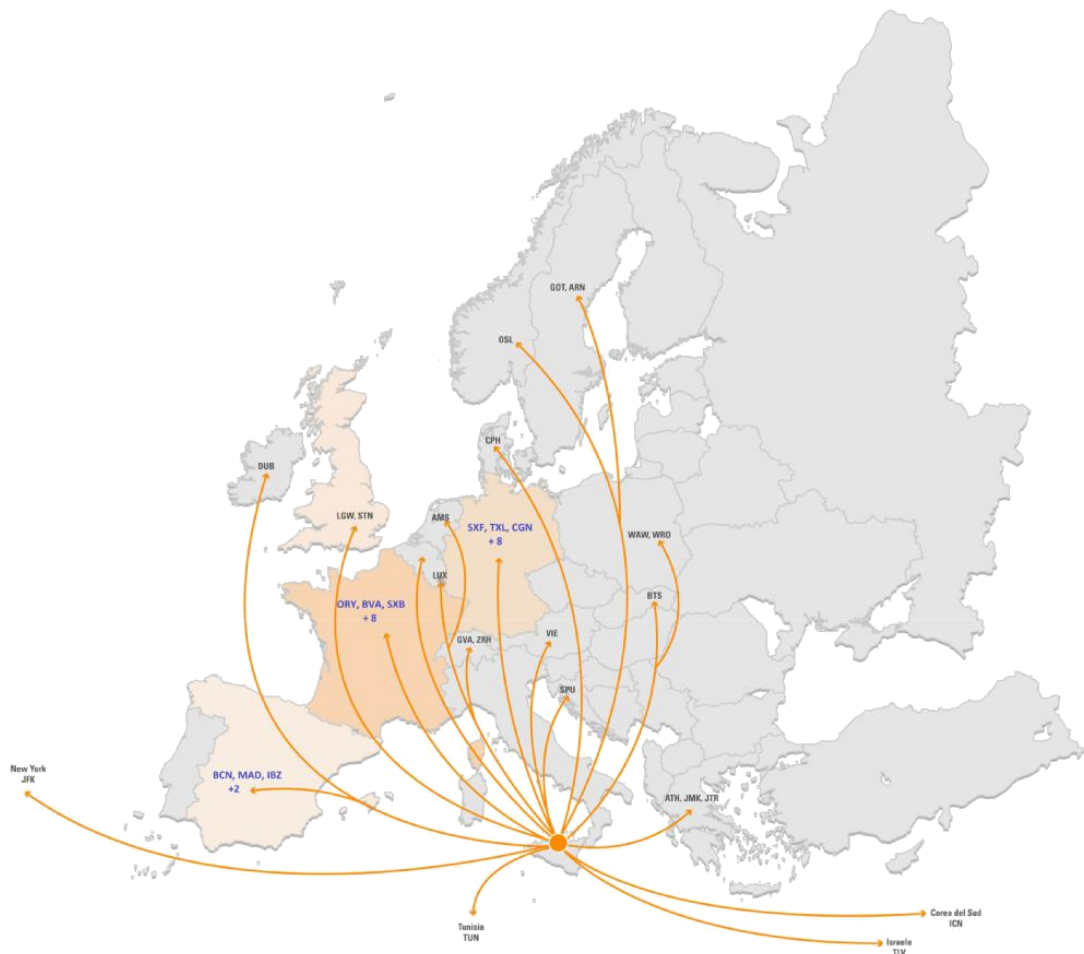


Palermo Airport

The Commercial Policy 2019-2020

*Guidelines on Incentives for supporting
the Traffic Development of Palermo Airport Rev. 4.0*



Published on www.Gesap.it on 31/05/2019

Preamble .

Gesap Spa, the Management Company of Palermo Airport, with the aim of promoting and increasing the competitiveness of Palermo as international destination and in order to support and develop the mobility and the passengers traffic to and from PMO airport has developed and published the present new edition of the policy for Incentives to Airlines and Tour Operators starting from Summer 2019 to Summer 2020. This new edition takes place also from the provisions of MIT Guidelines (Italian Ministry of Transports) related to the Incentives matter and published on 11/08/2016 (see further reference).

Here following you will find principles, mechanisms and criteria of the Commercial Policy.

The Regulation in Force

The key reference in terms of relevant legislation 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 2019 / Summer 2020 valid till 31st March 2020. 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 2019 - Summer 2020

OBJECTIVES:

- 1. To Increase International 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. To Increase, if applicable, the existing domestic routes network in case demand should still be unserved .**

Gesap Spa Commercial Policy wishes to support mainly the development of International Traffic from and to airport/cities destinations deemed strategically interesting for Gesap Spa (see details below), in order to satisfy the existing unserved demand of International mobility with direct flights, as well as to keep and extend those International flights coverage toward a progressive full Year Round basis.

In addition to the above, Gesap Spa will commit to satisfy the existing needs for domestic routes, in case the related actual domestic flights network may result or become insufficient, or rather the respective demand should still be unserved.

EXPECTED BENEFITS

Hereinafter the expected benefits of the Policy implementation:

- 1. TRAFFIC VOLUME – Increase of both Total Traffic and International Traffic.**
- 2. CONNECTIVITY - Increase in the International 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 - 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.**

ECONOMIC VIABILITY

The increase of traffic related to the routes and 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 factor evaluation. Gesap Spa will analyze the economic viability for each new applicant route/operator with an *ex ante* 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, Leisure 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.gesap.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 (Three) years, with possible extension of 2 (two) **additional** years in case Gesap Spa will find the project of a strategic importance. The agreements with T.O will have a maximum 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 31.03.2020; 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.



Field of Application of Incentives supports

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 Spa, as far as the selection criteria of the present policy are concerned. Each category has also some related criteria of evaluation, in descending order of importance (a,b,c).

Routes Categories and selection Criteria :

Cat.1 New Direct Connections/ Routes / Development of Frequencies (Flights).

Criteria of evaluation in order of Importance¹ :

- a. *Intercontinental Routes (Order of priority= According to the Destination City/Country GDP).*
- b. *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 regional airports/destinations where, according to Gesap Spa historical data and analisys, it may results that the existing potential demand is still not satisfied.*

¹ Note : 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 routes frequencies on a 12 month basis (All Year Round).

Criteria of evaluation in order of Importance :

- a. Intercontinental Routes (Order of priority= According to the Destination City/Country GDP);*
- b. European Routes (Order of priority= According to the Destination City/ Country GDP).*

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 routes where demand is considered higher than actual available offer.

Routes of interest in order of Importance:

- a. Specific Strategic destinations:, Frankfurt FRA, Paris CDG, Brussels BRU, Oslo, Copenhagen, Stockholm, Colon CGN; Munich MUC, Vienna VIE.*
- b. All other International destinations.*

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 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) 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 18 consecutive weeks (Avg.).

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 starting 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 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)* 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.

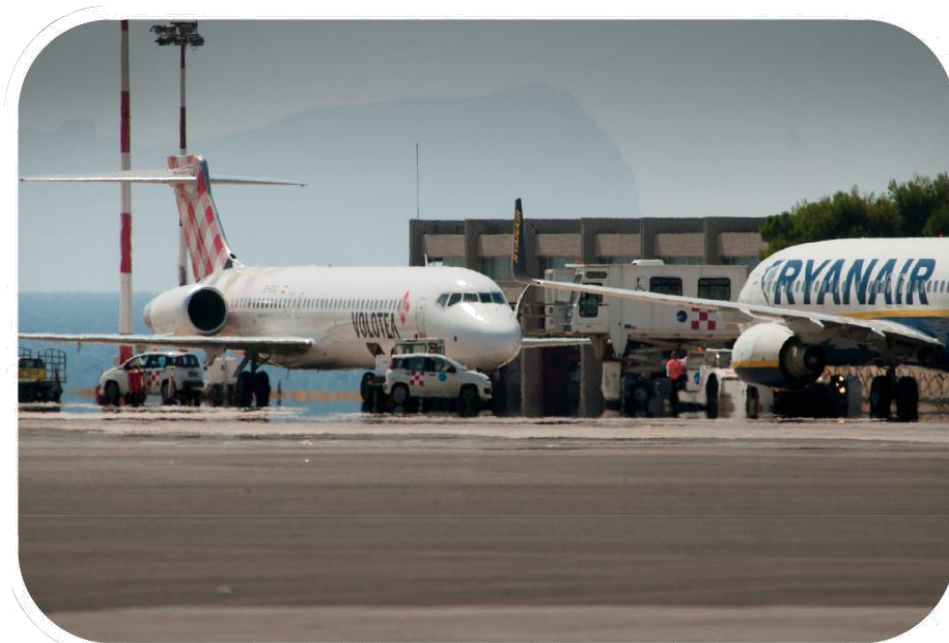


2) Type Of Flight /Carrier: All type of Carriers/ Operators are entitled to apply for the provision of the present policy, with no distinction among category of carriers (Scheduled Classic, Charter, Low Cost etc.)

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 normally 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 60 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 Charges ² 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 .

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) -	35	30	20
Cat.3 a)	30	25	20
Cat.3 b)	25	20	15

The above chart 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 : All Charges will be eligible for a discount , If applicable, 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 base . (i.e.: Landing & T.Off charge) instead of a Per pax base .

Additional Bonus: Gesap Spa will reserve the right to offer 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:

- **Strategic Importance of the Proposed route for Palermo territory, according to the unserved demand ascertained from Gesap SPA Surveys.**
- **Total Traffic Volume in 3 Yrs. (Flights, Frequencies, Offered Seats);**
- **Organizational and Technical Structure of the Applicant Carrier**

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 twill be discussed and agreed with each selected carrier.

Documents and Terms for Application to the present Incentive Plan 2019 2020 :

Operators and Carriers interested to the present announcement, willing to propose new routes or increase of activity starting from the IATA Summer season 2019/2020 and for the following years must send their request RFA (Request for Application), to the following email address: commercialaviation@gesap.it or gesap@pec.it

The Applications, based on a free format Company Letter, 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).

An example of the form can be found attached to this policy. All applicant carriers are requested to fill in the form and send it attached to a formal COMPANY LETTER requesting marketing support



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 be set up in compliance with italian regulation and will contain all clauses referred to 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

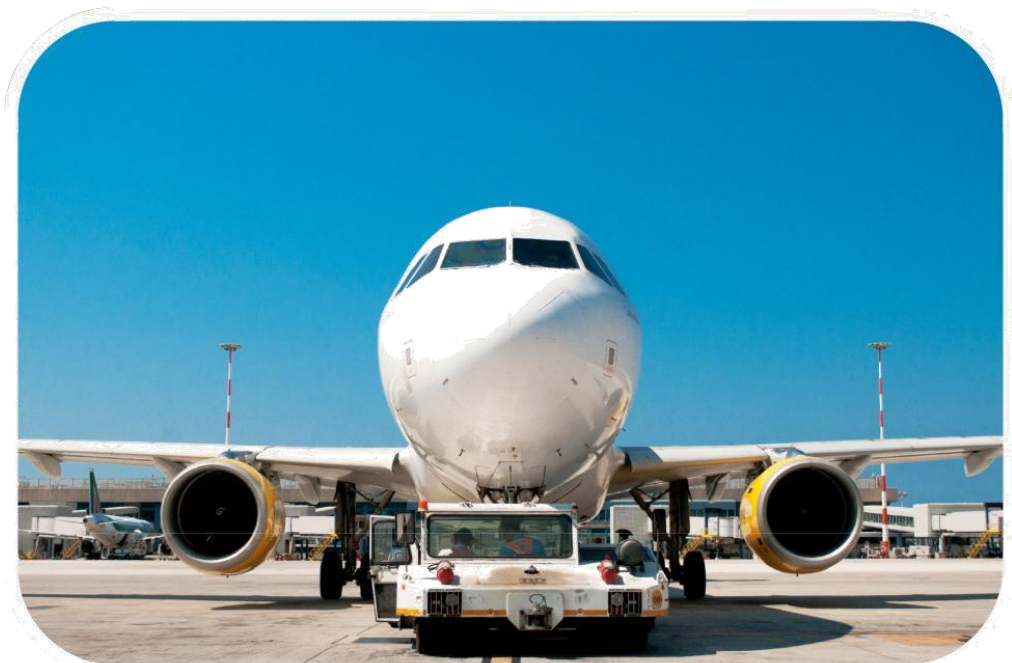
In compliance with the MIT Guidelines, revised on the date of 11.08.2016 (ref. 275), with reference to the art. 6, and **only in case the Incentive measures should not satisfy (positively) the Test MEO**, Gesap Spa is committed to publish on its website the following Information:

- *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.

Date 31/05/2019

GESAP SPA



Attachments : All Mentioned Regulations and sample of the Application form

1. ***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- Edizione del 11.08.2016 prot. Reg. Decreti nr. 275***
2. ***Decreto Legge 145/2013 Destinazione Italia***
3. ***GU UE Commissione Europea 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 .***
5. ***Sample of the Application form requesting marketing support / pax incentive.***