Transcription for PEGASUS AIRLINES

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Presentation

Operator
Welcome to Pegasus Airlines 2014 First Quarter Results webcast. I now hand over to Mr Serhan Ulga. Sir, please go ahead.

Serhan Ulga
Thank you. Hello everybody, my name is Serhan Ulga. For those who don't know me, I am the CFO of Pegasus Airlines, and today we're going to have about an hourly roughly, or perhaps a little longer, to go over the results of our first quarter operations. As you know, we posted our results last night and also provided an English translation of the financials as a convenience for you. We have also posted our presentation that we would like to cover the grounds today with you, so I would start with the presentation. Once the presentation is over, depending on the questions, I will take the questions and answer the questions, and depending on how it goes, we will arrange the time.

For those of you – again, the first slide, where you see the flight map and our network, showing our network, is just basically a recap of what Pegasus is, the fleet of critical aircrafts, the average age of 4.1 years. Basically, it's a network low-cost airline, utilising Istanbul's unique location, operating 83 routes in 34 countries, and specifically this quarter we are really performing and growing ancillary revenue. Istanbul, not only geographically, but also demographically, is one of the largest catchment areas in Europe and our main operation is performed from what's called the secondary airport in Istanbul Sabiha Gökçen Airport.

The key highlights, as you already know by heart by now, first of all, the key message is that we continue to execute the business plan under the same model and frame since we set up at the time of IPO, and to be more specific on the main highlights, the load factor in the first quarter, which comparatively speaking is being compared to a very strong first quarter revenue 2013. As such, the load factor increased by 0.4 percentage points. The production went up by about over 28%. The CASK, we will talk about the CASK, but [taking out the timing] a difference between last year and this year of marketing spend due to timing difference; overall, the CASK actually came down, but we have more to talk about that in the upcoming slides. A robust 36% increase in revenues; these Pegasus operational revenues exclude Air Berlin our discussion in this presentation – Air Berlin operational impact – and as the revenue per tax increased by 8% in Euros, there is about almost touching €9 per tax in 2014, the first quarter, which is what we had indicated in our road show and the following non-[deal] road shows after IPO, our target still remains the same, which we will touch at the end of the presentation, and we have a negative EBITDA margin to talk about in this quarter.

Moving onto the operational performance, the numbers pretty much speak for themselves. Again, the basic takeaway in this slide is that there is robust traffic still coming in the domestic and international markets. We are continuing to take advantage of this growing traffic and we are also inducing this traffic with our low fares and low cost base. The load factor in this first quarter reached its peak since inception of our low-cost business in 2005, which is 81.5% load factor. On the international area, it's pretty much a tie compared to last year's very robust first quarter. In total, though, again like I said, the load factor went up by 0.4 percentage points.

Moving into the analysis of revenue and growth and the comparison to the market, we had taken the time to provide you the average yields, because this is typically a question that is often asked, but the story is not just the yields here. The story is that Pegasus continues to grow much higher than the market growth, especially in international markets, and our market share went up to 12% in this quarter in international markets. In domestic markets, we are over the market growth and unfortunately, the international market load factor dipped slightly, whereas in domestic markets we had gains over one percentage point roughly in load factor. That explains the 1.5% in the first quarter.

If you look at the yields, yields are depressed with the on-going competition with our only competition, Turkish Airlines. As you would know, Turkish Airlines is about 20 aircrafts based in Sabiha Gökçen right now and going to go up to 26 by the end of this month or earlier this month, so their continuous effort to find a place for their incoming deliveries, aircraft deliveries, results in them to set up a new operation based in Sabiha Gökçen, which impacts our yields and also their yields, as you might have seen the day before yesterday.

Specifically on the international side, in 2013 quarter one we had one Easter that fell into quarter one, which really helped the traffic and the revenue side, but in 2014 we had two Easters, one in April and one in May, therefore you don't see the Easter travel impact in international revenues, and this pretty much wraps up the analysis of our revenue base, our load factor, traffic and growth.

Again, this is one of the frequent questions that we get from you guys and which we want to upfront answer is the new developments map. There have been new destinations that were announced, some of them you know; we had announced through the platform for some of 2014. To go through the list, Madrid, Frankfurt, Kuwait; we are also moving from [inaudible] to Charleroi as of April, which we did do. Starting Hamburg; Bishkek, which comes over to Pegasus, is just a flip-flip from our fully controlled subsidiaries that Pegasus books, but it's basically pretty much the same thing. Bahrain, Prague, and Genève to be started – beginning Switzerland – in July. We have secured Mineralnye Vody in Russia, to fly there as of May, by the end of this month; also, discussions for Budapest, Dammam, Türkmenbaşı in Turkmenistan, and also Warsaw, Poland is in the works. There will be more bilaterally restricted routes to be opened. Mind you, some of them are in Eastern Europe; as we had discussed before, those are also relatively protected, and there a certain increase in the overall production; daily three to Tel Aviv, daily two to Cologne, Düsseldorf almost daily two; additional frequencies in select cities as you will see from the presentation.

This has been – this is kind of going actually fast, [audio] starting to go through, you are going to have a lot of time to ask questions. The revenue developments slide, what we are basically saying here is we have very robust revenue growth under comparison to a very good quarter one in 2013. The most significant one here to me is the ancillary growth, which comes not only with the volume growth, but also the revenue per tax increase, meaning more penetration, more integration, more bundled product impact, is shaping up, which we can talk about a little later.

Again, highlight of this revenue, the passengers are up 25%, the guests as we call it; the load factor is up by 0.4% on aggregate. We also have a slight increasing sector length, about 26 km, and revenue is up by 36%, but better than all is the ancillary revenue per tax went up significantly in the first quarter, which is on top of the existing ticket base revenue that may be comparable to another airline.

On the EBITDAR analysis then, since we are explaining a negative EBITDAR and we are also explaining a slight increase on the non-fuel CASK, we took the extra effort to make it as transparent and as detailed as possible, even though this may be a little bit too much on the slide, but we basically highlighted the main parameters that contributed the swing from TL 52.1 million in the first quarter of 2013 to negative TL 29.4 million in the first quarter of 2014, so all you have to do is take a look at the dark orange bars, which show tell us the fact is that brings down EBITDAR. One of them is, as I had indicated below, with a slight exception in the international load factor situation, is the overall pressure on yields, domestic and more so in international, from Sabiha Gökçen. You can tell from this that the upcoming competition would be yield pressure, so this is being shaped up. Also, another impact which we've been talking about since the IPO is the Sabiha Gökçen (SAW) handling, which we are – our concession with the terminal operators, the concession that actually towards the end of this slide was providing positive income to us by doing handling or having handling services from the provider, is now at market rates that we can get in the Turkish market. We are doing also the traffic handling of this operation and the ground handling is being done by Çelebi, so that's the impact of 13.5 million.

The marketing timing difference, before the IPO we pretty much did not have any marketing expense even though pretty much this first half part of the year marketing and this quarter, not only we returned to normal spending pattern, but we also on the back of a brand house study project that our marketing people did, we also continued to take the benefit of that study and roll out commercials and certain advertising on TV in Turkey and elsewhere, so that was a timing impact which is not – this is spend that will not repeat itself, this amount.

Another important thing is there are certain contracts that, for example, the airport parking and landing, and type of stuff, [all flight passages] that are at list prices have increased year-over-year by the relevant authority and so there is also an impact of that escalation on TL cost base. There is also payroll increase in the TL paid employees here as well of 12.5.

The mix, we tried to highlight this in detail, and as you see on the right, you have components of that being listed out. Probably the only one-off item here is the delayed flight costs, which was due to the warm winter, which resulted in extra foggy weather throughout the winter, which did end up impairing delayed flight costs for our operations and that's actually not very unlike compared to most of the other operations in European theatres. The rest are structural changes that most of them happened and we discussed some of them in the capital markets day in London. There is the change in engine overall provisions, which is due to increased aircraft duration; as we explained before, we started providing extra for this engine wear and tear. There is also…as we wait for our Airbus 320, new aircrafts being delivered, starting in 2016 or second half in 2016, our strategy was to bridge the gap of the capacity by engaging operation leased aircrafts and as we increase operation leased aircrafts, the impact in terms of maintenance in those operation leased aircrafts has an extra burden on the budget.

Employee performance bonus, this is the bonus that's based on the annual EBT expectation, is one of the profit sharing plan which discussed about, which is the delta of last year, the same period, extra EBT expectation that results or reflects in this pool, which we have to provide for in this first quarter. I know even though there seems to be a loss in the first quarter if you look at the whole year, based on the overall parameters and expectations we are still providing for…based on this quarter's operation, so there is that.

Then there is also the consolidation impact, obviously this is what you are going to be tying back into in the financials, or IzAir and Air Manas, Air Manas operation rate March 2013, which has some fixed costs, so there wasn't any cost price, but there is some this year of course with this operation and also until the end of March 2013, IzAir is being consolidated by not any more since then, so consolidation impact that has a negative almost TL 4 million here.

On the EBITDAR bridge of course, this is the FX that has…the foreign currency expenses that have increased overall almost 30% quarter-over-quarter from last year's quarter to this year's quarter, which does have in TL terms increasing cost implications on the EBITDAR bridge.

If you look on the bright side, the blue one represents the uptick, which is the ancillary per tax, as I've been mentioning, and also the fuel cost per ton quarter-over-quarter has a positive impact, it's the unit cost, not necessarily the volume, and also overall volume provides positive EBITDAR dropdown in terms of net contribution of about TL 12 million. If you see the bridge that we'd like to discuss and highlight to you in detail, and I'm sure there will be questions we can follow up on.

Moving onto the balance sheet, the basic takeaway is the balance sheet is continuing to grow. We also highlighted to you our finance release maturity breakdown, obligations breakdown, which is also reflected in our financial statements, but most importantly, as we had discussed in the capital markets day, to avoid…since our functional currency is Euro and to avoid foreign currency fluctuation in the balance sheet, which we had suffered last year, as you will remember, due to TL IPO proceeds, we had started converging on the existing cash on hand from mostly TL to hard currencies. As you can see at the end of March, it's almost 50/50; you're looking TL versus other hard currencies and I can tell you that in May we are probably 80% to 20% with 80% being the hard currency, most Dollars and some other hard currencies, and 20% of this pool had been converted and recycled, so that means less FX volatility on the monetary assets like cash and cash equivalents on the balance sheet.

Okay, another – we have a couple of more important slides and then we can go into Q&A. Now, this is probably the most important slide. As you know, we take pride in our low cost base and we are vigilantly looking at controlling our cost base, and we wanted to come out and explain to you how this CASK had shaped up in the first quarter. Again, as I had, if you look…let's look at non-fuel bridge, which is on the upside, the orange bars from beginning to 2.64. Now, the 0.27 in Euro terms basis is basically the sum of all the items that we discussed in EBITDAR, which is on the main slide, the SAW handling and plus all the other components of that box on the right, with the exception of delayed flight costs; those form up the structural changes and adjustments that takes our cost base, which we had discussed one by one, up by €0.27 and this on a Euro basis, of course based on the leveraging – on the Euro basis, our TL expenses, we are bringing down this CASK by about €0.25 and then there was also some offering impact in TL contracts that is going the other way, so it's dropping €0.17.

We talked about the marketing spend difference compared to last year. The impact, we had none in the first quarter last year before the IPO, because of our concentration and execution versus we had…as an on-going business we had made certain spending this year, as I discussed, and this is minus all the other differences that takes us from 2.50 to 2.64, but again, I have read some of the analysts' reports today and they rightly point out the seasonality impact and this is where actually we'd like to point out as well, for you to get a grasp of how this fluctuates quarter-over-quarter, rhea rebates 2012 and 2013 quarter as 100 and then marked the rest of the quarters, Q2, Q3, Q4, so each year, showing that the CASK is going to continue to fall down in Q3 and then will be a slight uptick in Q4 of this year and as it happened in the past two years, in the previous years. If you were to mark 2014's Q1 CASK, 2.64, you will see it falls in-between summer 2012 and 2013 and then the remaining quarters in the past two years are pretty much parallel, so I guess if you were to put this in the middle and follow suit for the rest of the two years in terms of each trend, you will probably find out where the CASK is going to be, so this is where when we get to the outlook we are insistent on the fact that the CASK is going to be flattish, so we are comfortable in saying that.

Again, moving onto the last couple of slides, this is just more of an information-based slide on slide FX gain/loss impact. We have highlighted, as you will see, if you sum them up in our financial statements, different parts in the P&L, we just basically wanted to show you what part comes from monetary assets, monetary liabilities, and likewise non-monetary assets and non-monetary liabilities and equity; a total of a loss of TL 47 million, a change mostly again from the monetary assets, as I said, the IPO proceeds, the first quarter, the Euro continued to gain value going up to TL 3 per Euro, especially compared to the previous year's first quarter. There has been a significant escalation in the FX parity. Again, we can discuss more about this when the questions come up.

Before [the aspect on] trends, the decrease in currency exposure is the title of the next slide, is basically we are aware that the Turkish Lira cost base or the excessive revenue base, so to speak, let's say, is going to provide volatility to our balance sheet and we are doing different things to increase our TL spending, because we're going to increase domestic revenue anyway, so increase our TL spending, and hopefully lower our Euro and some Dollar spending to the extent possible. Since last year in April…starting from last year in April, we have taken certain steps to change the Dollar contracts to TL and changed – you might have told you this in the previous meeting – Euro-based pilot pay to Turkish Lira. We wanted to show you that the management is aware on working on this and with all these changes since last year, we were able to contract the Euro expenditure by four percentage points and also one percentage point on the Dollar expenditure, which is coming basically from on-board catering expenditures, which were Dollar denominated and now they're TL, and mostly increasing Turkish Lira expenses, which shows one on one contracts from Euro-based expenses, reflecting the pilot Euro-based payments to convert into Turkish Lira payments.

On the hedging side, the hedging is on track, as our previously explained plan. For 2014, 86% of our business plan in Dollar shortage has been hedged; this was in 2013, 96%. On the fuel side for 2014, 48% of fuel had been hedged and 2014, already 13% had been hedged; you are looking at about $928/ton, which is pretty good, pretty handsome. On the Dollar, you are looking Euro/Dollar exchange of about 1.3863, which is slightly in the money, but which provides a solid hedging base for us. On the rollover, right hand side of the slide, we have provided you the sensitivity of our Euro/TL, Dollar/TL, and fuel. Of course, when you take a look at one parameter, everything else being equal, this reflects the impact on different lines in the P&L for your reference, as it stands in our 2014 business plan.

Currently, we have 52 aircraft; this is broken out. Under the fleet expansion, we had basically only shown the contracted right now fleet delivery schedule. This does not take into account operational leasing aircraft that we are going to engage next year and potentially the year after in 2016 as well until our Airbus A320neos start coming in.

With that, we go to outlook and trends. I mean the only change that – let's go through that change, because the rest obviously are in line with what we had discussed in the IPO road show plus we had related to you during the capital markets day. The only thing that we knew…we were expecting, but we didn't know the extent of the competition, is the EBITDAR margin. We are confident that the CASK may even potentially be lower than last year, so the structural operational base is intact, but the market is providing us an unfortunate very yield-based competition; even though there is traffic, there is a continuous competition being played out on the yields.

Having said that, though, with all this, when you map it out, being on the conservative side, we are saying that the EBITDAR margin will be somewhere around 17-19% and depending on how things go, this may hopefully move up and if you're talking about something different in the next quarter or two, but otherwise we think 17-19% is what we will be showing you at the guidance next year. Again, no new marginal CapEx other than the PDP payments, which is actually nothing this year and only some in the next year or two, and I can give you the exact detail a little bit later. But since we touched upon this, and I know we're going to get this question and I want to come out and say this to you, looking from where we stand today, the forward bookings into three months and three months are pretty promising from that extent today and we are looking increased yields and improved load factors in domestic, and we are looking at a slight…[inaudible] load factor and just very slight decreases in the yields in the international arena. I mean these are all, keep on mind, on the domestic on the back of an almost 18-20% increase in capacity, so this load factor increase over 2% and TL 10 around yield increases from three to six months' forward bookings in domestic are on the back of a 16-18% increase in capacity, again to reiterate the growth, and if you look at the international side, again on the back of a 23-25% increase in capacity, you are looking at par compared to the same period last year's load factors and €1 or €2 deterioration in the yields in international.

Having said this, I will shut up for some and then if you guys have any questions, we will start taking them. Thank you.

Question and Answer Session

Operator
Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. Please lift your handset before you ask your question. Thank you for holding until we have our first question.

Our first question is from Kerem Tezcan from BGC Partners. Please go ahead.

Kerem Tezcan
Good afternoon, thank you for your presentation. I have got a question regarding the competition basically. We are basically seeing that for many of the…both in the RASK and the CASK side, you started to see some pressure on the competition. The improvement in the yield can be explained by a potential improvement in the seasonality, which is basically coming with the volumes, but looking at the world picture and constrained to airlines, there will be further increases in the capacity Sabiha Gökçen Airport, what do you expect regarding the yields? Let's say this year will be reaching your target in terms of yields, but what's going to happen or what do you expect for 2015 when further capacity comes in? Thank you.

Serhan Ulga
Thanks. Sabiha Gökçen is our hub and our biggest base, and our connecting network goes to this hub. In 2015 and '16, and into '17, we're going to continue to grow as we indicated in our [inaudible]. Now, in terms of the additional capacity, which I'm sure you were referring to the other airline, the other airline has very limited growth capacity at Atatürk, so whatever is going to come in terms of narrowbody growth, which I think is mostly in 2016 and 2018, looking at the presentation, they will be a very busy airport, we will see, but the good news is that 2016 and hopefully before the end of 2016 they will be seeing the second parallel runway being built and, hopefully, this growth at Sabiha Gökçen will be addressed properly, at least in terms of traffic and in terms of operational base, but the existence of the other airline in Sabiha Gökçen is here to stay, because until there will be the so-called third airport opened up and running, it will be difficult for them to address this inflow of narrowbody aircraft to place if they don't want to place outside other than Istanbul, so they're going to have to come to Sabiha Gökçen, which is I think apparent in their moves and in their statements and presentations that they're investing in Sabiha Gökçen. We are not worried about our cost base, what we deliver, what our product is; we are…I think some of this is going to be depending on the other airlines' response in terms of pricing or predatory pricing, as there has been before and how they handle the route overlap between Sabiha Gökçen Airport and Atatürk Airport on the same routes, how the pricing is done. Mind you not, the capacity they allocate over here is about 10% of the whole thing, and this 10%, that means so much to their NPL, that should be also noticed, but the bottom line is, we believe in the traffic growth to come as discussed on a more macro scale, why we think this is going to be, because we are not going to only benefit from the location, but we can also induce the market with low fares, with our low cast base. We are not worried about the traffic

growth, but just competition, let's say, is what needs to shape up in this marketplace.

Kerem Tezcan
Just a follow up question, I think on page 11, on the right hand side you showed where your CASK is compared to 2013, it is basically in the middle of it. What do you expect – here, there, basically, what is important is where the yields are, which is…that one on the right hand side, nominal CASK. Of course, the nominal RASK is also important there as well. since that RASK will be under pressure as you specified once again, because of the competition, what part of your cost structure do you expect there is going to be further improvement in terms of efficiency in ex-fuel CASK, let's say.

Serhan Ulga
There are a few things, I guess, first of all, let's face it the year-over-year, you look at the jet fuel price is lower, so the lower fuel is going to obviously help the overall CASK, but we are not relying on fuel, because fuel is something that we don't control, we can only try to manage its volatility in terms of pricing, but what we have is basically – is our scale, leverage our scale, so increase our utilisation flight with some of the routes that we discussed, highlighted before, fly more at night, so longer destinations, so leverage our fixed cost base like that, and also as we explained, and we have other initiatives, CIT (Continuous Improvement Team), we have other initiatives.

Quarterly, I have an idea competition, which we are actively bringing down different interesting ideas for us to concentrate on in different procedures, until savings are actually there. We just held a competition like that in our family meetings a few weeks ago, and the winning idea came from one of our captains, of planned trip fuel, how that could be optimised. There are a lot of small – when you add up makes it important, but the biggest thing is to keep the existing cost base at bay, don't let the costs creep up, because the costs have a tendency to come back, so the biggest effort on the managing side is to concentrate on that and also add new ones, but let's face it, the biggest improvement is going to come from utilisation, be able to leverage our fixed cost base, because we have done, as we have previously indicated in our presentation, most of the important cost improvements, I think is procedures and stuff like that.

You know, just to give you a flavour and this is not a guidance by any means, FX also is important of course in this. The way FX goes right now, if you took todays FX and you took todays fuel, and you think that should play out for the next nine months, you will be looking at a Euro CASK lower than €4, okay, so that is all I can tell you. It will happen, it may happen. It is an on-going effort, it is a continuous effort to keep it, to make sure nothing creeps up and hopefully add a few more on top, and use our utilisation fly at night to leverage our fixed cost base.

Kerem Tezcan
One last question, what is the current capacity utilisation Sabiha Gökçen Airport, and considering the expansion of the other airlines in Sabiha Gökçen, what that number will be in 2015.

Serhan Ulga
I think the current capacity utilisation is about 60% Sabiha Gökçen Airport.

Kerem Tezcan
How much? I am sorry, I couldn't hear.

Serhan Ulga
60. what it could be – with incoming aircraft from the other airlines and our growth, obviously, it will go up in 2015, because we are going to continue to add – like we say in the outlook – that many airplanes, I don't know what the other airlines would add, but basically, there are now two players there adding capacity are us and them. I think 2015, based on what is going to be added will still be all right, but we may not be able to add new flights on the peak hours anymore, we are going to have to find new peaks during the day and be able to operate in the new, sliding new peak hour zone, so to speak. In 2016, like I said, hopefully, before the end of the year, we will have a second runway in place and the terminal expanded, and by which time with our growth and the other airline's growth, the capacity will almost double, so then there should not be a problem, but if anything fell beyond 2016 Sabiha Gökçen, I think we will be looking at a situation where it will be like Atatürk Airport, by the end of 2016, if there is no second parallel runway.

Kerem Tezcan
Thank you, thanks so much.

Serhan Ulga
Thanks, Kerem Bey.

Operator
Our next question is from Alexander Kazbegi from Renaissance. Please go ahead.

Alexander Kazbegi
Yes, good afternoon. Can I ask a couple of questions on the revenue side please? What is your expectation from; you had clearly a pickup in the charter flights in 2013 in Q2 and Q3. Do you expect the same trend? Do you expect actually more revenues coming from the charters, looking now out into, should I say, second and third quarters. On the ancillary revenues, which grew quite nicely, was there anything specific, which, so to say, let to that growth, and would you generally think that that trend can again continue, or there was any one-off, so to say, in that growth.

One more maybe, I was just looking at the number of destinations you plan to add in '14, and also the doubling of, or rather adding frequencies to existing places, it is quite a lot of, so to say, additional flights, while you have only I think three planes to be added until the end of Q1, and then five altogether for the full year. Does that mean that you will be optimising and reducing flights here and there, or does it mean that you're going to be adding some planes on a wet lease, and is that going to be coming in Q2 and Q3? What is the…so to say, it doesn't seem that I can match, so to say, the amount of the increase of the flights with the actual number of planes coming in, or maybe I am missing something here.

Serhan Ulga
Sure, Alex, you asked more than one question.

Alexander Kazbegi
Sorry, way too many.

Serhan Ulga
It is okay. We don't increase the chartering, in fact, charter is as a percentage of the total going down, so I am not sure if we are reading the same thing or looking at the same thing.

Alexander Kazbegi

No, no, absolutely, just in absolute numbers, I mean you had still a jump, so to say, in Q2 and Q3. In percentage terms, I understand, but just seasonality has been there usually in the past and I am just wondering if it is going to…

Serhan Ulga

Seasonality, you know, which is not all that relevant anymore, but you are, let's say, size-wise smaller, let's say around 20, 30 aircraft, let's say, we use charter as a parking ground. What I mean by that, you cannot secure aircraft deliveries from today to the next day, so when you purchase aircraft, when you tie up aircraft, you know aircraft is going to come, but as you know, we do not control by literally restricted the traffic rights permission process, it is in the hands of the Civil Aviation Authority, so you would always – you continue to fight to get new ones, but the incoming capacity we will use during the season in charter and entering the season, depending on how many new frequencies we get, or new flight rights we get into the restricted destinations, we then deploy those aircraft during winter to those destinations, so it was almost like a parking ground, and to a certain degree, it is kind of like it is right now, but the amount of aircraft we use for charter is very, is limited to perhaps four to five during the peak time and less after the peak.

Charter – the strategy, which is concentrating on the CASK here, good quality and high yield or high contribution generating customers with almost no credit risk. There will be some charter and there will be some seasonality, but as the Company continues to grow, it will be less and less as a percentage.

If I remember correctly, you are asking that there are mishaps or misconnects in the aircraft delivery stream into the next years as we continue to grow during the summertime and into the next year, if I am not mistaken.

Alexander Kazbegi

Yes, not misconnected, just the number of the new destinations and the frequency seems to grow considerably and number of the new aircrafts, less so, so are there wet leases coming through or there is some optimisation of the flight schedules which helps you to do that.

Serhan Ulga

What you need to do is you need to look at the average aircraft during the year. Aircraft average last year in the first quarter, is a real number, is about 41. Average aircraft which is in use this first quarter this year was 50, so we had increased, in essence, year-over-year and you will see that in the summertime as well, we increased the aircraft number by 9-10, so this new additional 10 aircraft will be serving, not only, the increased frequencies, but also the new destinations as highlighted here, and some of them, Dammam, Türkmenbaşı, Bishkek, these are all a you should know, and Kuwait, are night flights, so those are not requiring any new capacity, and some of the flights, Tel Aviv, Krasnodar and so forth and so on are similar, London, also night flights we have, so there is of course optimisation, which is why we had 1,226 hours utilisation last year and we expect to have a comparable utilisation this year, by adding also 10 almost new aircraft into service, which we think that will be good enough to be serving all these new routes and new frequencies.

Alexander Kazbegi
Basically, you are saying you are not planning to use a lot of wet leases?

Serhan Ulga
No, no, no, the wet lease, and I think for everybody's minds to be clear, the wet lease that we use currently from IzAir, which is a wholly consolidated entity, is the wet lease is in its [inaudible], in substance it is our aircraft, so because it is a separate AOC, okay, there needs to be a wet lease agreement from one AOC which is İzmir Airlines, so Pegasus Airlines under AOC, airline operating certificate entity under the Civil Aviation rules, but when you consolidate them, okay, in essence, it is our…wet lease revenue and wet lease expense is offset, simply put, and it remains as a production base for us, it is just a name of the registration of the aircraft is in a different land, but it is the same production platform. It doesn't mean a higher wet lease cost or a difficulty in obtaining wet lease and so forth. It is just the form but not the substance, substance, it is our aircraft, it is our operation from A-Z.

The wet lease…as a low cost airline, we don't do wet lease, we should not do wet lease and we won't do wet lease that I can tell you, but this wet lease is just by the virtue of consolidation and by the virtue of having separate AOCs, it has to be in place in the form of a wet lease, it is just a form, but in consolidation it is eliminating and consolidate, there is one entity, one airline. If that makes any sense…

Alexander Kazbegi
Yes, no, that is fine and the last one on these ancillary revenues, there was a big jump, so to say, big increase year-on-year, so I was just wondering if it was driven by any specific reasons, or it is just a normal, so to say, going back to your target of whatever it is, €10-12.

Serhan Ulga
It is more of the same, as we keep saying and some of…but this bundled product seems to have a kick in the ancillary revenue base as well. It comes in the form of just a couple of items, the service fee has a positive, and the check-in fee also seems to have increased overall, and the others are pretty much intact and growing with the volume.

Alexander Kazbegi
Okay, thank you very much, great, thanks.

Serhan Ulga
Thank you, bye.

Operator
Our next question is from Hanzade Kilickiran from Barclays. Please go ahead.

Hanzade Kilickiran
Hi, thank you very much for the presentation. I have three questions. The first one is that I see that on your guidance, you keep the stable RASK guidance, even though you are mentioning about the pressure on the yields, and based on this, you are looking for 17/19% EBITDA margin. This is where I am struggling to understand, when you say stable RASK, is that in Euro terms or in TR terms, because the first quarter RASK cost decline was a little bit significant, and I just wonder what makes it to change in the positive direction in the rest of the year.

The second question is about your cost base, I think it is…is it meaningful to assume some cost decline towards the yearend, but on a year-on-year basis, do you think that we may see some cost increase in Q2 and Q3 as well, because of these additional marketing expenses and also some other items coming from the handling and also maintenance costs. I just wonder when we are going to see a year-on-year decline in the cost base.

The final question is that is it possible for you to provide us the expected PDP inflows this year for cash flow perspective. Thank you.

Serhan Ulga

Sure, let's start with the easy one, the PDP cash flow; let me see if I can it here. In 2014, and this is, as you know Hanzade, this is cash-in/cash-out and it is accumulated on a rolling basis, because we have existing Boeing PDPs and we also have contributed to some Airbus deliveries. This year, on a net basis, cash-in/cash-out net basis, we are actually collecting money, about TR 9 million. 2015, we are…I am sorry, who am I kidding, these are Dollars, and 2015; we are dispersing about $45 million. 2016, we are taking money back about $6 million, 2017, about $66 million we are dispersing and last, and you can do the rest, I mean, it is not difficult to do, about $49 million in 2018, so for the next five years, including this, net-net about $149 million PDP we need to be paying net.

Hanzade Kilickiran
Okay, all right, to be paid?

Serhan Ulga
To be paid, so the [audio]. The other ones…the question about the RASK is, if you read what we are saying and what I have just given you in terms of forward bookings is that we said increased load factors and also on the pressure on the yields, offset by the increasing of load factors, but also like with here we are seeing, as I explained in my presentation, especially on the domestic side, we are seeing yield increases as well, with current rates, we are looking at about €2-3, for example, but in [audio] is load factors, load factor, but of course domestic is for TL and international which I gave the numbers before are in Euro terms, so this is what we are…

You are looking at an 81.5% load factor in the first quarter in domestic; you are looking at about 75% in the international, on the back of almost 30% growth combined. [audio] load factors and sustain them on the back of such growth, because I think simply good, so we are thinking, with this increased traffic and these forward bookings, we think that – and obviously with the competition seeing the same thing – we think that the guidance we gave is what we gave and these are reasons why we gave that.

In terms of cost, when I read your piece today in the morning when investors sent it to me, I think you were right on the money, you were right about how the CASK is going to come down, it has a seasonality effect and with the exception of what we have been telling and what we have told you now, one-by-one, we do not anticipate any additional structural items that will be baked on top of the existing cost base.

On the contrary, let me say, for example, we have to be more specific, because CASK is very important, [inaudible], we have about 60-80 engine overhauls bidding that is going to be going, and I expect to have at least 10-15%, these are the numbers I get from our technical people, around 10…based on these scales for our engine maintenance to go down, but I don't know that for now, so once this bidding is done and we see the light at the end of the tunnel, we will come back and reflect that on the existing rates from what we did know last year, and into the future as well.

there is also, like I said, the fuel looking at the CASK, the fuel, given it is going to…we did run a quick model today, with today's rates, and I am not going to give the exact number, but with today's rates, if you look at Dollar/TR, Euro/Dollar and fuel today, the CASK is going to be below 4€c by the end of the year.

Hanzade Kilickiran
Per Euro?

Serhan Ulga
I cannot…[audio]….continue to hedge and take the volatility out and continue to work on lowering the cost base, but in terms of marketing, we do not expect year-over-year any jump-ups, because like I said, last year was an anomaly because of our concentration on the IPO and also some of the marketing expenses we did on the commercials and advertising, was part of the IPO, so this was another expense, which was part of the IFRS was capitalised but nothing…just, what it was last year.

Last year we had basically a base of zero, let's say, marketing spend, versus we had some this year. On some we had actually, we are going to go ahead and expand a little more, taking advantage of the timing and our studies, the Brandhouse study we did, so I do not see any new marketing to come up as an add-on compared to last year, year-over-year.

Hanzade Kilickiran
Okay, thank you.

Operator
Our next question is from Görkem Göker from Erste Securities in Istanbul.

Görkem Göker

Serhan Bey [inaudible]. Just for clarification, sorry, if it is a repetition for you, but what percentage of your salary expenses, including those performance bonuses are currently denominated in Turkish Lira. My second question is regarding ground handling expenses, are you still happy to undertake terminal operations from third party operators, and when will we see this 13.5 million burden on page 9, to decelerate or ease going forward. What are your main measures would be? Thanks in advance.

Serhan Ulga
Let me answer your last question not like in terms of numbers, but the salary percentage of 31% is still currently based on Euros, where about 69% is in Turkish Lira. This is for the first quarter, but year-on-year it gives you an idea, 30:70 let's say, s you describe in managing the foreign currency exposure in one of the slides here.

In terms of are we able to do the terminal wrap operation, if I am not mistaken is the question, right?

Görkem Göker
Regarding those…sorry.

Serhan Ulga
Look, there is no real competition in ground-handling in Turkey, there are some companies that provide real competitive pricing to the airlines that come to Turkey or that fly to Turkey. Sabiha Gökçen is our hub, our network is based on, and you see that in other low cost airlines like Ryanair in Dublin, easyJet to a certain degree in Luton and in other London airports, we will be considering if we think we can do it on a more cost effective basis, and more importantly, on a more efficient basis that will enhance our network structure, the waves coming in, the waves going out, we will certainly look into doing that, and I think strategically it is going to be always there to make sure we have the best price on the table from contracting with the ground handling companies.

What is the other question?

Görkem Göker
Actually, I was questioning, are you still happy to undertake ground-handling operations on the terminal side, starting from 1st June. What are the outcomes, the initial consequences on your operations and are you satisfied with the development on that front?

Serhan Ulga
Since last year, you mean?

Görkem Göker
Yes, starting from June 2013.

Serhan Ulga
We have a very good handle on the traffic operation on the traffic side, because we have a control centre there, we have a network, functioning out of Sabiha Gökçen. We have a very good grasp on managing the network, the waves coming in and going out, so overall our experience has been positive, because we can also own our products on the traffic side, in terms of having more focus on collecting excess luggage, being able to ask for – getting seat assignment revenues and so forth and so on, so it may have some ancillary revenue impact, but most importantly, this move we did an expenses feasibility study and our current cost base is well within this feasibility study that was performed and undertaken accordingly, so no surprises on that base.

Görkem Göker
Thank you very much. Thank you.

Operator
Our next question is from Kerem Tezcan from BGC Partners. Please go ahead.

Kerem Tezcan
Just a follow up, I would like to ask – if I didn't see in the presentation, for that, first of all – what is the impact of new route offerings to the system overall, to your CASK maybe, considering that the breakeven load factor could not be reached at any one of them.

Serhan Ulga
New routes, do you mean, Kerem Bey?

Kerem Tezcan

The new routes that has opened since the beginning of the year, especially international ones.

Serhan Ulga
Well, I mean, as a matter of basic premise, when you're flying to Western Europe, it has a higher cost base, were if you to fly – compared to flying domestically, and most of the time, if the country or the destination does not have – the airport does not have night flights, you mean we are utilising a valuable aircraft during the daytime. If you're flying east, that means you're needing extra capacity, so therefore it has a wonderful good leverage impact on your fixed cost base of rent, not maintenance, but the rent and the pilot pay to the extent, it is fixed. It is more geographic really than our [inaudible]; again, Western Europe is more expensive compared to domestic operations. the East and Middle East are relatively cheaper compared to Europe but more expensive than domestic, but the beauty of that is you operate aircraft at night, which does not require additional aircraft capacity and you can leverage your fixed cost base, increase your production, but if you want a number, I don't have that right now, but we have given, for example, Bishkek, for example, if I am not mistaken just by the virtue of flying one Bishkek route at night, last year around this time, we were bringing down the CASK by €0.05, that is then at that time, last year's operation P&L, so that is why Kuwait, Bishkek, Bahrain, [inaudible], Dammam, Türkmenbaşı and other destinations that we can operate at night, provide us a huge and nice fixed cost base advantage, mostly than anything else.

Kerem Tezcan
Okay, I mean, so there is no problem with the new routes that is reaching to a breakeven – the ones that you opened since the beginning of the year?

Serhan Ulga
I am sorry, Kerem Bey, can you repeat that again, you were just breaking up.

Kerem Tezcan
As far as I understand, there is no problem with the routes that you opened since the beginning of the year, especially in terms of reaching the certain breakeven load factor to cover your unit costs?

Serhan Ulga

Look, I mean, when we look at it, we have at least 12-18 months to look at a route to see if it profitable or not and then we decide, and we don't…since we also do a network flight structure, it is not only point-to-point, we also have huge connecting traffic, which is up close to 29, 30% as of right now within the network, it is not as easy as Ryanair would judge a city pair versus us to judge the same city pair if we are connecting, so we may have a breakeven on that city pair, but if it does provide a nice – continuing passengers into other destinations beyond in our network, we stand to add further value to those destinations, look at them in total.

It is not an easy cut and say, no, we are going to do this, or yes, we are going to do more of it, but we don't have – we have a very few number of routes that we are still looking at to see how it is working out, most of the routes are profitable, in the whole year, of course, it is not for the first quarter, but our judgement base is not as easy as Ryanair does, because we are a network low cost carrier, but we do have closures of routes in history, in the past, like Sofia in Bulgaria, which did not work out, we did close that after six to eight months if I am not mistaken, and we did have Batumi, recently we closed and we did close Frankfurt in the past, not because of the performance, but we didn't have good slots to land in Frankfurt Airport, but now there is an additional runway, so we have secured a nice flight, so we will be flying to Frankfurt.

Kerem Bey, it all depends, keep in mind that there is a network impact, so we will look at it that way, and these routes, most of them, almost all of them are good routes, profitable routes, will be profitable, we believe, and we are seeing signs of this since inception, and we are comfortable saying that, I guess. That is all I can say.

Kerem Tezcan
Thank you, thanks so much.

Operator
Ladies and gentlemen, I would like to remind you that if you wish to ask a question, please press 01 on your telephone keypad. Thank you for holding. We have no other questions, back to you Mr Serhan Ulga for the conclusion.

Serhan Ulga
Again, thanks for everybody joining and taking the time to listen to our presentation and our story for the first quarter, and I hope we were able to answer the questions that were placed and if there are any questions to

follow-up, please get in touch with [Beste], I know all of you know her, and with that, I thank you again and wish you a pleasant night.