



**PRESENTER SPEAKING ...." 00:00**

Esteemed participants, welcome to the conference on the financial results concerning third quarter of year 2016 for Pegasus Airlines. Our conference is now starting. I am leaving the stand to the CFO Mr. Serhan Ulga and the CEO Mr. Mehmet Nane. Mr. Mehmet, kindly go ahead.

**"MEHMET NANE SPEAKING ...." 00:19**

Hi everyone, you are very welcome. Today, we shall try and attempt to explain you our figures and performance as of the end of the third quarter. And while doing this, we had certain initiatives we had previously shared with you at the time of describing the results of the second quarter. We had identified these as 3C. They were studies as to how we could make favorable for us the current environment. We shall also attempt to share the developments as well as our achievements pertaining thereto. Therefore, I am giving the word to our CFO Mr. Serhan to continue with the presentation, and as and when the subject matter is discussed, I shall be trying to provide support and assist him in this process.

**"SERHAN ULGA SPEAKING ...." 01:16**

Good Morning, everybody. Proceeding with our presentation, we might start from the second slide. In general, here we desired to highlight the cyclical developments, and besides this due to the current process we are referring to an aviation market influenced by both the decrease in the traffic in Turkey and drop in the number of foreign nationals arriving, as well as reduction in the passenger traffic in general traffic in the coming third quarter. Despite these, we shall be sharing with you as you would be seeing on the coming pages that Pegasus has increased its market share and experienced a growth. Looking at the third slide, one could state that compared to the second quarter of the past year, number of passenger has reached 6.8 million with an increase of 2.6 percent and our rate of occupancy has remained parallel. Here whatever in my opinion is important that the side income per guest has increased by 14.5 percent, reaching 10.6 EUR., if I might say. And in our total revenues there is an increase of nearly 4 percent. As we examine on the fourth slide the analysis of total revenues, we might see the usual in other words the causes of all times. As a matter of fact, we are observing in this period that the development is towards a constriction in international lines or the pressure thereto is reflected both to the rate of occupancy as well as the unit price, this has an impact of almost 78 Million Lira in terms of shrinkage compared to the same period last year. Notwithstanding the aforesaid, increase in side revenues is reducing such impact and based on the amount generated by the growth in volume, we have increased our total data in the third quarter by nearly 51 million TL, which included increase in rate of exchange as well.

On the fifth slide, we attempted to review the evolution of the growth in the third quarter. Here, after plotting the growth in the market, we see here that the performance of Pegasus here as the increase in the number of guests is well above the growth of the market, in domestic lines. At a period when the market growth in international lines has suffered a very serious constriction, we observe that the guests of Pegasus exhibited an increase. While this has resulted in domestic lines a unit revenue increase in terms of TL as well as an increase of nearly 1% in the rate of occupancy, this has resulted in international lines in respect of growth to a constriction of 2.5 percent in the rate of occupancy whereas a higher loss in unit revenues. Looking at it, on the right side there could be seen a dwindling of nearly 9 Euro in unit revenues compared to the previous year, whereas in domestic lines a growth of nearly 1 lira per guest, in other words an increase in unit revenues.

On the sixth slide, as a matter of fact we have once again put here whatever is currently known. This is a slide related to the capacity management that I shall be describing at a later stage. Therefore, here it is given "as is", in other words the breakdown of existing contracts, their composition as well as current plane orders. But I shall not reiterate here the ventures we have attempted hereunder, and thus the figures pertaining thereto. The attempts we have made in connection therewith, I want to express later on the corresponding sheet, that is what we have achieved regarding capacity.



On the seventh slide, there is the footprint of Pegasus, in other words a map showing domestic as well as international lines, that is its total network. And this is an indication of the variance and details of the markets we are reaching and having access to. Here, in conclusion, we are at present flying to 102 destinations in 40 countries.

Looking at the eighth slide, this is one the two slides that we very much like. As the first of such FAVKÖK and FAVK slides, on FAVKÖK, impacts reflecting on the revenues are included therein, in other words the pressure at international lines is exhibiting its influence. Besides this, impact of fuel introduced in a positive sense is protecting from risk as well as bringing a balance to the same. As a matter of fact, looking at it you see a net and unchanging EBITDA compared to the previous year. Meanwhile, EBITDAR margin of 37.4 is one of the best EBITDAR margins on the market I have seen up to the present day.

Looking at the ninth slide, this is our cost per seat-km supplied. Here, within framework of costs, we are putting aside the influence such Euro TL -TL inflation effect not under our control that we know, under framework of costs, the impact on basis of operation, while on the other side, after putting aside the costs of any delay occurring and looking at the items under our control, here the most important, which as a matter of fact I do not actually think that it is under our control, but we have still classified it as such. Low per plane low ASK production, in other words what does low ASK production per plane mean? We are growing volume-wise but the planes are not able to make the desired number of production trips both due to the crowding as well as on grounds of such slot management or mismanagement. And consequentially this means that it cannot generate this ASK, and this has a serious cost, it is required to express this. Besides this, within framework of our capacity management, there are two aircraft we have given on Wet lease, in the cost of the same there is a part we call ACMI meaning Aircraft Maintenance Insurance and Crew Cost, a part that is not generating any ASK. And the influence of this is contained in CASK analysis, it is required to be included as well. Likewise, the impact of the change in the structure of the fleet is continuing. And this is taking us from 2.32 to 2.60, these are the parts of the same. We shall be making and posing our comments in connection with this, in connection with capacity usage, in the coming parts.

On the tenth slide, it is required to be looked at the following.. Concerning the balance sheet, figures are available, distribution of foreign currency etcetera, but we are at a position where cash is generated from the operations at the same period. If you look at it as cash, majority of the increase in cash actually arises from our investments. These consist of PDP payments we make for delivery of the aircraft, spare aircraft purchases and the like , and originate from such spending we have made for similar investments. We could thus interpret the change in cash accordingly.

It is contained our foreign currency money position on the eleventh slide, as included in this cash flow. Pardon me, on basis of operational expenses. Thus, this includes a recent and new development, which started in October. Upon conversion of the remaining salaries in the Company in terms of Euro into TL, Euro salaries that is the rate of costs in Euro are reduced, costs in TL are increased and therefore it might arise that we have the opportunity of becoming more Euro long, for the following period's foreign currency protection contracts for the hedge we shall be encountering there the natural consequence of making a hedge. I believe we have taken a correct step and action.

On the twelfth slide, we are expressing the latest status of risk avoiding operations. Here, as I have already said, as of the year end we are working on a new strategy for being protected from risk, particularly for fuel, which we shall in due course be sharing this with you. We are working together with our esteemed advisors on a strategy on a regular and dynamic strategy. However, you shall since than not be seeing any change on our already existing hedges. On our Chooser Forward renowned hedges there is a figure in October, for those hedges made directly, as Swap, there are our outstanding hedges till end of December, for year 2017 and later there is no fuel hedge whatsoever. It is possible to talk to that effect when time comes to the action plans. As one of those, we can start with capacity, from the right most, in parallel to this fast taxi route, there is an increase in capacity utilization, In other words there under a procedure enabling facilitation of proximity in landings the production is relieved, or we are anticipating that the official figure gets nearer to the actual one, this would be an advantage for conversion of the aircraft, it would turn out to be an advantage for our side. In respect of capacity, we have up to



the present day postponed to 2018 the deliveries of three of our 5 Boeing aircraft scheduled to be delivered in 2017. Although it has been arrived at an agreement therefor, its contract is not yet executed, negotiations in detail as well as certain other discussions are still continuing. In this respect, we have put on sale 5 of our aircraft. This at the same time aircraft renewal and selling strategy for the aircraft before the time for first major maintenance time comes, which is generally in effect with LCC's, this process is still ongoing. Further to the aforesaid, in connection with the capacity, our colleagues in the commercial department shall be assessing the winter, they shall be taking into consideration the seasonal volume dwindling in winter. There are Wet lease operations therefor. It is at stake our Wetlease attempts for a winter with 2 to 4 aircraft or for a longer period of time, there are certain demands to that effect on the discussion table. Therefore, this means that we shall proceed with our operations without grounding any aircraft in any way and manner howsoever. This is the aircraft sale in cash that is I consider it shall be realized in the coming 3 to 6 months, as latest. We had a Simulator, which we had purchased and paid in cash initially under our Airbus purchasing campaign. For instance we sold this and back-leased in return, this was realized. In respect of keeping cash, we have spare Boeing 737- 800 aircraft engines. We are anticipating to sell and back-lease a substantial quantity of these, six of the 8 in total or maybe 4+ depending. This would be a business that is compatible to the transition from Boeing 737 to Airbus strategy. At the same time, our spare Neo engine had an incentive in cash, in the amount of nearly 4 million Dollars, this would be made available to our part in year 2018. We have succeeded to pull this forward, it would be available to us in year 2017, we have thus been able to provide such a source of cash. Wet lease operations are still ongoing and later I shall be talking about certain other measures, by means of certain measures such income increasing precautions such as dynamic pricing of auxiliary revenues and the like. Looking at it as CASK now on the coming pages, on the next page you shall be seeing this, there is re-structuring, we worked with Boston Consulting Group. It is much more effective and efficient than our existing fleet structure, we have converted it into a structure and simplified so as to provide direct impact on lesser operation and production. We have made very substantial saving in terms of resources therefor, we have narrated the works in connection therewith later under management action plan 3C, for instance we were compelled to dismiss nearly 461 of our employees. We succeeded to realize this instantly. Further to this, we revised the contracts made with the suppliers. Labor force optimization as we have referred to in advance, we have been able to achieve that, in respect of our expenses, we have found out and devised the ways and means of spending less and spending in a smarter manner for our operations, on the side of marketing, it is still ongoing the process of mainly digital process intensification upon using our own sources. In terms of fuel consumption, under very serious discipline adhered to by our pilots, such procedures like using only a single engine at both entry to taxi as well as at Sabiha Gökçen are still continuing to show their impacts. Besides and further to the foregoing, if we continue with having a look at the cost side of the same, we are working on TURQuality Project, we consider that this would have a cost reduction outcome in the coming period, particularly in respect of the marketing related costs. I have already talked about human resources optimization, improvements, fuel expenses and such similar operations are still ongoing. Therefore, we have tried and attempted to place these next to the figures in order to add a flavor thereto, in other words to enliven the same, if any w-questions on the details arises, we could duly discuss them.

On the thirteenth slide, that is 13 is given here but pardon me on the last slide are given the targets for year 2016. Here we have considered to make the following. In fact, you have also written, I have as well reviewed those that have already been written, in other words would the management change its targets in a conservative manner in the second quarter as well? But if you are aware, in the second quarter we have made a discrimination referred to as year-end target, that is in respect of the previously given targets. Yet the other target I shall henceforth be sharing with you, with all of our investor, I shall try to express verbally the revision targeted. Moving from top to bottom, they are more or less the same, till we arrive at CASK and EBİTDAR, we see that it is both originating from fuel and on the other hand, as we bring together the influence of the aforesaid operations on this period, on year 2016, we are anticipating that our Guidance under CASK, that is the forecast we have provided for 1-2 to 3-4, as of the year-end. Similarly, I am considering that not only due to and on grounds of CASK but at the same time relatively and as far as we could see, in the fourth quarter due to a slight mobility in respect of a positive income increase per passenger compared to the previous year, we could possibly revise FAVKÖK as 14 and



above. And we have wished to share this with you as well. And stating as aforesaid, it is arrived at the end of my presentation. I guess it is time to proceed with the part on questions and answers. Thank you.

**“MEHMET NANE SPEAKING ....” 17:26**

Well, if I would be making a general roundup before questions and answers. We have particularly referred to 3 C's in the previous quarter. Such 3C comprise of Cash, CASK and capacity, our works pertaining thereto we have incessantly continued therewith in the third quarter as well and attained the net results referred to by Mr. Serhan under the relevant headings. The positive impacts of the same shall be duly reflected to the third quarter, the fourth quarter and more essentially to year 2017 as well. Such measures we have taken were actually very serious packages, in other words the permanent conversion of the company's salary payments from Euro to TL to a certain part and extent, a specific reorganization for instance as we have seen on the presentation, the number of personnel directly reporting to me was reduced from 17 to 8, the changes made here, the changes made internally under the departments, more effective operations regarding capacity utilization, instead of grounding the aircraft, letting the same on Wet lease and thus generating cash, rather than consuming cash, as well as any other activities to enhance the efficiency in the operations, at this stage we have taken certain measures such as switching over to process methods, conducting process activities, and we shall be continuing to adopt the same henceforth. At this point, our principal target is, as goes the Chinese proverb, to transform the current crisis into an opportunity and here our main target is to upgrade our sustenance upon becoming more effective and plain.

I am thanking you as well. We shall be pleased to take the questions, if any.

**“PRESENTER SPEAKING ....” 19:27**

Thank you. Esteemed participants, if you wish to direct any questions, kindly press buttons 0 and 1 on your phones in this sequence. If you are listening to the conference via loudspeaker, please ask your question over the mouthpiece. Kindly wait for the first question.

Our first question is from Mr. Alper Pak soy from TEB Investment. Please go ahead.

**“ALPER PAKSOY SPEAKING ....” 19:57**

Hello Mr. Mehmet, Mr. Serhan. Thanks a lot for your presentation. I have a couple of questions. If you kindly allow, one of these questions is related to pricing, in the first half we had observed in Pegasus a crucial drop in prices based on Euro. For instance, in the second quarter a reduction in the unit prices at the rate of 25 percent in respect of international flights. We're seeing that such drop in prices receded back to 10 percent in the third quarter. However, certain adverse incidents took place in Turkey in the meantime, those which took place at Atatürk Airport, how do you negotiate and match this with the coup attempt? How do you explain it? What was done there, and I wonder what kind of a course could henceforth be taken. In the previous presentation, due to such aircraft purchases, most probably due to the advance payments, it was referred to an extra fund requirement in the approximate amount of 200 Million Euro til the end of year 2017, is it possible to be provided with any updated brief, and is there any change? And yet another question concerning EBITDAR in connection with the revised estimation, I am sorry to have missed it. I would be very pleased if you have said the range of 14 to 16 percent or 15 percent.

**“SERHAN ULGA SPEAKING ....” 21:24**

Mr. Alper starting from the very last, I have said 14 Plus but not, 15. There it should be say act as follows.





**“MEHMET NANE SPEAKING ....” 21:32**

That is, it seems it is going to be realized as 11-13, 14 plus, provided everything is and remains constant. Let me still state our requirement for finance, our main objective is to close the coming process without being in need of any extra finance, here we are trying to take and adopt all kinds of precautions that could achieve this, in respect of reducing expenses, and if you like Mr. Serhan shall be explaining this change in relation with the price, in other words how we arrived at 10 percent from 25 percent in terms of Euro.

**“SERHAN ULGA SPEAKING ....” 22:08**

Naturally, there as weighted in other word two issues. On one side, from wherever you look, the season is part three, that is since it is the third quarter there is a natural growth and improvement, second and third. On the second, upon focusing on the transit in trade attempted strategically by our colleagues, upon emphasizing transit pricing as well as transit flow, their works to that end have caused an influence. In place of direct Point-to-point most strategic, yet actually strategic by means of approaches and campaigns towards the Turkish consumer, under a strategy providing support to the outbound departure of the Turkish consumer, departing for abroad, a revenues management this has been successful I still consider. I have answered your first question I believe, have we answered your question with respect to cash posed in the meantime? I assume I have missed it while looking at the other figures. In other words, do these answers satisfy you Mr. Alper, is there anything missing to this end?

**“ALPER PAKSOY SPEAKING ....” 23:13**

While referring to this, saying that we are planning to resolve our finance problem through our own measures, Mr. Serhan is it included in this the 5 aircraft provided for sale, I believe? As one refers to the measures?

**“SERHAN ULGA SPEAKING ....” 23:28**

Now, believe me that we are looking all around. We had said 5 aircraft, we came back, sat down and worked on that, we sold, leased back such Simulator that we had purchased in paying cash therefor yet received on site at the side of the aircraft defund for discounts t a later stage. We received from such sales 10 million Dollars, I am narrating this for the sake of generating cash. Now there are spare engines called 7B engines in respect of 737-800's, we had explained this previously, what we have taken are the costs in relation therewith, the purchases, these are the aforesaid aircraft sale, incoming of the new neo and in parallel to the shift of the mixed fleet towards Airbus, both in order to review the requirement as well as using the same on basis of leasing, selling and back leasing a substantial part of such 8 engines, maybe a few of the m, I am not confirming this figure as definite at the moment. We are now considering the alternative of outright, in other words directly selling and not using at all, we are pondering on how we can possibly achieve that. Similarly, these are very major assets, cash therefor has already been paid but at the moment in order to recover that money in favor and to the credit of the company, for instance a figure we have received in advance for Neo, which is to be defunded to us in future in year 2018 contractually, pursuant to the maintenance and purchasing agreement, for example we have discussed and negotiated that with the manufacturer and obtained their approval in principle. What does this mean? In year 2018 there would be no cash outflow in relation with the engines in the amount of 13.8 million, nearly 14 million Dollars. Because they are going to be covered from the loan, and this in turn is also creation of cash. Whenever you bring together all that is related therewith, in other words as and when you leverage your active (assets), I have not found a Turkish word therefor right now, both its utility rests with you, and also you gain he cash part, this was the precaution required to be taken at this period. We are doing these, but we are not providing any concessions from the security, reliability, integrity as well as quality of our operation. In other words, this is the whole story. There are other similar stories as well. For instance, flying the first CFM engine neo for the first time



worldwide has been a major advantage. If you ask why, I ask in return what is typical in aircraft engines. They finance 85 percent over a period of 10 to 12 years in the market that is the entities providing loan facilities, while you cover the remaining 15 percent from your equities. But such engine, such aircraft, since we are the Lounge Customer of these, since we are one of the customers around the globe and making purchases over quite substantial figures, we are making avail of the difference between our prices and the current market prices of the same. As far as I know, up to the present moment, we have made no out-of-pocket contribution to our aircraft, we could finance them with the funds we were able to resource, and this is an important issue. In other words, these are matters mobilized under financial affairs, senior management and finance management of Pegasus, upon coming together the intellectual aspects thereof, and therefore we believe that next year in 2017 there would arise no finance requirement. But this of course is "as is" ceteris paribus that is something else takes place henceforth which is conjunctural and beyond our control, I cannot say anything about it right now.

**"ALPER PAKSOY SPEAKING ...." 27:03**

I see. Was is continued to be taken measures pertaining to the number of employees following the third quarter? Is it possible that as of end of year 2016, we could see lower figures and observe there any extra saving?

**"MEHMET NANE SPEAKING ...." 27:22**

Definitely. Indeed. In other words, let me put it as follows. This would henceforth be a non-stop work for us. In other words, whatever is required for us to do, which we internally analyze this under a Project named back-to-basics B2-B. We shall be continuing with such activities on a non-stop basis and shall attempt cost-cutting at every field we shall be enabled to do. As I was saying a short while ago that in Chinese crisis means opportunity, the reasoning as well as my intent in the background were as such. In other words, we shall be ongoing with our studies and ventures as to how we could make favorable the conditions we are faced with.

**"ALPER PAKSOY SPEAKING ...." 28:06**

Thank you very much Mr Mehmet

**"MEHMET NANE SPEAKING ...." 28:09**

I thank you.

**"PRESENTER SPEAKING ...." 28:14**

Our next question is from Mr. Kerem Tezcan of Citibank.

**"KEREM TEZCAN SPEAKING ...." 28:20**

Hi Mr. Mehmet, Mr. Serhan. Thanks a lot for the presentation. I would be posing two questions, one of these is that at Sabiha Gökçen, at present at any and all kinds of pockets as well as for Turkish Airlines you are in the course of a capacity decrease in general aspects. To this effect, as we follow-up one-to-one in general, as far as no official announcement and release therefor are made by the company, we know that there are 30-32 aircraft, and almost half of these are under neo configuration, on side of Turkish Airlines. I would like to ask you the reflection of this at Sabiha Gökçen In other words, is Turkish Airlines confronted at Sabiha Gökçen with a condition like skill back? And on the other hand, we are gradually moving towards a curve where problems for year 2017 shall be started to be discussed. Obviously it is very difficult to predict this through such cyclical developments experienced. But in general you have pretty well described those to be made on part of the



demanded price that is on the cost side. What is your forecast, that is looking forward from the date of the present day, unless very extraordinary circumstances occur, do you expect to see the recuperation in the demand right away in the first half, or are they left to the second half, and also in respect of pricing, how do you see it in the first half and in the second half, I would like to learn this.

**“MEHMET NANE SPEAKING ....” 29:52**

Let me start once again from the end. Demand and pricing are phenomena that could make up and recuperate within very short notice and we too, in order to achieve and realize this, every month, every week and every Thursday we are launching diverse and varying campaigns and upon announcing these campaigns primarily on the digital media and ensuring that they are disseminated very rapidly worldwide, so that we provide for our occupancy rates and create demand. For instance, in the business we are handling both locally as well as abroad, under such campaigns in October, we received demands in such numerous quantity that our web sites got blocked and we achieved this solely basing on one-day campaigns we made on digital media, our flexibility in that respect, our agility is higher. Regarding Sabiha, at Sabiha we as Pegasus do not have any net decrease. We are solely shuffling the portfolio, and while doing this, since we have already entered the winter season, there are both reduced lines and enhanced lines. To give an example to the foregoing, as we reduce the size of Ankara-Istanbul line and enhance Bodrum-Dalaman line, in winter we reduce Bodrum-Dalaman and increase Ankara line or this is valid in the same manner for international lines as well. It is net-net that at Sabiha Gökçen we have a capacity increase, no decrease in capacity, it is so with the new lines we have undertaken. Let me give you a very simple example. This week we arrived at Bishkek from Sabiha Gökçen under 3+ new frequency, which means 3+new flights for us and it would also increase the demand. Reduction of Turkish Airlines in size, we too are following from the press in the same way as you, if I am not mistaken, 20 odd numbers of these are realized in respect of aircraft on single corridors and we have an anticipation purely on estimation and forecast that the part of the foregoing to be reflected to Sabiha would possibly be in the range of 5 to 6.

**“KEREM TEZCAN SPEAKING ....” 32:07**

I understand. Thank you very much. I have an extra question which I forgot to ask. As a matter of fact, currently there happens a very rapid increase in side revenues. Looking at it generally, while expecting the same to be realized at the range of 10 Euro, 10-10,5 Euro range, they have started to exceed these as well. Would this continue with the same momentum, is that your expectation for year 2017, or are we gradually approaching a softer rise.

**“MEHMET NANE SPEAKING ....” 32:38**

Well, our expectation is to ensure that this is increased somewhat more. Because under such measures and precautions we have adopted, we are aiming to increase our ancillary income, our side revenues. Naturally as and when these are implemented in a rapid manner from the present to the future, we anticipate that there is still a lot of things to be made and see the old ones on basis of quarters. In fact, the increases we have achieved from the past quarter to the present one, and reflections of the changes made we have seen and observed, one of the principal impacts of this consisted particularly of a change made by our side in the ancillary regarding baggage income. Besides and further to this, the Commerce Department is working on different projects by means of the changes we make on our menus and thus increase our ancillary revenues in the coming periods.

**“KEREM TEZCAN SPEAKING ....” 33:43**

Thank you so much. I very much appreciate.



**“PRESENTER SPEAKING ....” 33:50**

Esteemed participants, if you wish to direct any questions, kindly press buttons 0 and 1 on your phones in this sequence. Thank you for waiting.

We now have a question from Osman Memiřođlu, Bank of America, please go ahead.

**“OSMAN MEMIřOĐLU SPEAKING ....” 34:09**

Hi. Thanks a lot for both the conference as well as the presentation. I would kindly pose two questions, one of which is on the turnover side. In the presentation, you have made a remark that 24 Million Lira in respect of Wet leases. Which amount of impact have we seen in the third quarter and do we see this in respect of Charter operations? Or in respect of external revenues? Where could we see it, if you provide assistance therefor, I would appreciate. And if you could kindly give some more information to us about shifting to self-handling at the side of expenses, for instance would the figures we see there at the level of Grand handling be started to get reduced due to such a change. What could one predict at that segment? Thank you so much.

**“SERHAN ULGA SPEAKING ....” 34:59**

Mr.Osman, these expenses appear to be included in the charter revenues, pardon me, the Wet lease Income appears to e included in the Charter Revenues. We shall later be calling you back for the full influence of the same in the third quarter. It is not available in front of me at the moment, but we shall be seeing the actual impact, it is a contract of 18 months, in the course of the coming period, in terms of running bases in other words in an ongoing manner. Coming to your second question, it is in fact required to be considered as follows, you are saying that such handling is reduced or it is proportionally reduced. That is true but of course if you look at year-today, in other words nine months to nine months profits, you will be observing that the payroll has shown an increase at the same time. Here, indeed since we have performed Ramp side starting from May, it is required to be seen that the payroll costs of our colleagues employed and working over there are entered and included in such payroll categorization. I might also say the following, the feasibility study we have made and per turn which we call in the actual sense third part, in other words for each and every flight we realize at Sabiha, domestic-international of course the mix therefor is different, on our contract, we produce and generate it cheaper than the unit cost on our former contract, we are monitoring this, our colleagues are monitoring the same in an effective manner, so although this is the case, what is happening? Indeed since headcount LCC' s also have a KPI, the headcount appears to be high but this is a rather average (mediocre) issue, because you can possibly outsource it, you might be ready to pay higher monies, your headcount could be very low, this is a resolution as well, I am not speaking so as to underestimate but our decision is such Airport capacity in Turkey, and the suppliers and providers there are operating in a very monopolistic market as you know, that is there is no competition in the critical sense, and since there is none, if any other chap at any other site within Europe involved with the business of LCC like us generates a genuine competition and runs around, unfortunately in Turkey certain fully meaningful competitive free market equilibria are not generated. Therefore, our tendency was, still is towards the aforesaid, yet in terms of strategy we have arrived at the point of performing this internally on our own, but it is required to view this as such, payroll expenses are increasing in 9 months, you see and observe the full impact of nearly 2000 of our colleague employees working over there, starting from May onwards. But thereafter, following sorting out rate of exchange difference and remove the increase in the number of cycles, handling cost compared to the previous year is similarly reduced. In fact as to view and consider it economically. But in terms of net, you are required to know that we are able to produce it at cost lower than the unit price on our contract with Ćelebi. And we experience very casually the quality impact of the same, its influence on timely performance, and timely take off, because ultimately we control everything from A to Z.





**“MEHMET NANE SPEAKING ....” 38:24**

Well, if we open up and elaborate this, for example besides and further to the financial reflections thereof, viewing it from guest perspective, for instance reductions up to 30% in our baggage delivery times, in other words the times for the first luggage to appear on the conveyor belt and that of the last bag are reduced by 30 percent, in other words, after landing off the aircraft the guest are enabled to pick their luggage at such period of time reduced by 1 part in 3 and then leave the airport premises, that is in a faster manner. This is a very important and crucial indicator in terms of customer satisfaction, not only financially but in respect of customer satisfaction as well. Such kinds of indicators, for instance loading of the aircraft in a timely manner and making it ready for departure, the buses taking the guests to the aircraft on time or let me say a very simple thing, vehicles boarding the aircraft causing less damage on and to the aircraft, even these are very essential and crucial indicators for us. And you had also asked about this wet lease. The impact of such wet lease to Q3 is the impact created by that 24 million that is half of the former in other words 12 million TL is the impact on Q3.

**“OSMAN MEMİŞOĞLU SPEAKING ....” 39:54**

Thanks a lot. On part of the expenses, something else has occurred to me, you have mentioned about such salaries being converted into the quarter. If we consider for full year, this year or coming year, what would the share of Euro in the expenses be then, can you provide a very rough estimation?

**“MEHMET NANE SPEAKING ....” 40:13**

Mr. Osman, I assume expenses in terms Euro shall most probably be reduced by 2 Percentage Points. Therefore our Euro extension would be increased at the same rate that is how we can predict for year 2017.

**“OSMAN MEMİŞOĞLU SPEAKING ....” 40:26**

Alright. And finally, if I could kindly receive your opinion about the works concerning the runway, that is when would it be opened? Thereafter, if I might remember well from our formal communications, as far as I can recall from our past discussions we were conversing that the present runway would be closed for maintenance, if you could kindly share with us the most recent update as far as you could see, I would be very pleased.

**“MEHMET NANE SPEAKING ....” 40:48**

On the most recent information arriving at our side, it is foreseen that the second runway would be opened in year 2018 that is before the starting of the Summer season, but as and when the second runway is opened to operation, since the first runway would be closed for maintenance, this would last nearly 1 year

The time when both runways are to be open and available is 2019 Summer Season that is the final information received by our side.

**“OSMAN MEMİŞOĞLU SPEAKING ....” 41:15**

OK. I am very grateful once again.

**“PRESENTER SPEAKING ....” 41:21**

Esteemed participants, if you wish to direct any questions, kindly press buttons 0 and 1 on your phones in this sequence. Thank you for waiting.



**“MEHMET NANE SPEAKING ....” 41:31**

Ms Zeynep, at this point I would like to provide some information. Now in general, in order to increase the capacity not only runway investment but certain other investments are also made at Sabiha Gökçen. One of these is the Express exit routes. These Express exit routes are considered to be functional as of December, at the moment there are two exit routes on the first runway, on the runway we are using at present. Such exit routes shall be increased to four, what does this bring forth technically, there is a process called land after. Said land after is an indication of the distance between an aircraft and the other aircraft to land thereafter, this is at present 8 miles before such Express exit routes are in operation, upon introduction of the aforesaid exit routes, such land after process is to be gradually and step-wise be reduced to six and four and a half miles respectively. At present, we are actually able to make 42 to 44 take-offs and landings per hour from 1 single runway. In parallel to these two new Express exit routes to be introduced and arrangement of the land after process eventually and gradual reduction of the time therefor, it would be possible for such figure to be pushed up to 50 pluses and 60's. There are works being conducted to that effect. We have this last Monday taken this matter to the agenda before both the Civil Aviation General Directorate as well as State Airports Administration General Directorate once again. They have once more repeatedly stated that they have operations therefor. This would bring a certain facilitation to us before commissioning of the second runway. We are anticipating that this too would be commissioned and made operational before 2017 summer season, and to make it happen we are actively involved in every kind of lobby activities.

**“PRESENTER SPEAKING ....” 43:50**

At the moment we have no further questions in Turkish. So we can take the questions in English. Our next question from Amir Vaysi from Renaissance Capital. Please go ahead.

**“AMIR VAYSI SPEAKING ....” 44:09**

Hi everyone, and thank you for the opportunity for this presentation, so most of my questions have been answered but there is one follow-up question on the yield's evolution and what have keep it from falling as much as in 2Q and how do you see it going in the 4th quarter as well as an update or more color on current and forward bookings would be very helpful. Thank you.

**“SERHAN ULGA SPEAKING ....” 44:44**

Pardon me, but as far as I understand from your question, I could say the following. That s, I have understood only one of the questions asked. Bookings in the fourth quarter are as we have seen in October, as far as we can see from the beginning of November, we are observing a positive impact compared to the same period of the past year. I could not understand the remaining part of the question, so could you please repeat it.

**“AMIR VAYSI SPEAKING ....” 45:09**

So more color on the evolution of the yield during the third quarter and what have keep it from falling as much as it did during the previous quarters I mean it was kind of resilient and with the ..Eh and I am just wondering what was the key driver behind it and how do you see it going forward in the fourth quarter so on a date on the yield in the third quarter and your outlook looking forward please.



**“SERHAN ULGA SPEAKING ....” 45:54**

We have already explained this, most probably it was missed, one of these is the developments and events towards Turkish consumers and due to attempts for increasing Turkish consumers departure abroad that is destined to Europe, there has been encountered a mobility in respect of revenues per guest in the course of the third quarter. Whereas the second is making transit pricing more attractive and upgrading the volume, there was an improvement and betterment upon due reflection of the same on unit income in turn. As future oriented, at the beginning of the fourth quarter we are seeing a very slight positive unit income increase compared to the previous period, it is impossible at the moment to expect this to continue thereafter. We are anyway entering into a low period, that is to act in a more conservative manner and pull the expectation at this point to an over-excessive level would at present be most probably quite premature. Here our existence, size, name, etc. in domestic lines are of crucial essence, I am putting aside our marketing power and affinity to attract the consumer, but on international lines further to our performing all of the foregoing, reaction position could be different. But I am able to make a statement about the currently available, for international lines I deem it convenient to act in a conservative manner for the future and act cautiously.

**“PRESENTER ....” 47:50**

Our next question comes from Nada Iqbal from Morgan Stanley, please go ahead.

**“NADA IQBAL SPEAKING ....” 47:58**

Hi. Thank you for the call. Most of my questions have been answered but this if you can give any color on 2017 capacity plans, that would be very helpful, and secondly do you think there is an upside to your guidance for this year given 3Q results and also how you're mentioning that yields in October are actually positive year on year. Thank you.

**“SERHAN ULGA SPEAKING ....” 48:30**

For year 2017, at the moment we are not anticipating any growth from a net-net year end to year end perspective. Due to the timing for the entries and exits of periodical aircraft, in other words such aircraft we shall be receiving anew, the aircraft that would be leaving the fleet, aircraft to be sold, there would be encountered periodic increases as well as decreases but from a year end to year end viewpoint we do not foresee and anticipate any net growth. This was part of the question. I think the second part of the question was related to the capacity plan, I believe that question nested the answer as well, but I have not quite understood the first part of the question. If Nada would kindly repeat that part, let us try to give an answer. As to the second part, we anticipate no change in the capacity, in other words no net increase from year end to year end. But yet originating from the timing of incoming and outgoing (leaving) aircraft.

**“PRESENTER SPEAKING ....” 49:43**

Can you repeat the second part of the question?

**“NADA IQBAL SPEAKING ....” 49:48**

Yes, so the first part was on 2017 ASK growth plans and then the second part was whether you see upside to your 2016 guidance given the 3Q result and the trends that you're seeing in October for yields.



*“SERHAN ULGA SPEAKING ....” 50:07*

We are at the moment not making any orientation in connection with year 2017, but we shall do so in future. That is as far as the answer goes.

*“PRESENTER SPEAKING ....” 50:29*

At the moment, there are no further questions. I am giving the word to Mr. Serhan Ulga for the closing speech. Kindly go ahead.

*“SERHAN ULGA SPEAKING ....” 50:38*

I am hereby taking this opportunity to thank you all. For sparing your precious time to listen to us. I hope it has been a beneficial webcast. Hoping to see you, I am once again thanking.  
Bye Bye

*“MEHMET NANE SPEAKING ....” 50:50*

We appreciate a lot for your attendance and listening.

*“SUNUCU SPEAKING ....” 50:56*

Esteemed participants we thank you very much for your attendance.  
You might leave the line now.