

HERMES AIRPORTS INCENTIVE SCHEMES

Hermes Airports offer an extensive package of incentives designed to support airlines¹ that develop their business in Cyprus. Incentives are offered to all qualifying airlines on a fair, transparent and non-discriminatory basis.

The philosophy of the incentives is to promote growth in the number of passengers travelling to/from Cyprus, either from new or existing routes and to encourage passengers and tourists on a year round basis.

As of January, 1 2018, Hermes Airports will introduce the incentive schemes described below. The last day of accepting applications for any of the incentive schemes is 31 July 2022 and for operations, which will start no later than 31 July 2022.

Airlines already enrolled in the incentives schemes previously granted will continue benefiting until the expiration of their respective scheme. Airlines already benefiting from a particular scheme cannot switch to one of the new schemes for the same operation.

Hermes Airports reserve the right to change any term or condition of these schemes, withdraw or replace any of the schemes, at any time at its absolute discretion, by way of notification to its website.

Incentive Schemes

The following schemes are being deployed:

A. NEW ROUTES

1. **Volume based agreement on multiple new routes**
2. **Introduction of single new routes**

B. SUSTAINABLE ROUTES²

3. **Sustainability incentive for single new routes**
4. **Continuity incentive for new routes under volume growth agreements**

¹ The schemes could be offered to Tour Operators provided that they assume at least 80% of the 'risk' of the flight program

² New routes that received start up support up to five years and are operated by only one airline, or are part of a volume based agreement

C. GROWTH ON EXISTING ROUTES

5. Bonus on net traffic growth

D. MARKETING AGREEMENTS/DESTINATION PROMOTION

6. Marketing support

1. Volume based agreements for the introduction of multiple new routes

An incentive of up to €25 per departing passenger will be offered to airlines that:

1. Commit to a developmental plan from new routes either from Larnaka or Pafos for a period up to five years. Minimum requirement would be a developmental plan for two years.
2. Operate new routes to/from Pafos or Larnaka from markets not previously served or markets deemed as underserved to be mutually agreed with Hermes Airports based on the criteria set in section I of the General Terms and Conditions below, and where applicable, the application of a cannibalization test/impact assessment to be conducted by Hermes Airports.
3. For clarity, an airline moving capacity between Larnaka and Pafos, will not qualify for this scheme unless the airline demonstrates such move has increased overall passenger traffic at the Airports.
4. The incentive amount will be allocated based on a scaled approach ranging from €10 up to a maximum of €25 per departing passenger if the total annual passengers on new routes meeting the criteria in section I of this publication, exceed 500,000 per year. An example of the allocation is presented below.

Example: An airline introduces 3 new routes with 6 weekly frequencies in year 1 and it grows to 10 routes and 23 flights per week in year 5. The allocation of the incentive is scaled up based on the total number of passengers (*Example assumes 180 seats per flight and load factor of 75%*).

Table 1

Year	AC Cap	LF	New Routes	Weekly Fr (Dep)	Long Term		
					Total Pax	Euro (Year)	Total Pax (Cum)
1	180	75%	3	6	84,240	€ 14.00	84,240
2	180	75%	4	8	112,320	€ 15.00	196,560
3	180	75%	6	13	182,520	€ 16.00	379,080
4	180	75%	7	15	210,600	€ 17.00	589,680
5	180	75%	10	23	322,920	€ 20.00	912,600

Long Term Volume Related Incentive Scale

Incentive	Total Annual Passengers
€ 10	14,040
€ 11	28,080
€ 12	42,120
€ 13	56,160
€ 14	70,000
€ 15	110,000
€ 16	150,000
€ 17	190,000
€ 18	230,000
€ 19	270,000
€ 20	310,000
€ 21	350,000
€ 22	390,000
€ 23	430,000
€ 24	470,000
€ 25	500,000

Note: While the incentive rate is determined by the volume of total passengers flown in a year (in and out), the corresponding incentive amounts are credited per departing passenger basis.

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2. Introduction of single new routes

An incentive amount based on the table below will be offered to airlines that are increasing overall capacity to Cyprus by introducing new routes to/from either Larnaka, or Pafos airports based on the criteria set forth in section I of the General Terms and Conditions below, and where applicable, the application of a cannibalization test/ impact assessment to be conducted by Hermes Airports.

Table 1: New Routes Incentives Scale

Weekly Frequencies	New Routes Incentive Scheme (Year 1)	New Routes Incentive Scheme (Year 2)	New Routes Incentive Scheme (Year 3)	New Routes Incentive Scheme (Year 4)	New Routes Incentive Scheme (Year 5)
Euro per Departing Passenger					
1-2	€ 10	€ 9	€ 8	€ 7	€ 6
3-4	€ 12	€ 11	€ 10	€ 9	€ 8
over 4	€ 14	€ 13	€ 12	€ 11	€ 10

Above amounts will apply for a new route that is operated for a minimum of 20 weeks. Any new route operated less than 20 weeks will receive 50% of the applicable support.

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3. Sustainability incentive for single new routes

- A Sustainability incentive may be offered to airlines operating a single new route upon expiry of the single new route incentive. The incentive will be offered provided that they continue operating the

route at least with the same capacity, unless otherwise agreed between Hermes and the airline, and provided that no other airline have begun operations to that route during the term of the incentive.

- The level of the sustainability incentive will be calculated based on the amount they were entitled the last year of the applicable incentive scheme and applying a declining scale over a period of five years (table 1 below)
- If the routes are operated during the IATA winter period (Nov-Mar) they will receive an additional 8 Euro per departing passenger.

Table 1

Sustainability Routes Incentive (Single New Routes)	
Year 1	60%
Year 2	50%
Year 3	40%
Year 4	40%
Year 5	40%
Winter Year 1 to 5 (additional)	€ 8.00

Example

Year	New Routes	Sustainable Routes	Weekly Fr	Single New Route Total Pax	Sustainable Route Total Pax	Single New Route Incentive Amount per Dep Pax	Sustainable Route Incentive Amount per Dep Pax		
							Summer	Winter	Annual Average
0	1		3	42,120		€ 9.00			
1		1	3		42,120		€ 5.40	€ 13.40	€ 8.73
2		1	3		42,120		€ 4.50	€ 12.50	€ 7.83
3		1	3		42,120		€ 3.60	€ 11.60	€ 6.93
4		1	3		42,120		€ 3.60	€ 11.60	€ 6.93
5		1	3		42,120		€ 3.60	€ 11.60	€ 6.93

*Example assumes 180 seats per flight and load factor of 75%

*Sustainable route incentive amount can not exceed "Year 0" single new route incentive amount, unless there is a capacity increase during winter period.

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4. Continuity incentive for new routes under volume growth agreements

The objective of the continuity incentive is to recognise the commercial value of long-term/ volume based agreements with airlines and to encourage continuation and further development. In this respect, airlines that remain part of a volume based agreement and continue to operate routes after five years will be offered a continuity incentive for those routes, which will be calculated based on the amount received during the fifth year of operation and applying a declining scale over a period of five years (table 2 below).

The number of passengers of the routes that will receive a continuity incentive will be counted in the total number of passengers that would determine the level of incentive for those routes operated under a volume based agreement for less than five years.

Table 2

Continuity Routes Incentive (Volume Related)	
Year 1	60%
Year 2	50%
Year 3	40%
Year 4	40%
Year 5	40%
Winter Year 1 to 5 (additional)	€ 8.00

Example

Year	New Routes	Continuity Routes	Weekly Fr (Dep)	New Routes Total Pax	Routes Total Pax	Total Pax	New Routes Incentive Amount per Dep Pax	Continuity Routes Incentive Amount per Dep Pax		
								Summer	Winter	Annual Average
0	5		10	140,400	0	140,400	€ 15.00			
1	1	5	12	28,080	140,400	168,480	€ 16.00	€ 9.00	€ 17.00	€ 12.33
2	1	5	12	28,080	140,400	168,480	€ 16.00	€ 7.50	€ 15.50	€ 10.83
3	1	5	12	28,080	140,400	168,480	€ 16.00	€ 6.00	€ 14.00	€ 9.33
4	1	5	12	28,080	140,400	168,480	€ 16.00	€ 6.00	€ 14.00	€ 9.33
5	1	5	12	28,080	140,400	168,480	€ 16.00	€ 6.00	€ 14.00	€ 9.33

*Example assumes 180 seats per flight and load factor of 75%

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5. Bonus on net traffic growth

The Growth Bonus Scheme is tailored to reward airlines for their contribution to **net** growth on an existing route (after taking into consideration any reduction on the route by other carriers). A bonus of €12 per departing passenger will be offered for incremental traffic on existing routes. Distribution of incentive amount will be based on each airline's contribution to the overall net growth of a particular route.

The scheme would be offered on an annual basis, starting from 2018 and is subject to annual renewal at the absolute discretion of Hermes Airports. Athens route is excluded from the Bonus scheme.

Example

Route X	2017 Total Pax	2018 Total Pax	2018 vs 2017	% Total Pax Gross Increase	Growth Bonus Incentivised Pax (Total Net)	Incentive Amount per Dep Pax	2018 Growth Bonus Amount
Airline A	40,000	50,000	10,000	67%	6,667	€ 12.00	€ 40,000
Airline B	30,000	25,000	-5,000				
Airline C	20,000	25,000	5,000	33%	3,333	€ 12.00	€ 20,000
Total for Route	90,000	100,000	10,000	100%	10,000		€ 60,000

6. Marketing Support

Marketing support may be offered to airlines growing the number of services to Cyprus, and increasing passenger traffic. The objective is to share part of the airlines' risk in their efforts to stimulate traffic and increase demand in line with the network development strategy of Hermes. This type of support will be used by airlines solely for marketing purposes.

The following conditions should be met prior to any evaluation criteria:

1. The proposal should refer to *additional services* introduced to/from Cyprus.
2. The period of operation of the new service should be at least 40 weeks per calendar year.

Evaluation Criteria:

- I. Market development potential (New markets, Key developing markets, Existing markets)
- II. Passenger & Revenue potential (High, Medium, Low)
- III. Airline Commitment in Cyprus (Single operation, Multiple routes, Base of aircraft)

Marketing support can only be used to finance marketing activities and/or destination promotion that may increase passenger traffic, and Hermes and the airline have to agree upon a specific marketing plan in advance.

The total amount of marketing support to be provided to the airline, over a winter and/or summer season, will be calculated based on the seat capacity offered in the market and will be subject to funds being available in Hermes annual marketing support budget. If a full calendar year is not flown, a pro-rated amount may be given.

General Terms and Conditions

The various restrictions imposed by Governments during 2020 due to the pandemic covid 19 have led to the suspension of routes operated during 2019 and considered as existing routes. It is therefore clarified that the provision under point 1 below, which allows for a route that was not served for three months to be considered as a new route will not apply for 2020. If a route previously served in 2019 remains unserved in 2021 then Hermes will have the option to decide if it can accept this route as a new route.

I. Definition of New Routes and related provisions

A route proposed by an airline will qualify as a new route if the following apply:

1. If the proposed route has not been operated in the past 12 months, or has been abandoned by an incumbent carrier as recently as 3 months prior to introduction by the airline, provided that the route was served only by the incumbent carrier; or
2. If in the 12 months prior to propose route start up, the destination was served with less than 20 return flights or total capacity of less than 10,000 total passenger seats (5000 arrivals); or
3. If a scheduled service is offered year round on a route that has only been served seasonally by charters; or

4. For seasonal flights,(summer or winter) if the route was not flown in the same season of the previous year; or
5. If the destination airport is not within 100 km of an airport already served from Cyprus, or serves a different catchment area.
6. Pafos and Larnaka are considered separate destinations. However, if an airline proposes a new route to/from Pafos that is already served to/from Larnaka (or vice versa), or is likely to negatively impact existing traffic to/from Larnaka (or Pafos) from an airport in the same region as the originating airport of the new route proposed for Pafos (or Larnaka), a cannibalisation test will be applied by Hermes Airports ensuring the stability of the existing traffic to Cyprus.
7. An airline shifting capacity from destinations it serves to/from Larnaka or Pafos, to other destinations, or shifting capacity between Larnaka and Pafos, will not qualify for New Routes, Growth Bonus, or Marketing Support incentives unless the airline demonstrates such move will increase overall passenger traffic at the Airports.
8. Athens and London Heathrow routes, whether operated to/from Larnaka or Pafos, do not qualify under any circumstance as a new route.

II. Miscellaneous Provisions

1. Hermes Airports reserve the right to change any term or condition of the schemes, withdraw or replace a scheme, at any time at its absolute discretion, by way of notification to its website.
2. Any route which is subject to Public Service Obligation (as defined in Regulation (EC) No 1008/2008) will not qualify as an incentivized route under any of the schemes.
3. Some incentive schemes cannot be utilized simultaneously by the same airline. Therefore airlines who wish to utilize more than one incentive scheme at the same time should contact Hermes Airports to find out more details.
4. Hermes reserves the right to refuse payment of an incentive to an airline, at any stage, if there is an overall reduction of its total seat capacity offered to Cyprus over 5% in a period of 12 months. This doesn't apply to Volume based incentive scheme.
5. As the philosophy of the schemes is to promote growth, if an airline or an eligible Tour Operator suspends or ceases operation to/from the Republic of Cyprus or in general, for any reason whatsoever, Hermes Airports reserves the right to refuse payment of

any incentives due at the time the airline or eligible Tour Operator suspended or seized operation.

The final decision concerning the eligibility of an airline for any incentive scheme is at the absolute discretion of Hermes Airports, which reserves the right to refuse or reject any application for enrolment to any of the aforesaid schemes at any time. The decision of Hermes Airports is final and is not subject to an appeal. In case of refusal, or rejection the applicant shall not be entitled to any compensation by Hermes Airports whatsoever.

Guidelines for Application:

- An application can be submitted for New Routes and Growth Bonus using the form available on the Hermes Airports website (www.hermesairports.com) under Corporate & Business section.
- Airlines interested in the Volume based Incentive Scheme and Marketing Support can express their interest by sending an email to Hermes' Senior Manager Marketing and Communications (maria.kouroupi@hermesairports.com) presenting an outline of their long term development plan to Cyprus including proposed routes and targeted volume of passengers.

Once the request is assessed for eligibility, the airline will receive formal confirmation of its enrolment in the scheme.