Transcription for PEGASUS AIRLINES

August 17th 2015

Serhan Ulga

Pegasus Airlines – Chief Financial Officer

Corporate Participants

Serhan Ulga

Pegasus Airlines – Chief Financial Officer

Conference Call Participants

Hanzade Kiliçkiran

Barclays

Alper Paksoy

BNP Paribas

Osman Memisoglu

Bank of America

Daniil Fedorov

Goldman Sachs

Kerem Tezcan

Citi

Omer Omerbas

Ak Investment

Presentation

Operator

Ladies and gentlemen, welcome to Pegasus Airlines 2015 Half-Year 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 and welcome to the Pegasus Airlines Half-Year Investor conference call. In the next 20 minutes or so I will run through the summary of the presentation we have put on our website and will give you some comments and explanations throughout this presentation, and then follow that through with questions that may come from you, which I am sure there will be.

I'll start with Page 2, the Overall Financial and Operational Highlights. The revenue in TL terms up by 9; ancillary revenue up by 12%, which is now at €10 per PAX, which was the promised mid-term goal to our investor friends at the time. The production went up by 15%. Our overall CASK went up by 2%. The previous guidance we had for you was 3-4%, so that increase is less than what we had indicated before. There has been a very slight softness in the overall load factors. This is mostly on the back of another significant growth, which is also coupled by the fierce competition in our markets.

On the route and frequency update, what has happened since that time – we had introduced new domestic destination in Kastamonu and since then, more importantly, we are planning now to launch routes to Multan, Gabala, Makhachkala and Türkmenbaşy and, especially other flights that we had been preparing to Amman, Baku, Algiers, Tehran and Jeddah from Ankara specifically, will help our dollar revenue earnings going forward. We are excited about that and, as of now, we are operating 92 routes with the latest inclusion of airfield from our home base, Sabiha Gökçen.

On the overall growth drivers and yield update, if you look at the domestic growth, we are pretty much in line with growth in our seat production compared to the same period last year. We have seen relatively stable load factors; however, we have seen some softness in yields in TL. There have been a couple of factors and this one is the shift in Ramadan, which now falls into June (an important part of it) compared to last year, which is important, and also competition that is coming in our home base saw a bigger churn from the other airline.

On the scheduled international – I think we'll talk about this in the guidance as well, but based on where we are today in Turkey with all geopolitical positions and for reasons that are taking place beyond our control, there has been a significant drop in the growth of the domestic international traffic in Turkey, specifically for example June has seen almost 2% year-over-year drop in international traffic. Even on the back of that, our production went up by 15% and we also have seen slightly softer load factors and, compared to last year, softer yield pressures. The reason for both cases, on the back of introducing many new frequencies and routes, first of all compared to last year Easter had shifted over like close to a 10-day time period and there has been ensuing competition in our home base.

Moving on to the EBITDAR analysis for the first half, we are net-net roughly TL 15 million down, compared to the same period last year. There have been a few drivers for this, as was indicated in our previous discussions with you. FX played a major role, where the Turkish Lira and Euro continued to depreciate against the US Dollar. This was also coupled by lower scheduled flights and load factor production – loads, international and domestic as well, of course, both operations – this was somehow negated by decreases in our fuel cost. The other structural factors that we have described before are still there, so I am not going to go into more detail on those too specifically. We are looking at the EBITDAR going from 168 million to 112-113 million, and margins going to 13.5% at the end of Q2 – again the same culprits, with similar happenings taking place in Q2 as well, which I am sure they're not big surprises to you.

More importantly, if you go to our CASK analysis, if I start with non-fuel CASK for the half, the way this time we sort out the FX impact – perhaps another good way to look at and compare the operational CASK pressures on the airline is to compare 2.43 to 2.53 and similarly for Q2 it would be to compare 2.28 to 2.46. FX – we have guided you about this in our previous discussions, and for the 6 months the other drivers are pretty much in line with what we were discussing with you, and similar impact is taking place on Q2 as well.

On the total CASK for the full year it went up from 4.05 to 4.13 for the 6 months and for Q2 it went up from 3.87 to 3.99. The main drivers behind the increase in non-fuel CASK are the structural ones, as we said; change in fleet mix, self ramp handling start-up costs that are being incurred. On the quarter one specifically, the mix and other, there has been an impact on the PBH escalation and fleet age taking place on our existing running maintenance contracts and there is also less marketing spend compared to the same period last year, which makes up most of the mix and other number, so I just wanted to be clear on that.

Currency exposure – you know, the Middle East routes have continued to perform well in yields and overall production, so we have seen the mix (our Dollar revenues as a portion) go up slightly. The other percentages remain pretty much intact and we put a star to indicate the recent change that took place; having started from 1st July, all international fares originating from Turkey are now being priced in US$, even though the actual collection may be done in different currencies. The dynamics or the economic currency is US$, so we have calculated also for the first half of 2015 the analysis of, for example, $10 movement in the jet fuel price would have impacted on top of the first half of 2015 by TL 7.2 million. On the other hand, a one cent movement in the Euro/TL and US Dollar/TL FX rate would have impacted our EBIT by TL +0.2 million and -1.0 million on the Dollar side respectively, so this is just a feel for the sensitivity.

On the hedging (our infamous hedging slide) we might have confused some of you more so than one that informs you better but nevertheless it is what it is – all it says is basically is, on the Chooser FX interest rate swaps over swaps that are not deemed effective, at year end we had provided roughly speaking TL 61 million, and then another 72.3 million expense that we incurred, so we have seen an incremental TL 11.6 million going into the P&L. I am sure there will be questions on this and we'll take it as it comes.

On the hedge programme we have this time, I think, figured out a better way to convey to you what we are actually doing, so I hope it works. The total hedge cover is 35.3% for 2015 and this represents the remaining second half in terms of coverage. We have provided certain strike prices and the volumes, the percentage there, and I just want you to keep in mind that any mark-to-market valuations that you're going to be doing in your models should be based off around 600, because last time we have provided for this the fuel was $601/ton. On the Dollar side for the entire 2015 it's 20% but we don't have any hedges in place for 2016 onwards.

The balance sheet update – one significant thing from year end is the increase of our Dollar holdings, even further by another 15 percentage points, the resultant increase in TL predominantly and some minor percentages on the other currencies.

On the Pegasus fleet update, there is nothing new to report on, other than restating the existing numbers that we had and increasing the number of operational lease aircraft that was introduced into service in the second quarter.

Last but not least, the outlook and the remaining for the FY 2015 guidance – perhaps we need to spend a couple of minutes on the overall market growth because that pretty much drives the competition picture. In our previous meeting we had on the webcast, DHMI's market growth expectation was 12% and it has been revised to 7% recently. Especially as I mentioned in the international traffic, June was a contraction of almost 2%, so having seen the competition and the oncoming softness, especially coming from Italy, France, UK and Spain, we have gone back and we want to give you a new slight revision, so to speak, to our existing expectations. The total PAX growth will be around 13-15%. We expect the full year capacity to be around again 17-19%, in line with our previous expectation to be relatively flat.

On the domestic, whilst we have seen the first 6 months flattish load factors and ongoing competition in our home base, including their and our growth we're seeing slight headwinds coming in the yields so that's going to be a slight decrease. On international we have seen that the yields were supported by strong Middle Eastern route performance, but that was offset by the softness that came from Europe. We see a similar picture to continue, where the yields in Euro terms will be relatively flat but we will see, as I mentioned, from certain bigger countries from Europe the traffic to soften up a little bit and this may impact our load factors slightly.

On the ancillary revenues, to be on the conservative side we continue to guide our investor friends at €10/pax and the full year CASK we're looking at 2-3% increase. This is inclusive of fuel; it's the full CASK and FX is going to be the main driver on this, basically the fleet mix change and the age of the fleet impacting slightly the other drivers. When I have given you these guidances, I also want to give you what we have seen and how we made the basic economic parameters that we have used to come and tell you about this.

We have seen this – our outlook was based on a Dollar exchange rate for the remaining 6 months of 2.85 TL/Dollar and 3.10 TL/Euro, and a fuel cost of $550/ton, which is just the fuel cost. If you take these and blend it all up, this is where we think we are going to be coming up. On the other hand, we see that the non-fuel CASK, which is one of the portions that we also gave you details on our previous presentation slide, will be probably around 11% up but that will be a significant offset to that coming from the fuel, which will bring it around 2-3% increase range.

The EBITDAR therefore will be still in line with our previous guidance we think, with all these ins and outs, and there is nothing new to report on the capex and cash flow. That's my 20 minutes of presentation to you guys, so we can take up the questions and I hope we can answer them all.

Question and Answer Session

Operator

[Operator instructions]

We have a question from Hanzade Kiliçkiran, Barclays. Please go ahead.

Hanzade Kiliçkiran

Serhan, thank you for the presentation. I have a couple of questions and the first one is: I see that you maintain your EBITDAR margin guidance, similar to your previous guidance, and I think you cut your passenger growth numbers. I am struggling to understand this guidance now. Would you please explain how you are going to achieve this because, when we look at your first half numbers, they would suggest a significant improvement in the second half but I can't see any revision in your CASK guidance, so that is my first question.

The second question is: can you please provide currency detail on your leverage side, the financial leasing and operational leasing, and I see that you put a Dollar/TL sensitivity table – do you mean Euro/Dollar sensitivity, because I thought that you have Euro financials, so I don't understand why Dollar/TL is going to have an impact on a sensitivity basis?

Serhan Ulga

Is that all?

Hanzade Kiliçkiran

Yes, that's it, thank you.

Serhan Ulga

I think Hanzade, what you should do to understand our CASK – especially let's take non-fuel CASK – last year the full year non-fuel CASK was 2.36 (Euro cents) so, if you take that 2.36 and apply the 11% growth that I gave you, you can go to page 6 and use the half year components as a percentage, for the base, and you can take the same components and apply that percentage and you'll come up with the non-fuel CASK growth of 11%, but that would be offset based on $550/ton which is actually even softer now. We see that based on what we are seeing in front of us. The full year CASK is going to go up in total around 2-3%. The drivers are the same. You can use the same half year percentage relationship for the base and come up with where we think we are going to be ending up at the end of the year.

Let me answer your questions. The second question was...

Hanzade Kiliçkiran

... but first regarding your EBITDAR margin, on the cost side you say it is going to be up like 2-3% and on the yield side I presume that your guidance is passenger yield, not the revenue yield – is that right – the guidance that you see a slight decline in the domestic...

Serhan Ulga

... it's the passenger plus it includes as well the ancillary...

Hanzade Kiliçkiran

... so that is the ticket price rather than the revenue yield – average ticket prices?

Serhan Ulga

These are ticket prices but if you want to go the RASK side it includes ancillary revenue as well.

Hanzade Kiliçkiran

So, if your CASK is going to be up by around 2-3% and your RASK is probably going to come down I presume, I am struggling to find that EBITDAR margin expansion.

Serhan Ulga

That is your presumption; I have not said my revenue is going to go down.

Hanzade Kiliçkiran

You don't expect revenue yields to come down, then? Alright.

Serhan Ulga

The other question was: does the TL impact on the financial? Yes, we have provided Dollar sensitivity as well because we are reporting in TL and that has implications on our reporting – TL being the reporting currency and Dollar being our major expense currency.

Hanzade Kiliçkiran

Okay.

Serhan Ulga

Another question was about leverage, or aircraft... I heard the question but I am not sure...

Hanzade Kiliçkiran

... I just wonder – I tried to understand the currency of your financial leasing and operational leasing...

Serhan Ulga

We have...

Hanzade Kiliçkiran

... are they in Dollars?

Serhan Ulga

We have provided that in the presentation.

Hanzade Kiliçkiran

You provide the cash, not the loan side...

Serhan Ulga

... cash loans?

Hanzade Kiliçkiran

Yes, in the presentation we have the cash breakdown.

Serhan Ulga

Financial leases mean the ones that have loan; mainly all of them, with the exception of one... long-term financing loans and operational leases are done with leasing companies in the market. Owned ones, we own the title and there is no financing on them. That is what it means.

Hanzade Kiliçkiran

Is it Dollar or Euro?

Serhan Ulga

There are, I believe, 6 Dollar- and remaining 19 Euro-financed aircraft on the balance sheet. Operational leases, as you know, are in Dollars.

Hanzade Kiliçkiran

Thank you.

Operator

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

Alper Paksoy

Hi Serhan Bey, and thank you very much for the presentation. A couple of questions if I may. In the slide for currency exposure you mentioned the change in pricing from July 15. Would you be able to tell us how this composition will change after July 15; what would be the share of Dollar revenues for the full year on an annualised basis, for example for 2016, or how much would it be if we were doing it for all of 2015, if we started January 1st 2015?

The second question is about self ramp handling start-up; you mention this as one of the reasons for the increase in non-fuel CASK. Would you be able to tell us where you stand at this time – how many people or what percentage of the people necessary have been hired and what would be the pace towards the end of the year? I am curious, as you hire people for self ramp handling, are you reducing your purchases from [Sabiha]? Do they balance each other out or are they running parallel right now, increasing your cost EBIT further?

I have one question on the guidance, if I may – as Hanzade mentioned, the passenger growth target is 13-15% now but ASK growth is 17-19%. Assuming ASK is a proxy for the number of seats to be offered, i.e. seats to be offered to the market will increase 17-19% versus seats to be sold will be

13-15%, so that would indicate a 2-3% decline in load factor – how should we approach this puzzle, if I may say? Thanks very much.

Serhan Ulga

The ramp handling situation is – we have not started or taken over the ramp handling ourselves but we have been employing close to 300 employees and there are new ones coming in with the potential to take over when the course of the contract runs out at the latest by the end of June (if I am not mistaken) next year, and so far they have been doing a decent job – it includes quite a bit. We may consider going the full – early summer next year versus November as we have been saying, so the margin costs you are seeing are certain overheads that are being incurred plus close to 300 people that are being trained already on the ground, in the ramp, and their managers also having been hired. There is an extra payroll cost that is associated with this.

As far as the pricing change, starting from July 1st onwards, I believe (in our disclosure to the public) we had indicated that international fares, ticket sales originating in Turkey, constitute about 13% of our annual revenue, as the 2015 pro forma (you can take a look at) puts it that way, so that means there will be 13% overall more Dollar revenues kicking in, which is disclosed.

The last question – if I am not mistaken, you are trying to understand the full year 17-19% growth in ASK versus 13-15% PAX growth – this is ASK, not seat production, so there is also a stage length impact involved as well as the seats themselves. What we are basically saying is – we are not saying actually anything new in the sense that production is going to be again comparable to what we have been guiding you before, even though the components of it may have changed a little bit. Overall the domestic will be flat but if you consider the overall domestic growth – you can find it in our numbers – and use it as a model base case, you can look at our international growth – if you look at slide 4, you will understand what we mean – the seat numbers are there, for example, and that should pretty much answer the question. If it is not clear we can do one more round on this one.

Alper Paksoy

Regarding the change in revenue composition, you mentioned the 13% announced and international revenues are like 60% of Pegasus' revenues, so 13% times 60% would probably be around 8-9 percentage points. That means instead of 13% Dollar revenue here, we would see 21-22% share of US$ in total revenues by next year, maybe? Is this the way to read it?

Serhan Ulga

It should be close to 30%, I would say.

Alper Paksoy

Okay, I see, and regarding the ASK and number of passengers guidance, does that mean that by the end of the year or by the second half of 2015 you expect the growth to come more from international passengers than domestic passengers, because international flights would generate more ASKs than a domestic flight? Is this the answer or should we think otherwise?

Serhan Ulga

No, no – if you go to slide 3, Alper, I think I already gave all the answers – the additional frequencies and the new routes that have started – they are all international routes and longer routes so the production on the ASK is definitely being impacted by the increase in the stage length. The obvious decision we have taken is to grow the network with as many viable international destinations as possible. Our strategy has always been to grow south, north and east of Turkey, so this is in line – most of the cities you are seeing there are in line with that and that adds to the stage length, and that adds to the overall ASK production – correct.

Alper Paksoy

Okay, thanks very much.

Operator

We have a question from Hanzade Kiliçkiran, Barclays. Please go ahead.

Hanzade Kiliçkiran

Serhan, sorry; it's again me – would you please talk about Sabiha Gökçen airport? What is your market share in that airport and how do you see the competition and space availability?

Serhan Ulga

Market share has come down to 60-61% overall, if you look at it, so that should answer that part of the question. What was the other part of the question?

Hanzade Kiliçkiran

I just wonder how crowded the airport is now – is this putting extra cost on your side, because we know that there is the need for a second runway but it is not under construction, as far as I know, at the moment? Are we getting a situation like Atatürk airport or is it still manageable?

Serhan Ulga

You ask a very difficult question, Hanzade. I think it has already gotten to be a very crowded airport and we have seen that, as you may see perhaps on our website, our on-time performance has diminished significantly. That has created some marginal cost but marginal cost, as I say, is not the kind of cost that I would lose much sleep over. Is it marginal? It is marginal additional – where should I begin? There are many – the closure of the airport at night creates significant pressure on the operation; the unplanned and unmanaged (let's say) air traffic movements by the State Airport Authority or whatever, where on the paper production per hour is something versus the real actual production is something else and that obviously creates other issues with flights into Europe, or actually from Europe into Turkey.

You know Turkish airspace is being also Euro-controlled so Turkish State Airport Authority's management of these (what I call) air traffic movements is a tight operation... it is, and therefore, when it comes to real slots, differences on real slot issues, you can see aircraft being parked because they have missed the calculated takeoff time (in accordance with Euro control) whereas they can actually operate, so we are seeing a lot of those inefficiencies being imposed not only on us but the other airlines operating from there as well, especially...

Hanzade Kiliçkiran

Serhan, when you say the airport is going to be closed at night, does it mean that you come to overnight flights...

Serhan Ulga

... no, no – it is closed between 1am and 5am in Turkish time. They are doing runway repair...

Hanzade Kiliçkiran

... oh, okay, so it's a temporary closure, right?

Serhan Ulga

It is temporary and the issues are that long-distance flights can take off and come back in the morning but it’s the ones that we put domestically and near geography that need to be here, for example, may have a slot issue on the departing airport and may not land here in time, and may end up going to Çorlu, Bursa or Izmir Airport. Those are the ones that are really getting impacted and not the long night flights because they are not here anyway, at that timeframe. They come typically after dusk, 5-6am in the morning.

Hanzade Kiliçkiran

Alright, thank you.

Operator

We have a question from Osman Memisoglu, Bank of America. Please go ahead.

Osman Memisoglu

Hello and thank you for the presentation. I have two questions. One is regarding the hedging. Do you expect to increase your hedges for 2016 as we approach closer to that timeframe? The second one would be your longer term growth rate – I see that on the fleet page you actually have, at least according to my numbers – you have lowered your 2016 and 2017 fleet numbers, so if you could shed some light on that? Is that related to the second runway issues that we’re seeing? Overall I would just like to hear your growth assumptions for let’s say the next 3 years or so. Thank you.

Serhan Ulga

Let’s take up the hedging – to be honest, I don’t anticipate the hedge with the current Euro/Dollar rates or Dollar/TL rates of our long TL and Euro positions, especially for TL for example it’s just too volatile to engage in anything right now, due to reasons that you guys probably know better than I do. On the Euro/Dollar a similar thing, 1.10 is so close to 1 that we may not necessarily take that position in the longer term, but there's a lot of debate being put on that.

A similar thing for fuel hedging – a company that spends millions of TL paying the banks, with the sudden drop in fuel prices starting last year in October, we're just not sure if the brunt has bottomed out, meaning every time we hear it's bottomed out; 'oh, this is wonderful, let's get in and do something', by the time we turn around to engage with the banks in the market, we see lower fuel prices. That does not mean that it's on the radar screen. I think structures like zero cost collars when we have more of a bigger, wider range of protection that we may get, or a lower level of protection we may get on the lower end, or options premiums that are reasonable to engage – we will probably go towards those products, I'd say, but the pricings of those products do not seem towards the currently low level of fuel prices so that means still the people who want to engage with you in these hedges – they are expecting contango-type outlook or they want more premium on these prices.

That tells me that we should be probably a little more engaged in the fuel arena as well. So far they are in line with our 2015 objectives of minimum 30% and for 2016 we will evaluate that percentage as recommended to us by the board, and we have disclosed it to you many times. We may need to go back and do something about it, if we think the fuel price continues to slip little by little – we may realise our 30% and go back to the board or we may fill the pipeline to over 30% - we'll see how that goes in the next few months.

You had another question about the fleet?

Osman Memisoglu

Yes.

Serhan Ulga

The fleet numbers into 2016 – the fleet numbers are contractual numbers (that we have contracted) are in place. That does not reflect our further aircraft that we may engage in the leasing market, or that does not appear to show our Airbus fleet delivery starting next year.

Osman Memisoglu

Okay. What about ASK growth for the next 3 years on average – could you give us a round number?

Serhan Ulga

For the next 3 years, I would expect to grow 10-15 aircraft in the next 3 years on average, in line with our growth thus far. We believe the market wants – I think the question needs to be asked of the airport capacity and how that will play itself out – this is all I can say at this point, but when we get closer towards the year end we'll have a more detailed response to you on this one. This is my initial gut reaction to that question.

Osman Memisoglu

Is that what you expect on the second runway, some kind of resolution by the end of the year?

Serhan Ulga

As far as – you know there has been some ground excavation, digging and some work that's started, even though there has not been an official announcement – Osman Bey, I am as frustrated as you are with this but we have to deal with what we know and what we have in front of us. I will comment that 2017 operations we should hopefully be done with the second runway but keep in mind, when they open the second runway, there is the thought still that they will close the first runway – I mean this is 2-3 years... I am not sure how the production will improve but I can tell you that from recent information that we have heard, the approach distance of the aircraft for landing or take-off is going to be brought down from 8 miles to 6 miles.

That means automatically 25% increase in production on a single runway, so that is going to help, and also I know they are working on speedier taxi ways that will speed up the aircraft to get off the main runway so they can use the sideway (taxi ways) and that will increase the production a little more. I hope this will help for us to enable – or anybody who is operating from there – to continue to grow a little more in the next couple of years. Hopefully, by then, the second runway should bring some sort of answer in the short term.

Osman Memisoglu

Just to follow up on the first question, if you don't mind – can we say you are going to look for products that are more hedge-accounting applicable, or is that just wishful thinking by me, to calculate it that way?

Serhan Ulga

It is not only because you guys can calculate it; it's also because we have a better handle on the product – how it prices itself out and how it impacts the P&L. I am personally (this is a personal thing) in favour of options, but comparative pricing economics in option pricing does not warrant for us to engage in options. Compared to swaps, zero cost collars and swaps may be a quicker and earlier solution than the other type of contract we had (Chooser)... I mean we will not engage in those contracts anymore.

Osman Memisoglu

The EBIT pressures on the positive effects like we saw in the second quarter are found at the bottom which obviously complicates things – that's all I was referring to, but thank you for your answers.

Operator

We have a question from Daniil Fedorov, Goldman Sachs. Please go ahead.

Daniil Fedorov

Good day, Mr Serhan Ulga, and thank you for the presentation. I just wanted to ask if you could share with us any colour on forward bookings and pricing in July – do you observe any improvement versus the second quarter in pricing dynamics?

Serhan Ulga

July, compared to last year's performance, actually EBITDAR performance is up by 4% if I am not mistaken. This is on the back of all the pressures coming from load factors and yield. I think July has been a good month and so has been August so far. I think the critical thing will be the fourth quarter performance, to make sure the numbers are all tied up and squared off, but so far the third quarter production seems to be in line with our expectations of growth and profitability so to speak.

Daniil Fedorov

Thank you.

Operator

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

Kerem Tezcan

Serhan Bey, thank you for the presentation. My question is basically regarding Ankara operations. How is the competitive environment in Ankara? That is the first part of the question. The second part of the question is: will you be incurring any additional cost by creating capacity at Ankara Airport overall? Is it going to impact your overall costs?

Serhan Ulga

Kerem, congratulations first of all, on your move. As far as the competition in Ankara, we don't have any base – you know we don't have a group of aircraft based in Ankara – we have just (as I presented in our third slide) acquired certain flights from Ankara as part of an incentive plan from the Civil Aviation Authority; Amman, Baku, etc. We will be operating those but for now to the extent that those are going to be night flights with rotations back into the network flight in the morning, so I do not foresee a big presence of it.

While we have been flying so far daily (7 or something like that) that's not Ankara operation; it's operation from Istanbul. As far as an operation in Ankara overall, we think the biggest asset in Turkish aviation right now is Istanbul airspace and we continue to sharpen our pencils and focus and improve the operation... improve or increase – do everything in our power to increase the traffic which has actually no – I can talk about this, Kerem, but perhaps I should not be talking about this on the record – there is so much that can be done at Gatwick Airport with single runway producers close to 60 aircraft traffic movements per hour versus our on-the-books traffic movements per hour about 32, so imagine the inefficiency that the State Airport Authorities through their air traffic control bring onto the country and forget about us; it's about Istanbul airspace and it's about Turkish GDP GMP and, seriously, I know this sounds a little too vague but it is this simple, in fact.

To answer you in short, our concentration is going to continue to be Istanbul. We anticipate that the recent improvements that I just told you, and hopefully a quicker turnaround – we know our construction friends can be done, can be ready by 2017 – I mean the second runway, and increasing furthermore airport miles and actual movements on the record so, therefore, the concentration is going to continue to be Istanbul and not Ankara at this point.

Kerem Tezcan

Thanks.

Operator

We have a question from Omer Omerbas, Ak Investment. Please go ahead.

Omer Omerbas

Serhan Bey, hello. Regarding your on-time performance, from what you have told, I had the perception that regarding the problems *(Turkish)...* in the figures, the recent decline – not the temporary one, the somewhat longstanding one – what would be the cost effect? I notice you said it's a marginal small cost but, if this extends into the coming months, would there be [related] more significant costs and pressure on your margins? Thank you.

Serhan Ulga

Omer Bey, we have not necessarily divulged this information before but you need to know that it is less than two-digit million TL.

Omer Omerbas

Thank you.

Operator

We have a question from Osman Memisoglu, Bank of America. Please go ahead.

Osman Memisoglu

Serhan Bey, just to follow up on a previous response on the current environment outlook for Q3, you said EBITDAR up 4%; I am assuming that is year-over-year – if you could clarify that?

Serhan Ulga

Yes, year-over-year – correct, Osman.

Osman Memisoglu

Thank you very much.

Operator

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

Serhan Ulga

Thanks for everyone participating and asking questions. I hope this was informative and you guys benefited from this webcast, and we hope to see you in the near future again. Thank you.

Operator

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş.
AEROPARK Yenişehir Mah. Osmanlı Bul. No.11 Kurtköy 34912
PENDİK/İSTANBUL-TURKEY **T** +90 216 560 7000 **F** +90 216 560 7400