



## **PEGASUS AIRLINES 16 AUGUST 2016 Q2 2016 INVESTOR TELECONFERENCE TRANSCRIPT**

**“MODERATOR SPEAKING....” – 00:02**

Esteemed participants, Welcome to Pegasus Airlines Year 2016 Second Quarter Financial Results Conference. Our conference is starting now. I am leaving the stand to Mr. Serhan Ulga. Mr. Serhan, please go ahead.

**“SERHAN ULGA SPEAKING....” – 00:19**

Good morning our esteemed investors, analyst colleagues and other business partners. In the introduction part of our presentation with respect to the second quarter, we shall be started by sharing opinions of our General Manager and CEO Mr. Mehmet Nane, joining us in March, as included in the senior management evaluation page. Thereafter, we shall be continuing with the normal flow of the presentation. Go ahead, Mr. Mehmet.

**“MEHMET NANE SPEAKING ....” – 00:47**

Good day, everyone. Mat it be easy for you. I am hereby thanking Mr. Serhan, God willing I shall hopefully be participating in the next meetings and be with you together with my team. I shall be making a very short introduction, and then leave the stand to Mr. Serhan for details. As you know, if the first six months are required to be summarized, two major issues were on our agenda. One of these is the geopolitical developments in our periphery whereas the other are the measures we have taken in response thereto. I shall not be entering into the details, how such geopolitical developments influenced us, they influenced us in three dimensions. They resulted in decrease of our RASK. Caused an increase in our CASK, and since there has been fluctuations in the tourists coming to Turkey from abroad, this resulted in a reduction of our Load Factor. These are facts, we are required to live with them. As a team, we worked as a team on how we shall be leaving with these and developed an initiative as follows. And I want to share these with you so that it is easily kept in your minds and you challenge us to this effect any time hereafter. We have said three C, in other words to maximize our cash position and take any and all kinds of action to remain in cash, we shall soon be entering the details. To reduce our CASK in other words our cost, to take measures therefor and eventually optimize our capacity. Because since we cannot possibly influence the tourists arriving Turkey from abroad in one day however we might be effective in the campaigns we are carrying out, how can we better use our existing capacity to live with this, while one of this consists of campaigns, the other consist of options such as wet lease, we have introduced these. Mr. Serhan shall be sharing with you the quantitative reflections an details of the aforesaid. If you have any questions later, I shall be pleased to answer them, I wish you all a very good day.

**“SERHAN ULGA SPEAKING ....” – 03:10**

Thank you Mr. Mehmet. Continuing with the remaining part of the presentation, in its normal course, in this presentation I shall be referring to as in our previous presentation, to a few main points on these pages we wish to indicate and review these, in this framework, after reviewing these page, the most wondering issue is naturally how we see herein below the past as well as future period, and the page where we change our expectations. There, I shall attempt to provide more detailed information. After all of these, as also pointed out by Mr. Mehmet, there might of course be still questions. If there are any questions, both myself and Mr. Mehmet, whomever you want to receive the answers from, we shall be trying to answer your questions to this effect. Total time we are allocating is nearly one hour, so we are planning to clarify this matter around 11:05. Passing over to the second slide, here we want to give a general evaluation in more detail, further to the general framework provided by Mr. Mehmet. In order to materialize somewhat the hardships we faced, we made reference to the data of the Ministry of Culture and Tourism. According to the data of the Ministry of Culture and Tourism, in June 2016, number of foreign nationals visiting Turkey decreased by 41% compared to the same month of the previous year. While in the period of January – June, the decrease is at the annual rate of 28%. While number of tourists coming from Europe (OECD) decreased at the annual rate of 40%, number of tourists from Russia dropped off at the annual rate of 93%. Here, in terms of volume,



I would like to emphasize the importance of Germany and England, in other words, although they are in the range of 32-30 percent, as you know it was influential in the sector experiencing a slow-down in the developments of two markets of high volume. Likewise, looking at the data of DHMI, we are more than happy to see the genuine dynamism concerning internal traffic. Notwithstanding the foregoing, there appears in front of us, a constricting external market picture. On we have placed on the right side, the developments actually triggering these respectively and feeding one another. These are geopolitically cyclical events. These have taken place almost every month, nearly every month since January and as a result of the malicious incident taking place in July, we are actually passing through a perfect storm as the English term this occurrence. In this framework, looking at the operational performance, as also stated by Mr. Mehmet, one of the most important events I want to indicate on the third slide is both the drop in the total revenues, and in the background the constriction in quantity abroad, particularly abroad as I have indicated a while ago and softening in the revenues in parallel to the yields contraction. But notwithstanding the foregoing, on the side of expenses, as also indicated by Mr. Mehmet, utilization per aircraft, which is one of our most essential dynamics. And one of the most critical criteria of our cost base, in other words capacity usage cost base, for cost calculation of our production at a low level, consists of utilizing the planes here. We suffered a drop here arising from the congestion at Sabiha. In a way and manner not experienced any time before. Looking at the fourth slide, here we attempted to express the development of the revenues. In the development of the revenues, as I have pointed out previously, there are two most important issues. One of these is both the load factor in international traffic, as well as a drop in basis experienced in parallel to drop in RASK. Despite this, there is influence of a volumetric growth, in other words growth arising from nominal volume size positive and compared to the same period last year, rate of exchange has a positive impact. And looking at our income page, this is particularly originating from Dollar-TL, Euro- TL. What are the dynamics behind this, we tried to express this on the fifth slide. In the domestic traffic, we succeeded in achieving a growth that is almost two times that of the market growth. Dynamism in the domestic traffic is ongoing, and as we have kept on saying at all times before that this growth confirming that Turkey's domestic traffic occupy a very distinguished, very special place, platform is continuing in such an environment as well, and we caused the market grow at a rate over the market growth and we actually achieved this by increasing the load factor figures. Whereas in respect of yields, there is a very minor, very small dissolution under the existing circumstances, but since load factor is triggering here the ancillary revenues, we prefer this. Whereas in international traffic, we succeeded in dwindling at a rate less than the market. And here we are saying the opposite, but actually we are still indicating a favorable point, but taken together with the capacity increase, although for several years we have reduced the yields, in between the two periods the reduction here has amounted to the rate of 25%. Unfortunately, we have not achieved the result we desired. We are most probably living a period of time where all adverse conditions that could ever be suffered by any airline company all at the same time. Still, viewing this in terms of volume, I consider that the moral support provided by domestic traffic is of particular essence. From the perspective of fleet development, this might appear somewhat, but this would serve as a very major advertisement, nearly four days from the aforesaid malicious event, we went to and took on delivery from Hamburg in full spirits and belief, the first CFM LEAP engine A320neo aircraft worldwide, we brought it to Turkey, and our aircraft is flying. The good news here, I am reading some of the articles here, this conversion A320 results in quite a substantial saving in fuel cost, these are not official figures, but we are observing a much better fuel efficiency compared to our estimates made initially, within framework of the lines it is flying at. It is naturally a very shallow knowledge at this moment, but it still is a very positive data. We have had access to 101 points in 41 provinces, our plan at present is to end up this year with 82 aircrafts. In the meantime, one of the important matters is that all of this volatile perception, even under these circumstances where the perception of confidence is shaken, we have made and entered into a contract for the aircraft financing for six of the nine Airbus 320neo aircraft planned to be taken on delivery in the course of this year. Negotiations with respect to the remaining three is still ongoing. At this stage, we are holding discussions with more than two, three banks interested, and very eager process is ongoing. Therefore, although commercially we observe softening particularly in Europe based lines, confidence in Pegasus, in the sector and in my opinion towards my country is still ongoing at a certain extent, at a great extent, and this is good news. Other than this, there is nothing else to be said in respect of the other figures compared to the previous ones. Anyway we are saying by these figures on the table we are once again expressing the matters we have already opened on the seventh slide for the sake of reminding, we tried to indicate the lines. We have added two new routes. Ankara, Amman, Ordu-Giresun, these are flights with connection to Northern Cyprus, which shall be commenced in August. There is Antalya, Erzurum, and besides these we have planned extra flights throughout summer months to places where – business volume is strong. Most



of these are cities based in the Middle East. On the eighth slide we have expressed development of FAVKÖK, referred to by our side as EBITDAR, including parts thereof. Here, in the second quarter, looking once again at the most important issue, we see the total impact on the scheduled international traffic that are scheduled both in terms of load factor as well as unit revenue and RASK. Despite the foregoing, we are observing a positive impact in respect of hedging procedures compared to the previous year. And this means that the fuel in the market compared to the previous year is at a lower price in the same period, we are referring to an income arising from the positive in other words decrease with respect to the provisions we set aside last year, particularly provisions reserved for contracts we call Chooser forward. Besides this, I would also like to review the Airport disruption costs. Here we have two parts, the two parts in general consist of hiring extra flight crews on shift duty and introducing extra flight crews on shift duty following the congestions experienced last year, in other words planning of the same at the houses, hotels ready for flight anytime and so as not to exceed the flight duty hours, this is a figure forcing us to such a crew ratio increase on grounds of the said congestion at the airport. Plus, unfortunately despite all of these measures an existing slot restriction we call CTO (Calculated time over), costs of delay due to the airport capacity being limited, not in use after a specific volume, hereby consists of such costs mainly with respect to accommodating our guests, catering, providing guidance. In this respect, if it is required to be referred to any structural change, you might remember that we bought our first neo in July, we might say that this is the first aircraft we have included in our assets in the course of the last three years. This is the impact generated by the first aircraft and considering it together with our intention to include next nine aircraft in our inventory, we will be observing that the said structural influence is gradually diminishing starting from this period. And this would implicitly result in support of a tax shield that is a tax shield from the viewpoint of cash flow, I hope we shall be benefiting from this as long as we make investment. On the ninth slide there is a data set we take, as CASK, (CASK non fuel) cost non-fuel. Here, although we actually focus on costs originating from airport delays (airport disruption costs) and matters in our control following economic parameters, looking at the overall picture, as I have just before indicated, airport disruption costs have brought forth an increase compared to the same period of the last year, low ASK production per aircraft arising from low ASK production per aircraft, increase of the said capacity usage and capacity supply –I am required to say this- these are the two most important issues, as a matter of fact if you withdraw these two factors, looking as like for like in other words the same apple-apple, we see a constant CASK increase or CASK level compared to the previous year. At this point, this is the matter I would like to emphasize particularly, besides this if it is required to be re-stated of course in this period, it shall be increasing together with Neo, in other words improvement of the fleet mix would be reducing this impact in the second period to a certain extent, this positive support is to be provide to our structure by CASK, non-fuel CASK structure. If it is required to look at the balance sheet in a short-sighted manner, in the major figures within the period of six months since December 31st, as expressed by Mr. Mehmet on several different occasions, serious investments of the company are still ongoing, money is spent on these investments, and cash is reduced on grounds of this, rather than the operation itself. I might say that this is arising from the investments made in respect of four spare Boeing 737 purchased within framework of plane advance payments as well as total aircraft purchasing fleet management. I would like to point out that in parallel to our former policy, we are continuing to keep our cash mainly in Dollars. On the next, 11th Slide, there is actually no serious change in foreign currency position compared to the previous one, in other words, there is no particular change with respect to the previous quarter. You would possibly remember that in July 2015, starting from July of last year, we had converted our international lines departing from Turkey into Dollars. Ever since that time to the present day, actually we have an increase in percentage points up to 8% - 9% in the structure of our revenues in Dollars. Likewise in our expenses, in certain of our Dollar expenses, there has occurred dwindling. However, we are heading towards a perspective as follows, I think it would not be wrong to say this, I might state that Euro, our Euro is offsetting one another, and we are at a neutral Euro basis, but our TL is long while our Dollar is still short, and we are heading towards a new operating cash position. As a matter of fact, the next slide is the same with the previous ones. Since we are making no new hedge here, existing hedges are only those ended and there are differences in provisions due to price changes, which I had referred to in short, particularly on fuel basis, fuel basis therefore on these figures there is a difference solely in the ended ones and changing period end unit price. Now, coming to the targets for year 2016, of course we are trying to state this from the very beginning. We wanted to share the picture here exactly as is, particularly as we have said, increasing geopolitical risks, perception of the same and change in the behaviour of tourists and consumers due to this perception have become a very important factor in the demand abroad for Turkey. Sabiha Gökçen's capacity utilization limits have acted as a factor in the growth stage and at the stage of increasing utilization upon using such planes in an effective manner. More important, as shared by Mr. Mehmet in



several of his interviews, in respect of mainly domestic, but selectively international, international flights from Anatolia, which we have planned but failed to receive flight permit,( or permission), or let us not say flight license but rather permission, we have not been able to ensure that permission is received from Civil Aviation General Directorate, these planes to be commenced with operation, introduced to utilization. Therefore, we are pulling down the growth target to almost half. Increase in the ASK (available seat-kilometres) would be following an increasing trend, for such causes I have indicated, such increase or utilization is also influencing per aircraft utilization. We are expecting here a reduction of almost half as well. Domestic load factors, as I have said the domestic is actually the market pleasing us very much in the positive sense, giving as morale. Load factors of domestic is maintaining the levels of the past year, this is certainly arising from domestic capacity increase at the rate of 15%. However, we cannot say the same for international traffic, there is a constriction at the rate of 4% to 6%. Unit revenue (yields) I might say is almost in parallel to the previous year in respect of constructions, but in international traffic there is a narrowing of 10 Euro per pax (passenger). Ancillary revenues are here also a fact pleasing us in the positive sense. It is rather an increase originating from penetration and is damaged somehow via volume, but I might say that it is achieving breakeven point. Although from here opposing winds in total CASK and non-fuel CASK in unit cost are still ongoing, it seems that the drop in fuel price compared to the first quarter of previous year as well as expectation for drop, would make it possible to end up with a decrease in total CASK, an opportunity to take a breath. And we are assessing that this would be at the rate of 1-2%. Naturally, when it is required talk about revising EBITDAR, this is the total, we wanted to approach in a rather careful and conservative manner, and here we set this at a level in the range of 11 to 13%. After saying thus, of course for us, in other words I would like to state as follows that it does not seem quite easy for us to maintain this year the price at EBT. Saying this, let us together try to answer the following question on the next slide. Well, what is Pegasus management doing while all of these are taking place? Dear friends, you very well know that almost ever since the date of our incorporation, we have at all times been an airport on the sprint, incessantly on the run and expanding the market, improving everyone through the competition created. Within framework of this race, as we actually turn back and have a look, we had the opportunity to look inside in the existing circumstances and ponder how we could do certain things better in the course of such a race, how we could enhance our internal flow, quality rather than assuming such a speed. In this framework, as Mr. Mehmet has also pointed out, we had several attempts. The most important of these consist of our endeavours for overall restructuring of the company, simplifying business processes and work flows, towards perfection of the same, this process is ongoing and properly functioning. Similarly, we are checking whether or not as a result of the said restructuring, colleagues of proper number with appropriate qualifications are being employed at proper positions, kept at correct places. We are taking action in connection with these issues and shall be continued to be taken as well. At this point, it is not to be looked at this, in other words in respect of the question concerning whether there is a lay-off or what is this, it is to be considered here is running and Pegasus not yet satisfied with running ahead should turn round and question all of the aforesaid processes, I believe are more meaningful and important. We call marketing activities optimization, here we have several enterprises within framework of the weight we ascribe to digital marketing. Here, we are focusing on the weight of digital marketing and here we believe that we would be utilizing this at lower cost and at further benefits compared to other methods of marketing, we consider that there would be proceeds to this effect. Looking at the income increasing part, our colleagues are working with several major consultancy companies of world standards to revamp the internal revenue management structure from top to bottom. Here we are questioning everything, there are no stones turned upside down, no chairs we are not looking behind. We are very genuine I trying to understand new market traditions. We have some very important expectations therefrom, in the meaning of improvement. In digital marketing CRM applications, both under CRM in respect of any and all problems encountered by all of our customers or guests, we are attempting to turn back digitally and resolve the process as well as their problems in these processes. Our projects in relation therewith are materialized, and it is still continued with further improvement of the same. We roll out the dynamic pricing of any ancillary revenues. Here, as ancillary revenues, if I remember correctly, it was in place dynamic pricing regarding selection of seat according to the line as well as length of the line and duration and time of the trip. We are switching over to dynamic pricing in almost all Ancillary Revenue items. In connection with capacity utilization as well as cash generation, we have started to provide our aircraft on wet lease basis. You must have read that two of our planes are under FLYNAS of Saudi Arabian origins, and that is a hybrid carrier of low cost low cost carrier (LCC) type. We hired them two of our aircraft as long-term wet lease. Likewise under scope of fleet, in other words fleet management as a measure to reduce the fleet age with Boeing aircraft with major maintenance period approaching including five new Boeing aircraft to be purchased as a new next year, we are in the process of selling up to five of the Boeing



aircraft purchased previously and financed under US-Exim. In my opinion, the most important and exciting of the aforesaid is actually at Sabiha Gökçen, our main hub, headquarters and where we have installed all of our network, construction of two fast taxi routes and together with and in addition thereto, the works carried out and conducted jointly with Euro Control and IATA, would result with a capacity increase up to approximately 45% next Summer if no mishap takes place. This process is operating, investments are being made at present, and therefore I am pleased to share with you very good news in respect of capacity in the next season, in other words in respect of capacity administration at Sabiha. We are excited about this. In this respect, I want to end my presentation at this point. If there are any questions, as far as I understand these questions and since there is a simultaneous translator in-between, I shall be answering in Turkish any questions posed in Turkish, or we shall be answering them in Turkish. We shall be providing feedback in this way. Please go ahead, I am thanking you all.

**“KEREM TEZCAN SPEAKING ....” – 27:31**

Hello Mr. Mehmet, Mr. Serhan. Very much thanks for the presentation. I shall pose the following question. The guidance you have provided for year 2016 and thereafter the action plan you have narrated, with respect to this 3C. Have you given the said guidance by taking such action plan into consideration, or in case these are realized, which might not possibly be realized in the second half of this year, but would there be generated an upside risk on the guidance you have provided at the point of realization?

**“SERHAN ULGA SPEAKING ....” – 28:05**

If you wish, let me answer this Kerem. Hello. You are right, in other words some of the things here, we have not told them all, but if they are to be reviewed somewhat further, for example the price revision of the agreements made and entered into with the suppliers could be started instantly for some of these, while could not be commenced in case of some others. Or through simplification of processes, re-optimization of the labour force, these would bring rather in the course of the coming period improvements with respect to the mobility, speed and movement of the company. Consequentially, one-to-one instantly primary thing for this year, impact of cost would be limited to a certain extent but in the real sense both this structure as well as other processes to find themselves and circulate the system is rather the issue to be tackled in year 2017'. But as you said there is this thing, this process of rejuvenation of the capacity and fleet, this process might not be realized in year 2016. It might shift over to year 2017. There it would have a cash impact, in relation with keeping the cash or cash conversation. These are matters that could readily be materialized. This is actually providing us various grounds of play. As I have said, it is both enabling us to look at ourselves as well as stop the race, take a rest and reorganize for the next race, for the race to start right after. In this sense, I am considering this very important. Here, as you have said there is a specific part to it. The greater part shall be commenced in year 2017. Therefore, in year 2016, there is no scenario that is full inside but we could have said later not realized, while reviewing the expectations for year 2016, year-end expectations.

**“KEREM TEZCAN SPEAKING ....” – 30:04**

Thank you very much, at this moment I have no further questions, now when all the events experienced ever since the beginning of the year are taken into consideration, has there been any change in the competition from local players, in other words let us say a retreat in somewhat further competition, is this the case in other words everyone is acting somewhat more defensive. Or is the competition ongoing at the same speed and with the same focus?

**“SERHAN ULGA SPEAKING ....” – 30:34**

As far as we could trace, initially there has been a period involved with very seriously aggressive competition, but I believe this has not lasted long, in competition is realizing the necessary consolidations under its own power and



characteristics and taking action required, and I can say that we observe nowadays that the aggressiveness in the initial period is somewhat softened.

**“ALPER PAKSOY SPEAKING ....” – 31:14**

Hello Mr. Mehmet, Mr. Serhan. Thanks a lot for the presentation. In respect of July airline figures, of course your figures are also included, not very favourable figures have been received, but it is as if no picture worse than June when developments are compared to the previous year, however since there is also the impact of Ramadan, I have no idea how net could these figures be read, I cannot say anything therefor. What is your opinion in respect of this matter? Could July be the month when we experienced the worst times in terms of international passengers, what do you think about this? Further, it is not very easy to foresee this, we have passed through a very special period, an unfortunate period of time, but how long do you think normalization would last? In other words, are we talking about a few months or a few quarters? What do you feel in relation with this matter? I want to ask this. And it is included in the presentation, I see this in the income items. How much is the cost saving in connection with jet fuel, and the figure arising from Choosers in other income, you might have indicated these, but I am sorry but I could not see them, could you please share them? Thank you.

**“SERHAN ULGA SPEAKING ....” – 32:56**

As always, Mr. Alper has asked 48 questions. Now, let us try to understand these. Which one are we asking? July figures... In other words, have we seen the worst, there is a feeling that we have most probably seen the worst, which is correct.

**“SERHAN ULGA SPEAKING ....” – 32:56**

Consequentially, I actually think that for normalization Kurban (Sacrifice) Feast would constitute a good test. I consider that with a perspective on the Sacrifice Feast and following months, there could be a specific mobilization, if it is required to be repeated, we see nothing in domestic lines, in other words Turkish public is very far ahead in this respect, and it is using its reflex very favourably. Therefore, here the actually critical point consists of international lines with a weight in Europe, and perhaps the connection flights to an extent. There are some minor wiggling, but I cannot say now, that is from today “this matter is OK, henceforth we move ahead running”, I believe in a considerate optimism that it is more proper to wait for the developments from one month to the next. As I have already said, according to me the first test is in September, before and after the Sacrifice Feast, there would be a liveliness at those times.

Other income, there are figures for these as well, but let us not enter into the details now, and cause other colleagues here. If necessary, we shall convey that once again to you. But looking at this net net, there is a positive revenue in the amount of 15.4 million lira originating from Choosers compared to last year, and as I have pointed out, this from the change in fuel levels, that is the reduction. But since the volume is also reduced, this 15.4 is the difference originating from the volume difference and unit price difference between the remaining 2 periods. For the remaining part, considered as net, there is an income of 12, 5, and profit-loss as well. And the reason therefor is in the forwards, and there are also some minor losses in respect of the IFRS's. But as I have said, the weight is in income, Chooser s required to be assessed once again.

**“CENK ORÇAN SPEAKING ....” – 35:41**

Hello Mr. Mehmet, Mr. Serhan. Thank You. I would like to pose a question about the new guidance. You have attempted a very serious revision, indeed very rightful, because of the market conditions. I wonder whether or not you are somewhat cautious about this new guidance? In other words you assess this in such a manner so as to generate an upside risk, or as a realistic guidance as a whole in respect of the present picture? I am curious about this. And second, on part of cost, you are somewhat more cautious for total CASK, you state that drop at the rate



of 1-2 percent is arising from fuel, here how do you see somewhat more composition, in other words the trends on side of fuel and non-fuel? For instance, do you expect a worse performance in the second semi-annual period with respect to non-fuel CASK, exhibiting an increase of 5 percent in the first semi-annual period, is that the reason why you have reduced your drop estimate, total CASK forecast, or do you think savings on the fuel side would be diminished somewhat? I would be pleased if at this point you could give somewhat more detailed color. Thank you.

**“SERHAN ULGA SPEAKING ....” – 37:01**

Indeed, I actually say A and B mixed, we are approaching cautiously and realistically. That is, here it is of course involved cautiousness, in other words, we did not say  $A \times B = C$  and put it there, we looked at it rather sensitive, where do we lead to if it is somewhat better somewhat worse. Therefore, I think it might be better and more correct to read it more conservatively. Because it is also very important the reputation of the guidance we have provided, that is in order to avoid saying every time “change that, change this”, there is a world where try to be conservative but realistic at the same time. Now when we look at CASK non-fuel, indeed in the first semi-annual period, and particularly now in the second quarter, compared to the same period last year, the most important event is that despite our growth in terms of the number of aircraft, our utilization in terms of unit plane production has dropped, around 24 minutes or so, from 12 below to 12. There is a time difference of 04 hours. Therefore, the production drop due to this is influencing the unit based leverage of fixed costs. Plus there is of course something else in the second period for CASK non-fuel, you know on the 1st of June we started with our own self handling. Till that time, we had both carried as well as paid a handling charge to ÇELEBİ at Sabiha. In other words, at Sabiha constituting a major part of our customer volume, we are doing all of the handling and this would have a positive impact, but as I have said, there is also a learning curve. Therefore, we acted there conservatively as well and did not consider that this would one to one pull down the full impact of the same, because we are passing through a conjuncture requiring being conservative, although we have observed certain movements. Thus, let me answer that part in such away. Here it should be kept in mind that whenever I look at it as economic assumptions, as year 2016 in general, that is I do not see any particular difference in economic parameters, in respect of the operation I consider utilization per aircraft as an important factor. Notwithstanding the foregoing, these would be offsetting one another and it shall end up on the positive side that is looking at it, I consider fuel as an essential factor compared to the previous year. Therefore I can say that here as well a conservative positive optimism is thus generated.

**“GÖRKEM GÖKER SPEAKING ....” – 40:05**

Hello Mr. Mehmet, Mr. Serhan.

My question would be in relation with the fleet, I am sorry if it's already answered. Looking at it, I see no difference between your plan at the end of the first quarter and the present plan, particularly on part of operational lease, do you have any action plan in relation therewith? Because in medium where it is said that the other players in the sector, particularly Turkish Airlines would be grounding aircraft, what is your opinion in this respect? If you have already referred to it, sorry for the repetition.

**“SERHAN ULGA SPEAKING ....” – 40:38**

Görkem I see your question in 3 parts. One of these is our fleet structure not changing, this is normal we purchased in July the first financial leasing plane included in the balance sheet. Consequentially, this was not included in the first month of June. But I had referred to this in the presentation, we shall be taking on delivery of 8 more of the same plane, and as of the date of the present day, our intention is to include these in the balance sheet through financial leasing, when this is the case it would give rise to a change on cost basis. Naturally it would give rise to a reverse change on NETTET basis that is the first. Second consists of attempting to return too early such rentals currently available in relation with operational leasing, or we have no plan to de-negotiate the same once again. Similarly, we have no desire to be involved with any enterprise other than the right arising from our contract within framework of our contractual purchasing plans. As a consequence, I am hereby implicitly answering the third part.



There is a phenomenon as follows as well, it is indeed required not to forget this, on the short term, if we do not see anything crucial, seeking recourse in our colleagues at the leasing company or the producers are not very favourable things in respect of the credibility of any airline company. Of course, rights arising from the contract, and already negotiated and executed in advance could be used. Here, indeed there is nothing to be said by anyone, but for instance as I perceive from our question, instant operating lease is not a super, agreement, releasing our hands and arms, freeing us, and surely the colleagues at the leasing desire to place their aircraft for 8 years – 10 years. Who wants, under such circumstances, to take its aircraft and place it at a new place? Therefore, there is in general, in other words always such a perception, as if operating leasing is very flexible. I do not agree with this in principal. Well, if you risk the following, that is if you risk the credibility of your aircraft airline, you do this, of course this is the preference of the board of directors or the owner. Under such a circumstance or we do not consider such a thing. To do as such on long term, to take such an action at the same time, that is to take the action we assume being flexible – on the long run, we see the costs of an airline company being an action that is increasing in the world, detrimental on confidence. As I have said, we indicated this on our plan as well, besides and further to our existing contractual rights, we do not intend to take any other measure.

**“GÖRKEM GÖKER SPEAKING ....” – 43:22**

Pardon me, but my extra question would be as follows. By the way Mr. Serhan, as you have already told in person that not due to being flexible, but the conditions being extraordinary, I have asked whether it can be evaluated. And further, what can we say about the flights not departing from Sabiha, the circumstances with respect to these new lines and the supplements thereto, in other words could I possibly receive information about the chart with respect to flights not departing from Sabiha for subsequent capacity increases, especially for 2017 and thereafter?

**“SERHAN ULGA SPEAKING ....” – 43:56**

Indeed, actually the plan was as follows. We had a 3-layered, 3-segmented strategic plan to establish in Ankara a HUB making Ankara centre, to constitute a small fleet there, to establish at Antalya a structure centred at Antalya, connecting Antalya to the rest of the world and to Anatolia, and then as the third stage to fly direct, to fly point-to-point selectively from Anatolian towns to Europe. But despite all of our applications and desire, we are not able to proceed with the desired speed to realize this plan before civil aviation, we have expectations and applications, once these are put into practice in Ankara, you shall be seeing our actions to this effect.

**“MEHMET BEY SPEAKING ....” – 44:52**

In other words, we had applied for nearly 70 destinations or for frequency increase in the already existing destinations, 30 of these are met, while 40 are still on the waiting list. As soon as these are taken into practice, we shall be facing with no hardships in respect of utilization.

**“GÖRKEM GÖKER SPEAKING ....” – 45:10**

Thank you very much, I appreciate.

**“MODERATOR ....” – 45:20**

Now we can take the questions in English.

We have a question from Alexander Kazbegi from Renaissance Capital. Please go ahead.

**“ALEXANDER BEY SPEAKING ....” – 45:42**





Good afternoon, how much cash you need to pay for financial leases over the next one and a half year so that 2016 and 2017 from the outstanding how much cash you think you need to use to prepay for the claims which you still plan to acquire it's about i guess eight to this year and 9 aircraft next year and what is the expectation from your sales of the planes how much cash do you think you can reach?

Thank you very much.

**“SERHAN ULGA SPEAKING ....” – 46:37**

At this point, considering the coming period of one and a half years, it appears that we have a cash requirement in the amount of approximately 200 million EURO. Of course this is before any aircraft sales are made. This is surely an extra cash requirement in addition to the present status. And to this effect, we have already taken necessary measures, conducted the negotiations with the banks. Naturally, as aircraft sales are realized, which figures do not include our aircraft sales – this figure is to be reduced up to the cash inflow. I hope the answer is sufficient.

**“SERHAN ULGA SPEAKING ....” – 48:23**

I think the attempts made are in relation with 3C enterprise, more details particularly both in respect of cost as well as towards increasing revenues, I would like to say this, in other words optimization and beyond reviewing re-organization processes actually with contribution from all members of the family, on one side reducing the weight of boarding cards at airports, and on the other side working with a global giant advisor and figure out how we re-structure Air RMB, how do we improve and develop the already existing dynamics, while besides and further to continuing with landing with single engine which we have been practicing ever since the past, in landings, indeed applicable in instances over three minutes, now we have started to implement at our HUB where due to extended taxi time, to make taxi with a single engine, in other words to taxi with single engine prior to departure and to run the second engine at the beginning of the runway, on the other hand after introduction of Central Air Traffic Control Smart at Ankara in March 2016, requesting a route over 23-25 thousand feet, not possible at lower altitude due to technical reasons, but upon asking for a short route both to speed up the flight in other words not your plane in the meaning of time, and to make fuel saving at the same time takes a long, long time, you know there are lots of airways, routes in the air. These airways are drawn in advance and it is not always easy to surpass this, to achieve this. To achieve this, we have several plans ranging from training of our captain pilots in recurrent training sessions, to this effect, via visual approach in other words from automatic landing to encouraging captains via visual approach, minor as well as major that is extending up to the revision of our existing handling contracts, our Airport contracts, there are various creative plans, when you look into it. In digital marketing, which I have also become aware of recently, there is an IBM product called Tealeaf and appearing when you enter the system from various web sites, systems bringing together web site errors and correcting these, up to more efficient use of Google analytics, take my word that we have a family member mass with an executive team running all around. I hope this has been useful in respect of providing colour. Let me tell you that I have not heard the other question due to the noise. I think it was a question regarding flexibility of the aircraft that is the flexibility of the fleet. As we have said, reducing the age of the fleet at normal world standard, in other words as in world classification we are considering to sell those aircraft with major maintenance period coming, as is without commencing the same, we are implementing this. 2016 and 2017, with respect to the contracts of those aircraft we shall be taking on delivery as is on the 17th of October, we are doing nothing, and in other words we are taking on delivery of the same under these contracts. We are re-negotiating 18th and 19th with the manufacturing companies. At present, an arrangement allowed and permitted to our side under our contracts. At the same time, within the existing framework, we have no request from our colleagues in the leasing companies hiring us aircraft, involved with operational leasing, concerning any early return of aircraft or revising this.

**“OSMAN MEMİŞOĞLU SPEAKING ....” – 52:40**



Hello, many thanks for the presentation, and I am particularly grateful for having issued it yesterday evening. I think it was referred to the sales of these 5 aircraft if you could kindly give another figure on part of the Fleet. In the presentation, fleet quantity appears as 82 and 87 for 2016-2017. Would these figures be reduced as a result of the aforesaid sales figure, this is one of my questions, whereas my second question is that in your CASK estimate, there are very serious drops in terms of Euro for the first semi-annual period, in respect of overall CASK. Notwithstanding this, isn't 1 to 2 percent very conservative, your oil price estimate might possibly be very different? You could share this. And finally, I am very well aware that we are in a very difficult situation, but could you please give any colour for year 2017 particularly following this action plan?

**“SERHAN ULGA SPEAKING ....” – 53:57**

Now, let me correct this right away. As I have already stated before, in the months of May-June 2017 that is in the pre-summer peak months we are involved with the purchase of five 737-800 aircraft for which we have made and entered into agreements. Therefore, sales up to five in respect of such aircraft subject matter of the sales of eight old aircraft in our fleet, and although considering that this would occur as long as it is in consideration for the correct market selling price, that is here we have no excessive excitement in a meaningful manner such as let us run, make this, do that, it is whatever it is, that is as long as the market allows for the correct price, we have such a thing, such an enterprise, second is that the figures you see in respect of 2017 do not include this 5, or any quantity up to five, since it is not definite as I have stated. Therefore here, if it takes place it would be required to reduce such aircraft from that figure, depending on the number of aircraft we shall be selling. Eventually how it shall be affecting now that is I think your question is about CASK. In other words, there are two matters that should not be forgotten, since it is diminished the production per aircraft as is, beyond our forecast, that is beyond our expectation because we are ordering the aircraft in accordance with the expectation, the steps under the strategic planning made, you are required to have placed such orders at least 2-3 years in advance, as a matter of fact as you know we had placed the order four years ago. But with the newly arriving aircraft, in other words to establish a base at and position a small fleet there. We had never anticipated that it would reduce by fifty percent our speed in such matters like carrying Antalya worldwide, carrying Ankara worldwide, and connecting various cities of Anatolia to Europe. Consequentially, the low rate of utilization caused by the same is forcing us to act in a conservative manner despite the foregoing, while explaining unit cost CASK, while on the other hand you know we provided two aircraft on wet lease, and the ASK of these is not on our account, that is the costs of our aircraft consist of the costs of our colleagues flying there, their costs, aircraft costs are on our part, but the ASK generated in connection therewith is not on our part, so I can say at this point that it has roughly an impact, in other words a cost of 0,2-0,03 Eurocent', but has no ASK, in other words consequentially it is not to be underestimated, when we look at all of these, in respect of wet lease, negotiations are ongoing at different markets. There are even certain advances which we consider as being very soon. Therefore, if that wet lease is increase from two to five, we shall not be seeing the influence of this on ASK, those aircraft shall be causing us gain from fixed costs, and we shall make some money beyond this, but unfortunately we shall not be seeing its one-to-one reflection on the unit cost, in other words and so to speak, this is a technical matter. Because the airline we lease to is generating the ASK and giving its rental charge, but in respect of the costs we were required to act in a careful manner in the mathematics and accounting of five in respect of the lost CASK calculation.

**“OSMAN MEMİŞOĞLU SPEAKING ....” – 57:39**

Thank you very much. For year 2017, I know it is a difficult question but in my opinion it is very important. Unfortunately 11-13 is indeed a realistic figure in this difficult environment, but they are low figures, could you please comment?

**“SERHAN ULGA SPEAKING ....” – 58:00**

I tried to give this. Now the figure figures, of course as you approach they are going to be fine-tuned and the figures shall be credible. We believe in the colour that it shall end up as such, and in relation with those figures we actually



tried to give an impression, in order words we acted in a quite conservative manner in revenue increasing actions. But this is anyway the correct approach. That is already, because some part of it, you cannot control certain increases on your own, they are subject to production, subject to permission, that is for instance you are acting as advisor, and the conjuncture in effect with respect to some other matter consists of the advisors to perform such an advisory function. They are prevented from coming to Turkey because their offices are in Ankara and such similar, these are not ours in respect of the projects to be realized, they have nothing to do with us, it is exactly to the contrary in our opinion, therefore regarding timing and the exact figure I do not deem it appropriate to speak at the moment beyond the said framework.

*“OSMAN MEMİŞOĞLU SPEAKING ....” – 59:06*

You have realized thirty of the said 70 applications. Could you possibly make any timing estimate at this point? When could this be realized?

*“SERHAN ULGA SPEAKING ....” – 59:21*

In other words we are working as best case, we are trying to do our best. There, the economic conditions we are involved with are of essence, because since allocation of some of these new lines is coming from the past, we feel at ease and for the time being. Because in respect of the load factor, because most of these would be international lines, which could create problems. Particularly the direct flights from European countries as well as Middle Eastern countries to Antalya, here load factor is not quite problematic, therefore we are in Inferno, if granted right away, we would be pleased but shall we be able to fill, there might be arising hardships concerning utilization or Load Factor. Therefore we are not applying too much pressure.

*“OSMAN MEMİŞOĞLU SPEAKING ....” – 01:00:13*

I understand. Thank you very much.

*“MUHARREM ÖZER SPEAKING ....” – 01:00:23*

Hello. Thanks a lot for the presentation. My question is as follows. Is there any covenant breached in the finance structure and estimates for the end of this year? I just wanted to ask, thank you.

*“SERHAN ULGA SPEAKING ....” – 01:00:38*

That is, the finance structure at the moment is subject in full to a finance agreement under financial leasing made with a private bank like American Exim Bank, under none of the foregoing we have ever breached any covenant whatsoever.