



PALERMO AIRPORT - THE COMMERCIAL POLICY 2021-2022

Guidelines on Incentives for supporting the Traffic Development of Palermo Airport
Rev. 5.0

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PREAMBLE

The altered social and economic scenario following the effects of the Covid-19 pandemic, has led GESAP SPA, Palermo Airport management company, to suspend its standard Commercial Policy for the year 2020, to revise the commercial agreements previously signed in the light of the drastic drop in passenger traffic and to support, on a transitional and exceptional basis, all the carriers operating at Palermo airport by introducing and publishing a Special Covid-19 Policy (expiring on March 31, 2021), providing support measures, in relation to the necessary traffic requirements achieved, aimed at maintaining the highest possible level of traffic to and from Palermo airport.

- For the year 2021, starting 01st April, a first substantial support measure is given by the publication and enforcement of a reduced level of Airport Charges compared to what the regulatory mechanisms would have allowed. This mechanism was approved by accepting the requests of the carriers at the Users' Committee in order to further encourage the recovery of traffic in a context of high crisis that is still ongoing and that is expected to end during the next three years.
- In addition to the above measure, Gesap has deemed it appropriate to revise and renew its Commercial Policy, with specific evaluation criteria, reshaped with the aim of restoring the previous traffic levels, supporting, developing and consequently increasing mobility, connectivity and tourism development in the Sicilian territory, also encouraging internal tourism and finally increasing the competitiveness of Palermo as a destination.



This incentive Policy, valid from April 1st, 2021 for the IATA Summer 2021 and Winter 2021 seasons, is addressed to Carriers and Tour Operators who undertake to ensure and subsequently contribute to the development and the increase of passenger traffic to and from PMO airport according to the criteria set out below and will remain in force for a period of 12 months, except for variations that Gesap reserves the right to do in case of need.

THE REGULATION IN FORCE

The key reference in terms of relevant legislation, which allows us to put in place this incentive Policy is the The EU Commission Communication 99C, issued the 04.04.2014 on State aid to Airports and Airlines.



Subsequently the Italian Ministry of Infrastructures and Transports (MIT) has issued, effective from the 2nd of October 2014, a first version of the **Guidelines for Incentives & Support Policies related to Start Up and development of Airline routes**, named "Linee Guida per la regolazione delle politiche di incentivo e supporto in funzione di avviamento e sviluppo di rotte aeree da parte dei vettori ai sensi dell'art 13, commi 14 e 15 del Decreto Legge del 23.12.2013, n.145, come modificato dalla legge di conversione del 21.2.2014, n. 9".

Later, on the date of 11.08.2016 (ref. Nr. 275) the a.m. Guidelines of the MIT have been modified in order to better clarify some contents, as well as to highlight the opportunity to support Air Traffic in the regional airports like Palermo and support the territory of the Airports catchment area.

Other related relevant Regulations and laws to be considered are:

- The Law Decree 145/2013 and the derived conversion law nr. 9 of the 21.02.2014.
- ENAC, the Italian Civil Aviation Authority, has issued in November 2014 a Technical Guideline for Airports , related to Supports and incentives to Airlines (see Enac website: www.enac.gov.it) for reference on "Indicazioni operative per i gestori aeroportuali in caso di contributi/sostegni finanziari a favore di compagnie aeree per il lancio di nuove rotte e procedura di monitoraggio").

Gesap Spa – Palermo, in order to fulfill and comply its development action with the a.m. legislation, has taken the first decision of its Board on the date of 03.06.2015 and then published the first edition of the Commercial Policy. The policy has now been updated and revised for new applications related to the period Summer 2021 / Winter 2021 valid till 31st March 2022. This Policy will regulate all future incentives agreements for airlines, where all current agreements in force will remain fixed and firm until date of expiration.

OBJECTIVES, PRINCIPLES AND TERMS OF THE GESAP COMMERCIAL POLICY FOR THE NEXT PERIOD: SUMMER 2021 - WINTER 2021

Objectives

- 1. To Increase International and Domestic Mobility from and to PMO Airport and its Catchment area through direct air connections / routes.**
- 2. To Increase existing International routes coverage on a 12 month operations basis (All Year Round).**
- 3. Optimization of national network coverage.**
- 4. Recovery of passenger traffic recorded in 2019 in the shortest term possible.**

The Commercial Policy of GESAP SPA has historically had as its key objective to encourage the increase of international passenger traffic to and from Palermo, for destinations of strategic interest, which will be specified below. In this fragile pandemic context, however, it is considered essential to also encourage and consolidate the development of the domestic network, without prejudice to the busiest main routes which are not considered to require particular support, in order to foster the domestic tourism which is believed to give the first impulse to the economic recovery phase of the sector and also to try to ensure the resumption of widespread coverage of the domestic connections network. The objective of meeting the existing potential demand for international mobility with direct flights remains unchanged, by maintaining and developing existing connections and new routes, as well as encouraging greater extension of these connections all year round.

Expected benefits

Hereinafter the expected benefits of the Policy implementation

1. TRAFFIC VOLUME

Increase of the Total Traffic, International and Domestic Traffic.

2. CONNECTIVITY

Increase in the International and domestic direct routes from Palermo to strategic Markets / Destinations of economic and touristic interest for the Airport and the Sicilian Catchment area.

3. 12 MONTHS – ALL YEAR ROUND MOBILITY MOBILITA' 12 MESI

Increase of routes and connections on a 12 Month basis in order to reduce the service gap during winter months and support the extension of the touristic incoming season.

4. ENCOURAGE THE TOURISM RESUMPTION

Create the conditions for the restoration of domestic tourism especially in the phase of the persistence stage of the pandemic.

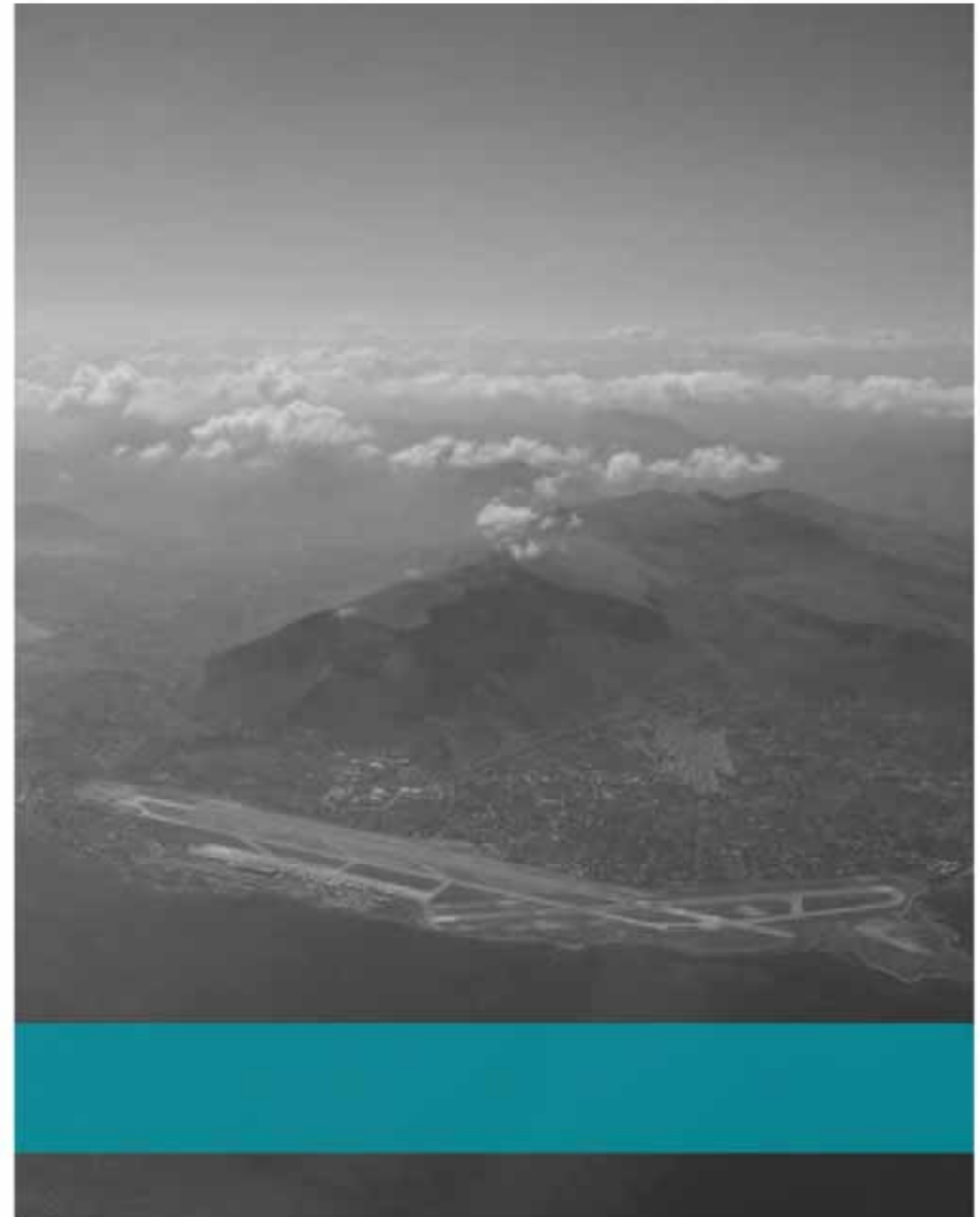
Economic viability

The increase of traffic related to the routes, the carriers entitled to be supported by incentives, and the consequent economic support, must result economically viable for Gesap Spa, and therefore able to generate a positive economic return in due terms.

The above feature (positive economic return) is considered as a prerequisite before any other evaluation factor. Gesap Spa will analyse the economic viability for each new applicant route/operator with an ex ante and subsequently an ex post Test, according with the MEO (Market Economy Operator) principles recommended by the European Commission (see ref. to: EU Commission Communication 99C, issued the 04.04.2014 on State aid to Airports and Airlines) and in order to avoid any possible infringement with state aid discipline.

Trasparency in communication

While selecting the applicant operators interested to incentives support, Gesap Spa wish to foster the participation of all operators (carriers and T.O), without any distinction among all kind of aviation operators (Traditional, Low Cost, Charter, Legacy etc.). Gesap Spa will also make sure that the present document and all related information will have the largest diffusion through the communication means (website: www.aeroporto dipalermo.it) recommended by the MIT and the Enac Guidelines.





Duration of the support agreement

All selected development plans and their related agreements between Gesap Spa and selected carriers will have a standard duration of 3 (Three) years, with possible extension of 2 (two) **additional** years in case Gesap Spa will find the project of a strategic importance. It is possible to evaluate the signing of new agreements after the afore mentioned deadlines, provided that the assumption of a continuous increase in traffic year on year exists and it is possible to progressively limit the volumes entitled to count for incentives (Traffic CAP / Threshold).

The agreements with Tour Operators will have, in any case, a validity of 3 (three) years and the incentive support will be granted only in relation to the incremental traffic generated compared to the previous year.

Policy validity

The present Policy will be in place until the 31.03.2022;

GESAP SPA will reserve the right to adapt and update the present document at any time during its validity terms, in order to take in account any possible impact due to traffic trend changes as well as to some legislation change and and, where appropriate, for reasons of force majeure.

FIELD OF APPLICATION OF INCENTIVES SUPPORTS

Foreword: General minimum requirements, exclusions, exceptions for significant traffic volumes

- Given the higher saturation of the demand towards the main domestic market - destinations, as well as the position of insularity that sees for Sicilian users, the only alternative of air mobility to and from these important national destinations, incentives on major domestic routes are normally not provided. In some cases, instead, where the demand is close to saturation, containment measures that mitigate the requirements of accessibility to incentives are introduced.
- Minimum requirements: there are no direct economic incentives for activities that do not exceed at least the thresholds of 40,000 domestic departing passengers and 10,000 international departing passengers as entry thresholds.
- The measures referred to in the preceding point do not exclude marketing plans, advertising, web advertising and promotion actions to increase the visibility of routes and of the presence of carriers at our airport.
- Large Volumes: For carriers able to generate volumes of more than 1 million departing passengers, Gesap reserves the right to offer more favourable conditions, in compliance with current regulations and in the light of the sustainability of the economic commitment.

In order to have access to the Incentives support provided by the present policy, the following three types of routes / connections are, in ranking priority order (1,2,3), considered of interest for Gesap, as far as the selection criteria of the present policy is concerned. Each category has also some related criteria of evaluation, in descending order of importance (a,b,c).

Route Categories and selection Criteria

Cat.1 New Direct Connections/ Routes.

Criteria of evaluation in order of Importance¹:

- a. Intercontinental Routes, Northern Europe, Scandinavia, Eastern Europe (Order of priority = According to the Destination City/Country GDP).*
- b. Other European Routes (Order of priority = According to the Destination City/ Country GDP).*
- c. Domestic Routes – Domestic new routes proposals for incentives are subject to the Gesap Spa expressed approval and interest confirmation. In some cases the Frequency Increase of existing domestic routes will also be considered eligible for incentives, as long as the related traffic will be directed to airports/destinations where, according to Gesap Spa historical data and analysis, it may result that the existing capacity of offered seats is still considered insufficient to meet the demand. Incentives for this particular category will be regulated by the application of specific thresholds or limits on traffic volumes determined in the bilateral agreements.*

¹Note: Gesap Spa will reserve the right to evaluate all applications according to the listed criteria, in addition to the economic MEO Test. Should it be impossible to satisfy all application proposals, or in case of equivalence of some proposals, Gesap Spa will operate its choice according to its own right to assess and select proposals by verifying the best compliance of each candidacy with its own strategic objectives.



Cat.2 Increase of existing summer International and Domestic routes frequencies on a 12 month basis (All Year Round).*

Criteria of evaluation in order of Importance:

- a. Intercontinental Routes.*
- b. European Routes (Order of priority= According to the Destination City/ Country GDP).*
- c. Domestic routes - where, according to Gesap historical data and analysis, it may result that the existing capacity of offered seats is still considered insufficient.*

**To be noticed: For this category the incentive will only be related to the additional volumes referred to the months of the IATA winter season. The incentive cannot be combined with other agreements in place.*

Cat.3 Increase of frequencies for the Existing International and domestic routes where demand is considered higher than actual available offer.*

Routes of interest in order of Importance:

- a. European Hubs.*
- b. All other International destinations.*
- c. Domestic routes - where, according to Gesap historical data and analysis, it may result that the existing capacity of offered seats is still considered insufficient.*

**To be noticed: For this category The incentive will only be related to the proposed additional volumes and cannot be combined with other agreements in place.*

QUANTITATIVE REQUIREMENTS FOR ACCESSING THE INCENTIVE SUPPORT MEASURES

Here following the list of the minimum specific requirements for accessing to the Incentives. In case of new proposed routes occurring for the same route and from different operators willing to start in the same period (IATA season), the proposal that takes an higher number of frequencies (Flights) / capacity will prevail.

List of requirements and evaluation criteria: 1 to 5

1. Traffic Volume (Departing Flights, seats) Minimum requirements per Route Category:

Routes of Cat. 1 (New Routes):

At least two frequencies per week, with a minimum of 22 consecutive weeks (Average during the 3 year agreement).

Routes of Cat. 2 (Increase of frequencies from a seasonal to a full year operations base):

At least two frequencies per week for the first additional IATA season, in addition to the existing volumes related to the operation in place.

Routes of Cat. 3 (Increase of frequencies/flights for the existing International and domestic routes):

• **For destinations sub a)**

If the applicant carrier it's already operating on the proposed route, the minimum requirement will be a 30% increase of traffic (flights) compared to the traffic generated in the previous year from the same carrier. In case of application from a new carrier the requested minimum requirement will be of at least 28 frequencies for 14 consecutive weeks per annum for the proposed route operations. In this case the integration of activity to the existing network must result as a real integration of the airport existing schedule frequencies. Gesap Spa will recommend to not overlap with existing schedule in order to get a better level of service for passengers.

• **For destinations sub b) e c)**

The increase of departing flights must be of at least 50 additional frequencies per annum, compared with the total traffic of the airport for the preceding year on the same route. Gesap Spa will reserve the right to vary (increase) the mentioned requirement for the following years in case the total traffic for the considered route will decrease due to the abandon of the route from other operators.

2. Type Of Flight /Carrier

All type of Carriers/ Operators are entitled to apply for the provision of the present policy, with no distinction among category of carriers (Scheduled Classic, Charter, Low Cost etc.)

3. Three Years Plan – Operations Capacity

The applicant carrier will submit a Traffic forecast on a 3 Years basis, in addition with all information on operations capacity (i.e.: Fleet, Bases, Network, Maintenance patterns), organization and company financial background, and all other useful information that may better qualify the Application request, in order to identify the potential viability of the proposal. In case of Tour Operator, if seats are sold under allotment agreement, the percentage of sold seats must be > 65%. Gesap Spa will reserve to request any additional related information to the Airline or the Tour Operator, if necessary.

4. On Time Payment Commitment

The selected Carrier will undertake to pay regularly all airport charge invoices related to its activity in Palermo.

5. Other Documents and Certifications

The applicant carrier cannot be, or might been present, in the Aviation EU black list of carriers not complying with safety and security International regulations, as well as should be regularly compliant with all Italian laws related to Labor legislation, if applicable. Tour Operators are requested to submit the list of agreements with the carriers, flight schedule and passengers forecast.



Incentive Schemes Mode and Extent

How The Mechanisms Works

The Incentives will be indicatively supplied and paid on an annual basis, after the aviation activity will be performed per each year of the agreement. The settlement of the carrier invoice from Gesap Spa will take place within 90 days from the receiving date of the invoice.

The incentive worth will be paid based on the nr. of departing passengers (excl. infants) for each Year of the agreement on the relevant routes. .

The amount of the incentive per pax will be equivalent to a discount percentage (see table chart below) on the applicable airport Charges² in place in the Airport of Palermo. All incentives contribution will be based and referred to departing pax (DPP) and/or departing flights, and related traffic data³.

Incentives Extent

Incentive amount Scheme - Per Route Category – From Yr. 1 to Yr. 3: the discount percentage will vary according to the category described in the following table and based on the following indicators: International traffic volumes - Domestic traffic volumes - Total number of Routes

Route Category	YEAR 1 Max Discount % (up to)	YEAR 2 Max Discount % (up to)	YEAR 3 Max Discount % (up to)
Cat. 1 - sub a) > b) > c)	45	35	25
Cat. 2 - sub a) > b) > c)	35	30	20
Cat. 3 a)	30	25	20
Cat. 3 b)	25	20	15
Cat. 3 c)	20	15	10

The above table reports the maximum discount achievable for each of the route category (see related paragraph p.5) and for each of the three years of agreement duration. In case of application of the two additional years extension, provided in some cases, the Year 3 Discount level will apply also for the additional years.

² Airport Charges: Landing and Take off, boarding pax/bag, security pax/bag, prm, with the exclusion of the "Additional Passenger Tax " and other taxes or charges imposed by the State or by Public Bodies (i.e: municipal tax).

³ Some of the Charges are applicable on a Per Flight basis (i.e.: Landing & T.Off charge) instead of a Per pax basis.



Additional Bonus

Gesap Spa will reserve the right to offer in addition to the previous discount scale table, an additional discount **up to 15%**, if applicable after the compliance of the MEO Test and the expected economic positive return. This additional incentive measure will be based on the following criteria where scale economies, commercial synergies and strategic value of the proposal are taken in account:

- **Opening an Operational base in PMO.**
- **Strategic Importance of the Proposed route for Palermo territory, according to the unserved demand verified by Gesap SPA Surveys.**
- **Total Traffic Volume in 3 Yrs. (Flights, Frequencies, Offered Seats).**
- **Organizational and Technical Structure of the Applicant Carrier (fleet).**

This Policy is not binding on Gesap which reserves the right to assess the different traffic development plans submitted by the carriers and will send proposals to them that are appropriate to the expected benefits.

Marketing Support Activities

Gesap will make available to all selected carriers, once qualified for the incentive support, all possible local marketing support (Press Conferences, Media Events, Airport advertising Displays, on line media, web advertising). In case the traffic development will bring the Airline decision to base one or more aircrafts in Palermo (night stop A/C), special discounted charges for premises could be applied under Gesap own discretion. Gesap Spa will make available related supports in proportion of the projected traffic developments and according to the annual available marketing budget. Marketing support will be discussed and agreed with each selected carrier.

DOCUMENTS AND TERMS FOR APPLICATION TO THE PRESENT INCENTIVE PLAN 2021

Operators and Carriers interested in the present announcement, willing to propose new routes or increase of activity starting from the IATA Summer season 2021 and for the following years must send their request RFA (Request for Application), to the following email address:

commercialaviation@gesap.it

o tramite posta certificata al seguente indirizzo: gesap@pec.it

The Applications submitted by the carriers must contain at least the following information requirements:

- Name of each Route/s (Destination Airport) proposed, whether it will be a new route or an existing one to be developed (Traffic Increase);
- Three Years Traffic plan for each of the above route/s, together with all other information related to the 3 Years Plan (see related above paragraph);
- Dates of Start, planned frequencies and proposed schedule per route for at least Year 1 Operations;
- All Organization and Technical Information, as well as any other information that can better qualify the consistency of the organization against the planned objectives and the projected Level of Service (i.e.: Type of Aircraft, Airport on site staff, Back Up fleet, Maintenance Organization etc.)
- Declaration of Willingness related to regular payments of Airport Charges;
- Other Documents and Required Certifications (see requirement nr. 5 page 11).



Application Assessment Process and Final Approval Confirmation

Gesap Spa will assess each application and will communicate to each of the selected list of carriers that it will be entitled to enter into the Incentive Scheme Agreement with Gesap Spa, according with the principles of the present document and with the objectives of Gesap Spa, as well as with economic and financial required conditions.

After the above communication, each selected carrier will be invited to agree upon and sign an Incentive Plan Agreement with Gesap Spa. The Agreement will contain all the clauses to ensure the respect of the applicable Italian regulation and European regulation including privacy, conflict of interest, transparency and corruption. Consequently, after the mentioned signature and agreement the Incentive contract will be considered in place for the agreed duration terms.



Advertising commitment on the Selection process results

In compliance with the MIT Guidelines, revised on the date of 11.08.2016 (ref. 275), with reference to the art. 6, and **only in case the Incentive measures should not satisfy (positively) the Test MEO**, Gesap Spa is committed to publish on its website the following Information:

- To publish every 6 months the overall plan of the eligible incentives agreement.
- To publish an update in case of changes of the above plan.
- To publish within 15 days from the completion of the agreements, the results of the selection process also by giving written report to the Transport Authority (ART) and to Enac as well. Thereafter, within the next 31st of January of the subsequent year, Gesap Spa will provide to publish the information related to the Total amount of incentives granted on the preceding year.

The a.m. Guidelines of the MIT establish that all selection procedures of the entitled applicant airlines are under the entrepreneurial initiative and responsibility of the Airport Management Company, given that it must comply with principles and procedures of the said Guidelines.

Attachments: All Mentioned Regulations

1. Linee Guida inerenti le incentivazioni per l'avviamento e lo sviluppo di rotte aeree da parte dei vettori Linee Guida inerenti le incentivazioni per l'avviamento e lo sviluppo di rotte aeree da parte dei vettori ai sensi dell'art 13, commi 14 e 15 del Decreto Legge del 23.12.2013, n.145, come modificato dalla legge di conversione del 21.2.2014, n. 9 – Edizione del 11.08.2016 prot. Reg. Decreti nr. 275.
2. Decreto Legge 145/2013 Destinazione Italia.
3. GU UE Commissione Europea Comunicazione n. 2014/99C del 4.4.2014.
4. Enac - Indicazioni operative per i gestori aeroportuali in caso di contributi/sostegni finanziari a favore di compagnie aeree per il lancio di nuove rotte e procedura di monitoraggio - Nov. 2014.

Date 26 / 03 / 2021



