

STRICTLY PRIVATE AND CONFIDENTIAL

This Memorandum of Understanding ("MOU") is made on this the 25 April 2016 by and between:

The Government of Malta, duly represented hereon by Hon. Edward Zammit Lewis, Minister for Tourism, (hereinafter referred to as 'GOM')

Air Malta plc, a limited liability company incorporated under the laws of Malta bearing registration number C2685 and having its registered address at Sky Parks, Malta International Airport, Luqa LQA4000, Malta, represented hereon by Maria Micallef, Chairperson, as duly authorised (hereinafter referred to as 'Air Malta')

and

Alitalia Societa' Aerea Italiana, having its registered address at Fiumicino, Via Alberto Nassetti, represented hereon by a duly authorised person (hereinafter referred to as 'Alitalia')

Each of which a 'Party' and collectively referred to as the 'Parties'

BACKGROUND

- (A) The Parties have been discussing the possibility of forming a strategic partnership and joint venture to operate in the aviation sector;
- (B) This MOU sets out the key principles identified by the Parties as a basis for discussing the potential acquisition by Alitalia, part of the Etihad Equity Partners, of a stake in Air Malta ("Proposed Transaction"), subject to agreement on all terms and conditions and documentation required to give effect to the Proposed Transaction

1. OUTLINE OF THE PROPOSED TRANSACTION

- 1.1 The Proposed Transaction assumes the reposition of Air Malta and its operations and such vision rests on the implementation of the following key pillars:
 - (a) *Enhancing Air Malta's air transport offering through the establishment of an integrated passenger network and coordinated distribution and sale functions.* The new network plan for the airline will focus on profitable growth in passengers and cargo.
 - (b) *Achieving substantial cost savings.* The cost saving strategy will be based on: (1) lean and efficient hub operations; (2) leveraging joint procurement opportunities across a range of operational sectors and categories of services and products; (3) redesigning and automating processes and working arrangements in line with best practices; (4) adopting leading IT platforms; and (5) rationalizing resources, to ensure viability and profitability of the airline.
 - (c) *Instilling a performance-based corporate culture.* The airline will implement a performance management culture, creating a meritocracy and value based workforce
 - (d) *Forward-looking airline operations.* The airline will have a fresh start and will be protected against all outstanding, potential or contingent liabilities arising from issues or events occurring prior to the completion of the Proposed Transaction ("Past Liabilities").
 - (e) *Establishing an integrated loyalty proposition and enhanced guest experiences to benefit Air Malta's customers.* The implementation of a joint loyalty program as part of the global loyalty proposition of the Etihad Airways Partners, gaining access to innovative technologies and services as well as advanced data analytics - all with a view to driving increased revenues to New Air Malta.

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2. STRUCTURE OF THE PROPOSED TRANSACTION

2.1 The Parties will discuss in good faith with a view to:

- (a) finalizing the structure of the Proposed Transaction;
- (b) negotiating and agreeing on the appropriate transaction documents required to document, govern and implement the Proposed Transaction in compliance with the key terms and principles set out in this MOU ("Transaction Document");
- (c) agreeing on a set of deliverables to be reflected in the Transaction Documents and achieved and/or performed by each of them prior to the implementation of the Proposed Transaction (the "Conditions Precedent").

2.2 The new airline operation will benefit from all of the assets and liabilities related to Air Malta's airline operations, employees (following rationalization of resources to ensure its viability and profitability), aircraft, tangible and intangible assets, contracts, the "Air Malta" trademark and all the IP rights associated to it. The Parties shall discuss and agree on the assets and liabilities which are not to be incorporated in the airline, including those relating to Air Malta's ground handling operations, and Past Liabilities.

2.3 The Parties shall also enter into discussions with all relevant stakeholders to implement a plan, to be agreed, which will be intended to guarantee the long term sustainability of the airline (the "Partnership Plan").

2.4 The Parties shall agree to a business plan for the airline (the "Business Plan").

2.5 The Proposed Transaction envisages the acquisition by Alitalia of a forty nine percent (49%) interest in the airline.

2.6 The airline will be operated having regard to the principles of sound commercial airline operations and management, so as to generate the maximum achievable maintainable profits.

2.7 The airline will enter into commercial co-operation and other agreements to enable the effective implementation of a new business model aimed at achieving the repositioning of Air Malta and its operations and, more broadly, to establish a mutually beneficial commercial partnership between the airline, on the one hand, and Alitalia and Etihad Airways Partners, on the other hand, including a redesigned network plan, joint procurement plans in relation to fleet acquisition and leasing, maintenance, repair and overhaul, training, enterprise resource planning, finance, insurance, fuel and all other major services, shared service concept for key overhead functions to deliver best practice at lowest cost, and a best-in-class systems for back-office operations of the airline (the "Commercial Partnership").

2.8 Each of the Parties agrees that it shall not, by any deliberate act or omission, frustrate, impede or hinder the implementation of the Proposed Transaction, provided that the foregoing obligation will not require a Party to do, or to omit to do, anything which it is required to omit to do, or to do, by law.

3. ASSUMPTIONS AND CONDITIONS

3.1 The signing of a binding agreement, to be negotiated and agreed by the Parties pursuant to and in compliance with the assumptions, conditions and key terms set forth in this MOU, will be conditional on, *inter alia*:

- (a) satisfactory commercial, financial, tax and legal due diligence, to this respect Air Malta shall (a) provide Alitalia with continued access to the due diligence documentation that has been or will be required by Alitalia, and (b) promptly disclose to Alitalia any material adverse effect or event that would likely cause a material adverse effect;
 - (b) both parties accepting the Business Plan and otherwise being satisfied with the results of their due diligence exercise;
 - (c) no material changes or material adverse facts or events having emerged, from the due
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diligence exercise carried out by the parties prior to implementation of the Proposed Transaction;

- (d) agreement to implement the requirements of the Partnership Plan;
- (e) the Parties having obtained board approval to enter into the Proposed Transaction and the Transaction Documents;
- (f) agreement having been reached on the terms and conditions of all of Transaction Documents and corporate governance rules required to give effect to the Proposed Transaction;
- (g) the Business Plan and the Commercial Partnership having been definitively agreed and accepted by the board of directors of each of the Parties; and
- (h) no legislation or regulation being proposed or passed that would prohibit or materially restrict the implementation of the Proposed Transaction

4. CONFIDENTIALITY AND PUBLICITY

4.1 The parties are parties to a confidentiality and non-disclosure agreement which they executed by them on the 21 October 2015, covering both the information disclosed by Air Malta to Alitalia (e.g. due diligence information and materials) and those disclosed by Alitalia to Air Malta (e.g. business plans and reports of external counsels). The parties acknowledge, confirm and accept the provision of the NDA which is agreed to form an integral part of this Agreement.

4.2 Without prejudice to the generality of the foregoing confidentiality and non-disclosure obligations:

(a) Air Malta may disclose this MOU to the Maltese government and/or parliament starting from 25 May 2016;

(b) each Party may share the content of this MOU only with its advisors and consultants, provided that (i) these parties acknowledge in writing the confidential nature of this MOU and its content; (ii) is circulated strictly on a "need to know" basis and each Party hereby agrees that it shall keep this MOU and the matters referred to herein strictly confidential except: (a) as required by law or pursuant to any order of a court or other competent authority or tribunal; (b) as deemed to be advisable in connection with obtaining the clearances that will be required to close the Proposed Transaction from any relevant competition or aviation regulatory authorities, provided the Parties take all reasonable steps to ensure that maximum confidentiality is preserved by such regulators in accordance with applicable laws and regulations; and/or (c) in relation to disclosures made by a Party to affiliates and/or professional advisers, provided that such persons are bound by an equivalent duty of confidence which applies to any information so disclosed. If a Party is required, in the circumstances contemplated by (a) above, to disclose any information, such Party shall use its reasonable endeavors to consult with the other Party prior to making any such disclosure and shall only disclose information to the minimum extent necessary to comply with its obligation to disclose.

4.3 The Parties have agreed the form of the public announcements to be made by each of them on 27 April 2016, to disclose the entering into this MOU. Neither Party shall make any further public announcement on this MOU, the matters referred to herein or the Proposed Transaction, unless the relevant statements have been previously agreed between the Parties.

5. COSTS AND EXPENSES

5.1 Each Party shall be responsible for its own costs, fees and expenses (including due diligence costs, legal fees and financial advisors' fees) incurred in connection with this MOU and the evaluation, negotiation and documentation of the Proposed Transaction, whether or not it is ultimately implemented.

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6. NATURE OF THIS MOU

- 6.1 With the exception of the provisions set forth in Clauses, 4 ("Confidentiality and Publicity"), 5 ("Costs and Expenses") and 7 ("Applicable Law and Exclusive Jurisdiction") this MOU does not constitute (and shall not be construed as) a legally binding agreement, or commitment of any kind whatsoever to enter into any binding agreement and, in general, to complete or implement the Proposed Transaction.
- 6.2 The Parties acknowledge that the board of directors of each of Air Malta and Alitalia shall be requested to ratify the entering into non binding discussion according to this MOU and that any decision on the entering into the Proposed Transaction is and will remain subject to all corporate and other approvals required by the Parties.

7. APPLICABLE LAW AND EXCLUSIVE JURISDICTION

- 7.1 This MOU and any dispute or non-contractual obligation arising out of or in connection with it or its subject matter, formation, validity, interpretation and effect shall be governed in all respects (without regard to principles of conflicts of law) by the Laws of Malta
- 7.2 Any dispute, controversy, disagreement, dispute or claim howsoever deriving or arising from between the Parties in connection with this MOU, the negotiations relating to the Proposed Transaction and/or any agreement or other matter connected therewith (a "Dispute") shall, if the Parties are unable to settle the Dispute amicably within fifteen (15) days from the date on which a notice of the Dispute is served by one Party to the other, be submitted to arbitration.
- 7.3 Each arbitration between the Parties shall be held and finally settled in London and shall be conducted pursuant to the rules of the International Chamber of Commerce (the "Rules") in force when the arbitration commences.
- 7.4 The arbitration shall be conducted in English before an arbitral tribunal (the "Tribunal") composed of three (3) arbitrators. Each of GOM and Alitalia shall nominate an arbitrator and such two appointed arbitrators shall jointly nominate the third (who shall be the chairperson) within ten (10) days after the confirmation of the second arbitrator, failing which the chairperson shall be appointed by then Secretary General of the ICC International Court of Arbitration.
- 7.5 Each of GOM and Alitalia shall pay one-half of any advances on costs required for the arbitration. The Tribunal shall be entitled to allocate the costs of arbitration between the Parties, which costs shall be borne by each Party as determined in any arbitral award or awards by the Tribunal. Any documentation submitted which is not in the English language shall be accompanied by a translation into English.
- 7.6 In the event of any conflict between the Rules and the provisions of this Agreement, the provisions of this Agreement shall prevail.
- 7.7 The award of the arbitrators shall be final and binding on the Parties, and may be enforced by any court of competent jurisdiction.
- 7.8 Unless agreed otherwise or the MOU is terminated by a Party, the Parties shall continue to comply with their respective obligations under this MOU regardless of the nature of the Dispute and notwithstanding the referral of the Dispute to arbitration.
- 7.9 The Parties agree that the arbitration shall be kept confidential and that the existence of the proceeding and all elements thereof (including but not limited to any pleadings, briefs or other documents submitted or exchanged, any testimony or other oral submissions, and any awards) shall not be disclosed beyond the Tribunal, the Parties, their counsel and any person necessary to the conduct the proceedings, except as may be lawfully required in judicial proceedings relating thereto or to the award resulting therefrom or as required pursuant to the rules of any recognised stock exchange.
8. Term and Termination
- 8.1 This MOU shall come into force on the date of its signing set out above and shall continue in full force and effect until the occurrence of any one or more of the following events:
- (a) the Parties agree to terminate this MOU;

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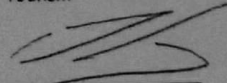
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- (b) the full terms and conditions of the Transaction Documents not being duly agreed to by the Parties by the 31 July 2016 despite their best efforts in good faith; and/or
- (c) the Parties entering into the Transaction Documents
- 8.2 Termination of this MOU pursuant to Clause 8.1 shall be without liability and no Party hereto shall be entitled to any form of relief whatsoever, including without limitation, injunctive relief or damages.

Each party hereby confirms its agreement to the terms contained in this MOU

For and behalf of

Government of Malta
Hon. Edward Zammit Lewis Minister for
Tourism

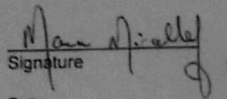


Signature

Date:

For and behalf of

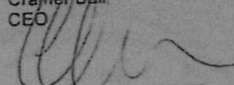
Air Malta plc
Maria Micallef
Chairperson



Signature

Date

For and behalf of
Alitalia Società Aerea Italiana S.p.A.
Cramer Ball
CEO



Signature

Date:

