

Hermes Incentive Scheme

Hermes Airports Incentive Scheme is designed to encourage airlines to add new routes to Cyprus. It is our belief that the proposed incentive scheme, with its primary emphasis on developing **new routes and markets**, is consistent with the tourism development objectives of Hermes and the government of Cyprus. By encouraging all airlines to open and develop new markets to Cyprus, Hermes will be in a stronger position to partner with the Cyprus Tourism Organization (CTO), Hotel Associations, and other stakeholder groups, to combine resources and optimize the value of incentives that can be offered to airlines.

The Incentive Scheme presented in this document is based on the principle of rewarding airlines for incremental passenger traffic on new routes, and is structured to provide an increased rate of incentive per passenger in proportion to increased volume and frequency of new services offered by the airlines.

What follows is an outline of the incentive scheme, which would save the airlines up to 30% on airport charges, over the period of four years for which the incentives are offered. The scheme will be in effect for four years.

1. Definitions of a New Route

- If the proposed route has not been operated in the past three years, or
- If in the 12 months prior to proposed route start up, the destination was served with less than 20 return flights or total capacity of less than 10,000 one way passenger seats (5,000 arrivals).
- If a scheduled service is offered year round on a route that has only been served seasonally by charters.
- For seasonal flights, if the route was not flown in the same season of the previous year.
- If the destination airport is not within 100 km. of an airport already served from Cyprus, or serves a different catchment area.

Important Note:

Where an airline generates traffic on a new route by switching capacity from another route to or from Cyprus to this new route, to or from Cyprus as the case may be, or from one of the airports operated by Hermes Airports Ltd. to the other, then the airline's new route will not qualify as a New Route.

2. Guidelines for Application

- The scheme applies to both scheduled and charter operators.
- The traffic volume required in order to qualify for the incentive scheme is a total of not less than 6 departures per 6 month period starting from the day of the first flight.
- An airline must fulfil the frequency requirement for a new route incentive i.e. a total of not less than 6 departures per 6 month period, before the airline can be credited for the first time.
Thereafter the incentive will be evaluated and credited monthly.
- The incentive scheme is valid from the first day of operation for the first airline on the route. If a second airline commences operation on a new route within 12 months of the first day of operation of the route, the second entrant will also be eligible to receive incentives for the remaining period if the additional service is deemed complimentary to the first (for example, flown on alternate days).
- Pafos and Larnaka are considered separate destinations.
- Eligible airlines shall inform Hermes Airports Ltd. in advance of their intention to operate a new route in order for the conditions of eligibility and the amount and

duration of the incentive to be agreed and confirmed to the airline in writing prior to route start up.

- If during the course of the incentive period, the operating airline alters the characteristics of or stops the operation, Hermes Airports maintains the right to revise or terminate the incentives according to the altered situation.

3. Methodology of Scheme

- The incentive amount that an airline will receive provided that the Route under consideration fulfils the above criteria will be based on two parameters:
 - I. Number of weekly frequencies.
 - II. Period of operation.

Number of Weekly Frequencies

- The proposed incentive amount per incremental passenger is shown in the table below:

Weekly Frequencies

Weekly Frequencies	Year 1	Year 2	Year 3	Year 4
7	€ 10	€ 8	€ 6	€ 4
6	€ 10	€ 8	€ 6	€ 4
5	€ 10	€ 8	€ 6	€ 4
4	€ 8	€ 7	€ 5	€ 3
3	€ 7	€ 6	€ 4	€ 3
2	€ 6	€ 5	€ 3	€ 2
1	€ 5	€ 4	€ 3	€ 2

The rationale of the above distribution takes into consideration the following:

- The incentive scheme is offered for a limited period of four years in order to promote sustained incremental traffic over time and encourage airlines to initiate new routes in the first year of the program rather than later.
- Airline Risk is considered to be greater in the first year of operating a new route, therefore the amount on incentive offered per passenger is higher in the first year, diminishing in each subsequent year.
- Airlines that implement a new route with 5 or more weekly frequencies make a stronger commitment to the market, and are therefore offered a higher per passenger incentive amount. With fewer weekly frequencies, the per passenger incentive is less, decreasing to half the maximum amount for routes served by only one weekly frequency.

Period of Route Operation

- The objective is to provide a higher reward to airlines implementing year round services as opposed to carriers flying only seasonally or in an opportunistic mode. Allowing for the established summer and winter seasons of 32 and 20 weeks respectively, a four tiered “period of operation” incentive scale was developed to adjust the per passenger incentive in proportion to annual weeks of service (see table below). If an airline flies more than 32 weeks, it will be entitled to the full incentive amount. If it flies only up to 20 weeks, (e.g. only winter season), it will get 50% of the

applicable amount, whereas even if it flies a new route for only 6 weeks, it will still get 25% of the incentive amount, on the rational that an airline may want to test the market, before making a stronger commitment.

25%	0-6 weeks
50%	7-20 weeks
75%	21-32 weeks
100%	over 32 weeks

Example

Destination A, has a population of close to half a million, and does not currently have air service to Larnaka. The route was operated to Pafos by Airline A in 2009, but the airline withdrew from the market, and in Larnaka the route was operated in 2008 again by Airline A with 12,000 passenger seat capacity, but was not operated in 2009. Hermes proposes to Airline B to re-introduce, the route to either Larnaka or Pafos, in which case the airline will qualify for the following incentive scenario beginning in summer of 2010:

Assumptions for Destination A to Larnaka up to year 2013:

- Airline B to start operations in summer 2010 with 4 times per week frequency for a period of 32 weeks.
- Flying with an Airbus A320-180 seats and assumed average LF at 75% for the first year.
- Will keep frequency in 2011 to 4 times weekly, and increase frequency to 5 weekly in 2012 and 2013.
- Period of operation will increase in subsequent years up to 42 weeks.
- This would result in the following market growths:
Annual market growth: 2011 – 25%
2012 – 15%
2013 – 10%

DESTINATION A TO LARNAKA					
	Year 1	Year 2	Year 3	Year 4	Total Period
Annual pax Growth rate		25%	15%	10%	
Passengers carried	18,000	22,500	25,875	28,463	94,838
Incentive / Passenger	8.0 €	7.0 €	6.0 €	4.0 €	6.0 €
Benefit to Airline	144,000	157,500	155,250	113,850	570,600

Premium Incentive for New Routes – Volume Related

The Premium Incentive is offered to airlines that contractually commit to delivering a minimum of 500,000 arriving or 1 million total passengers over a period of five years, on new routes to Larnaka or Pafos from previously unserved or underserved markets, as qualified by Hermes in accordance with the criteria set forth in Section 1, above. Airlines that meet all prerequisites of the incentive scheme for new routes may apply for the Premium Incentive Scheme upon presentation of a five year plan to deliver the required number of passengers.

Example

Airline proposes to deliver a minimum of 500,000 arriving passengers over a period of five years as follows:

Year*	Targeted Passengers (Arriving)	Incentive to be paid if 100% of target achieved (Euro/arr pax)
Year 1	50,000	10
Year 2	75,000	10
Year 3	100,000	10
Year 4	125,000	10
Year 5	150,000	10

If for any reason there is a shortfall in the volume of passengers (as agreed between the airline and Hermes), for any given year of the Premium Incentive agreement, the incentive will be reduced for the following year in proportion to the percentage shortfall in total passengers flown from the beginning of the Premium Incentive agreement to the end of the most recently completed full year of service.

Following the first quarter of Year 5, Hermes will adjust the incentive amount based on the forecasted traffic to the end of Year 5, derived from the airline's scheduled capacity for the remainder of year 5 multiplied by the airline's Passenger Load Factor of the previous year on routes to Larnaka and Pafos.