Transcription for PEGASUS AIRLINES

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Corporate Participants

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Conference Call Participants

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Presentation

Operator
Ladies and gentlemen, welcome to Pegasus Airlines 2014 Fourth Quarter Results webcast. I would like to introduce today's Serhan Ulga, Chief Financial Officer. Sir, please go ahead.

Serhan Ulga
Hello ladies and gentlemen, welcome to our webcast, where we will be talking about 2014 financial results. The format of the webcast is I am proposing to have it about an hour and 15 minutes; of which, in the first 15 minutes, I will go over the presentation that we have provided in our IR

website, and then perhaps the remaining part will be a question and answer, so that everybody is satisfied with the information that is being provided.

I will start with the first page of the presentation, the key messages. Again, as obviously you've been seeing, the biggest…the only main weapon we have in being competitive in the competitive environment that we are operating is our CASK, so our non-fuel CASK came down by 2%, mainly driven by the economies of scale, which has obviously a positive impact, leveraging our fixed cost, and also introducing more monger flights, night flights, has earned a favourable impact on the operational cost. This is the cost that is relevant to landing and take-off, not necessarily variable with the length of the flight. We can talk about this further on. The total guests carried, we reached close to 20 million, roughly presenting more than 17%. Revenue is over TL 3.1 billion, a 30% increase, but mainly driven overall with the growth and strong ancillary sales. The ancillary sales we will talk about a little more, but it's from 2013 to 2014 we have, in Euro terms per PAX, of more than over €1 increase, which is pretty strong, and the EBITDAR came in about TL 601 million, representing a 19.5% EBITDAR margin, which is slightly ahead of our guidance that we have provided back in March 2014.

Financial operational highlights: I need to remind you that all these operational highlights represent or at the back of the increase of 21% in our production, in our growth, representing our growth, so on the back of 21% growth, added 14 new destinations, we are pleased to see that the load factor is at par with last year in this competitive environment, and we have excellent new on ancillary revenue, as I just indicated, represented in the upper middle section of the slide, and then another excellent delivery in lower CASK. But more so to speak on the non-fuel CASK, because non-fuel CASK is the piece that we mostly control, not all, and we'll talk about…I know there are a lot of questions coming about the fuel hedging and everything else in the coming slides.

To give you a flavour for what has happened in the Q4 and also what has happened in 2014, in terms of domestic and international, we have highlighted the commercial activity also, which results in our financial results, is that for…again, in the domestic one specifically, this is on the back of an 18% increase in production. The markets had grown in 2014 full-year to over 12%. We have grown over 17%, and load in both the quarter and also the year is up half a percentage point, and also the yields on a TL basis are slightly up, but also another…the negative one that you see this impact is the TL fuel cost, even though in the 2014 overall, domestic fuel prices came down by about 8%, the TL depreciated against Dollar over 15%, which resulted in about a 11% increase in the Turkish Lira fuel cost. This is all inclusive in the fuel cost, including the impact of fuel hedging.

On the international, the production growth is over 24%. On the back of this 24% growth, the market actually grew roughly 10% in the year. Our growth was over 19%, and based on the intense competition in our hub at Sabiha Gökçen with the other airline. We have seen a contraction in yields for the year, about 4%. Load factor is pretty much at par, but slightly down, which is sort of supported in this performance by almost zero impact on the fuel cost. It should have been more favourable but again the fuel hedges partially came into play here as well.

Moving onto just a brief update or wrap-up of the new destinations that we have, we are going to be starting and frequency increases, we tried to highlight, give you a flavour for what is cooking. We have been saying this for a while, communicating this to the investor community, so no big surprises here. The two destinations, Türkmenbaşı and Dammam, we are working on the processes on the other side of the route, so to speak, on the ground and should be more certain in the coming weeks. One important thing to remind again is a fleet of currently 58 aircraft, the youngest fleet in Turkey with an average age of 4.9 years.

Moving onto the EBITDAR analysis for Q4, the EBITDAR went up from 51 to TL 80 million, a margin improvement from 9% to 12%, and nominally up by 56%. If you look at the main contribution that is being made, our ancillary revenue increases overall, stronger in international than domestic, and fuel cost per ton that is to the P&L, and obviously growth brings in itself a certain positive addition to the EBITDAR line. This is offset by a contraction in our domestic and international, mostly international, yields and some slight load factor challenges/headwinds we took, and this pretty much wraps up the picture for the Q4 2014 EBITDAR step-up.

On 2014, for the full-year, the EBITDAR went up from TL 534 million to TL 601 million. There are bits and pieces that make up this reconciliation from last year to this year. Again, we see the biggest contribution is coming from volume, which is the growth, and this is also supported by a significant impact with ancillary revenues coming into picture, and some support coming from the fuel cost per ton for the overall full year, all-inclusive. There is also offsetting headwinds, so to speak, that came in the form the same thing as before, scheduled flight RASK, but mostly coming from international, almost all of it, as I indicated before. SAW handling at Sabiha Gökçen, we have been talking about this; this is probably the last time we are going to be talking about this in terms of timing difference. By the way, the pieces that you have seen have been eliminated from the FX, and FX has been summed up and put on-site, so that we are looking at it at its core operable basis of these differences/variances. The escalation on TL costs has different bits and pieces. Payroll escalation that represents overall |Turkish Lira inflation wages increases, some handling contracts, and a little bit of overhead, so the mix is a mix really which I don't want to get into at this level, but I can answer questions if there are any questions, so that pretty much wraps up the EBITDAR bridge analysis for us.

The most important slide in this whole presentation, for me, is the CASK analysis, which is something that we have an entire company's full-time focus on is the CASK. The CASK came down – non-fuel CASK, but let's talk about the non-fuel CASK, came down from 2.69 to 2.34. There had been again other moving parts to this, if you look at the quarter basis for Q4. There is a FX and escalation mix giving a net of 0.04. The biggest piece comes in structural change and adjustments. There is…if you remember in 2013, the fourth quarter, we had provided a big lump maintenance provision, because our utilisation of aircraft went up by almost an hour that year, so we did have to provide for that. That was provided in one quarter for the full year to catch up. Now since we've been providing it on a quarterly basis in 2014, this comes at a reversal to what we had provided back in 2013. We also were anticipating a higher net income, though it wasn't realised as such; compared to last year, there has been a reduction in the anticipated bonus structure. Those are the big moving parts that gave rise to this. A growth impact on fixed costs, we have talked about it, this is strictly leveraging on fixed costs of the sheer volume of our operation, and ASL increase, which helps, again reduces landing and take-off base expenses, leveraging on those.

A similar picture is in place for the full year as well, the number going down from 2.43 to 2.36. The FX and escalation gives a net – helped mostly from the FX side – of 0.08. Again, for the full year, compared to the other one, this time it comes in at a head-on to the full-year base, because we have grown bigger and we're operating a bigger fleet, and there is also…so the handling as well in here for the full-year difference, and the other two culprits are the same for the growth impact on fixed costs and the ASL favourable increase on the direct operating costs, brings us down to 2.36. All in all, I think it's a good performance, even though partially it comes from the FX assisting, but we have been able to leverage our size and operation efficiencies to our cost base. I think this is good news.

On the CASK seasonality, this is just FYI purposes really, it just shows that the change in quarter-on-quarter and tells you how it ends up where, so to speak, so if you look at it, 2014 CASK, the non-fuel CASK, at 2.36 has been between what we have delivered for the full year 2012 and 2013, more closer to 2012 of course.

A little bit of a recap on the balance sheet; the numbers are the numbers, but I think the one thing that needs to be said here is that as part of the…seeing the Dollar/TL depreciation, we have converted significantly of our TL holdings on the balance sheet from last year end to this year end. If you remember, 83% roughly last year in our TL holdings; now it's about 18%, and our 13% of last year's cash holdings was in Dollar, now it's more than 63%, and a little bit of the same for Euro, so all in all this has helped us with a favourable evaluation of the foreign currency items on…monetary items on the balance sheet, but this is something that we have paid particular attention over the year.

The currency exposure, we actually communicated part of this and there will be…we have done an important switch of the pilots pay scale from Euro to TL, which shows in TL expense percentage going up in 2014, and the introduction of more eastern flights to the Dollar price destinations also helped us to increase our Dollar revenues from 11% to 15% as a percentage, so this is good news. This is what we would need to be doing at all times to do the natural hedging in the balance sheet, and to touch base on hedging volumes, the fuel hedging for 2014 was 59% and we are 46% in 2015, and 21% in 2016. On the Dollar, we closed the year at 78%, and the Dollar hedging, overall load hedging for 2015, is 12% of the requirements of that year.

Again, page 12, just an update on where we are, what has happened, so if there are any questions, I will take on this slide.

On the last, but not the least, outlook and trends, and this is what management believes could be done at this point, is that we continue to expect another double-digit growth in both domestic and international markets. This is well beyond what DHMI is forecasting, and capacity increase is going to be around 20%. This was committed as well before. We expect a comparable utilisation for last year. The question that we're going to get more in the three points is the load factors and yields; we are seeing stable yields, meaning flat yields, in terms of TL and Euro looking at the full fiscal year 2015, and ancillary revenues, you know…the 10% per PAX revenue is within grasp for 2015 and our target of up to €12 is maybe reachable in the next two years. CASK-wise, we expect the CASK to go up by 5-6% and mainly…this is coming from the FX, the Euro's significant depreciation against the Dollar, which we have a lot of Dollar expenses, and continued adding on operational leased aircraft to our fleet until 2017 production year. We will see this impact coming in through. With all that stuff, I think we expect between 18% and 20% EBITDAR margin. For CapEx and cash flow, we are seeing about $15 million worth of PDP payment for aircraft. We're going to be looking into acquiring two spare engines with a growing fleet, and approximately €20 million CapEx spending on our anticipated ramp handling that will take place at Sabiha Gökçen.

Well, this sums up our presentation, at least the way that I will explain, so if that's it, I will go to the question and answer, and answer and questions you have.

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, my questions are usual; first, would you please give us some detail about your fuel hedging. The hedging contract losses were quite high and were recorded after EBIT. Should I presume that the fuel costs fully reflects the hedging level, and these are the contract losses that were recorded after the fuel cost, on top of it? What is your real hedging level particularly in the fourth quarter, not for the full year 2014, because I see around 2% fuel cost increase in the fourth quarter, which is very unusual when the fuel is coming down, so I tried to understand how this hedging works. The second question is about your guidance, when you give 18-20% margin guidance; I see that you don't actually assume a margin expansion while oil is coming down. I wonder if there is something wrong in 2015 that we should consider and what oil price is this based on?

Serhan Ulga
Okay, so the first and more technical question about the fuel hedging is…we have tried to explain this I think two conferences ago when we were engaging in mostly in what's called forward contracts where we sell banks the option to call on…either to sell us Dollars or to sell us fuel. Those contracts, obviously, at the time, before this big shift change, took place in October/November timeframe, for a structure such that, you know, we are going with like almost half of it going, pain that's resulting in buying Dollars and half of it resulting in buying Brent. But since the tables have turned and the pricing became such irrelevant compared to the time he made those hedges that all the hedges resulted, or the bank called all the hedges in selling us Brent, or the fuel is the reason why we incurred this expense. It is a good question, because I think we need to explore a little more in the detailed accounting of all this and how this is impacting the P&L and the shareholders equity line in various finances that have been announced so far and further on. These substantial of our hedges were chooser and forward contracts, which… by… IAS39 the hedge accounting has been deemed inefficient. That means that since at the outset we cannot know exactly in which product the hedge is going to end up. This, as you know, has been deemed inefficient. By that, that means when you do the mark-to-market, even though on your open contracts, you have to take the difference to your P&L line, and because they are inefficient and you go on taking a P&L line,

those are expressed below the EBITs, at the interest line. Therefore, only a portion of those chooser and forward contracts that has been there… the unrealised chooser and forward contracts cannot be put into shareholders equity like some other structures, some other balance sheet or P&L or financial that has been announced, so we took them all straight to the P&L.

There has been only TL 72 million worth of swap-based hedges that were deemed effective, because they were straight fuel swaps that we were able to put in the shareholders equity or the time being. What you are seeing at yearend, which is where the last quarter is the place where most of the fuel price changes have occurred, are net of TL 147 million, let's say, that has been commented on, represents pretty much the entire P&L impact or the exposure we have. This is – mind you that this was priced when Brent was at $57, 58, now the Brent is more than that, so that means we're not going to incur any more additional P&L impact on top of this, actually to the contrary, right. The only thing that we are going to keep an eye on is the TL 73 million amount that we have parked in our shareholders equity, compared to this $58 price range at yearend pricing, now, I think spot is $61, it may more than likely go down. The exposure that may come in, in 2015, based on the current trend and prices, there will be no more surprises in the P&L, other than this 73 million, part of it which is going to probably bleed back into the P&L... it may not be 73 million, it may be something less compared to $58 per barrel, but that is all.

Hanzade Kiliçkiran
Does it mean that in 2015, let's say if oil stays $70 per barrel, we won't see such a kind of 146 hedging contract that is only going to be affected in the fuel cost.

Serhan Ulga
We will not see this 146 million that is all, we are probably going to see income coming back, because we are going to be reversing this. The fuel line is going to be only impacted by the 73 million that is in the equity, because those are affecting fuel hedges based on swap, measurable, and deemed and tested as effective and those are the ones that is going to be bleed back into the fuel expense line. Your example, for example, $70 per barrel, that 70 million is going to go down, and it is going to be something, I don't know, whatever the number will be, the difference between 58 and 70 times the relevant tons will be the amount that is going to reduce the fuel expense in 2015.

Hanzade Kiliçkiran

That is clear, thank you.

Serhan Ulga
You had the other question, and for fourth quarter 2015, the hedge ratio is about 22%.

Hanzade Kiliçkiran
I understand in 2015 it is going to be okay for my fuel expense side, but you still see a kind of 20% EBITDA margin, maximum, in 2015.

Serhan Ulga
Because we are expecting continued competition in our hub from the other airline, and even though there seems to be a claim that they are not going to be getting into price wars and stuff like that, but that is yet to be seen, so we are cautious on the yields and load factors, again with increased competition coming in from the other airline, so it is just that sort of being conservative and prudent, so to speak. The headwind we expect to come from the competition.

Hanzade Kiliçkiran
Okay, thank you.

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

Alper Paksoy
Thanks a lot, Serhan Bey. I have one simple question. I understand you have acquired six aircraft with operational leases in 2014. I just wanted to learn the average duration of these six aircraft on operational leases, the average duration for the operational leases. Just a concern, one thing, the 240 million total loss, where was this incurred, in P&L or under equity. Was it all because of fuel? Thanks very much.

Serhan Ulga
If I were to answer from your second question, just to be clear on what is being booked in the P&L, we have booked TL 147 million worth of losses from [inaudible] contracts that is actually a net of $8 million gain on one side from the previous months, and TL 155 million loss on the unrealised piece.

The first one plus is realised piece and the other one is unrealised piece , so 146 is what we have booked and majority of it, the negative part, more than all of it is coming from chooser/forward contracts, not straight swaps or straight fuel swaps. The remaining piece that is in the interest line, so to speak overall is other stuff that is relevant in that line, foreign exchange loss, commissions, interest expense on financial leases and so forth and so on. I hope that answers that question.

We still – just to remind you – have another TL 73 million priced and found as effective as fuel swap in the shareholders equity that is going into 2015, and depending on the fuel price, this will probably go down and that is the way it is going to realise in the fuel line expense line, somewhere lower than 73 million based on the current trend and oil prices. I hope that answers the second part of the question.

The first part of the question, I am not sure what has been really indeed asked, but we have in 2014, we have six aircraft that we have put into production, so to speak, and five of them were before the summer season and one of them in December. Make it to 10, there were four that came at the end of 2013, so this is typically the way you introduce the airplane into production, so on a net basis for the summer term, for the biggest production, we were actually nine aircraft more. We produced with only nine more aircraft.

Am I missing a part of the question? I am sorry Alper Bey.

Alper Paksoy
That is okay. I just wanted to learn the average duration for the operational leases for these aircraft.

Serhan Ulga
Typically around eight, eight and a half years, depending on… eight years, we can take it as eight years, yes.

Alper Paksoy
Okay, excellent, thanks very much.

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

Nida Iqbal
Hi, this is Nida Iqbal from Morgan Stanley. I have a few questions, firstly on the guidance for CASK for 2015 of 5-6% growth, I want to confirm, is that in Euro terms?

Serhan Ulga
That is in Euro terms, yes.

Nida Iqbal
Okay, thank you. Secondly, how comfortable are you with your flat yield guidance given competition from Turkish Airlines continues at Sabiha Airport.

Serhan Ulga
We are looking at what we have done in the first months we are in. The first two months have been very strong in both load factor and yield terms. March is in line with our expectations, and looking ahead, we are seeing typical seasonal booking levels, comparable, and this is on the back of, again, over 20% increase in capacity right now, we are almost there. Compared to that, we are seeing flat in both terms in the next few months. This is as far as we can see it. The next will take place in the marketplace, but I think taking into the other airlines' explanations that they are going to continue to grow at Sabiha and not going to get into any price wars anywhere in their markets, would have meant that… I mean based on this the prices would go up, load factors will go up, but we don't anticipate that, but they are saying, but we are seeing that won't happen, that will be a good picture, so to speak, but we are expecting a relatively more realistic picture. We think we can maintain flat loads and flat yields based on the dynamics of the marketplace. We are relatively comfortable with this, what we are saying. We wouldn't have put it there if we didn't think it is going to be done.

Nida Iqbal
Okay, thank you. Are seeing any impact on pricing due to lower fuel prices?

Serhan Ulga
Our pricing, we don't do like you would do in your model, Excel sheet, based on this when it came down so much. We are not market-makers, we are participants in the market, and we are taking the price that happens in the market. Obviously, we keep an eye on our costing and in our performance, but our friends… we look at it, but we don't sit down and say, okay, the price

came down and the fuel price, we try to take what is the best out in the market at the time of booking, you know, from route-by-route basis.

Nida Iqbal
Okay, thank you. Just one last question, what is the average fuel hedging price for the 46% hedge this year?

Serhan Ulga
You mean 2016. 2015 is, that is $893, from where we are looking right now, per ton, this is per ton.

Nida Iqbal
Thank you.

Serhan Ulga
You are welcome.

Operator
We have a question from Görkem Göker

Görkem Göker
Serhan Bey, could you please provide us your FX assumptions for 2015, particularly Euro/Dollar, because I am trying to understand your CASK increase guidance, 5-6%, what percent is coming from FX. Secondly, your desire to ramp handling for… is it for 2015 or it is just preparation works for 2016. What would be the consequences on CASK going forward? Thanks in advance.

Serhan Ulga
Sure, I will answer you in a blended fashion. The biggest ticket item I am looking at is coming from the FX and that is Turkish Lira deterioration and also Euro, as you know, is going to 1.10 Euro/Dollar levels, is coming from that, but this is not only relevant to Pegasus Airlines. Any airline in Europe that is long in Euro proceeds or… us which is also long in Turkish Lira proceeds on a net basis is going to have this headwind FX, so I would say at least more than one-third of the difference is coming from there and there are also other bits and pieces. We are going to have continued pressure from the operational leases, as we have been telling you about for a while.

We have on a step-up basis; of course, we are providing an extra bonus pool because we think we are going to make a little more money next year. Another important thing is of course Sabiha ramp handling. Ramp handling seems to be anticipated to be launched before the yearend. It is going to put some headwinds as well, I would say more than 10% on the 2014 baseline non-fuel CASK levels. For the first year, because you are hiring a lot of people, you are training a lot of people, you are keeping them on the payroll, you are also buying the… you know CapEx, as we mentioned there and you are spending money to ramp-up the operations, so that is going to have some net negative impact, even though you are not going to pay partial or at all on the ramp handling. Net-net, the first year it is dilutive to the CASK base, non-fuel CASK base, but we are anticipate in the next two years this to be accretive to the earnings, because the initial investment that you make with the headcounts and the size and scale is going to also benefit this in the following two years, within the following two years. That is that.

I see, again, continued with increased fleet, with increased high level utilisations, marginal addition on maintenance expense and then against all this, we are going to be seeing again TL based inflation increases and many of – some of the contracts and many of the airports around the destinations we fly have escalations baked into it, so we look at unit cost increases that is going to be not as high as the FX impact, but it is pretty close to the FX impact. Then there are some, obviously, offsetting items, the utilisation is going to help us again, night flights, longer stage lengths is also another addition. Also, small but you have been talking about – we had a gas station company that we sort of took over, a Berlin joint operation then, we were able to sell it this year, so that is going to have a positive impact on the CASK base, because as you would know, a gas station doesn't produce any miles, so this doesn't fly anywhere, but it does have cost of sales, so it adds to your cost base when you do the math.

All in all, we think we are looking at headwinds that we need to work harder and harder to offset and eliminate these CASK headwinds. I can summarise it that way. I don't know if that explains the questions you have.

You also asked about our assumptions for 2015, let me dig it up. Let me get back to you on this, Görkem, okay, I have to dig it up. I don't have it with me.

Wait a minute, I found it. The jet fuel we have anticipated when we did this business plan, $763, Euro/Dollar 1.2, and Euro/TL is about TL 2.8, so as you see there will be some headwinds coming from the FX, over 10%, but the fuel would probably end up, based on where it is going, it is kind of flattish, even though there will be more coming to the fuel line from the FX and hedges, so it will be a mixed bag on that one.

Görkem Göker
Thank you.

Serhan Ulga
You are welcome.

Operator
[Operator instructions]

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

Alper Paksoy
Serhan Bey, two clarification questions if you can help. One is about the CASK increase. In the presentation it says up 5, 6%, that is Turkish Lira terms I presume.

Serhan Ulga
No, on non-fuel CASK... when we talk about CASK, we always talk about in Euro terms.

Alper Paksoy
Okay, so that is up 5, 6% in Euro terms. The hedged cost of fuel you mentioned earlier $893 per ton for 2015, that is for the 59% only I presume, is that correct?

Serhan Ulga
59%?

Alper Paksoy
Yes.

Serhan Ulga
We have 46%, if I am not mistake for 2015, the annual consumption.

Alper Paksoy
I am sorry, 46%.

Serhan Ulga
Yes, that is for that amount, correct Alper Bey.

Alper Paksoy
Thanks very much.

Serhan Ulga
You are welcome.

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

Daniil Fedorov
Good day and thank you for the presentation. Could you please comment on the personnel expense in the fourth quarter, because I see that this item went down by 5%? Could you please comment what was the reason for that and what should we expect going forward. Thank you.

Serhan Ulga
Based on derivative hedge contract loss that we recorded in Q4, we had to revise our bonus scheme, because we were not going to have as much EBIT that we were anticipating, so we had a write-down, so to speak on the expected bonus amounts. That is probably why. We were providing it over the course of the year.

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

Hanzade Kiliçkiran
Serhan Bey, sorry for asking this, but I couldn't just fight the CASK being up 5, 6% in Euro terms, because if you are looking for a CASK figure up by 5, 6%, that means that you are looking for around 15% CASK ex-fuel increase, because the unit fuel cost is easy to calculate with your hedging level. What

could be the driver behind such a kind of high ex-fuel cost increase, other than the FX?

Serhan Ulga
Like I explained before, I there is a significant amount of FX that is coming into place, because FX, as you know it, we are a Euro functional currency and long in TL, it is going to have – and Dollar short – it is going to have significant headwinds to us. CASK non-fuel is – the non-fuel part is going to go up about 10%, but that is going to be offset slightly by the fuel and it is going to be still up 5-6%.

Hanzade Kiliçkiran
Okay and this is based on 1.20 Euro/US Dollar, rather than 1.10, right?

Serhan Ulga
This is based on 1.20, yes. 1.10 will put more headwinds.

Hanzade Kiliçkiran
That is why I just wanted to ask, I wanted to clarify it. Okay, thank you.

Operator
We have a question from Pablo Morales, Pelham Capital. Please go ahead.

Pablo Morales
Hi, good afternoon Serhan, a few questions. On the assumptions, you said 750, just to be sure, 750 jet fuel average for the full year.

Serhan Ulga
…763 to be specific.

Pablo Morales
763, okay. I guess you are including also, you said, the bonus; you take an assumption on the PVT and the 10% of the PVT as a bonus in personnel expenses.

Serhan Ulga

It is not direct 10%, but yes, the Board decides on a level of bonus that is comparable to around those levels, but it is not a percentage.

Pablo Morales
I guess we have a lot of one-offs this year because of the handling and all that kind of stuff, if you were to assume 598, which is what I see in my screen in jet fuel and when you get rid of the one-offs in the handling in Sabiha, where do you think the unit cost is going to land in 2016. Are we talking about a 5-6% growth for this year, but then coming down again, because you are using 763 jet fuel and putting a lot of cost for Sabiha handling for the first year of operation.

Serhan Ulga
Sabiha handling for 2016 is going to be probably roughly flat, if not just like perhaps €0.01 still a headwind, but into 2017 will be probably… it is going to be accretive reducing our cost base when we do the ramp handling at Sabiha, so it is not going to be right away, that year or into the next one. In two more years it will be based on size and scale it would add. The biggest threats into the future for the CASK line, I would again the currency. Currency seems to be from where we see…

Pablo Morales
But Serhan, would the currency… you show us a chart with 56% of the costs are in Dollars. The Dollar is, let's say, 20%, but 80% of that 56% is fuel that is down 40, so the FX with the fuel should converge into each other, actually should be a positive number, when you get rid of all the hedges.

Serhan Ulga
If you have $40 a barrel, send it to us in trucks, we will buy…it is trading at $61 a day, but for 2015, as you know, we have almost half of the fuel hedged at $893 per ton, versus your 590-something.

Pablo Morales
Yes, but your assumption for the fuel year is 763, right, that is including the hedges or excluding the hedges.

Serhan Ulga
No, no, no, that was just [inaudible] assumption of the jet fuel, this does not mean the fuel cost, total fuel cost to us in the…

Pablo Morales
Okay and the other thing is you said January/February were better than your budget in yields, that means better than flat in Euro for international and…

Serhan Ulga
Yes, it means better than flat, correct.

Pablo Morales
Okay, good, thank you.

Serhan Ulga
Thank you.

Operator
We have a question from Efecan Kalkandelen, Is Yatirim. Please go ahead.

Efecan Kalkandelen
I have a question about the ramp handling in Sabiha Gökçen. Should we expect more CapEx for the next year and also, since you don't have any experience in the ramp handling, should we expect an increase on cost. My second question is about the capacity issues in Sabiha Gökçen Airport, and since Pegasus and Turkish will add 20 airplanes in this year, and we know that the second runway will not be open in this year or next year, maybe it won't be operational, it will put some pressure on costs. Do you agree with this also?

Serhan Ulga
First, the CapEx that I indicated in the last page in the presentation represents what we believe to be the full CapEx expenditure that needs to be had to do a full ramp handling, so we anticipate that to take place hopefully by the end of this year into 2016. I don't anticipate if there is anything that may need to be added on will be marginal as it relates to ramp handling projects so to speak. The question related to this was whether we are anticipating any more increases in the ramp handling cost, is that question related to this?

Efecan Kalkandelen
Yes.

Serhan Ulga
The contract with the ground handling company is contract, and other than providing for customary, which we did provide in our step-up analysis inflation impact on the contract, we don't anticipate any more increases, on a unit flight basis, on an [PAX] basis, but obviously since we are growing 20%, over 20%, that means there will be nominal increases of course on that line.

The other part of the questions, I think is a question that may be answered by many of the participants, so I may answer that we know. you are right, nothing is being done since the last time we were excited that the project was on a go and the first , second, third phase is sorted out and everything else. That was October or November last year. We haven't seen anything that has been done and going on, but one other thing to mention here, even though there seems to be a grey view on the capacity issue there, but the capacity issue in Istanbul is an issue that is recognised by the top levels in the Government and in the official circle, so we expect that needs to be the result, because otherwise the biggest port in Turkey, largest [inaudible] economy in the world, blah-blah-blah, is going to have significant issue in its aviation in Istanbul, out of Istanbul.

Efecan Kalkandelen
The only runway in Sabiha Gökçen [inaudible] aircraft capacity and I believe between June and October there is only 10% increase only for additional capacity and you will add 10 aircraft in this year and Turkish Airlines announced that they will add 10 more.

Serhan Ulga
Gatwick, a similar airport which is only single runway has about, or maybe…is 50 air traffic movements per hour. Right now, think it is at 32 at Sabiha Gökçen. By speed and taxiways, at a minimum, which I think is part of the process in this ordeal is an easy fix and it would significantly enhance the air traffic movement when it is completed. I don't think you need to have a second runway up and ready for this year – at least the months that you have indicated with these capacity increases to be neutralised or handled. I like to be positive on this and I would like to state that it would be taking care, and this is just a quick fix compared to building an entire runway. We expect those to be implemented, because like I said, this is recognised at the most top level and there doesn't need to be a second

runway to be handled for 2015 and early 2016, but you are right, 2016, if nothing changes like today, there will be difficult even with the speed and taxiways to get over 2016 issue.

Efecan Kalkandelen
Thank you very much.

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

Kerem Tezcan
Just a couple of questions, if answered, sorry for asking again, but are you seeing any potential for a unionisation in this ground handling business. Usually there is a union involved in those kinds of activities. The second question regarding the ground handling operation is that, do you think that any negotiation with the existing ground handling company could have solved the problem, instead of you starting the operation all over again. A third question would be, relatively near-term regarding Sabiha Gökçen Airport, there is going to be maintenance in the runway, as far as I know between May and September, if I am not wrong, do you think that it will affect the operations in the peak season.

Serhan Ulga
Thank you, Kerem. I think as far as the first one, unionisation pressure at the ramp handling, we are not aware of anything like that. I think this structure and the way we include those members into our family, so to speak, are at a much better terms and conditions compared to the other ground handling that are serving out there, and we make this an issue to make sure people are satisfied, especially at that profile of workforce. The differences we are providing for them, which is included in our cost calculations is relatively comfortable and satisfactory. We don't anticipate any reason for that and we are not aware of it. That is the first question answered.

The second one was… what was the second one?

Kerem Tezcan
If any negotiation with the existing ground handling company should have solved the problem.

Serhan Ulga
The holding company of that company is a public company, so I need to be careful of my words here, but trust me, if there was any hope and there was a lot of alternatives and sweeteners, flexibilities offered and requested and negotiated, but nothing came to fruition, unfortunately. This is not obviously something a low cost carrier wants to do right away on a running basis, but we don't have any other option, but we have to make sure that our operation and our hub is problemless and it doesn't impact the quality of the product and it doesn't impact our network utilisation, and the whole nine yards, because it has many ramifications when you have the ground handling going wrong, not getting their luggages or losing them and stuff, so it has impact on the top line but it also has more impact on the cost line. This is only a one-way street for us, we are going to get it right, and we will get it right.

The last question about the maintenance that is being done on the runway, is being done in midnight hours. There are only a handful of flights that we had to work through to avoid the closure of the runway for the maintenance to take place, and it is going to take place in warmer weather. It is not… the [inaudible] has any direct impact on the operation and the network at this point in time.

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

Alper Paksoy
Sorry to keep asking on this Serhan Bey, but this has been quite an issue in the last three months and I just wanted to clarify. The $760 per ton you quoted to us, I understand is a spot price, you assume you jet fuel, the market price throughout 2015, and $893 per ton is the cost for the hedged portion after taking into account the benefit of TL 73 million written off in the equity portion.

Serhan Ulga
No, but 73 million is not written off in the P&L, it is in the equity and depending on the swap contracts expiring throughout the month, and depending on the settlement prices compared to the strike prices on these contracts, it will be more than likely less. That 73 million has not hit the P&L yet.

Alper Paksoy

I understand, so the $893 per ton cost for the hedged fuel doesn't include that benefit.

Serhan Ulga
893 partially it… it does… it is in there, part of it, not the entire 46% is that portion. That portion represents a portion of this 46%, and I cannot tell on the top of my head right now, but it is obviously less than the other chooser/forward product, which did hit the P&L in the form of TL 146 million.

Alper Paksoy
I understand, and about the operating lease expenses in 2015, I am inquiring about that because it is in Dollar terms, so it is becoming more important the increase in the number of aircraft acquired through operational leases. Would you be able to share any figures with us regarding the operational lease expense in Dollar terms in 2015. I assume all of it is in Dollars, or can we make a calculation based on the number of aircraft, the average for 2014 versus 2015 and make an assumption based on that.

Serhan Ulga
Alper Bey, I cannot divulge you our lease rates, they are confidential and protected by the agreements we have with the lessors, but I can tell you this, there is not – on an average lease rate per aircraft, if you do an average calculation in the fleet, there is no significant deviation there. The deviation really comes when you have operational leases, comes in the form of maintenance, because the terms and conditions that are put forward by the lessors are more stringent, not necessarily reflecting any safety issues, let me say that outright, it is just more a financial issue that they like to have better terms or better favourable financial grounds in their maintenance and delivery provisions. This impact compared to our owned or financial lease balance sheet aircraft, we have to provide more per lending, per flight hour or per broke hour whatever the way it varies in maintenance provisions. This is the main reason, it is not the lease expense *per se,* there may be marginal improvements, because we are taking on quite a few brand new aircraft, be it Airbus or be it Boeing this year, but it is really coming from the terms and conditions related to the maintenance provisions that become part of the contract as per the delivery conditions that we have to provide for.

To give you a flavour, I would like to think that we are looking at €0.04 or 0.05 per [PAX] on a 2015 production basis, and a headwind or an add-on to the existing cost base.

Alper Paksoy
Thank you so much.

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

Serhan Ulga
Well, thanks everybody for taking the time to join us today and I hope this has been an informative discussion or presentation on our part. We will be available for any follow-up questions and comments and will be happy to meet with you whenever we can in the near future. Thank you.

Operator
This concludes our conference call. Thank you all for participating. You may now disconnect.