



**Transcription for PEGASUS AIRLINES**

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## Corporate Participants

**Serhan Ulga**

*Pegasus Airlines – Chief Financial Officer*

## Conference Call Participants

**Görkem Göker**

*Erste Securities*

**Cenk Orcan**

*HSBC*

**Kerem Tezcan**

*BGC Partners*

**Hanzade Kiliçkiran**

*Barclays*

**Alexandra Serova**

*Renaissance Capital*

**Manny Bacuyani**

*Morgan Stanley*

## Presentation

### Operator

Ladies and gentlemen, welcome to Pegasus Airlines 2014 Second Quarter Results webcast. I now hand over to Mr Serhan Ulga, CFO. Sir, please go ahead.

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### Serhan Ulga

Hello dear friends, colleagues, and investor community. Now, we have about an hour to go over already presented...web presentation on our website. We also disclosed our numbers and financials yesterday – actually the day before yesterday, so the format of the webcast would be similar to last time. It shall be me going through the presentation in the next 15-20 minutes and then for the remaining time taking all your questions and talking about queries that you may have.

If you could go to the presentation that we have put on our website, I'm going to be going over that presentation for the second quarter. The second page in this presentation is just Pegasus at a Glance – that's the heading. I'm



not going to spend a lot of time on this, but just an update compared to the previous presentation is we have, as of yesterday or today let's say, taken delivery of two more aircraft, two more 800s, so the aircraft number is currently, as of today, 54 and since then we also added one more destination, which is Budapest, which at the time in the first quarter presentation time was under our on-going initiatives to obtain the flight rights.

If you go over to the key highlights, page number three, we have tried to make it a more graphics-type page as opposed to a lot of words around on that page. Basically, all the indications that we have listed here, including the revenue of course with the growth, the ancillary revenue per PAX, which is very important, our production all going up, the CASK went down by about 2% and number of aircraft in accordance...which supported our growth also went up, and load factor the least...but the last, but not the least also, went up, even if it's only a fraction, but just keep in mind that this is on the back of a 25% increase in production, so I think all in all a commendable performance on the load factor as well.

The next page, page number four, is just again a recap of our traffic results that we had previously disclosed last week before our financial results, so I'm not going to spend too much time on it, because we're going to be talking about its results in the upcoming pages.

We have...what we have been doing, we have tried to analyse what's been going on in domestic and international operations in terms of market growth seats, load factor yield, and all that performance, airports, compared to the fuel price changes variations. As you see that not only in the first quarter, the second quarter we have continued to grow and our growth has exceeded the market growth in Turkish aviation. Roughly speaking we are just about 25% in international and about 19% in domestic for the quarter, and on the domestic side we have...on the back of that growth we have continued to increase our load factor. In the second quarter, the load factor increases almost around one percentage point and yields also went up compared to obviously the first quarter, which was down, so the yield in the domestic went up by 0.4% and this, of course, in TL reporting, is against an increase in fuel price of roughly 20%, mostly driven by exchange rate increases.

On the international a similar story, almost triple the size of the market growth in terms of our seat costs in the first half; again, 25% in the second quarter. The more stable yield performance in the second quarter, but nevertheless, the first quarter's yield performance was also a drag on the second quarter performance, if you consider a look at the first half results. The load factor was also contained in a sense and all in all it was...compared to the first quarter it had been a relatively, it had relatively better results,



and in terms of Euro, the fuel prices in fact slightly came down for the quarter and so that helped the overall profitability as well, as we will see in the future slides.

On the yield side, I will be giving you for your analysis our average yields and domestic yields in Q2 was almost €81, almost give or take in line with last year's same quarter. On the international yields though, compared with the second quarter, we averaged about €65 per PAX, which is roughly about €5 less than the same quarter last year, but nevertheless, for the first half with the second half impact, international yields seem to have stabilised in a sense and we will talk more about it in our outlook section.

In slide number six, again just an update, there's more. Budapest, I just mentioned, this is basically what's sort of changing; Budapest has become an actual route for us and we have highlighted short and additional frequencies through the summer of 2014, which we think will help the overall production and the profitability.

The next slide we have the EBITDAR Bridge that we analyse compared to last year's EBITDAR...last half's or year-to-date period with this same period this year and on the following sheet we're going to be talking about the quarter two only, and you would see when you look at half one, which will not be too much of a surprise there, the scheduled flight RASK, and when you look at the first half as well, is a big drag on the EBITDAR performance, which is roughly about TL 41 million and another one is a timing issue for the most part, but there will be five months in the first half impacted compared to [inaudible] SAW (Sabiha Gökçen) handling, because our concession had ended and since last year's June 1<sup>st</sup> we have been paying market rates for us, according to our level.

There is also escalation on TL cost base, mostly other handling contracts, but over one-third of it is increasing payroll that we do customarily with the rest of the industry and the establishment in Turkey, you know, we provide an annual increase in April, so that has an impact on that bar. The mix, as you must have been accustomed to by now, is...there is the engine overhaul differential that we have to provide for the first quarter based on engine recapitalisation. There is going to be a continuous ownership structure, which is about TL 9 million, under this 20 and it is going to stay here through 2016 roughly speaking, because until then we are going to bridge the gap of our aircraft, the need and the capacity, by going to the market and getting operational leases. In the TL base there is, of course...with the increasing foreign currency exchange rate, there is a negative drag of about TL 34 million.

On the positive side, the actual ancillary per PAX had a positive impact, increasing ancillary per PAX in the first half, and as I said, fuel was also...the



cost per ton was a positive impact and overall production volume helped to offset some of this drag that I just indicated to you, but nevertheless, the EBITDAR margin for the second quarter was 21%, but the first quarter's negative performance, that averages about 11% for the first half.

For the quarter two we are looking at a delta increase of about TL 20 million on the EBITDAR Bridge and similar elements in place, but for the second quarter I can say that the scheduled flight RASK is mostly and practically almost all of it comes from international performance as opposed to some fraction.

*[Technical difficulty]*

Okay, I guess there is a technical difficulty on our side, but we're back again, but in any event, we were talking about EBITDAR for quarter two, so as I was saying, the same culprits, the different number on the scheduled flight RASK is mostly international and the rest of it is pretty much the same elements that reflects in quarter two, and if there are any other questions, we will answer that in the upcoming minutes.

On the balance sheet analysis, I will quickly recap that. Since year-end, and since first quarter, we have continued to convert our Turkish Lira holdings into mostly US Dollars and Euros, and this percentage was about 54% overall in our Q1 reporting balance sheet date. Now, our cash holdings are above 83% in hard currencies.

Further detail in the CASK analysis, actually looking at CASK non-fuel, which has actually taken out the CASK impact and looking at the hard-core operation, what we are seeing is...on the non-fuel bridge, we are actually seeing a flat, compared to last year let's say, performance. There is, again, the Sabiha Gökçen handling, there is the fleet issue structure, there is the structures which adds more to the non-fuel line compared to financial leasing or owned aircraft type. There is also the additional change in engine provisions and increase in payroll, which was then offset by, of course, FX and somehow negated by escalation on TL cost base. We will talk about [inaudible] so that the FX helped...we did not keep non-fuel CASK performance at par, but that is to me half the story, because as you will see in a few pages, management, we have made continuous efforts to change...increase our TL base expenses in our overall expense currency base portfolio.

If you look at the CASK non-fuel seasonality relationship, you will see that the trend seems to be moving between 2012 and 2013 range, and I expect that to continue throughout the year and be flat by the end of the year for the whole 12 months. There may be...which I'm expecting to be able to share with you at the end of...in our third quarter webcast, there should be



60 aircraft engine overhaul, bidding should have been over by then, which hopefully would help to offset some of our engine provision, extra engine provision, amounts, but we will know in the next two months or so.

On the second quarter, in fact, it came down on a quarter basis and we have, again, the same Sabiha Gökçen handling fleet structure that impacted this base, but then offset by the same FX...and net of FX and TL cost base, and this time it will look at quarter two, what has been spent in Q1 obviously is sort of [non-wise] and this is almost like a reversal that impact in quarter two performance, so that takes us from 2.38 to 2.31 and I also need to mention that the CASK came down from 4.05 to 3.90 Euro cents.

We had provided the following page, slide number 12, to give you a flavour for where the net FX gain/loss recorded in the first half comes from. You will see that...I mean most of it comes from monetary assets and liabilities, and some net coming from non-monetary assets basically are aircraft on a net basis, if you had to look at it, which is resulting in about TL 28 million growth of net FX loss.

On currency exposure, if you...there are a few things to be talked about here. One thing I mentioned before is if you look at the currency exposure of expenses before recent changes, which is taking its effect on the performance, is that we have increased our TL expenditure on the overall expenses from 14% to 19%, and that's simply by being able to do that shift in our contracts and in our European pilot base. You are able to have an impact of almost €0.04-0.05 on that FX impact that we have commented before in the bridge, in the EBITDAR cost bridge, I'm sorry, so yes, the FX, we don't control the FX rate, but we certainly try to, as management, control the portion of the TL long position and try to reduce it as much as we can, so that's one thing. We have provided for you to get an understanding of the sensitivity table as of the end of June for the first six months what that...what our percentage and actuals, how they are sensitive to the changes in Euro/TL, Dollar/TL and fuel in those amounts, in those delta amounts. On the hedging update, there is not a change in our overall repeated strategy; it's continuing with the same parameters and everything else and I can tell you that 2014 fuel is hedged about 43% right now at a price of \$931 and 2015 is about 10% at about \$922. On the FX side, again we are mandated to hedge up to 100% of our Dollar shortage and for 2014 almost 97% of that has been hedged around 1.38 Euro/Dollar exchange, 1.92 Dollar/TL, and about 41% of 2015 approximate requirement on a 12-month rolling basis has been hedged about 41% even at a better Euro/Dollar exchange rate of 1.43 at this point in time, so not too much of a change there.

On the fleet, you will see the number presented in page 14 is the number (53) at the end of June 30<sup>th</sup>, but as I said in the meantime we took a delivery



of one 800, and so the total as of now is 54, and then we have laid out contractual purchases under operating lease contracts. The fleet evolution is coming up and we will be shaping up into 2015, '16, and '17. This, of course, does not include what we're going to be able to source and secure from the operating lease market. These are not included in this slide, but we can talk about that growth later on.

The outlook, we have taken a good look at the remaining six months and we have used roughly speaking about two weeks ago, the parameters, Euro/Dollar, Dollar/TL, and a few parameters that were available on the Bloomberg screens, you know, for those banks, so we typically get an average of those and that's what we use without making any comments, when it's just basically using banks as a gauge, and when we look at existing production, existing mix of the business that we had set out in the beginning of the year, and including the first six months of the year, I can tell you that we are looking at a flat CASK and we are going to be...we believe that we're going to still remain in the same 17-19% EBITDAR range, and I can tell you, which I'm sure there is going to be a lot of discussion on this, is that for the second half of the year, the pressure on the yield, especially on the international, seems to be...seems to have lifted and we are seeing strong performance on the domestic side as well. I'm not going to go over the unchanged outlook and trend that we have been talking to you about, but I thought that you would be interested in what I have just briefly described, so we are looking at 17-19% EBITDAR range still, and we are looking at recovery in yields for international operations and load factor will probably be relatively at par for the rest of the six months. The increasing ancillary revenue will be...is pretty much in terms of our PAX has been realised for the six months and we expect at least a stable performance for the rest of the six months, and for...on the domestic, the load factor is strong and that also helps...actually adds on top of the flat yield, so to speak, you're looking at the remaining six months, so overall we think given the competition, given the other constraints in the marketplace, we seem to be able to deliver what we have come out and told you in the year-end capital markets day.

So this pretty much concludes my presentation now. We can, as I said, go to the questions and answers.

### Question and Answer Session

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#### **Operator**

*[Operator instructions]*

We have a question from Mr Görkem Göker from Erste Securities. Sir, please go ahead.



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**Görkem Göker**

Could you please provide your initial observations, as we are now in the middle of August, regarding third quarter and we see a visible slowdown in passenger growth in overall market and especially after today's Turkish Airlines traffic results? Could you please share us your observations and the other question is Turkish Airlines lowers its growth projections for AnadoluJet specifically and new additions to AnadoluJet, and have you seen many crew consequences of that decision or when should we expect to see that positive consequence on your operations? Thanks in advance for your answers.

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**Serhan Ulga**

Thank you for the question. I think, you know, when you look at July and August, the month that we're now in, and look at September and a few months ahead, we are seeing 1%...I mean it is nominal, these are nominal amounts, but domestic-wise we are seeing a slight improvement in load factor, about one percentage points, and also yields as well about TL 1, and if you look at international, yes, we are seeing just a slow drop in the load factors, but...no, I don't want to say significant, but what we have observed in the past seven months or six months, we have seen...we are seeing meaningful 3-5 years' worth of increasing yields in forward booking. I mean I'm not too well versed...I haven't had a chance to look at their...I think they came out with their results today, I haven't had a look at it, but we are not...in terms of traffic, we are not sharing the same sentiment I guess right now at this point. Does that answer the question? I'm sorry; there were two parts to the question.

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**Görkem Göker**

Actually, yes. I mean in particular for Pegasus, should we see a similar slowdown in passenger growth? Let me rephrase the question like that.

*[Technical difficulty]*

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**Serhan Ulga**

You were following up with your question, I guess?

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**Görkem Göker**

Okay, the line was cut off, so I couldn't get the second part okay, but thanks for the initial answer. I get my message, yes.





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**Serhan Ulga**

I basically said that I haven't had a chance to look at Turkish Airlines' traffic, but we are not sharing that sentiment right now at this point in time. Yes, I need to look at their numbers more in detail.

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**Görkem Göker**

Okay, thank you, thank you.

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**Operator**

We have a question from Mr Cenk Orcan from HSBC. Sir, please go ahead.

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**Cenk Orcan**

My question is again about the yields. We are seeing that they have turned quite well in terms of the year-on-year decline compared to the first quarter, the pressure is easing. Are you able to cite some underlying factors? Is it because Turkish Airlines competition is getting lighter or other global trends are supporting the yields, and do you expect the continuation of this trend for even smaller declines in the upcoming quarters. Can you relate that to Turkish Airlines at Sabiha Gökçen? Thank you.

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**Serhan Ulga**

Sure, I believe that and I cannot – we don't have a very, any detailed metrics to be able to differentiate all these parameters which affect most accounting, but certainly the other airlines pricing at Sabiha Gökçen seems to have eased a bit and it is understandable, because under competition law for the first six months when they enter into a new market, they can do discounts and things like that, so we are thinking that, they are back to their sort of...I kept saying when we met with you guys that they are pricing on the value proposition, as opposed to [inaudible] proposition, but that is certainly a factor. The currency in terms of traffic into Turkey International has helped that we can say that probably with certainty, but I just cannot tell you how much, and we are going to continue to offer lower fares, but as the pressure on the yields have eased up compared to the first quarter and the fourth quarter, I should say, that I think our guys are not only playing towards load factor, but also playing towards yields, as well right now, in the international operations, so I think all-in-all with the overall – the performance of Turkish Air which is devaluating and providing a better Turkish value for the travellers from Europe and elsewhere, as well as easing



on the yields and going back to the normal...going back meaning relatively speaking of course, combined would help this whole recovery I would think.

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**Operator**

We have a question from Mr Kerem Tezcan. Sir, please go ahead.

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**Kerem Tezcan**

I have two questions. One is the sustainability of your ex-fuel CASK basically, but you pretty much explained, as far as I understand from the presentation that it will go through, at least in the remainder of the year. If you can elaborate more on that, I will appreciate it. The second question is, your own time performance has been relatively much better in the past couple of years. We can understand that increasing traffic at Sabiha Gökçen has been affecting that. Considering the traffic would be increasing further by those – by possible increasing trend in the load factor, are you seeing additional impact on costs, because of traffic conjunction at Sabiha Gökçen Airport?

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**Serhan Ulga**

Thanks Kerem for the questions, good questions. yes, I am, again, in terms of fuel, Euro/Dollar, Dollar/TL parameters, if you look at them, put them aside and look at the rest of the operation and how it is going and looking at the forward looking curve and everything else, and the production that is in place, forward looking curve doesn't help CASK, but it should certainly help putting extra flights and so forth, which increases production and which helps us leverage our fixed cost base. Looking at all that in a blend, looking at also – which I can talk about briefly – our initiatives that are on-going in our [inaudible] to reduce our cost base, I would think that we will be at around €0.04 by the end of...but if you look at the basic operational CASK, of course this is going to be impacted by, as you mentioned, the on-time performance and what it will lead into, especially for the past month or so. The on-time performance has – you will see in the next quarter presentation – has suffered furthermore and unfortunately there are more than one reason. One is the weather, weather has played a significant role in many of those days' cancellations, re-bookings and rotations in the overall network, so that is going to come up as delayed cost expenses certainly in Q3. There is also a whole transition of new group of immigration officers that are being replaced, that have been replaced, but this is something that is difficult to control, because it is Government-run, so they are training, and even though they have their numbers there, but the training the speed of which they function now is up to speed, so that was another thing.



Of course, there have been issues with our ground-handling guys, their bottlenecks have impacted us, even though it is not our operation, but of course, it impacts the operation. Now, if you ask me how much of that is going to be an impact on the third quarter, yes, I just don't know, but I don't think it will alter our overall guidance for the year-end, provided that we don't see any other weather-wise, bad stretches of weather.

If I were to go back and talk about some of the initiatives in the CASK, we have mentioned this, but now they are functional, for example, it is not only for the CASK, but also RASK as well, we have made our domestic operations – the call centre that handles the domestic operational call is now a toll call that needs to be paid by the consumer to get that personal touch, otherwise most of the...almost all of the services are available online. We have also re...again; this is always done every year, depending on the network and the destination mix. The weight of the aircraft, or the registered weight, these are not actually, but the paper-weights of the aircraft that are registered with the Civil Aviation and hence with Euro Control have been re-optimised again, that will basically overall lowering the weight, that means lower overpass charges within Europe and else, so that also would help. We have done, as we said, at our Sabiha Gökçen hub, we don't have now the technicians doing the aircraft checks before every flight, now, it is the captains and the first officers doing it, so that was also a headcount save for us, so that is also in effect and as planned, so there are other few traffic route initiatives that we are working with the Government, but they have materialised yet, but if they do, they actually would also help the other airlines as well, hopefully, we will see. There is a constant effort, these are just the new ones, but I think the biggest effort goes from me and from the other senior management is to keep the old initiatives in place, and make sure that they are not going anywhere.

This is the summary that hopefully answers our questions.

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**Kerem Tazcan**

Yes, thank you. Thanks so much.

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**Operator**

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

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**Hanzade Kiliçkiran**

Serhan Bey thank you for the presentation. My question is regarding [inaudible] yield part, but I just want to start with the yield. You said that



the yield pressure was mainly in the European routes, but in your bookings, you start to see some kind of improvement, and you mention about €3, 4 improvement, but when we enter the third quarter, actually, there should be like €15 improvement in order to keep the yield stable versus last year same period, so €3, 4 improvement still looks like a big drop in the yields. When you say €3, 4 increase, do you mean that an increase from the last year data or it is an increase from the second quarter?

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**Serhan Ulga**

It is an increase compared to the last year data, but also keep in mind that we are again sticking with, to be on the conservative side, sticking with the 17-19% EBITDA. The CASK is pretty much at par, so that means we are being cautious and we are...especially, November, typical had some softness in December as well, but for our business, it is too much of a forward time for us to tell about four or five months from today, talk about the yield resistance and load factors for November, but I can tell you for the next August, September and October, the numbers I gave you are the numbers that we see right now on the table.

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**Hanzade Kiliçkiran**

Okay, so basically, because this is the general trend in all European airlines, they are facing difficulties on the yield environment, it is not only you but also when you look at the other airlines including the flag and the low cost carriers, they all guide the market with lower yields in the second half for the European routes, so you think that your yields may not come down further in the second half of this year because of these capacity issues in the European market.

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**Serhan Ulga**

Yes, the European market, with the exception of a few airlines is a very sick market, as we all know, but the numbers what I gave you are the numbers I have on the table right now, so those are compared to 2013.

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**Hanzade Kiliçkiran**

Thank you, and the last question is about your cost. You mentioned that there are some provisions coming from the engine-hauls, which we started to realise last year. I just want to understand when we are going to see a normalisation on your CASK base, starting from third quarter or fourth quarter of this year, because I couldn't remember when you start to book higher engine provisions in Q3 of last year or Q4 of last year.



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**Serhan Ulga**

It was Q4 of last year, but can you please elaborate on normalisation of CASK, what does that mean?

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**Hanzade Kiliçkiran**

I think that in the second half of this year you should have a normalised CASK figure, because in Q1 we see some increase on a year-on-year basis, and in Q2 there was a big line coming from the personnel expenses, but still engine-haul provisions and the maintenance costs and handling costs were high on a year-on-year comparison, and in the third quarter and in the fourth quarter, are these maintenance and the handling costs stay stable on a year-on-year basis or will continue to increase.

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**Serhan Ulga**

First of all, one thing that is going to continue to increase probably through to 2016 is the fleet mix, which means more operational leases, which will provide a higher cost base on the overall CASK compared to owned aircraft-type operations. That is going to be one thing that is going to be there this year, next year and probably into 2016, because our aircraft are delivered in the second half of 2016, which we cannot afford to miss the growth in the first half of 2016, so we are going to continue to see that.

The handling will be normalised on an item-by-item basis on the third quarter, because it was changed in 1<sup>st</sup> June 2013, so after the second quarter, starting the third quarter, as a baseline effect, you are not going to see Sabiha Gökçen handling in the quarter.

On the engine, what I said was our utilisation is pretty much intact. What I said was, we are out for [audio]...

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**Operator**

Ladies and gentlemen, please hold on the line.

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**Serhan Ulga**

Sorry, we have a situation going on with Vodafone; our infrastructure provider has somehow changed something as a limitation of 15 minutes on the phone that I am talking about. Again, this is for lowering the CASK, but except this one, this would be an exception, but sorry about that. Seriously, we don't want people to speak too long on the international lines.



On the engine, we went out for 60 engine overhaul bidding with main engine overhaul suppliers, and that is a lengthy, very gruesome process, because there are so much variables and so much that goes into it in terms of labour and material, so I expect once it is being based on what we are seeing, I expect, I hope to expect I should say, I don't know that for a fact, I hope to expect to see with the new contract or the bidding that they secure would be the base of my engine having been increased 60 to 80 or whatever into the future pipeline depending on the rates. I hope that what I have provided for, without knowing this, on a conservative basis would come down a bit. That is my expectation, but I cannot tell you this before the third quarter webcast, because it takes almost six months to get this thing resolved. Hopefully by the third quarter, if not certainly before the end of the year, I would have an update for you guys, hopefully down and lowering it down on a prospective basis. At that point in time, obviously, what we have provided for is going to be readjusted, hopefully downside, but maybe slightly upside as well, I don't know right now.

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**Hanzade Kiliçkiran**

All right, thanks.

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**Serhan Ulga**

...other items.

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**Hanzade Kiliçkiran**

Thank you very much.

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**Serhan Ulga**

Thank you.

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**Operator**

*[Operator instructions]*

We have a question from Hanzade Kiliçkiran. Madame, please go ahead.

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**Hanzade Kiliçkiran**

...regarding the aircraft utilisation rate, there is some slight improvement in the utilisation rate, but I try to understand, is this because of the traffic in the Sabiha Gökçen Airport that you need to spend more time in the air, or is there kind of operational improvement.



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**Serhan Ulga**

Sorry, I did not get the first part of the question, so I don't know what I am going to be answering.

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**Hanzade Kiliçkiran**

Okay, my question is regarding your aircraft utilisation rate, okay, there was some improvement that you observed, slight improvement, and we know that Sabiha Gökçen is also getting a little bit more crowded in terms of capacity and the landing times, so I try to understand if this increase in the aircraft utilisation related to operational improvement or related to the capacity problem, but increased capacity utilisation in the Sabiha Gökçen Airport, which may lead to, to spend more time in the air before landing.

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**Serhan Ulga**

No, no, this is pushing the borders, this I could say totally operational impact that we are seeing. As I kept saying before, there is a limit of number of air traffic movement within the hour, so you cannot knowingly and they don't let you add more aircraft movement, to the extent that you are within those limits, it depends on your pilots to push it, get the shortcut, land, turn around, make the first left and park kind of thing, so this is mostly embedded with the operational efficiency I would think.

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**Hanzade Kiliçkiran**

Okay, thank you.

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**Operator**

We have a question from Alexandra Serova from Renaissance Capital. Please go ahead.

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**Alexandra Serova**

Thank you very much for the call. I have a question about Ukrainian events. I understand that now you need to avoid flying over Ukrainian territory/airspace, and that should affect some flights from Istanbul to several European countries. Maybe you can elaborate how many flights, maybe in terms of [inaudible] are affected on a longer and if this will increase your fuel cost, for instance, significantly or any estimate will be very helpful. Thank you.



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**Serhan Ulga**

Sure, yes, this question...as far as...the only flight that we are operating right now that I know of, as of today, is the flight to Lviv on the Western part of Ukraine, but compared to...if you look at our business plan for this year, the entire Ukraine operation, this also includes Lviv but does not include Donetsk and also Kharkov, does also include Kharkov is 1.3% of our expected operating revenue. I would look at – EBITDA is less than 1% impact, if there is any, so I don't anticipate too much of an impact with the Ukraine operation, it seems all right, because we are not exposed to it that much, unfortunately, for example, compared to the other airlines which seem to have all the flights right into that country.

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**Alexandra Serova**

Okay, but if you are flying over Ukraine, when you go to Stockholm or to Moscow or Omsk, do you need to change your routes just because previously you were flying over Ukrainian airspace and now you need to avoid at least the Western part.

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**Serhan Ulga**

I don't think so flights go through that, I have to double check and get back to you for a fact. I doubt none of them are affected, but I will have to come back to you on that, so if you take a note, best we will go back to that.

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**Alexandra Serova**

I am just looking at slide number 2 with your map, and well, Ukrainian territory is just crossed with several flights, so I just wonder if the impact is limited, that is great actually. Well, and one more question about Sabiha Gökçen capacity development, do you have any update, well, anything changed with the plans and timing of like second runway capacity addition or is everything as was before.

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**Serhan Ulga**

I think this is the most difficult question, which we do not control the answer to, but there is no new update since the last time we talked to you about the beginning of summer, so to speak. We expect, hope that they are going to be going out for bidding in three different infrastructure, traffic and some other signalling and avionic type – they split this whole construction into three different phases, so the last we know is that they are going to be going out for bidding for the construction, so the interesting thing is, since the question has been asked, I can share our opinion on this with all of you guys





is that, we have to look at carefully the concession shareholder here at Sabiha Gökçen and also the group of investors that are undertaking the third airport construction and operation, so there is one, one of the concession holders at ISG which holds 60% of the concession here, also, is a participant in the third airport, which would cast a doubt sometimes in our mind why things are not so effective and quick.

On one side you think they would realise the benefit a lot from this second runway's quicker opening to us and other airlines, but on the other side, that seems to be conflicting their interest on the third airport, so I don't know if I am making any sense, just speaking out loud, so I hope that they are going to be sticking to the plan, I hope that they are going to – the second parallel runway is going to be operational before the end of 2016, because if you look at our growth and if you look at the disclosed growth from the other airlines which needs this airport as well, unless second runway is opened up, we are going to be looking at serious congestion, not only , not to mention in Istanbul's skies but also at Sabiha Gökçen. I cannot tell you how that may be resolved if the second runway cannot be completed before the end of 2016.

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**Alexandra Serova**

Thank you very much.

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**Operator**

We have a question from Manny Bacuyani from Morgan Stanley. Please go ahead.

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**Manny Bacuyani**

Hi, thanks for the call. I just wanted to ask a little bit about the ancillary revenues and what you are seeing in terms of your product offering there, it seems to be doing well, and what do you think – how will you increase revenue per passenger to €10-12, is that by new product or are you expecting increasing penetration of your existing offering. That is one thing. Then secondly, is there any seasonality on ancillary revenues?

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**Serhan Ulga**

I cannot give you the whole list of our ancillary revenue profile, which we have always tried to keep it away, because that is a very easy way for the other airlines to mimic that, but I can tell you that the biggest players that increase in per PAX performance are service fees and airport check-in fees, in terms of rate per PAX have gone up.



As far as looking at new...we always said and we continue to say more of the same, meaning more of the existing product portfolio, and some of the new, and I think one of the big new that hopefully would be, will be able to be introduced in 2015 will be the luggage per piece charges on international flights, but as I said to some of you guys that we have met before, how that is going to be done, for example...it is easy for international to international traffic, or it is easy from a direct Turkey to international traffic, but for example traffic coming from, let's say, the city of Gaziantep through Sabiha Gökçen to Dusseldorf, how are we going to handle the luggage charge, piece charge in either per piece concept is being looked into and also the infrastructure in terms of IT is architecture right now, but I can tell you that this will be a big new ancillary revenue that will be introduced in our international operations. I just cannot tell you right now when exactly it may be up and running, but we expect it in hopefully the first half of 2015.

As for the seasonality, unfortunately, I don't have an answer to you right at this point, but we can certainly look to see if we can get back to you on that.

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**Manny Bacuyani**

Great, thank you.

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**Operator**

We have no other questions, back to you Mr Serhan Ulga for the conclusion.

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**Serhan Ulga**

Thank you, bye-bye.

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**Operator**

This concludes our conference call, thank you for participating. You may now disconnect.

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