Transcription for PEGASUS AIRLINES

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Conference Call Participants

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Presentation

Operator

Ladies and gentlemen, welcome to Pegasus Airlines 2015 Quarter One Financial and Operational Results conference call. I would like to introduce today's conference host, Serhan Ulga, Chief Financial Officer. Sir, please go ahead.

Serhan Ulga

Hello everyone, welcome to Pegasus Airlines' first quarter financial earnings release presentation. Today, we'll be going over a few slides and talking about the company's performance for the past quarter, but more so important talking about how we are seeing the rest of the year, as I'm sure all of you would be very interested to hear.

First of all, the format of the session would be that I go over the slides and then try to highlight things that I would like to point to you, and then to the extent that there are some questions as a follow-up, we will take those questions, and hopefully try to fit this all in one hour or one hour and 15 minutes or so.

With that, I start on the financial and operational highlights that's slide number two. A few things that needs to be highlighted here is that the production is up by 17% quarter-over-quarter, and on the back of this 17% we are seeing in line load factors in general and increasing ancillary revenue per PAX, and a relatively flat overall unit cost for the period.

Moving onto the third slide, this is just a quick update to you to let you know what the plans and the on-going efforts being spent to deploy new flights, so I'm not going to go in that detail, but just to point out that now the company is operating 91 routes into 37 countries and which we think is a very sizeable, scalable volume and size at this point in time. The major frequency increases takes Düsseldorf, Kuwait to daily twos, Tel Aviv to daily four, Moscow to daily one, and Bahrain also to daily one. There is a planned one destination growth in domestic, which is the [sitting in] Kastamonu. Any other increases, if there'll be, will be frequency increases.

One of the most important slides in the presentation is the growth drivers and yield update. When we look at domestic, we are seeing that in the first quarter, the winter season has taken its toll in terms of growth and operations, because we have seen compared to 2014's first quarter, it had a harsher winter, especially in February and early March, even though the load factor was at par compared to last year's growth, the yields came slightly down, but TL fuel cost was down by 21.5%. On the scheduled international, again, we're looking at a relatively flat load factor, but a very strong yield, mainly being driven from Middle Eastern and Eastern routes that our network seems to be growing in that direction, so we expect to see more of that in the near future. In the scheduled international, what really has happened is the Eastern routes, the yields went up, and Western routes, the load factor came down slightly. This was partially driven by Easter shifting into second quarter and also some softness in ethnic European markets, mainly Germany and France, and so forth, on the back of increased competition from our competition. Mind you, not that the relatively softer Russian routes, as well as Russian-driven economies like Kurdistan or Kazakhstan have been also slightly impacted as part of this load factor slowdown in the first quarter. This is just a brief summary of what has happened/transpired in the revenue and load factor update.

On slide number five, on EBITDAR analysis, there are a lot of moving parts, but you will notice that year-over-year, the first quarter compared to this year's first quarter, you will see that the biggest turnaround effect came from fuel. Fuel excluding FX impact, but including the hedges, has shifted up the EBITDAR line by TL 67 million north, and there are other bits and pieces here involved in the first quarter, but all in all, we went up from a negative TL 29 million to a positive TL 11 million, a net of TL 40 million swing. Another thing to note here is, I guess, the ancillary per PAX increase of TL 10 million. This was mostly driven by the healthy increase in sales from the Pegasus direct channels.

Another very important analysis slide in the presentation is the CASK non-fuel analysis and if you look at the CASK non-fuel, going from 2014 Q1 to this year year-over-year on a quarterly basis, is mostly… you see big FX and other impacts. Most of that is coming from, obviously, FX. FX is just about 9% increase on a base, offset by some mix and other pieces. The escalation on TL cost base, this is mostly driven by handling contracts and payroll and so forth, and structural changes is basically driven by fleet structure, and another change in our ramp handling at our hub, Sabiha Gökçen. We will discuss this; I'm sure there will be questions and we can talk about it more. But converting, let's say, this Euro cent analysis into Dollar cent analysis for a like-for-like comparison with some of the other players in the market is that, for example, even though in Euro terms there seems to be €0.22 per ASK increase year-over-year. On a Dollar cent basis, you see that last year's Dollar cent is $3.06 Dollar cent per ASK, coming down to $3.22 cent per ASK, so you are seeing on a non-fuel CASK a drop of almost 11%. In Dollar terms this is, of course, and just to highlight the negative impact Euro/Dollar taking its toll in our P&L.

Moving onto the currency exposure, there are a couple of things worth mentioning. Nothing has changed on the hedging side for the overall year. These are overall year numbers you are seeing there, except that whatever has expired in the first quarter has been accounted for and there is a separate section/slide after this. We will talk about that, but if you notice that on the revenue currency breakdown you are seeing an increase in overall revenues of five percentage points in Dollar terms, and on the flipside… and you are seeing that the TL expenses on the right hand side of the slide has gone up by three percentage points, so this is basically converting all the Eastern routes… half of the Eastern routes' cycles pricing in Dollars from Euro, and so that helps to increase the Dollar earnings' portion in the overall pie. Here I also provided for you, for your convenience, this sensitivity table based on 2015 first quarter results.

On slide eight, what we have tried to highlight here is to allow you, unlike some of the other releases we have seen, to be able to trace the details of the P&L to details of the financial statement footnotes to the P&L, and to really have a good grasp on the impact of our hedging portfolio in the first quarter. The first line, derivatives subject to hedge accounting, it represents the fuel swaps which are mark-to-market at quarter end and accounted under shareholders' equity. The expired portion of that goes straight into the fuel expense, positive or negative. On the second line is the derivatives which are not subject to hedge accounting, which are basically in our case chooser forwards and FX hedging that we have done in respect of a certain contractual obligation, and interstate swaps on our Dollar financial releases. When you mark them to market, there is an impact of the roughly TL 20 million and difference, but in the meantime, though, there are maturing contracts, so TL 48 million worth of expenses, resulting in a net expense of TL 28.2 million.

On the balance sheet side, mark-to-market of the fuel swaps resulted in a TL 38.5 million difference, which is a reduction, but the presentation of this [is narrow FX] is up about TL 31 million, and we have tried to provide a lengthy comment on this, so if you were to look at this with the assumption that the Brent at March 31st price levels stayed at that level the rest of the year, which was… Brent was $55.10 per barrel, you would have only TL 34.1 million worth of expenses to be bleeding into the fuel expense line as an expense, so the extent that this Brent price goes up then there will be a… the incremental increase would result in an additional expense, and if it were to come down from $55.10, that would have resulted in an income on the swaps. On the other, chooser forwards, as you know, we have already booked market to market of TL 146 million at the end of the first quarter, and any changes above and beyond would only trigger that marginal change in that fuel for the remaining volume in the P&L, so those are ineffective and go straight to the interest or finance expense time. I know I've taken a little more on this, but this has been something that we have had questions and comments coming on, so therefore we have tried to prepare a separate slide for this.

On the balance sheet update, really our continued shift from Turkish Lira to Dollars has paid off and we have recognised a 70… but net-net, altogether, if you select all the FX income in the P&L, the footnotes came up with TL 75 million income compared to a loss of TL 47 million FX loss in the first quarter last year. We are actively managing our net FX positions in the balance sheet, aligning it with our functional currency as well as the cash holdings that we have where we are short in terms of FX type, for example Dollars in this case.

Fleet update, no news other than what has been delivered into and no structural change in the near future in terms of ownership profile, other than what has been described, and financing plans and whatnot. I can take any questions if there are any extra on this.

The last, but not the least, and the most exciting part of the presentation is slide 11, where we have slightly revised our guidance compared to the year-end when we have presented and discussed this with you. This has been done because we have seen the basic economic parameters change noticeably, as well as we have seen other changes, minute changes, in our targeted PAX growth and whatnot, so we wanted to give you a revised, marginally revised, guidance and this is best we can see from where we stand. I have to tell you that this guidance takes into account the Euro/Dollar for the remaining nine months, the Euro/Dollar exchange rate of 1.04, and then a fuel assumption of $588 per ton, which represents at least trading for fuel per ton during this past week or two. We have taken the PAX growth from 15 to 17 from 16 to 18, even though our… and also decreased our capacity growth from 18 to 20. The ancillary per PAX is left unchanged and based on these, we have seen that the increase in the overall CASK is going to come down by a tick to 3-4%, and as a result, the EBITDAR margin will be maybe slightly one tick over the range than we have previously disclosed.

One of the biggest questions we are getting is in terms of loads factors and yields. We have continued the same domestic and international outlook, because this is what we are seeing overall in the domestic playground, and similarly a comparable level in the international, but I have to qualify here one thing, which is that, as I explained before, we have seen, I would say, surprising developments in Middle East and Eastern routes, seeing that we have seen huge, very strong yield gains on the back of a lower load factor, and this is not something that has been planned per se, even though the booking trend has shaped up like that. We may see in the international that we are confident of the fact that the total revenue international flights, given these parameters, we think we will be able to hit, but there may be a flip-flip between loads and yields in certain sections of the international network, but they should not materially change the total revenue production in Dollars in that network, so it may be a switch between load factor and yield at times.

This is the end of my presentation. If there are any questions, we will be happy to take them. Thank you.

Question and Answer Session

Operator

[Operator instructions]

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

Kerem Tezcan

Serhan, thanks for the presentation, very informative as always. Once question regarding the yields, considering all of those things happening in international and domestic markets, and considering that Turkish Airlines hasn't put any capacity to Sabiha Gökçen as of Q1, would you be expecting any impact or additional capacity coming from Turkish Airlines, and it creates additional competition in Sabiha Gökçen? Another question would be as we approach almost the middle of 2015, and no decision as far as we see it made regarding the second runway construction, are you seeing increasing risks for 2016 regarding the traffic, which could potentially put any pressure to your yield costs? Thank you.

Serhan Ulga

Thank you, Kerem. I think the lay of the ground I have described has been like this last year and is going to be like that this year. When we saw we are confident of… domestic is not an issue, so I'm putting that aside, and in international, which has seen the most major growth and not only from us, and from the competition as well. When I have said that we are confident to be able to be able to meet revenue in total growth. We meant what we said, because you've seen different dynamics and some of them are even new for us. For example, the Middle Eastern routes, we are seeing amazing growth in yields, and if only a few percentage points load factor coming up in Q2 and onwards, that will provide a huge push in international. The Easter had an impact on the first quarter, so you will see the fringe benefit of it in the second quarter. The third quarter looks to be strong based on our feelers out there, so there will be strong competition. I just don't think that the competition would react… would also look after for their own cost base and for their profitability, let's say, at this market and based on that, unless there are significant irrational moves and unless there are significant wacky problems to the market, and the market collapses, I think we should be able to meet what we say, Kerem.

On the second question, yes, we know as much as you guys know. There is a rumour out there that the air traffic movement per hour may go up by eight, but this is not official and not certified, let's say, but if that was the case then I don't think 2016 would be too much of a big problem, even though there will be pockets of strained operations here and there. I mean, this is part of the operation. I am not aware of any marginal cost that is big enough that will impact the bottom line for this year, for 2006. If this hearsay, if what we are hearing in the grapevine happens, I would not be worried about it for 2016 all that much.

Operator

We have a question from Alper Paksoy, BNP Paribas. Please go ahead.

Alper Paksoy

Her Serhan, thanks very much for the presentation. I would like to ask you about the tax situation if I may. There seems to be a big deferred tax expense in Q1 despite the negative pre-tax line. What do you expect your effective tax rate to be around and regarding the taking over of ramp sites ground handling at Sabiha Gökçen, has there been a date set on this when you started making the investments or is there still some negotiating continuing and we may hear different news flow depending on the developments? One more thing about the maintenance costs, they seem to be quite high year-on-year in Q1. I presume that's partly because of the Dollar strength and partly because of the operating leasing aircraft number increasing, but should we expect to see what we have seen in Q1 in the rest of the year? Thanks very much.

Serhan Ulga

Okay, Alper, if I miss any of the questions, because you asked more than one, so please remind me. The first question, the reason why the deferred tax is going up is because as often 2015, and we have communicated this before, we have run out of our accumulated losses in the tax balance sheet in our speciality tax accounting, okay, so therefore we expect that about 17% or 18% effective tax rate will be applicable for 2015, and the reason for that, the biggest reason for that, is because, as you know, we have not been putting on purchasing and putting on financial leases of new aircraft on our balance sheet, and without having double declining and speedy depreciation of aircraft acquisitions, we do not create enough shield to lower this down. That's the biggest reason, so I anticipate about 17-18% effective tax rate for the full year.

The second question was… that was ramp handling, right? The second question for the ramp handling, now, initially when we set out, we were doing a share structure with the current, existing ramp handling provider and we would have started in April if I'm not mistaken, but it just went off; these negotiations took a longer turn. Even though we planned for this, we have delayed now. This time, based on the existing information, and this is not final, and the negotiations are still going on, in the last round so to speak, but if our revised expectation is to take hold then that means we will be taking over the entire operations around October/November timeframe, so you are looking at the two different scenarios, and three quarters of 25% versus one quarter of 100%, give or take, gives you about the same economics in terms of cost structure and I don't think that that should materially differ because of this change in the on-going negotiations and on-going… or the delayed deployment of our own ramp handling.

The last question was?

Alper Paksoy

On maintenance.

Serhan Ulga

Yes, maintenance, correct. You are right on the spot, Alper, because, as you know, the Dollar strength, and this has strengthened, and this is leasing, which is operational leasing, is done in US Dollars and we have structurally switched to a… as you know, as you've been explaining, to you guys in the last couple of years, only operational leasing, not new financial leasing, so therefore you see not only this switch in the composition of the aircraft in the fleet, but also strong Dollar putting a burden on, let's say in Turkish terms, the leasing expenses and you were right on the money.

Alper Paksoy

Okay and more question, if I may. You mentioned the fuel cost assumption of $588 per ton for the remainder of the year. I presume that includes the cost of hedged fuel and that $588 according to my rough calculation is around $75 Brent. Would you be able to share with us the underlying spot price Brent assumption going into that calculation?

Serhan Ulga

Alper, when we do outlooks we don't rely on our own idea about what these economic parameters are going to be. We rely on the average of the outlook that is being presented in Bloomberg screens, where the investment bankers present their outlook, so this is $580 per ton is SIF only, it does not have inter-plane plus the hedge, depending on the rate it is going to go on it. This is a naked, pure, fuel assumption that we have averaged out from Bloomberg screens, so to speak.

Alper Paksoy

I understand. After the fourth quarter results, you had shared with us the cost of hedged fuel, if I am not mistaken around $850 per ton.

Serhan Ulga

763 it was, Alper Bey, $763 I mentioned at the time. 20 Euro/Dollar.

Alper Paksoy

Is that still valid? Is that cost base regarding hedged fuel still valid, or has there been change, because you had some hedging loses reflecting in P&L in the first quarter.

Serhan Ulga

There have been as we have disclosed on slide 8 there has been P&L impact of 28,2 in the financial expense, and there has been an expense booked into the fuel line coming from the fuel swaps, and I think we have provided these numbers before, if I am not mistaken. Nothing has changed because we have not added any new hedges of any kind as of yesterday, the day before yesterday. This is as late as it is. What was valid at yearend is valid for fuel purposes at this time.

Alper Paksoy

I see, okay, thanks very much.

Operator

We have a question from Nida Iqbal, Morgan Stanley. Please go ahead.

Nida Iqbal

Hi, thank you for the presentation, just a few questions. Firstly, you talk about the strength in yields on the Middle East and in Eastern routes. What do you think is really driving that? Secondly, on the revised CASK guidance, can you please tell us what ex-fuel CASK guidance is now? Then finally, how are forward bookings looking for the summer season. Thank you.

Serhan Ulga

The whole host of Middle East destinations, including where you live Nida has seen phenomenal yield improvements, but the dynamic that we have seen has sort of surprised us, is that that has not been accompanied on the back of an increasing load factor, as you would typically and normally expect. I think it is mostly related, and we think it is mostly related based on the competitive profile of that route at that time. That is all I can say. Honestly, this is not something we have planned on, but just seem to have found in the marketplace, if I am making any sense right now. It is, literally, almost all of the Eastern routes that have picked up that way, especially Middle Eastern predominantly.

What was the second question?

Nida Iqbal

The revised CASK guidance, what is the ex-fuel CASK guidance now?

Serhan Ulga

We look at this whole, because fuel is part of the package this year, as you know, for the reasons that is obvious, so the guidance we have right now on the table includes the positive impact and the lower hedging profile that we now currently maintain, so the guidance we have is for the total fuel.

What was the third question, Nida?

Nida Iqbal

The first quarter conference call you said the non-fuel CASK guidance is priced 10% year-on-year in Euro terms. I am just trying to understand if that has changed or not?

Serhan Ulga

The way you have to look at it is as I have told you, the Euro/Dollar, which… we just have to look at where the Euro/Dollar is trading; this is mostly driven by that, and the relative strength of the Turkish Lira in the basket, so to speak, the Turkish Lira, Euro, and Dollar basket. To the extent those…

I cannot… we have an idea what we think it may be, but I think everybody has their own estimate about Euro/Dollar performance, which is totally out of our hands and control, so you can basically manipulate this non-fuel CASK, driven above that, mostly, because that is the biggest chunk. The remaining piece is, as you know, the change, the ramp handling, the speed structure change or ramp handling etc are there and you can model this based on the existing quarter delivered, and this is what we have been delivering since last year, but that is all I can say at this time, Nida.

Nida Iqbal

Thank you. My last question was forward bookings for the summer season, how are they looking?

Serhan Ulga

Again, they are looking encouraging, I have to say, but again, there will be bits and pieces, like Middle Eastern routes that has played interesting dynamics for us in the first quarter. There will be flip-flop between loads and yields, and we just have to manage that to come up with the total revenue. I think this is the way, best, that can be described.

Nida Iqbal

Thank you.

Operator

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

Alex Kazbegi

Good afternoon, thank you for the call. Just a couple of maybe follow-ups, because I see most of the things have been touched already. Maybe on your, so to say, flat international yield guidance, just to understand again, the Middle East, of course, was very strong, what do you expect from the other parts, because Middle East at least from what I see is that maybe the bulk of the 15% Dollar-denominated revenues, is that the part which is driving this whole, so to say, massive uplift in the, so to say, effective yields in Q1. What do you expect on the other destinations, if, again, Middle East stays quite strong.

Secondly, just on the fuel also to understand, so 46% of your fuel purchases have been hedged as of the end of March. Is that hedges still have been on the 750 which we had on Q4, and so to say, the implied and the fuel price which we need to look for would be partially, so to say, the old hedges rolling off, and of course the new, which you are not taking additional ones, effectively this 588 which you are looking at now.

The last one also on the ancillary revenues, you mentioned €10. If you look at the TL, the increases year-on-year was about 3%. These ancillary revenues, how much of that is really TL, so to say, originated and how much is something else, just also to understand the currency dynamics here. Thank you.

Serhan Ulga

Okay, if I don't miss any of the questions you raised. First of all, not as big as the Middle Eastern routes, but there is actually another important player that jelled the international routes is Cyprus, North Cyprus for us, north Cyprus has shown not only strong yields but also good loads on the back of growth they have deployed over there. That was another player in this whole equilibrium, so to speak. As I indicated, the pieces that seem to be softer than anticipated were the European [ethnic] traffic and some VFR traffic due to Easter change and also increased competition geared towards the [ethnic] travel in mainly German and surrounding countries, so that was the softness of it. We are seeing, I think, the softness ease out in the current environment right now, and we are comfortable that, I think, that will come back to the levels we anticipate in the third quarter more so than the second quarter.

On the second question was, I believe, the hedging, the numbers out there represent the annual hedges, so I think there is… I just want to clarify that I think we should, probably going forward revise those percentages by the way, because that represents the annual hedges. Obviously, the first quarter we have seen for 2015, I can say, an important part of the chooser forwards expire and as a result in the P&L, and also some of the… and again, and I don't have the numbers right in front of me, some of the fuel swaps also expire in January, so going forward, we have less of that in 2015 and I don't have the exact numbers before me.

If you were to take the yearend 2014 numbers, especially on the chooser forwards, because those are accumulative in the P&L from last year, and what has happened in the first quarter. The first quarter is interesting, because even though the fuel went down, but the Dollar/TL went down much further than that, and that is why we ended up in a net expense in the P&L for these chooser forwards, and that was the dynamics.

The numbers you see, I just want to warn everyone is that represents 12 months, not for 9 months remaining, so we may have to do an update on that.

Alex Kazbegi

It is 12 months, okay.

Serhan Ulga

That is correct, so what needs to be done is the first quarter's portion has to be taken off based on the previous numbers we have given in terms of strike levels and the total impact in the P&L. You can work it backwards and find out how much of it is actually expired, roughly, that will give you an idea.

The third one was ancillary revenues. The ancillary revenue piece, I think is mostly driven by per PAX increases, meaning the FX; the number that I gave you did not include FX. Therefore, it was organic growth and based on increased internet bookings from our own channels and some unit price increases in the products, that is in the ancillary revenue portfolio.

Alex Kazbegi

Okay, thank you.

Operator

We have a question from Hanzade Kiliçkiran, Barclays. Please go ahead. Madam, your line is open now.

Hanzade Kiliçkiran

Can you hear me Serhan Bey?

Serhan Ulga

Yes.

Hanzade Kiliçkiran

Okay, sorry. Thank you for the presentation. First of all, would you please… you mentioned about that you are using 1.04 Euro/Dollar parity, but in the meantime, you have significantly your exposure on your cost base, which had a negative impact in the first quarter. What is the Lira rate that you are using for your guidance?

Serhan Ulga

We just disclosed the Euro/Dollar Hanzade.

Hanzade Kiliçkiran

But basically I just want to learn, in your guidance, do you assume a Lira depreciation against Euro, or you expect Lira strengthened against Euro.

Serhan Ulga

Are you looking at Dollar/TL or Euro/TL?

Hanzade Kiliçkiran

Basically, I just want to understand if your guidance assumes a weak Lira against Euro or strong Lira against Euro, because this is… in the first quarter we had strong Lira against Euro which had negative impact on your margin, because of the employee cost, and now Lira is weakening against Euro, which will have some positive impact on your cost base, so I try to understand your…

Serhan Ulga

I understand. The Euro/TL, what we have seen was 2.83 and Dollar was 2.71, which is…

Hanzade Kiliçkiran

Okay.

Serhan Ulga

…1.04 parity between Euro/Dollar.

Hanzade Kiliçkiran

All right, thank you, and the second question is about your handling additional costs. You mentioned about €20 million Euro CapEx. I mean, this CapEx, is this going to feed your overall costs, or is this going to be booked separately on your balance sheet, because this €20 million, if it is booked on your costs in 2015, this would represent roughly 3% non-fuel cost increase already, so this CASK increase is mainly associated with this or there are some other items that you consider excluding the FX, going to have negative impact on your non-fuel cost.

Serhan Ulga

First of all, to clarify, these are capital investments and they are going to be capitalised, financed by a financial lease from a Turkish financial leasing company. It has been pretty much secured and has been executed and will be in place in the next few months. For us to take over Sabiha Gökçen's over 60% capacity and be able to supply the ramp handling there, requires this kind of capital investment, and we need everything that is not… you need good quality equipment.

These are not operating expenses, Hanzade, this is capital investment and will be capitalised and will be depreciated over the useful life anywhere from 5-12 years, roughly. I don't have all of them in front of me. The impact of it will be only to the extent that you depreciate it over the economic life into the P&L for 2015.

You can do an average of 6-8 years, for example, and depreciate it and come up with a number on a pro rata basis, and that should give you a rough idea about the P&L impact on these purchases.

When we have provided our outlook back in the yearend, it was a combined effort. First of all, you have to compare your existing ramp-handling contract at Sabiha. You have to take that out, deduct it from the base, because now you are going to be doing it on your own, but initially we had planned it to be 25% of the total operation to be run by us, the remaining run by the existing, and then depending on how things go, we were going to ramp it up or not. Then you have to add back, which is something you don't have in the P&L, human cost, and this relates not only the payroll, but there are other overheads related to their subsistence, including training in our transportation, and there is also going to be attrition and there is going to be a learning curve. You are going to have to employ more upfront once you get it straightened out, and then it sort of evens out.

These were the bits and pieces, but the result was we came up with €0.03 marginal increase on a net debt basis, based on these results.

As I explained before, the outlook changed a little bit, in the sense that instead of doing 25%, started doing 25% in April, we have deferred this and continued to work with the existing supplier until at least through October. At which point, currently [inaudible] the investment is being done for it, then I don't think that will change. Easter transition into 100% of it, and this is what we have been saying.

Doing 25% with the headcount, related overhead, deduction of such handling costs from the base for three-quarters versus doing 100% in the one quarter or less than actually one quarter, we are saying and we have seen that roughly it is going to be equal. There will not be a major change in the total cost to the bottom line, as we have disclosed before, because the components and the drivers are different, but the timing is also different.

We maintain the same outlook in terms of cost hit on the overall 2015 financials, for all this…

Hanzade Kiliçkiran

Basically, I try to understand when you say a cost increase guidance of around 3, 4% and the fuel assumption of 588 or $75 per barrel, roughly, a rough calculation such as that you may be looking for around 7% non-fuel cost increase in 2015, and this is a substantial cost increase. Maybe I am wrong; I remember that this handling one-off items were feeding your numbers in 2014 as well. What is this extra non-fuel cost increase in your guidance?

Serhan Ulga

It is basically FX Hanzade.

Hanzade Kiliçkiran

FX, all right. Okay thank you.

Operator

We have a question from Alper Paksoy, BNP Paribas.

Alper Paksoy

Serhan Bey, if you can help with the fuel cost again, sorry, we discussed this quite a bit, but it is your major cost and the driver of CASK most importantly. I just want to understand, make sure that I understood it correctly. When you give us the guidance, the underlying spot price assumption for jet fuel is $588 per ton, but this is only 54% of the cost. The spot portion you will be buying from the market.

Serhan Ulga

Alper Bey, the first quarter is behind us and 46% does include first quarter as well. You have to subtract the first quarter from this. The first quarter impact of hedging from this.

Alper Paksoy

I understand, but let's assume for the sake of simplicity that 588 spot price would be valid for the rest of the year, for the 54%, just for the sake of simplicity. To get an idea about the likely fuel cost, we have to get the cost of hedged fuel, and I checked my notes and if they are correct, they were $893 per ton, cost of hedged fuel at the end of 2014. Again, just for the sake of simplicity, assuming that this is still valid, we would take 46% of 893 and 54% of 588 and come up with a number, Dollar per ton. Is this the right approach or would this lead to incorrect conclusions, other than the first quarter effect you mentioned.

Serhan Ulga

Alper Bey, I have just looked at the numbers again in detail. For the nine months remaining, the swap hedges represents only 14% of our remaining consumption, okay. The chooser forwards I am not mentioning for the fuel, because those are not accounted in fuel. Those are accounted in the finance expense below the line, and the hedge ratio for nine months, for the swaps, is 14%, roughly speaking, and that represents average hedge price of $911. Okay, would that help?

Alper Paksoy

Yes, absolutely. The spot price will be more effective, much more effective in the rest of the year and it was in the first quarter.

Serhan Ulga

Correct, for the fuel line and hence the EBITDA line, that is correct.

Alper Paksoy

Thank you so much.

Operator

[Operator instructions]

We have a question from Osman Dincoglu, Bank of Merrill Lynch. Please go ahead.

Osman Dincoglu

Hi, this is Osman Dincoglu from Bank of America, Merrill Lynch. Thanks for the presentation. Just to follow-up on one of your comments regarding the yields for Middle East and Eastern routes, you mentioned you switched – if I got it correctly – you switched to Dollar pricing. This reminds me, your largest competitor, local competitor has also mentioned potentially switching to US Dollar pricing for all of Turkey, including foreign flights in and out of turkey. Is that something you expect as well? Would that lead to higher Dollar portion of revenues for you? Thank you.

Serhan Ulga

Osman Bey, [audio] for the domestic travel or else in Europe, this was just done, for example, if you were to think about Dubai route, the structure of the fares in the system in accordance with the IATA rules, you were posting, for example, Istanbul to Dubai in the currency of the country that you are operating from, in Euros in Turkey's case, which was by the way determined by the other airline way back when. On the return from Dubai to Istanbul and that was determined by the currency of the departing country.

What we have done is economically we have reset this Turkish to, for example, in this case Dubai fares to US Dollars and with an exchange rate much higher than the current exchange rate. The combination of those two had the impact, with the obvious, mostly because of the dynamics in the marketplace in those destinations, resulted in this yield environment, but we don't have any intention to change pricing to Dollars in domestic or else in Europe at this time.

Osman Dincoglu

Then you would have to go along with it, is that the right… or do you have the flexibility to choose to price, let's say, whatever you're pricing right now, let's assume a German route.

Serhan Ulga

We don't have any intention to price it in US Dollars for a German route. This was so natural because there is a decent amount of travel originating from there, and somebody who is a consumer purchasing a ticket paid in Dollars, priced in Dollars, but didn't know that this piece, for example, Dubai piece was being priced in Euros and converted to Dollars. It is now being posted in US Dollars, and the total ticket is being priced in US Dollars, no conversion is taking place.

Osman Dincoglu

Okay, and just to follow up, it is may be some purpose, I am a bit confused on these ramp plans. Is there no final decision to go along with integrating this into your operations, or has that decision been made.

Serhan Ulga

Let me put it this way. The delivery of the ramp handling and the service level of ramp handling will be fixed at and around by the end of the year. What I mean by that is, I want to say, close to 100%, but perhaps just a fraction, not even 1 percentage point, I am not sure exactly right now, but it will be with us, we will be doing it.

In the very unlikely event that we have structured a platform where we continue to work with the current service provider, we would certainly be involved in a portion of this, I want to say, probably around 25% of it would be done by us, but not the full-scale. We will have to make sure that the full-scale delivery of the quality, on-time performance and everything else has to be such that it is as if we're doing it on our own, the 100%. In that case, I am just contemplating, as you asked this question right now, that there may be mix and match of the existing investment of the equipment part with the service provider, because theirs really are outdated and old.

We will need to find out a structure where this good quality equipment will be used, so forth and so on, but I would say that our hands will be there, at least one-fourth of the volume will be operated by us, so that we know exactly what is going on in the – done in the chute area, in the baggage sorting area, in all aspects of the operation.

Osman Dincoglu

Got it, thank you very much.

Operator

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

Serhan Ulga

Again, thanks for joining this conference call. We take extra pride in being able to share with you and take extra effort to be able to share with you all the dynamics of the business, so you can have a better understanding of what we are doing here, because that is very precious. I hope it went well and everybody has at least found the answers to the questions for the most part.

Until the next time, goodbye.

Operator

Ladies and gentlemen, this concludes our conference call. Thank you all for participating, you may now disconnect.