mission. We work with the Ministry of Culture and Tourism on numerous festivals, as well as with many international government bodies and ministries. For example, we worked with the African Union in Mauritania for the 31st African Union Summit. There, we sent a number of Turkish chefs, while another group of ours instructed local students. We also work with the Istanbul Tourism Commission, and have done studies on quality tourism and gastronomy tourism.



Ali Güreli
CHAIRMAN,
CONTEMPORARY ISTANBUL

What impact has Contemporary Istanbul had on the art market in Turkey?

Contemporary Istanbul has completely changed the art market in Turkey. Previously, Turks used to only buy local art. The main idea behind Contemporary Istanbul was to bring the international art world to Istanbul and establish a platform for Turkish artists to interact with foreign galleries and vice versa. Following this, Turkish collectors have become loyal customers of some of the world's major galleries. The event has given artists a platform, and the first 10 years of the event coincided with a booming Turkish economy, which led to a dramatic uptick in the ability of artists to make a living.

How does Contemporary Istanbul integrate art education into its programming?

Contemporary Istanbul plays a major role in helping educate Turkish society about art. The Contemporary Istanbul Art, Culture, and Education Foundation is an example of this. In 2018, for example, we received 74,000 visitors and exhibited 2,600 artworks. Beyond the 2,600 collectors who purchased those artworks, some 71,400 visitors came primarily to educate themselves. 62% of our visitors are below the age of 35. We will start educating more young people by organizing seminars and certificate programs with international bodies and art institutions. We are in talks with the Chicago Art Institute, New Museum in New York, and several British institutions.

Emre Kamçılı
FOUNDER,
THE LEGENDS' TREASURES

What is your plan to turn your collection of memorabilia into public exhibition centers?

The Legends' Treasures is a collection of around 10,000 pieces of rare and historically significant items from popular culture, including stage-worn props, vehicles, airplanes, and personal items from some of the most famous artists and movie characters such as the Beatles, Charlie Chaplin, Michael Jackson, Frank Sinatra, Steve McQueen, James Dean, Elizabeth Taylor, Audrey Hepburn, John Wayne, Marilyn Monroe, Muhammad Ali, and many more. I established the official plan for The Legends' Treasures in 2015 – it will develop entertainment exhibit complexes and museums to display the collection in different locations around the world. The collection has been divided into 13 different styles, fitting with our plan to establish museums in 13 different cities around the world. We are currently working with tourism authorities to hash out the details of each museum's plan. In Istanbul, for example, we are searching for a large enough space to house a museum in the historic district, which is frequented by our target visitor profile.



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Set in a 98-year-old historical building, Walton Hotels Galata is a trendy boutique hotel. It is located in bohemian Galata which is in close proximity to Beyoğlu, Karaköy and Sultanahmet districts. The area is known for its cool restaurants, local shops, bars, cafes and art galleries.

Tastefully designed rooms have special paintings, flat screen TV and air-conditioning inside. Some units include a sitting area to relax after a busy day in town. The rooms include a private bathroom fitted with a shower. There is a rooftop bar which has an amazing view of Galata Tower, Süleymaniye Mosque and more. Best for cocktails in the evening and delicious open buffet breakfast in the morning.

For further information please visit : www.waltongalata.com

For questions please email : info@waltongalata.com



7 / 24 reception, minibar, free wifi & hotspot and private massage sessions are available.

EAT, PRAY, LOVE

The 2016 crisis that hit the Turkish tourism sector has pushed the government to diversify its tourism offerings and attract tourists seeking an enthralling array of art, culture, and cuisine.

WITH CULTURAL CONNECTIONS TO ANCIENT GREEK, Persian, Roman, Byzantine, and Ottoman empires, an 8,000-km coastline, and over 450 blue-flag beaches, Turkey has always been on the top of every traveler's bucket list. The country's reputation as one of the top tourism destinations can be gauged from its tourism sector's phenomenal recovery after a major decline in 2016 spurred by security and political concerns.

According to the Turkish Statistical Institute, the number of foreign visitors entering Turkey plummeted from 41.62 million in 2015 to 31.36 million in 2016—a massive 25% drop. But due to the swift and successful implementation of security initiatives followed by a period of relative calm, the number rebounded to 38.6 million in 2017, with increased popularity among tourists from Asia, the Middle East, and Russia. More recent figures show the number has even surpassed pre-crisis levels. According to official statistics, Turkey welcomed over 45.6 million foreigners in 2018, up 18.1% YoY. This trend further strengthened in 2019, with the number of foreign tourists in 1H2019 rising 11.3% YoY. Although the currency crisis played an integral part in the recovery by making Turkey an increasingly attractive destination for budget travelers, what has really turned the tide is the government's new strategy for tourism promotion and development. It focuses on promoting sub-fields such as gastronomy, faith, sports, and health tourism, while targeting new markets such as China, India, Pakistan, and the Middle East.

Leading this new strategy is the Tourism Master Plan, which aims to attract 70 million tourists and generate USD70 billion in revenue by 2023. Many would say that's an uphill task, but those aware of Turkey's gastronomic, cultural, and religious diversity will disagree. Home to religious sites belonging to three of the world's largest religions, Turkey has been the cradle of numerous civilizations and cultures.

The list of ancient religious sites spread across Turkey seems to be never ending, but some of the most renowned ones are St. Pierre's Church, recognized as the world's first cathedral; the tomb of Rumi, the revered 13-century Sufi poet; the house of the Virgin Mary; the Ancient Synagogue of Sardis, dating back to the 3rd century AD; Süleymaniye Mosque, one of the most magnificent examples of classi-

cal Ottoman architecture; and the ancient cave towns in Cappadocia where the early Christians took refuge from Roman Persecution.

To help tourists visit as many sites as possible and get the most of their travel experience, the Ministry of Culture and Tourism is also working on digital initiatives such as Digital Faith Map and Faith Portal of Turkey. Initiatives like these will go a long way in helping the government realize the objectives set forth in the Tourism Master Plan.

Similar to faith tourism, gastronomy tourism has an equally significant part to play if Turkey is to attract 70 million tourists by 2023. Recent trends reveal tourists are now more interested than ever before in learning about local cuisines, translating into higher spending per capita. Targeting this sub-category is one of the primary objectives of the government.

In an interview with Daily Sabah, Minister of Culture and Tourism Mehmet Nuri Ersoy identified gastronomy as one of the ministry's priorities. Ersoy said Turkey wants to become "a center of attraction by revealing the richness of our gastronomy, especially for the high-income group." To that end, tourism boards of different provinces are working with local governments and gastronomic associations to promote and highlight the variety of local cuisine. For instance, the Association of Turkish Travel Agencies (TÜRSAB) is arranging exclusive promotional events in high-income countries to introduce unique dishes from cities such as Adana, Kayseri, Mardin, Trabzon, Şanlıurfa, Hatay, and Gaziantep.

Hatay and Gaziantep are two cities with long gastronomic histories that have proved their mettle on the global stage. The city councils of both cities have been organizing several gastronomy-themed festivals for years, including the Hatay Agriculture Fair, the Hatay Künefe Festival, the Gaziantep Pistachio Culture and Art Festival, and the Shira Festival. With food at the core of their cultural identities, both cities have earned their place in the gastronomy category of UNESCO's Creative Cities Network.

Food and religion in Turkey are synonymous with intercultural dialogue, festivity, and social cohesion. Moving forward, both forces will have to play a crucial part in positioning the tourism sector as the industry that will buttress the economy. ✖

PHOTO ESSAY

The Black Sea region

MARVELS ABOUND

The Black Sea and its surrounding areas have long been an attraction for tourists and offer visitors outstanding natural beauty, legendary ancient ruins, or just a quiet place to relax and enjoy a glass of tea.

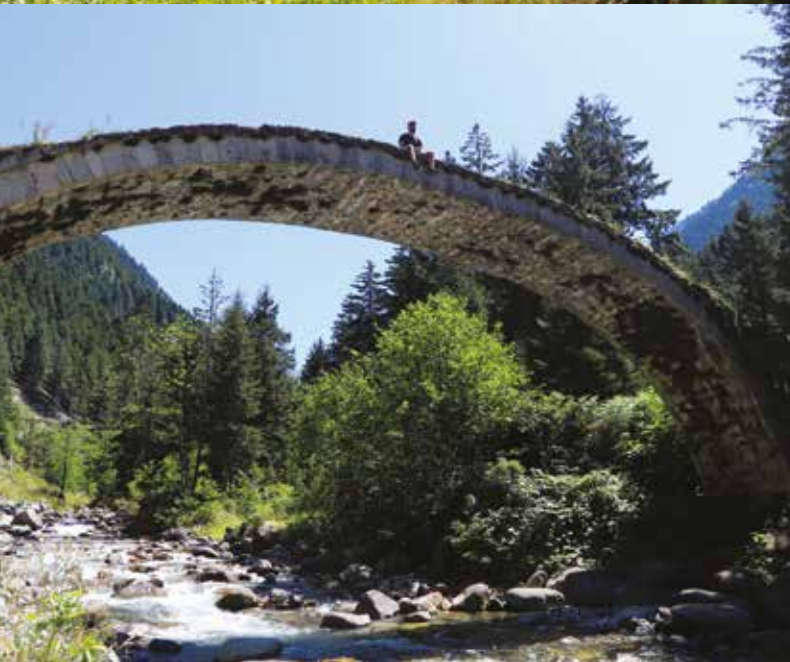


STRETCHING 1,700KM FROM northeastern Thrace in the Balkans to the foot of the majestic Caucasus Mountains, Turkey's Black Sea coast encompasses some of the country's most magnificent landscapes. From the soft rolling hills surrounding Istanbul to the rugged crags of coal country around Zonguldak, the Black Sea offers travelers, history buffs, and holidaymakers of every persuasion a landscape of marvels both man-made and not.



Images: Evan Pheiffer

Whether in Amasra, the ancient port founded by Emperor Darius III in honor of his niece Amastris, a fabled city that passed from Persian to Pontic, then Roman, Russian, Byzantine, Trebizondish, Seljuk, Genovese, Ottoman, and now Turkish Republican hands; or further up shore in Sinop, Turkey's 'happiest city' despite the fact it gave birth to Diogenes, the most renowned (and controversial) of the Cynic philosophers, the Black Sea region still bears the traces of every civilization that once called it home.



When not surrounded by the splendid Greek ruins at the cape where Jason and the Argonauts once refueled (outside Ordu), or the mountaintop monasteries tucked in the foot of Trabzon's Kaçkar Mountains, travelers can also spring for the soft, wet, terraced, eternal spring hills of Rize, whose beautifully terraced slopes supply the majority of the country's sumptuous tea habit. Nor will you be disappointed should you stray inland from the coast. Turkey's Kaçkar Mountain range, parts of which are known amongst aficionados as the Georgian Alps, offer some of the region's most rigorous hikes and breathtaking vistas across landscapes as sublime and savage as any in the Rockies, Alps, or Andes. With peaks over 4,000m and valleys as green as a gooseberry, it is a wonder the eastern Black Sea remains as little visited outside peak summer months as it is. Whether an intrepid traveler or amateur aesthete, there's a peace for every palate on Turkey's majestic northern coast. ✕



Göbekli Tepe, located in Turkey's southeast and home to the world's oldest known temple structures, was recently reopened following renovation and has been included on the UNESCO World Heritage List

A UNIQUE FIVE STAR HOTEL LOCATED RIGHT IN THE CITY CENTER

The luxury hotel is located in the very center of Istanbul, where you can view panoramically the Bosphorus, old Istanbul and the Asian shore.

Swissotel The Bosphorus, Istanbul is also a hot spot with its stylish restaurants serving the exclusive tastes of Turkish and world cuisine.



From Turkey's monetary system....

"Establishing effective, transparent, and inclusive communication with the public on various platforms will strongly contribute to the effectiveness of our operations and achieve our objectives."

Murat Uysal,
Governor, Central Bank of the Republic of Turkey

...to Qatar's construction sector...

"The World Cup is a major driver of growth in the construction sector, and many of our clients are involved in construction and transportation, so we help them by financing their daily operations and projects."

Joseph Abraham,
CEO, The Commercial Bank of Qatar

...and Nigeria's transport infrastructure plans...

"Road transportation suffers significantly in West Africa and most parts of Africa because we move our freight by road. The government has worked to enhance the movement of goods and services and ensure that we protect our roads."

Chibuike Rotimi Amaechi,
Minister of Transportation, Nigeria

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