PEGASUS AIRLINES

Transcription for PEGASUS AIRLINES

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Corporate Participants

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Pegasus Airlines – Chief Financial Officer

Conference Call Participants

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Baris Ince

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Presentation

Operator

Ladies and gentlemen, welcome to Pegasus Airlines 2015 Full-Year Results Webcast.

I now hand over to Mr Serhan Ulga, CFO. Sir, please go ahead.

Serhan Ulga

Good morning, everyone. I welcome on board I guess, I just want to let you know that the delay was not due to Pegasus' operation, it was due to an early connection and the platform that we are using. As usual, what we are going to do today is we're going to go with our presentation that we posted, just briefly walk you through the numbers and the comments there and then we will follow up with a Q&A at the end, hopefully be able to answer the questions that will come up.

So we start with the business highlights. I guess couple of takeaways here is the number of tax increase of 13% now carrying 22.3 million pax this year and that reflects in the revenue performance as well. The most important thing I guess for a low-cost carrier is that we beat the CASK guidance that we've provided with you, that's above and beyond compared to a 2% or 3%

increase. There was a reduction in that and new routes were opened and we introduced a new third level fly without a whole baggage and pay less, which actually is another way of collecting a baggage per piece.

On the operational performance, the load factor was almost flat year-over-year and the ancillary revenue performance if you look at again year-over-year was up by €0.35. The transaction was flat and the year-end increase of the aircraft from 2014 to 2015 was at the end of the year 12 aircraft. On 2015, revenue performance, if you look at the whole year, you see that there was headwinds coming through, mostly from international operations for the whole year, which was offset by the operational volume increases by scale and size and also on Turkish lira basis, reporting the FX impact had a positive push on the revenue line.

And on the next slide, going into the fleet update, I guess this is one of the most important slides and I again would like to qualify the fact that the fleet numbers you are seeing here, as is indicated on the upper left-hand side, these are the fleet numbers that are currently under contract to be delivered to the Company under its operational lease arrangements and also the main contract with Airbus. Therefore, we can say that we're going from 67 aircraft in 2015 to 80 aircraft in 2016 and this number goes up under the current contracts to 106 by year 2020. Just we need to remind you that depending on the market developments and the growth profile or the appetite, the numbers can go up by either engaging in the operational lease markets or else exercising options with Airbus and purchases from the OEMs. So, then, to wrap this up, it's a minimum secured growth from 2015 to 2020 is up by 58%, again going from 67 aircraft to 106 aircraft. So, that wraps up the fleet update.

On the routes and frequency update, I guess the couple of things to say about is that this – for those who are new or just seeing this first time, this shows the footprint of Pegasus Airlines, currently as it stands. And so we are serving 103 destinations in 41 countries. One important thing is here to say which we always like to talk about is there is no change in our strategic growth plan. The growth aspirations of the Company remains to the north, east and south of Turkey where the LCC penetration is below double – 20% and even lower in all these markets. So not only those markets will continue to see growth in aviation, but also more penetration of low-cost carrier operation base. On the next slide, page number 5, if I'm not mistaken, is the growth and yield update here. We try to summarize the major components of the growth and all the changes in commercial landscape or that are all the operation; in domestic, the growth was in line with the market, with flat load factors and a 4% year-over-year deterioration in the yields. And the schedule international, we are seeing a little different picture here because our growth was almost 3 times more than the market growth, yet obviously such a growth did bring on the back of it a slightly dilutional load factor base of 1.8% is a percentage point and yield wise 2% and on the right hand side you are seeing nominal numbers of those yields year-over-year, so that it's just how the numbers driven off of. The – and Q4 compared to the same quarter within 2014. The – if you look at the domestic load factors practically inline but we've seen rough 13% erosion in the yields in domestic and a comparable situation yields in international but about 2% lower percentage point load factors in international in the fourth quarter which partially explains the performance for the whole year in a nut shell – Q3.

On the EBITDAR page, going from 2014 to 2015 we are basically seeing two big players, actually three big players so to speak. One is obviously the biggest contribution to the EBITDAR margin is the fuel, this stuff was included some of the hedges we had in that life, offset by lower scheduled flight RASK as we have discussed with you, so the other – are still in place, structural impacts and volume and other as well. One, I guess – one thing to know here the structural impact we will talk about non-fuel CASK as well as the fleet mix change is going to start the other way in 2017 where we will see more purchased aircraft on balance sheet aircraft, down operating these aircrafts, so that trend is going to probably is going to start changing in 2017 and self-ramp handling start-up cost is still on going in the front end of the – front part of the 2016 as well.

On the non-fuel CASK, which is the most important slide I guess in this whole presentation is, – if we did nothing but still this CASK went from €2.36 to €2.51 due to an Euro-Dollar exchange rate as we Company and most of they are doing Belarus, that's where real comps could be taken, going from 251 to 258. Again, well the main two culprits here is the fleet structure and pending is adjusting in the EBITDA slide. It's bit take this up to 258. The – again just to remind you, the guidance versus the guidance was you are expecting 2%, 3% increased but the overall performance asset from the cash line including is down 3%. So, which is by the aid of fuel prices of course and that was what ended up happening at the end.

And the next slide is a slide from our Citibank friends, it just shows the actually the profile the company is cost basis, irrespective of every space and I will need not to up 2014 numbers, which shows the strength of the sole operation base of the Company.

And moving on to the balance sheet, we continue taking with the US Dollars on the balance sheet with the operating cash flows created, and the adjusted net debt to EBITDAR compared to last year went up, and this is mainly driven by the fleet growth versus EBITDA growth differences. On the cash per aircraft, came down slightly to TL14.3 million from TL15.6 million, which is a liquidity KPI we follow.

Moving on to page or slide 11, the foreign currency exposure, as was shared with you previous two quarters, the Company has shipped this pricing of outbound European destination fares to the US Dollars from Euros. Therefore, the revenues increased, the US Dollar revenues increased 12 percentage points compared to the same period for the whole year 2014, which [mandatorily] increased the natural hedging in the Company's P&L and cash flow basis as well. And of course – but unfortunately, I should say, the US Dollar, there is still a difference between the US Dollar cash generation versus US Dollar cash expenditure and that needs to be now monitored and managed by the management on a continuing basis. On the right-hand side, we provided you at the end of

2015 overall sensitivity analysis, not I think about the Turkish Lira equivalents of the short and long positions before interest on our operating cash flow basis.

And moving on to the hedge and sensitivity discussion, which is a very busy slide by itself, thanks to best there. So I guess if I were to kind of walk again over this, for those who may not have the presentation before them, is that for 2015, we exited with a few hedge cover of 46% for the full year and the total net cost was $893 per ton. That's obviously meant some hedge losses on the fuel, similar to many of the other airlines who have their hedges in field. For the 2016 looking forward, Company is in line with the guidance from the Board. Company's hedging is at 60%, that will hedge at peak. Of this, we wanted to provide you the difference between chooser and the swap. Chooser constituents still 19% at $817 or $818 per ton versus swap constitutes about 41% cost per $436 per ton. I just need to remind you that for recounting, IFRS accounting purposes, the choosers is recorded income or expense in this case of course going to be an expense below the line and the swaps are accounted for, since they are deemed natural accounted for as fuel expense within EBITDAR and total cash calculation. And the unhedged portion of course is going to continue to benefit from the lower fuel prices in the marketplace.

So on the FX side, our hedging cover for 2016 is also at 48% at 1.10 exchange rate, it is the Euro/Dollar rate I'm talking about and mostly engaged in swaps, I mean all engaged in swaps to cover the swap purchased fuel that's going to come due in 2016. We have also provided you here on the lower-right-hand side a sensitivity analysis of the Euro/TL, Dollar/TL and jet fuel for 2015 on a pro forma basis what kind of impact it would have. I'm sure you guys are familiar with our presentation of this information.

With that, I just wanted to draw your attention to and also was commented by some of the analysts, saying that there is no surprise in our guidance. So, what we did was we guided and we pretty much delivered what we guided, in line pax growth. The only thing that you may need to talk about here is perhaps to ask the production, which was hampered by some of the congestion – some congestion in the airport during July-August time frame and then some winter events impacting in the fourth quarter due to heavy snowstorms and similar weather events. Other than that, load factors and yields pretty much in line. The actual revenue is right there and it's actually a better beat on the cash performance, thanks to fuel helping us deliver a much better cash performance and EBITDAR margin within the lower end of the range that we have provided to you. So that is the summary of what has been said and what has been delivered.

Now, probably the most important – second most important slide, I guess, after the CASK is the outlook for 2016 and we have provided again conservative and what we think perhaps the over prudence outlook for 2016. Again 18%-20% growth in assets, again there to be flat utilization. The lower factors in yields, we are seeing headwinds, even though domestic market is a market that we – speed and they are very strong in those markets. That means flat loads and flat yields in Turkish Lira is a conservative approach in this new environments. On the international, certainly due to geopolitical disruption in and around us and other economic factors including emerging markets investment base and everything else, downside trend in load factors and yields are there and there is also a strong competition coming in the markets from our competition. So that is our feel for the load factors and yields. Ancillary revenues, 10% to 11%. We expect to see the full-year impact of a piece concept that we have launched in the middle of the year. So, we'll see a better performance on a nominal basis will help to take up the per-pax performance on the ancillary for the full-year 2016. We're seeing good traction in that. And on the total CASK, we are guiding you again this time to instead of 2% to 3% increase, this time to 2% to 3% decrease, but I feel that that is again a conservative and it could be probably better depending on how the basic economic parameters will go and the profitability on the EBITDAR, we are again guiding our investment community between 19% to 21% and I need to tell you, I guess, because that's a question that's going to come, so I can take it right up here what are the basic parameters behind this. So I'll just discuss with you the ancillary revenue, the commercial part of it, so to speak.

On the CASK, also I gave you guidance, but what we have taken here is the shift of $368 per ton on – this is the market's rate that we are seeing in the next 10 months Dollar/TL of 3.04, Euro/TL of 3.25 and Euro/Dollar of 1.07. So, again, just to remind you, none of these are our own estimates and guesstimates to make these things look one way or the other. These are what we are taking from Bloomberg's screens of the estimate of the market for the remaining 10 months. So, that just should give you an idea of what we have – how we bake these numbers so to speak to come up with our outlook and less, but not to least we have a small, well not small, but $35 million PDP cash-out and for the incoming Airbus aircraft and also Boeing aircraft, but also another $50 million plus for five spare engines and one Airbus [A320] simulators for your DCF models.

So with that, I think I'll kind of wrap this, my constant speaking part up and then go to Q&A if there is any Q&A if you are ready for questions. Otherwise, we will proceed.

Question and Answer Session

Operator

[Operator Instructions]

We have a question from Kerem Tezcan, Citi. Please go ahead.

Kerem Tezcan

Serhan, thank you for the presentation and good morning. I have couple of questions basically. First of all, we are hearing news that you will be basing some aircraft to Ankara. Is it because – I mean it's probably because of congestion. First of all, if it's true and second thing is, is it because of the congestion at Sabiha Gökçen Airport? And the most important thing is actually what is the latest situation regarding the second runway? We know that they start to build first taxiways but what about the runway? Is there any development on that side?

And another question is you were basically expecting some downside risk or downside in the yields for the international routes. Could you elaborate more on that? I mean how much weakness you're expecting in international routes in terms of year-on-year change basis?

And the last thing is about your total cash forecast. What is your spot fuel price forecast for 2016 and what is the – and how much the contraction you expect in the ex-fuel unit cost side in 2016 as well? Thank you.

Serhan Ulga

Kerem, if I counted that, you asked six questions.

Kerem Tezcan

I'm sorry.

Serhan Ulga

Okay, if I miss any, you have to remind me. I'll start with the last and on the easiest one, our market fuel expectation for the remaining 10 months for 2016, $368 per ton, okay, so that's for jet fuel. And €1.07 again just to repeat what everybody's interest, Dollar/TL of 3.04 and Euro/TL of 3.25, that should – those are what we have used in coming up with our 2016 business model or plan.

Okay. So then, going with the other questions. So the first one is about Ankara which has been since yesterday, is being talked about in some of the media, in digital media. First of all, I guess just you might have – the Civil Aviation Authority came up with a new procedure to swap or to be able to swap the slots or the flight positions at Sabiha Gökçen and that new procedure was not enough clear for us to understand, because it talked about full year but then on a month-to-month basis, for example, we geared up at the operation at the end of last year in winter. So what happens in this basis post the average base for the whole year. Those questions are not still clear announced yet by the Civil Aviation Authority. But we certainly expect to be able to place some more aircraft at Sabiha Gökçen the number we do not know just at this second, but we will certainly know much more about it in next few weeks, I would expect.

But let's talk about India and that we will not be able to add any aircraft at Sabiha Gökçen. We have talked to you about this in different meetings and over this webcast as well that we had plans for different bases in Turkey and point to point operation out of mainland, Anatolia in Turkey for over four years now, about four years. So this has been again talked about and discussed and it's been detailed laid out plan for different cities, Ankara being one of them, of course, one of the important city in Turkey. But there is no specific and a full plan for only Ankara, I can tell you that. About the second runway, if I'm not mistaken, two quarters ago, I told you guys that the best NI – our IR Director and I, we went to and met with the guys, saw the construction and everything else and at the time also said that, if they were to come in, in the next quarter and do the bidding of the second phase, which meant basically the superstructure. These guys were doing excavation and levelling of the land and then superstructure I meant, the runway construction itself and others signalization and stuff like that.

Unfortunately, the second phase bidding has not started yet. And therefore, now we are seeing even though the first phase is going on track, unfortunately the second phase cannot come in and be in tandem with the first phase's development and therefore, I think we will be experiencing a delay about a year – now instead of 2017, I think easily we're looking at 2018 operation if we can have the second runway be functional. Even if it was functional then, I think, the real timeframe will be for 2020, because then the 2019 date… at least the talks on the table right now is that they are going to get the first runway under more serious construction, and so there will be some limitations on that. what is probably good news that I can tell you about this among all the stuff that I just said, is that the two speedy taxiways is being – the bidding of that now, actually, the outsourcing of that has been completed if I am not mistaken, and there is a strong desire from what we understand by the authorities in Ankara to do it before June, if I am not mistaken, to finish it, because these are really easy things that could be easily fixed. The extent that it happens, we will see, actually, good – we will see closer distance between approaching airplanes, which will increase the air traffic movement per the hour at Sabiha Gökçen. Now, to how much it is I don't know, today, because I don't know if it is going to be finished before June, but I know that there is IATA study that has been done, made by a player in the market that their perception of this could be as high as, to go up to 48. Currently, we are officially 32, but this goes up in the summertime, around to 40 numbers. According to the plan, which everybody knows is the market players and the [inaudible], with these taxiways, if they could bring this down from eight miles, like five miles or so, this could go up to a phenomenal number of air traffic movement per hour, which would help, of course, all the players at Sabiha Gökçen and Istanbul as well.

This is a long way of explaining the second runway, but I think we have to talk about it.

The downside yields, year-over-year change, I think if you look at it… first of all, the second quarter seems a little softer compared to last year's second quarter, because we are seeing more number of Ramadan days in second quarter this year, so that is going to have some impact in the domestic, but not all that much. The real to me – and I haven't seen the different reports – the real softness may come from international, and that is mostly from European travel, I think, because there is this trend that has started in September 30th with the Russia airplane being down, suicide bomber in Ankara, taking down the Russian airplane, this whole recent events and happenings. I guess everybody knows, nobody is immune from this, this has had significant impact on Turkey's perception as to being a European vacation destination, so this… we expect to see some further headwinds from that perspective, so the international bookings are not as strong as you would like them to be for 2016, from what we can see from today. But how are you going to – what can be done about it? it looks like there will be more domestic growth, because there will be more domestic demand for those empty, potentially empty hotels, or there will be still, potentially, demand that may come back from Europe, but at much more discounted prices for the hotel, for the tour packages. We are a scheduled carrier, so to the extent that this demand is there, is above and beyond supply being produced, this should come back. If it will come back or if it does come back, it is difficult to call at this time, so that is the discussion behind the other question you had.

Is there another one that I… okay, so they tell me that this is all.

Kerem Tezcan

Just on the non-fuel cost side, what is the extent of the efficiency that you expect in 2016?

Serhan Ulga

Well, 2016, I expect there is not going to be much efficiency due to reasons, again, delays unrelated to this company. Unfortunately, first of all, there is a significant amount of investment that we are making, as, I think, we have communicated this before. By and of itself, it is going to really take up the CASK, at least, I want to say about 3%. Non-fuel CASK from 2015 numbers, to our expectation of 2016, non-fuel CASK numbers, half of the increase I will think, because I am expecting about 6% increase, half of the increase will come from putting additional crew at Sabiha Gökçen due to what we had experienced in the previous summer. Obviously, we do not want to inconvenience our guests, and we will not, certainly, want to make the operation more cumbersome than it can be, due to all the congestion and CTOTs, therefore, we are investing, I would say, more crews available at the airport or around the airport, which their duty times would allow them to weather these potential and expected, I should say, delays and CTOT slot restrictions that will come up again in this summer period. Unless, of course, as I said before, if these two speedy taxiways are built efficiently and quick enough, and air traffic controller of Turkey allow more ATM per the hour, that should not be the case, and we may actually see some benefits from this in our non-fuel CASK basis.

The other culprits, as you mentioned, the fleet structure continues to play a role, because our overall growth is still on a net basis supplied by operational leased aircraft, and there is, of course, the minimum wage increase, which I anticipate about is going to have 1% on the non-fuel CASK base, due to social security premium payment base structure changes and stuff like that. as I said before, we don't have too many people at around minimum wage, but that was also hindered by this social security payment base changes, so that is another player.

That is about it. Other than that, TL inflation, Euro/TL FX net will provide another headwind as well.

Kerem Tezcan

Thanks so much. Thanks for your patience, thank you.

Operator

Our next question comes from Alper Paksoy, BNP Paribas. Please go ahead.

Alper Paksoy

Hi Serhan Bey, you have already answered some of the questions, thanks very much. One point I would like to make a bit clear, if possible. You mentioned that the new runway completion can be postponed by about a year, I reckon, from '17-'18, but you mentioned a scenario, if I understood correctly, that the completion might be extended to 2020, or what was 2020 about. If you can clear that up. That is the first one. The second one is, you mentioned the downward trend in international yields, because of what has been going on in Turkey in recent months. In that case, would it not make more sense to slowdown fleet and ASK growth. Why is Pegasus so much insistent on growing so strongly under such yield conditions? One more question, just a simple confirmation regarding hedge position on page 12. I assume the prices shown over there for hedges for 2016, the chooser, $818 per ton, this is the original price, not mark-to-market price. Mark-to-market price I reckon is much lower, because fuel prices have changed a lot since then. Thanks very much.

Serhan Ulga

Alper Bey, thank you for the questions. First of all, I think the clarification for the second runway, it is not postponed to another year, it is what I am thinking, what we are knowing, what we are thinking is that maybe the realisation of it will be delayed by about a year. 2020 commence was related to the full two-runway operation availability, because if it was, let's say, and if it is, and I don't think it is going to be later than that, but if it is completed in 2018, the authority currently plans to limit the operation from the first runway and do a more thorough repair on the existing runway, because of its, obviously, utilisation for the past 10 years. Therefore, what I meant to say was the full two-runway operation, like comparable to Heathrow, will be only possible in 2020, based on the information we have before us today. That is what I meant. The airport is going to still be functioning with similar circumstances, with one runway in 2019. This is, of course, unless the authorities change their position and so something else to repair the first runway. Currently, the talk is that they are going to significantly limit the first runways operation in 2019, after the second runway kicks in, and once that is also finished, then the full two runways (brand new runways) will be in operation for a long time. That is what I meant.

The other question you said, slowdown fleet and why are you growing so much when you are seeing this much… first of all, the lower fuel prices are giving many of the 'unhealthy land' as we kept calling in European space and other spaces, a new lifeline. In this market, and it is going to be a growing market, and in this growing market, if you're not present in this market, then your… for long-term survival and healthy survival, your chances will diminish significantly, that is our perception. Therefore, as an LCC, which will benefit to create more volumes, attract more passengers, regardless of the lower yields, we will be present, we will be occupying the space, and we take our share or part from this new, let's say, marketplace. Therefore, especially, a growth airline, like an LCC airline, like Pegasus, not to grow, I don't think is in the picture for the foreseeable future.

On the third question, if I got you right, the positions for 2016 are the original prices or mark-to-market prices. These are contract prices of what we have of the fuel hedges. The swaps are priced, these are off of jet fuel-based pricing with a conversion to jet fuel from Brent is $436 roughly, based on the existing multiples. The choosers, as we have discussed, are the leftovers from the previous year, is 817, these are the contract prices, so any difference with the market, to the extent that it has not been resold at the end of the year, will bleed into the P&L, but different parts. The choosers will bleed into the finance expense, the swaps will bleed into the fuel expense.

Alper Paksoy

I understand that, but the jet fuel price in December was like $360 per ton, and we have seen some further derivative losses in the financial line in P&L, so is it not correct to think that this chooser portion, $818, as far as the P&L is concerned, already marked to $360 per ton, roughly.

Serhan Ulga

Indeed, both swaps and the choosers were written off or mark-to-market end year and to 31st December prices, so any further writing expense, or in this case, it might be on the swap on maybe writing an income, will depend on the expression of these contracts, monthly. Whenever the monthly portion expires, if the Brent price at that settlement date is more than what we have mark-to-market at yearend, we will make money, we will take money back from the bank, the difference in the P&L, but if it is more, then we are going to have to expend more to make sure that the new price level is again mark-to-market level for us.

Alper Paksoy

I understand. It is as before, same mechanism that applies as in quarters before. One more question if I may, the 18-20% ASK guidance, would you expect this to be more driven by domestic or international?

Serhan Ulga

While I think it is really bold, it is difficult to put, but because it is ASK, the distance is included as well, probably a little more tilted towards international. The aircraft-wise deployment will be probably comparable for both operations.

Alper Paksoy

Thanks very much.

Operator

Our next question from Görkem Göker, Yapı Kredi Yatırım. Please go ahead.

Görkem Göker

Serhan Bey, merhaba. My question is regarding your self-handling studies for 2016. Are there any changes in your original schedule and should we expect it by 1st June, and its consequences on your costs, particularly on the number of personnel. Could you please provide the delivery of your new aircraft additions in 2016 on a quarterly basis? Thanks in advance.

Serhan Ulga

The self-handling, the easy part about self-handling is the schedule and I know there are some interested parties online, is on track, meaning we will be taking over the operation at Sabiha Gökçen (ramp operation) as of 1st June. This is where it is at right now, and no, I don't anticipate any changes to this approach, even though you may hear that there are some talks being made with the vendor and everything, I do not anticipate that to amount to something, based on the past discussion points. The cost impact of it – the cost impact would be probably for 2016, a €0.01 increase on a like-for-like basis from 2015-2016.

Delivery of 2016 aircraft on a quarterly basis, we may have to get back to you, I just don't have it in front of me right now, but I can tell you that our first CFM-powered Airbus 320neo in the world will be ours and they will be delivered in July, mid-July. Allow us to get back to you, all of you guys on a quarterly basis of our increase of the aircraft in 2016 after this call, if that is okay Görkem Bey.

Görkem Göker

Serhan Bey, a follow-up, additional question, is this like-for-like impact was calculated before minimum wage adjustment or after minimum wage adjustment? Did it play any role in your feasibility study, this sizable increase in minimum wage?

Serhan Ulga

Obviously, when we did our first feasibility study, the minimum wage was not there, that was two years ago. Minimum wage would have some impact on this, and the only thing that would, on a net economic cost to the Company would be, I don't think it would change too much. Why, because of this, more than foreseen growth in the passenger handling through Sabiha Gökçen. Even though there will be some marginal increase in the cost base of the ramp operation – compared to the feasibility I am talking about – but, obviously, there will be much more passenger or guests to be handled through Sabiha Gökçen with this way above expected study, in our feasibility study growth. Economically, I don't think that will have anything, because the other vendor is also going to be affected with this. They cannot not obey the rules, they are going to have to do the same things. Like-for-like, I don't see any impact on the Company's operations honestly.

Görkem Bey, I told you that €0.02 minimum wage increase from '15-'16 on the overall operation we are expecting, and I think when I was talking to Kerem I gave that as well. Not for ramp, this is for all operations for 2016.

Görkem Göker

Okay, great, thank you very much.

Serhan Ulga

Thank you.

Operator

Our next question comes from Baris Ince, Garanti Securities. Please go ahead.

Baris Ince

Hi, thank you for the presentation, for taking questions. Sorry if I missed, do you have any guidance on non-fuel CASK?

Serhan Ulga

Yes, we said 80. Sorry, you are talking about number of aircraft.

Baris Ince

No, no, non-fuel CASK.

Serhan Ulga

Non-fuel CASK, I said it is going to go up around 6% compared to this year. 6%, yes.

Baris Ince

Okay, may I add another question? Maybe it is too early, but I just wonder, what will be the implication for European aviation if UK leave the European Union. Do you have any idea for that?

Serhan Ulga

UK they have liberal – they would probably have a liberal sky agreement that they have with the rest of Europe and Turkey, as well as it stands. I guess they also, currently, for outbound Turkish passengers or guests, also since they are non-Schengen they have visas, and their currency is GBP. I don’t see any immediate impact on air traffic honestly. That is all I can say, I guess, at this time.

Baris Ince

Actually, I just wonder about the… currently, Europe is like a single aviation market because of the open skies or some other agreements. I just want to know the impact on Ryanair and EasyJet.

Serhan Ulga

If they were to go out of the EU and if EU had what is called a horizontal agreement with Turkey, I don’t know how Great Britain will be positioned, UK will be positioned with this. Let’s assume that they would still be part of that negotiation and they would get what they are looking for, is to be able to operate or act as a single airline, as if EU, entire EU is a single airline. That means… for example, a UK carrier, let's say EasyJet, can fly from another destination from Europe to Turkey. That is all that would mean, but they did that before. They were flying, for example, with their Swiss AOC from Basel to Istanbul, but after our entry to that route, they bailed out in two years. In the second year they stopped operations. At the end of the day, this is all a value driving issue, meaning if their operation is low cost enough to provide the value to their customers, I guess, which looks like they couldn't in this case, for example, Basel-Istanbul route case, that is the name of the game. Unless they have that, I don't think there is any issue for a Turkish operator.

The other thing is to them, flying to Istanbul or Ankara is a dead end, whereas with us, they can connect domestically other destinations and even beyond, the Middle East, North Africa and east destinations, Russia, CIS countries as well, of course, to the extent that we fly those destinations. There are apples and oranges type comparisons you are having, but we have seen this before, and it didn't seem to work for UK carriers before.

Baris Ince

Okay, thank you.

Operator

We have no further questions. Back to you Mr Serhan Ulga for the conclusion.

Serhan Ulga

Well, thank you all for your participation and interest and I hope this was an informative meeting today and I hope to see you guys in other meetings in the near future. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you all for attending. You may now disconnect.
