

## HERMES AIRPORTS INCENTIVE SCHEMES

More than ever before, the existence of targeted and effective incentive schemes is essential to recover and maintain the passenger traffic to satisfactory levels, whilst pursuing a steady growth pattern.

Hermes airports offers an extensive package of incentives designed to encourage airlines and tour operators<sup>1</sup>(where applicable) to 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.

The Incentive Schemes described below will be effective from 1<sup>st</sup> November 2022 and the last day of accepting applications for any of the Incentive Schemes will be the 31<sup>st</sup> of July 2027 for operations, which will start no later than 31 July 2027.

Applicants already enrolled in incentives schemes previously granted by Hermes will transition into the new Incentive Schemes through either the modification of their current contracts or the execution of a new Incentive Scheme Agreement to benefit from the new Schemes as explained below.

Hermes reserves the right to change any terms, or conditions of the Incentive Schemes and/or withdraw or replace any of the Incentive Schemes, at any time at its absolute discretion, by way of notification on its website.

The following Incentive Schemes are offered:

- A. New Routes incentive scheme
- B. Volume of traffic – Incentives for existing and new routes
- C. Landing Fees Discount for incremental flights on existing routes
- D. Winter growth for incremental passengers on existing routes
- E. Marketing support

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<sup>1</sup> Tour operators must assume at least 80% of the capacity risk for a flight program to be eligible

## A. NEW ROUTES INCENTIVE

An incentive amount as presented in the table below will be offered to Applicants 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 the definition of new route below, and where applicable, the application of a cannibalization test / impact assessment to be conducted by Hermes.

For the purposes of calculating the amount that an airline is entitled to, the weekly frequencies of all routes that an airline operates will be taken into consideration. For example, if an airline operates route A with 1 weekly frequency and route B with 2 weekly frequencies, it will be entitled to €12 per departing passenger.

**Table 1:** New routes incentives scale

<b>GROWTH ON NEW ROUTES INCENTIVE (INCENTIVE SCALE BASED ON WEEKLY FREQUENCIES)</b>	
<b>WEEKLY FREQUENCIES</b>	<b>AMOUNT PER DEPARTING PASSENGER</b>
1	€10
2	€11
3	€12
4	€13
5	€14

### **Notes:**

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 incentive.

It is clarified that if at the time of the introduction of the new scheme, airlines benefit from the existing scheme for new routes, there will be transition into the new scheme at the same year/period they are in the current scheme. For example, if a new route is in year 3 in 2022 it will be transferred to the new scheme with the same status, which means will receive support for another two years as a new route.

## B. VOLUME OF TRAFFIC – INCENTIVES FOR EXISTING AND NEW ROUTES

This scheme aims to provide incentives to Applicants that can provide traffic volumes, whereas at the same time it seeks a balance between the development of new and existing routes, recognizing the fact that it is not feasible to maintain a significant volume of flights and passengers without including existing routes in the network, especially for the carriers that have an operating base in Cyprus.

The basis of this scheme is the following:

- (i) An Applicant is eligible for this scheme if it carries at least 400,000 (Four Hundred Thousand) total passengers on an annual basis. (12-month period)
- (ii) Provided that the criterion in paragraph (i) above is fulfilled, then according to the percentage of new routes in relation to the total routes it operates in a 12-month period (counted as a percentage of total airline movements), the Applicant shall receive a benefit per departing passenger as shown in Table 2 below.

**Table 2:** Volume of traffic – Incentives for Volume (existing and new routes)

ANNUAL TOTAL PAX MORE THAN	VOLUME-NEW & EXISTING ROUTE INCENTIVE			
	ALL ROUTES TOTAL PAX (ANNUAL)	AMOUNT PER DEPARTING PASSENGER		
		% OF NEW ROUTES MOVEMENTS/TOTAL MOVEMENTS (ANNUAL BASIS)		
		0%-20%	21%-50%	51%-100%
400,000	1-100,000	€0.00	€2.00	€2.50
	100,001- 250,000	€0.00	€4.00	€4.00
	250,001-400,000	€0.00	€5.50	€6.00
	400,001-750,000	€0.50	€7.50	€8.00
	750,001-1,000,000	€1.00	€9.50	€10.00
	Over 1,000,000	€1.50	€11.00	€12.00

The incentive amount is calculated on a blended manner, for example, an airline benefiting from the scheme in the second interval would receive for the first 100,000 passengers €2, for the next 150,000 passengers €4 etc.

**Note:** The route of Athens is excluded from this scheme and shall not receive any incentive as an existing route although it would count in the first 400,000 (Four Hundred Thousand) passengers for the eligibility of airlines to participate in the scheme.

### C. LANDING FEES DISCOUNT ON INCREMENTAL FLIGHTS

This scheme encourages airlines to increase the number of flights on existing routes. It offers a discount on landing fees depending on the type of route. The existing routes have been classified as “Thin”, “Medium” and “Mature” based on the average number of weekly frequencies. Every additional flight shall receive a discount on the landing fees separately for the winter and summer periods as it is presented in Table 3 below. The basis for this scheme will be the year before the introduction of the additional frequency and it will be maintained for five (5) years.

The classification of routes however (thin, medium, mature) will be reviewed every IATA season and will be published and made available to all airlines. If a route changes classification then the incentive amount will be adjusted accordingly, however the basis referred to above will remain stable for 5 years.

**Table 3:** Landing Fees Discount on growth of existing routes

	ADDITIONAL FREQUENCIES ON EXISTING ROUTES		
	THIN ROUTE	MEDIUM ROUTE	MATURE ROUTE
WEEKLY FREQUENCIES (SUMMER)	1-2	3-5	>=6
LANDING FEES DISCOUNT (SUMMER)	100%	50%	25%
LANDING FEES DISCOUNT (WINTER)	100%	100%	50%
WINTER SUPPORT	€8	€7	€6

#### **D. WINTER GROWTH FOR INCREMENTAL PASSENGERS ON EXISTING ROUTES**

An airline operating during the winter IATA season (November to March) will receive an incentive between 6-8 Euros for every incremental departing passenger during the period in comparison with the respective previous winter period. (Table 3 above) The basis for this scheme will be the winter period prior to the registration in the scheme and it will be maintained stable for five years.

The classification of routes (thin, medium, mature) will be reviewed every IATA season and the incentive amount that each airline is entitled for the route will be adjusted accordingly"

#### **E. MARKETING SUPPORT**

Marketing support may be offered to Applicants growing the number of services to Cyprus and increasing passenger traffic. The objective is to share part of the Applicant's 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 Applicants solely for marketing purposes.

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

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

##### Evaluation Criteria:

- (a) Market development potential (New markets, Key developing markets, Existing markets)
- (b) Passenger & Revenue potential (High, Medium, Low)
- (c) 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 Applicant will have to agree upon a specific marketing plan in advance.

The total amount of marketing support to be provided to the Applicant, 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.

It is clarified that the marketing support shall be used for the exclusive purpose of promoting Cyprus for direct flights through airlines and/ or tour operators.

## DEFINITION OF NEW ROUTE

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

1. If the proposed route has not been operated in the past twelve (12) months, or has been abandoned by an incumbent carrier as recently as three (3) months prior to introduction by the airline, provided that the route was served only by the incumbent carrier; or
2. If in the twelve (12) months prior to route start up, the destination was served with less than twenty (20) return flights or total capacity of less than ten thousand (10,000) passenger seats (5,000 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, if the route was not flown in the same season of the previous year; or
5. If the destination airport is not within 100km of an airport already served to/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), an impact assessment will be applied and the airline may be asked to adjust capacity accordingly
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 incentives under the Incentive Schemes unless the airline demonstrates that 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.

## MISCELLANEOUS PROVISIONS

1. 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.
2. 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.
3. 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 ceased operation.
4. 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:**

1. An application can be submitted for New Routes, Landing Fees Discount, and Winter growth scheme, using the form available on the Hermes Airports website ([www.hermesairports.com](http://www.hermesairports.com)) under Corporate & Business section. Once the request is assessed for eligibility, the airline will receive formal confirmation of its enrolment in the scheme.
1. 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](mailto:maria.kouroupi@hermesairports.com)) presenting an outline of their long term development plan to Cyprus including proposed routes and targeted volume of passengers.