

**Alitalia**  
**2005-2008 Business Plan &**  
**3<sup>rd</sup> Quarter 2004 Results**

November, 12 2004



# Alitalia

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# General Update on the Company



# Alitalia

## General Update on the Company

### NEW BUSINESS PLAN & FIRST HALF 2004 RESULTS

On September 20<sup>th</sup> 2004 and on the following October 13<sup>th</sup> Alitalia Board of Directors approved the Company's new 2005-2008 Business Plan which foresees a break-even by 2006 and a new structure for the Alitalia Group.

On October 13<sup>th</sup> 2004 the Board of Directors approved the first semester 2004 Financial Statements as of June, 2004 which on October 30<sup>th</sup> were fully approved by the Company's auditors (Deloitte & Touche SpA). On the same date Alitalia Statutory Auditors also stated that there have been significant improvements for the Alitalia rescue.

### UNION AGREEMENTS

From September 14<sup>th</sup> to September 23<sup>rd</sup> very important agreements were signed with all Alitalia unions:

- Flight & Ground Personnel unions agreed on total yearly savings for approximately EUR 280 million (equal to approx 3,700 redundancies) to be fully achieved by 2006.
- Redundancies to be managed through the use of *Cassa Integrazione Guadagni* and *Mobilità* (Italian unemployment aids to redundant workers of distressed companies) made available for airlines too (Italian Government Decree issued on October 8<sup>th</sup>, 2004).
- Unions also agreed on the Group structure reorganization.

### NEW GROUP STRUCTURE

In order to reach Business Plan efficiency targets as well as better focus on its core business Alitalia is planning to place its service activities into a new company called AZ Services that eventually will be deconsolidated from Alitalia by the dilution caused by the capital injection of a third party investor (on this matter October 13<sup>th</sup> Alitalia Board of Directors signed a second letter of intent with Fintecna).

### BUSINESS PLAN FINANCIAL FEASIBILITY

In order to provide the Company with capital to fully implement the turn-around program the Board of Directors on October 13<sup>th</sup> decided upon:

#### ***EUR 400 million Bridge Loan***

The Bridge Loan facility, already authorized by EU, will be used by Alitalia to face the current short term liquidity shortages.

#### ***A Capital Increase for an amount up to EUR 1.2 billion***

A capital increase will be launched by the first months of year 2005.

# Alitalia

## New 2005-2008 Business Plan - Key Strategic Objectives

### Business

#### Goals

Cut costs of the long haul network and recover profitability (create the basis for developing long haul)

Restructure the production of the short-medium haul (to better compete)

Maximize synergy between short-medium and long haul (enhance connections)

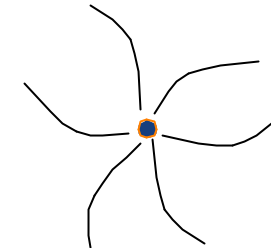
### Organizational

#### Goals

Launch a streamlined, effective, market oriented organization (process- and skill-driven)

Create an organizational "obsession" to reach goals (incentives)

Ready to change with the market (continuous enhancement)



***Alitalia to be a highly efficient Network Carrier***

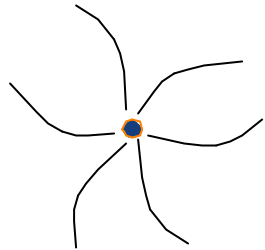
***Leader in the domestic Italian market***

***Leader of connecting traffic from the Mediterranean and Middle East***

***Port of entry in Italy/Europe for "natural" intercontinental and international flows***

# Alitalia

## New 2005-2008 Business Plan - The two phases approach



**Alitalia to be a highly efficient Network Carrier**

Feasible model due to:

- Breakdown of fleet into narrow and wide body
- Existence of significant flows of natural demand
- Remarkable margins of efficiency and cutting product costs

### Restructuring project

**Survival 2005-2006**

**Relaunch 2007-2008**

#### Approach

Structural projects/efficiency  
No investments in new fleet  
Maximization of offered capacity

Start investing in new capacity (only after making structure more efficient)  
Ongoing development of flight activity

#### Actions

Focus on core business  
Rationalize supply process  
Enhance commercial effectiveness  
Re-establish productivity in all operational areas  
Restructuring Cargo Business

Purchase new long haul and regional fleet  
Further strengthen competitive positioning  
Open up new destinations and frequency  
Further increase in flight activities for greater efficiency

#### Results to be achieved

Financial Turnaround  
Close CASK gap  
Realign Load Factor performance  
Recover market share

Consolidate the position as highly efficient network carrier

# Alitalia

## *New 2005-2008 Business Plan - Main Projects*

### **Rationalize supply process to achieve an highly efficient procurement**

Take greater advantage of purchasing power to **rationalize suppliers portfolio**

**Update existing contracts** and aggregate volumes

**Review purchasing specifications**, increasing their standardization, finding alternative solution and eliminating/reducing unnecessary specifications

**Optimize processes** by cutting administrative costs, limiting inventory and leftovers, and introducing new electronic negotiating instruments (e-tools)

### **Enhance commercial effectiveness**

**Revise network** (i.e. maximize connections at hubs, strengthen portfolio of routes and frequencies)

**Maximize fleet profitability** (i.e. optimize business configuration against economy, convert MD11 combi)

**Redesign service** (review business offering, streamline catering costs, enhancing service value chain)

### **Re-establish productivity in all operational areas**

**New employment rules for flight personnel** in order to close productivity gap with competitors

**Higher ground personnel productivity** through procedures redesign

### **Restructuring Cargo Business**

Achieve **higher commercial strength** as well as more efficient operations

# Alitalia

## Unions Agreements identified approx. 3,700 redundancies

### AGREEMENT WITH PILOTS UNIONS

Salary share variable on flight hours up to 22% from 13%  
 22% increase in productivity (limits up to 900 hours)  
 New crew compositions on long haul flights  
 New and more simple employment rules  
 Commitment by 2005 to establish crew base in Milan MXP  
 Approx. 300 redundancies were identified

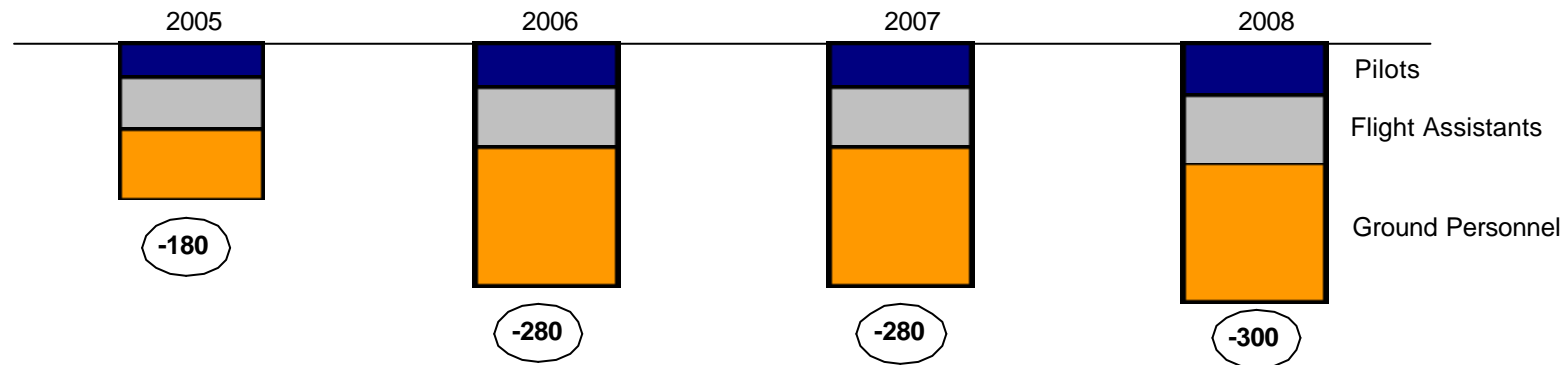
### AGREEMENT WITH FLIGHT ASSISTANTS UNIONS

Salary share variable on flight hours up to 23% from 14%  
 29% increase in productivity (limits up to 900 hours)  
 New crew compositions on short medium haul flights  
 New and more simple employment rules  
 Commitment by 2005 to establish crew base in Milan MXP  
 Approx. 900 redundancies were identified

### AGREEMENT WITH GROUND PERSONNEL UNIONS

5 bank holidays not to be paid anymore to workers  
 10 hours a month of over-time for each worker not paid in cash but in additional days off  
 Approx. 2,500 redundancies were identified

### TOTAL LABOR SAVINGS\* RECAP (AZ Fly + AZ Services) EUR million



\*Include labor savings of previously mentioned main projects as well as additional benefits from agreements (e.g. salary freeze to inflation for the entire workforce).

# Alitalia

## New Group Structure - Spin-off Service Operations (AZ Services) from the Flight ones (AZ Fly\*)

<i>RATIONALE</i>	<i>DESCRIPTION</i>
<b>Focus on core business</b>	<ul style="list-style-type: none"> <li>– Focus Alitalia management on the core business activities to attain greater:               <ul style="list-style-type: none"> <li>Focus on implementation of turnaround</li> <li>Capacity to react quickly to market trends</li> </ul> </li> </ul>
<b>Variabilization of cost structure</b>	<ul style="list-style-type: none"> <li>– Variabilization of costs related to service activities, to make AZ Fly more flexible when responding to market conditions</li> </ul>
<b>Services provided at market levels</b>	<ul style="list-style-type: none"> <li>– Prices in service contracts between AZ Fly and AZ Services will be immediately set at market levels</li> </ul>
<b>Facilitate development of third parties business</b>	<ul style="list-style-type: none"> <li>– Possible creation of new business opportunities (with consequent growth), more difficult to obtain if businesses are entirely held by an airline</li> </ul>
<b>Share the risk of implementation</b>	<ul style="list-style-type: none"> <li>– Partnership with the purchaser extended to the phase of implementing the turnaround program</li> </ul>

\* In order to clearly identify the two companies ALITALIA after the separation has been named AZ Fly (no actual name change will take place as well as changes to the Company listing on the Milan Stock Exchange).

# Alitalia

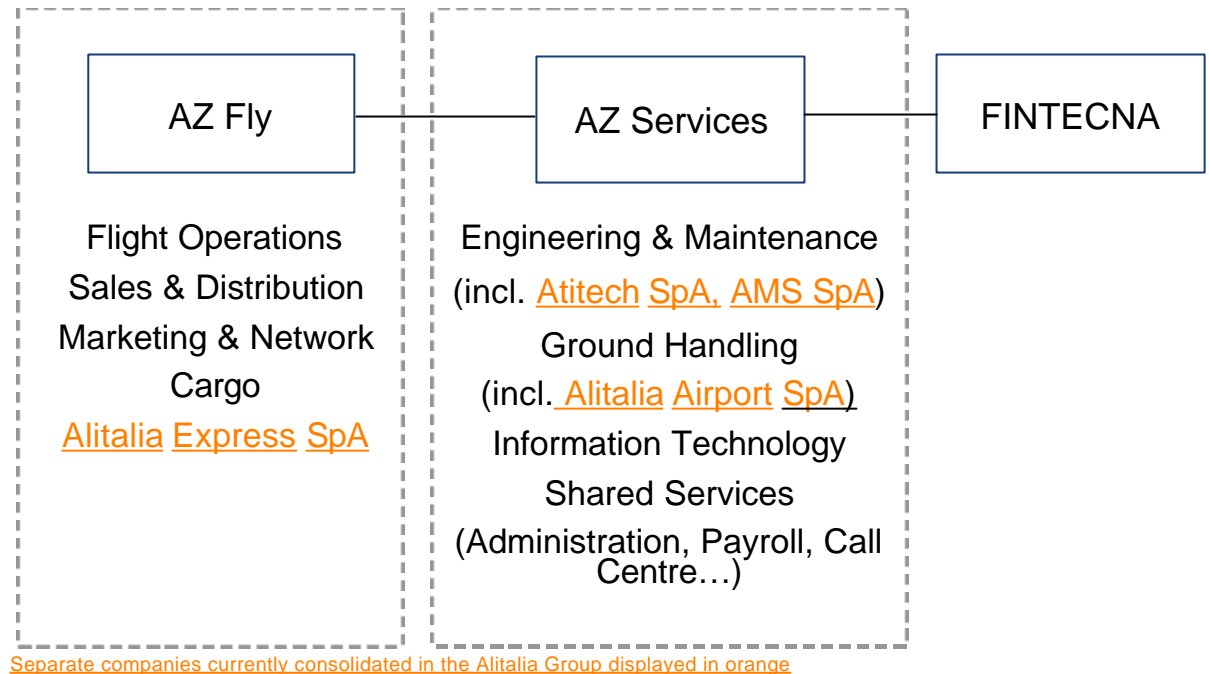
## New Group Structure - Spin-off Service Operations (AZ Services) from the Flight ones (AZ Fly\*)

### AZ Services spin-off details

Alitalia will place its service activities into a Newco called AZ Services and it will be initially diluted by Fintecna to only a 51% stake in the new company through a capital increase to cover AZ Services financial needs.

Fintecna will then raise its stake (majority of voting rights) in order to control AZ Services and consolidate the company in the Fintecna Group (consequently AZ Fly will not be required to consolidate AZ Services).

No Alitalia current financial debt will be passed to AZ Services (including the convertible bond expiring in 2007).



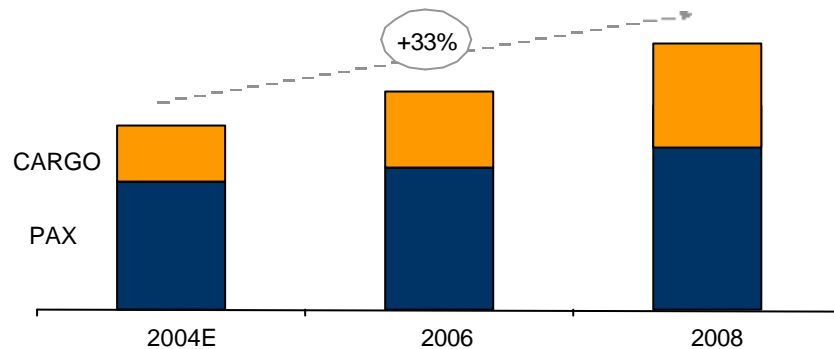
### AZ Services deal current status of implementation

The AZ Services deal has not been finalized yet with Fintecna (final contract still to be signed) and it is still subject to EU approval. All information regarding the transaction are therefore to be considered subject to the positive outcome of the above mentioned conditions.

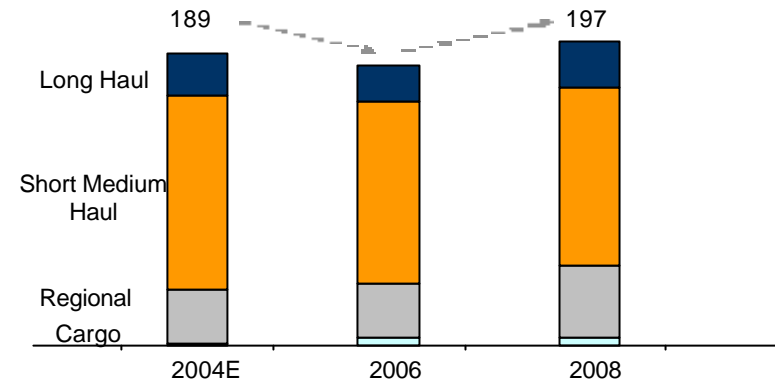
\* In order to clearly identify the two companies ALITALIA after the separation has been named AZ Fly (no actual name change will take place as well as changes to the Company listing on the Milan Stock Exchange).

# Alitalia AZ Fly\* Targets

## OPERATIONAL TARGETS



**Over 30% ATKs growth 2008 vs 2004**



**2008 total fleet to grow up to approx. 200 a/c\*\***

## FINANCIAL TARGETS

**By 2006 AZ Fly will save\*\*\* at EBIT level vs. a theoretical inertial plan\*\*\*\* approximately EUR 750 million**

**AZ Fly will be achieving break-even by the end of 2006 and by then it will also reach an 14% EBITDAR margin aligned with the best operators in the industry**

\* In order to clearly identify the two companies ALITALIA after the separation has been named AZ Fly (no actual name change will take place as well as changes to the Company listing on the Milan Stock Exchange).

\*\*Year end figure.

\*\*\*Including savings on labor expenses resulting from Agreements with Unions illustrated in the previous slides.

\*\*\*\*Inertial Plan is a simulated Alitalia Plan (same additional capacity) without benefits from the new Business Plan strategy and projects.

# Alitalia

## *Business Plan Financial Feasibility*

### **EUR 400 MILLION BRIDGE LOAN**

On October, 11<sup>th</sup> Alitalia signed the agreement with DRKW regarding the bridge loan guaranteed by the Italian State.

The loan, authorized by EU Commission last summer, is a credit line intended to cover cash requirements during the airline low season (draw down availability period until January 2005).

The agreement signed with DRKW allows Alitalia to withdraw amounts of EUR 10 million minimum in various installments up to a max of EUR 400 million. The repayment is due in one installment in the final maturity date (12 months after the last draw down).

### **CAPITAL INCREASE**

A capital increase for a total amount up to EUR 1.2 billion will be launched in the first half of 2005 in order to provide Alitalia with a fresh capital injection to fully implement the 2005-2008 Business Plan.

Italian Ministry of Economy and Finance already informed the Company it will take part in the capital increase.

The Ministry is also currently working on a privatization decree (DPCM) as well as on the choice of an advisor for the project.

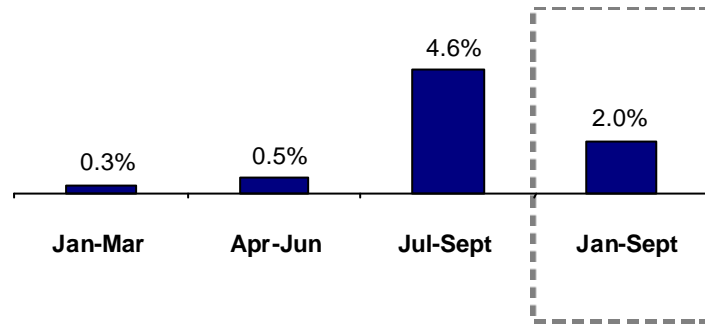
Technical details of the capital increase cannot be disclosed before a resolution of Alitalia Board of Directors on the matter.

## 3<sup>rd</sup> Quarter 2004 Network Results



## Air Transport Business Alitalia Total Network results

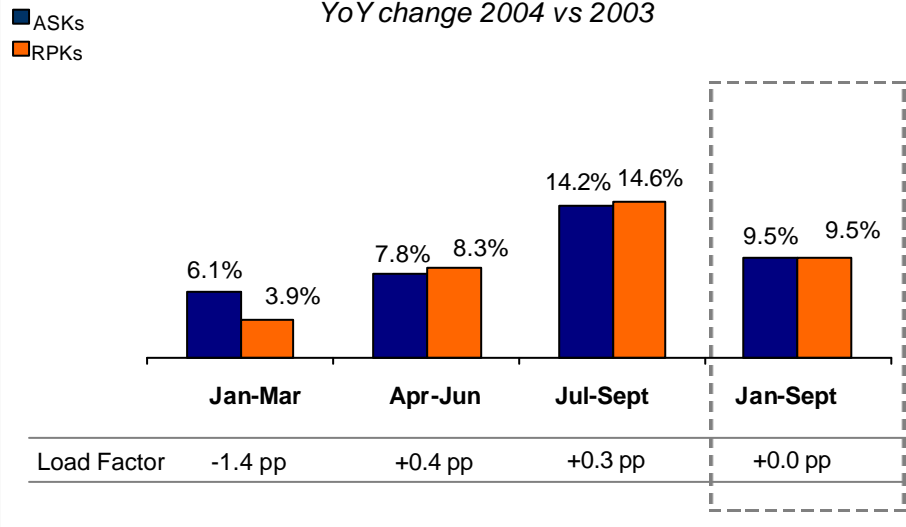
**Passenger Revenues performance – Total network**  
YoY change 2004 vs 2003



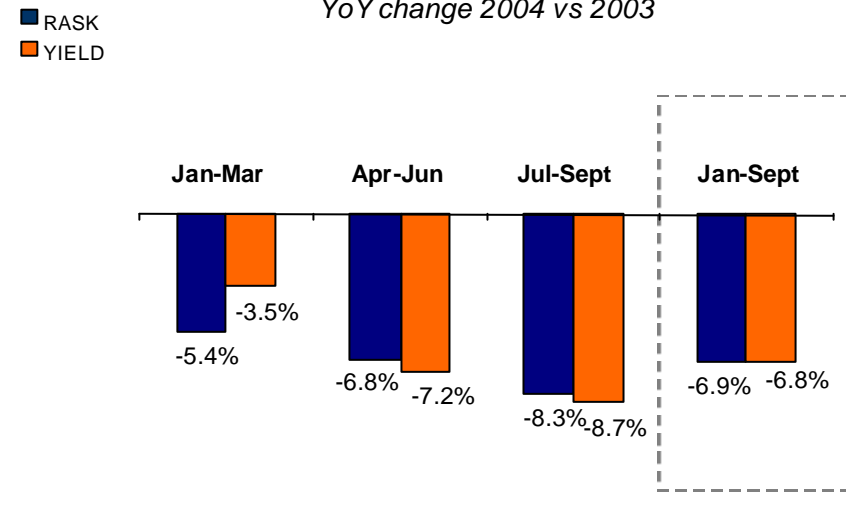
Total network RASK and Yield figures in third quarter 2004 confirm the first half negative trend.

Total revenues in third quarter up by 4.6% driven by much higher ASKs growth (+14.2%).

**ASKs and RPKs performance – Total network**  
YoY change 2004 vs 2003

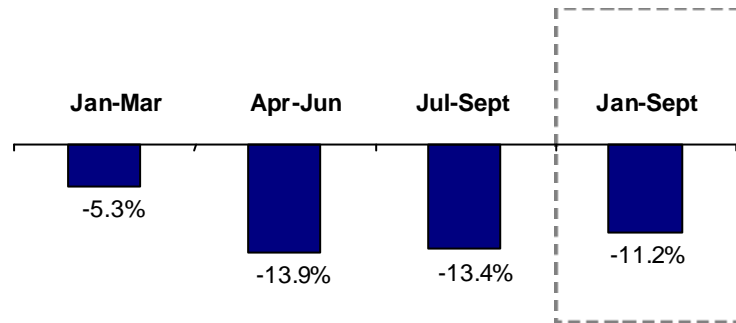


**RASK & YIELD performance – Total network**  
YoY change 2004 vs 2003



## Air Transport Business Alitalia Domestic Network results

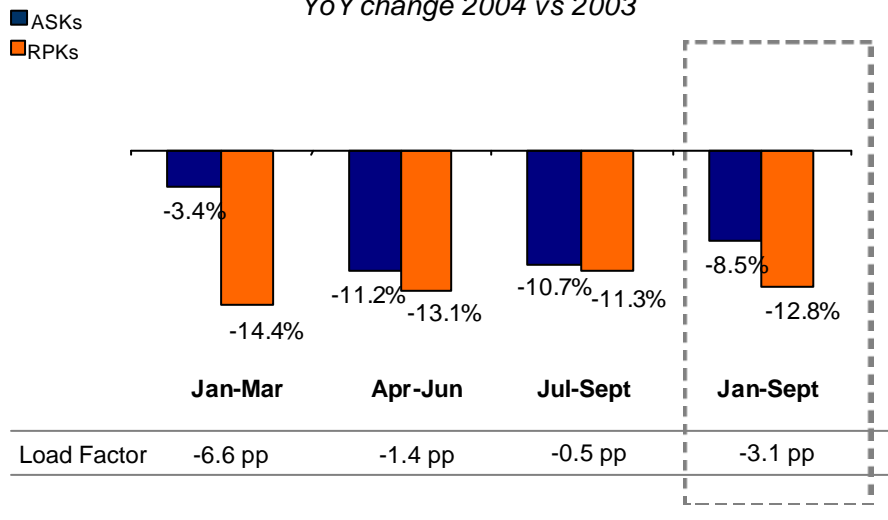
**Revenues performance – Domestic network**  
YoY change 2004 vs 2003



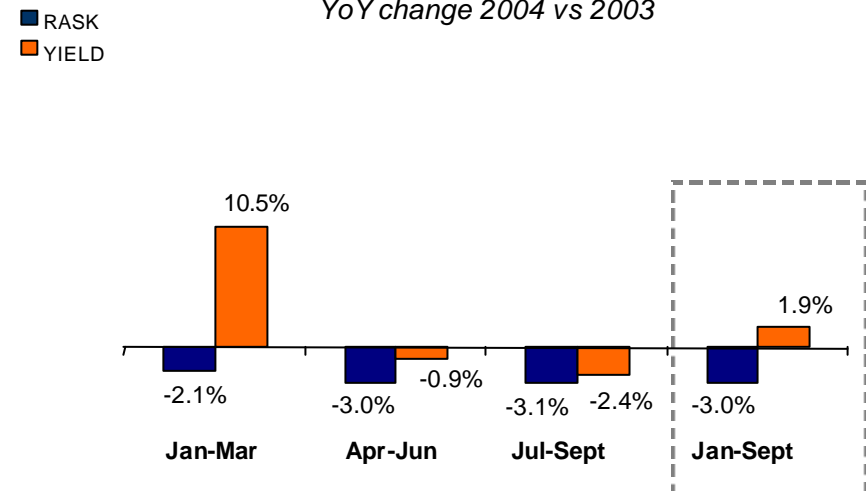
Domestic market revenues had a significant drop in first 9 months mainly due to lower capacity offered by Alitalia (ASKs -8.5%) and falling Italian yields caused by overcapacity deployed by competitors in the period.

Negative first quarter load factor performance (-6.6 pp) very much affected by strikes and travel agencies boycott.

**ASKs and RPKs performance – Domestic network**  
YoY change 2004 vs 2003

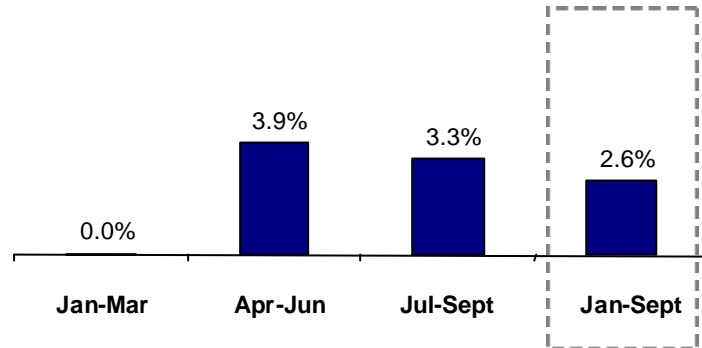


**RASK & YIELD performance – Domestic network**  
YoY change 2004 vs 2003



## Air Transport Business Alitalia International Network results

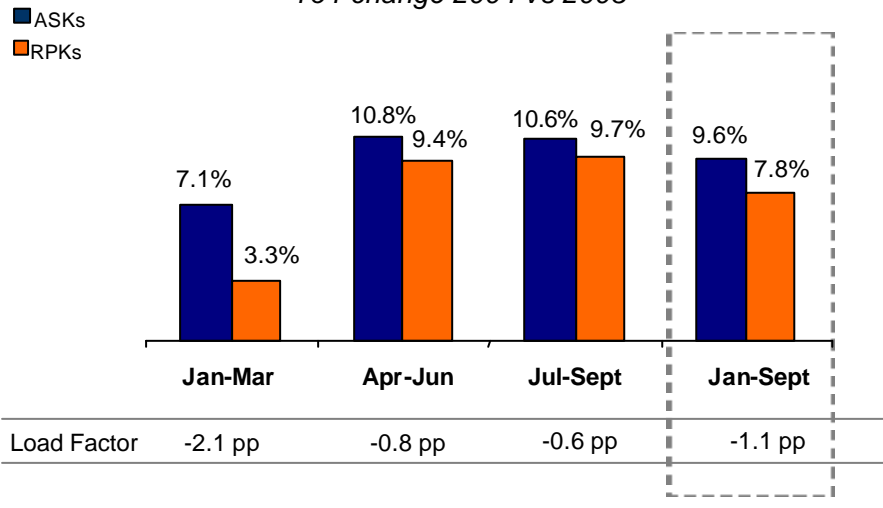
**Revenues performance – International network**  
YoY change 2004 vs 2003



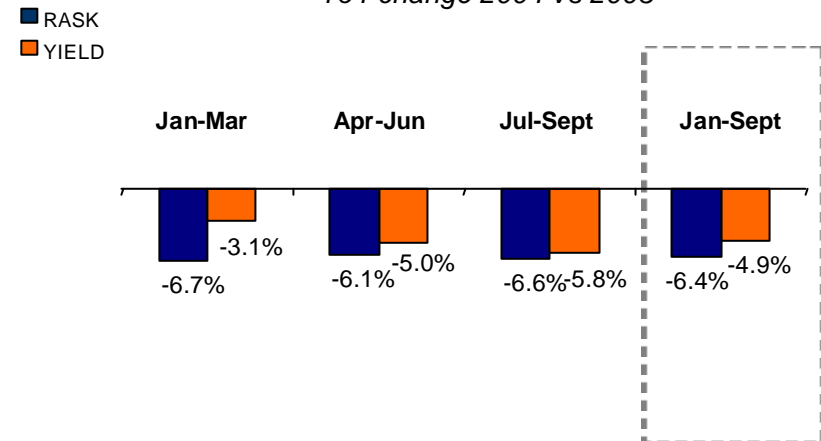
Alitalia yields on international routes confirmed negative trend (from -3.1% of Q1 to -5.8% of Q3) from increasing pressure on prices from low cost carriers (EU destinations).

Alitalia new capacity investments to North Africa (1H ASKs +20.5%) and to Eastern Europe destinations (1H ASKs +21%) also had an impact on yields.

**ASKs and RPKs performance – International network**  
YoY change 2004 vs 2003



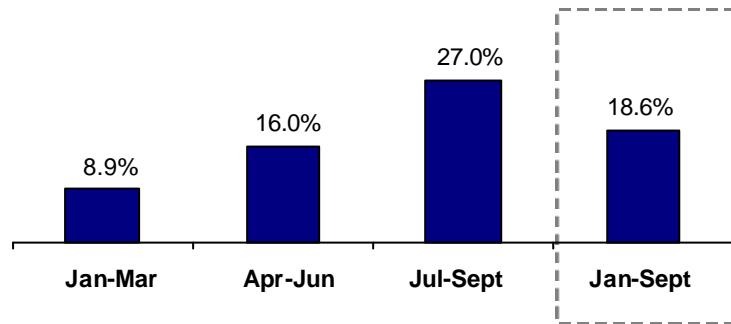
**RASK & YIELD performance – International network**  
YoY change 2004 vs 2003



# Air Transport Business

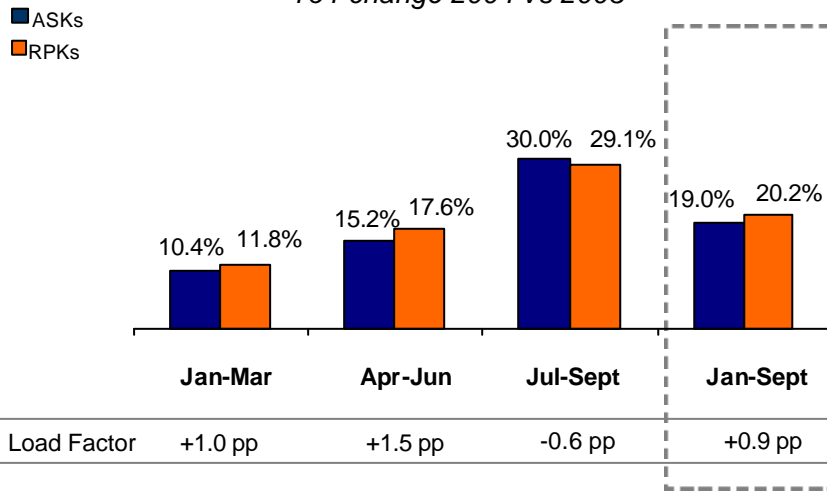
## Alitalia Intercontinental Network results

**Revenues performance – Intercontinental network**  
YoY change 2004 vs 2003

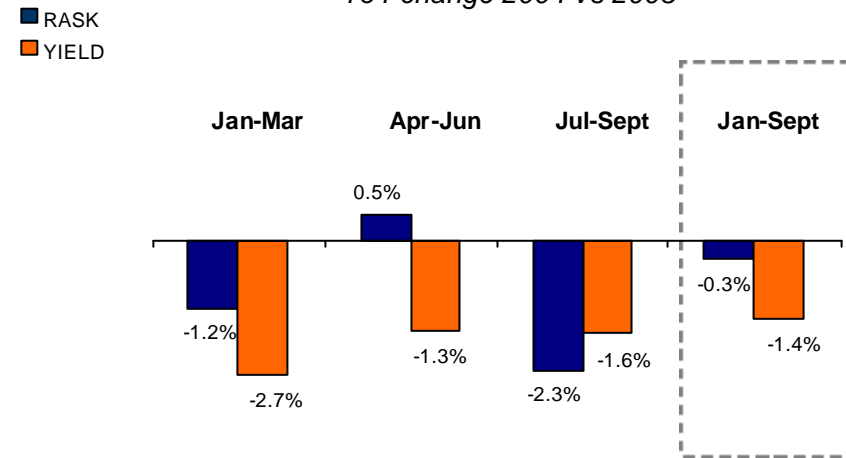


Significant improvement in total intercontinental revenues in the third quarter of 2004 follows the increase in capacity to the Americas that Alitalia implemented to restore its offer after last year's cancellations due to geo-political uncertainty (IRAQ war) as well as new routes opening.

**ASKs and RPKs performance – Intercontinental network**  
YoY change 2004 vs 2003



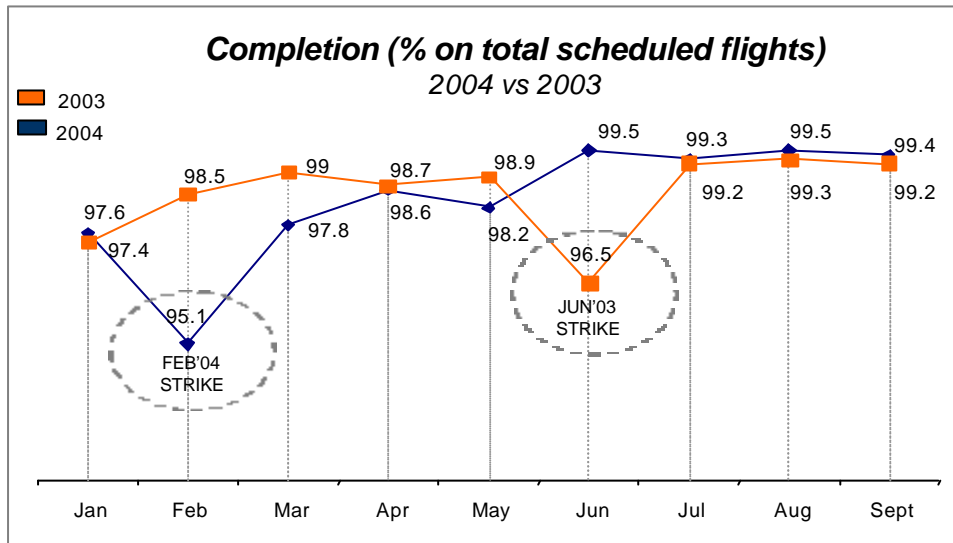
**RASK & YIELD performance – Intercontinental network**  
YoY change 2004 vs 2003



## 3<sup>rd</sup> Quarter 2004 Operational Results

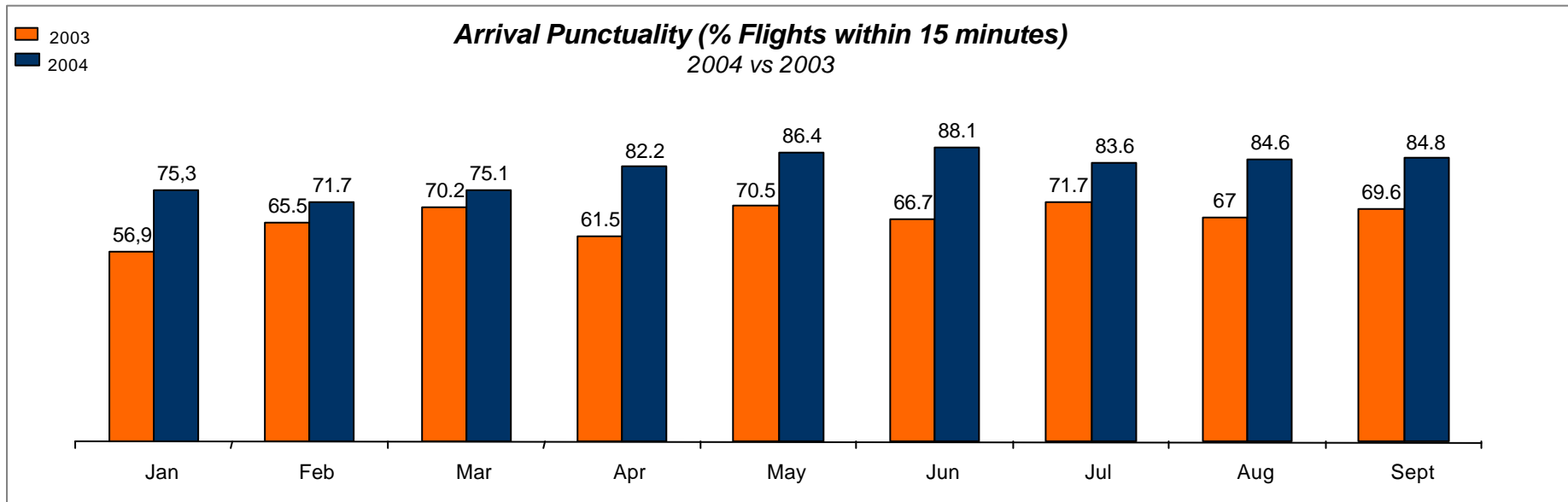
# Air Transport Business

## Material improvement in all the major indicators



All major operational indicators show Alitalia improved performance vs. last year's in terms of punctuality.

Operations are back to normal after first half 2004 strikes with very positive figures throughout the entire summer months (over 99%).



## 3<sup>rd</sup> Quarter 2004 Financial Results



## 3<sup>rd</sup> Quarter 2004 Main Financial Figures

### *Slight improvement despite rising fuel prices*

	<u>Jul-Sept 2003</u>	<u>Jul-Sept 2004</u>	<u>Change</u>
Revenues	1,169	1,126	-3.7%
Materials and Service Expenses	(795)	(751)	-5.5%
<i>% of Revenues</i>	68%	67%	
Labor Expenses	(292)	(290)	-0.6%
<i>% of Revenues</i>	25%	26%	
EBITDAR	82	84	
<i>% of Revenues</i>	7.0%	7.5%	
EBITDA	72	52	
<i>% of Revenues</i>	6.2%	4.6%	
EBIT	(15)	(10)	
<i>% of Revenues</i>	-1.3%	-0.8%	
Result Before Extraordinary Items & Taxes	(47)	(29)	
<i>% of Revenues</i>	-4.0%	-2.6%	

(figures in EUR/mln)

Note: Interest charges relating to financial leases are included in interest expenses (EUR 4 mln 3<sup>rd</sup> quarter 2004). To reconcile with Operating Result in Statutory Accounts: EBIT+leases interest charges (-10-4 = -14); margins below EBIT level do not need reconciliation.

## 3<sup>rd</sup> Quarter 2004 Main Financial Figures

### *Revenues reduction mainly driven by changes in accounting*

#### Revenues

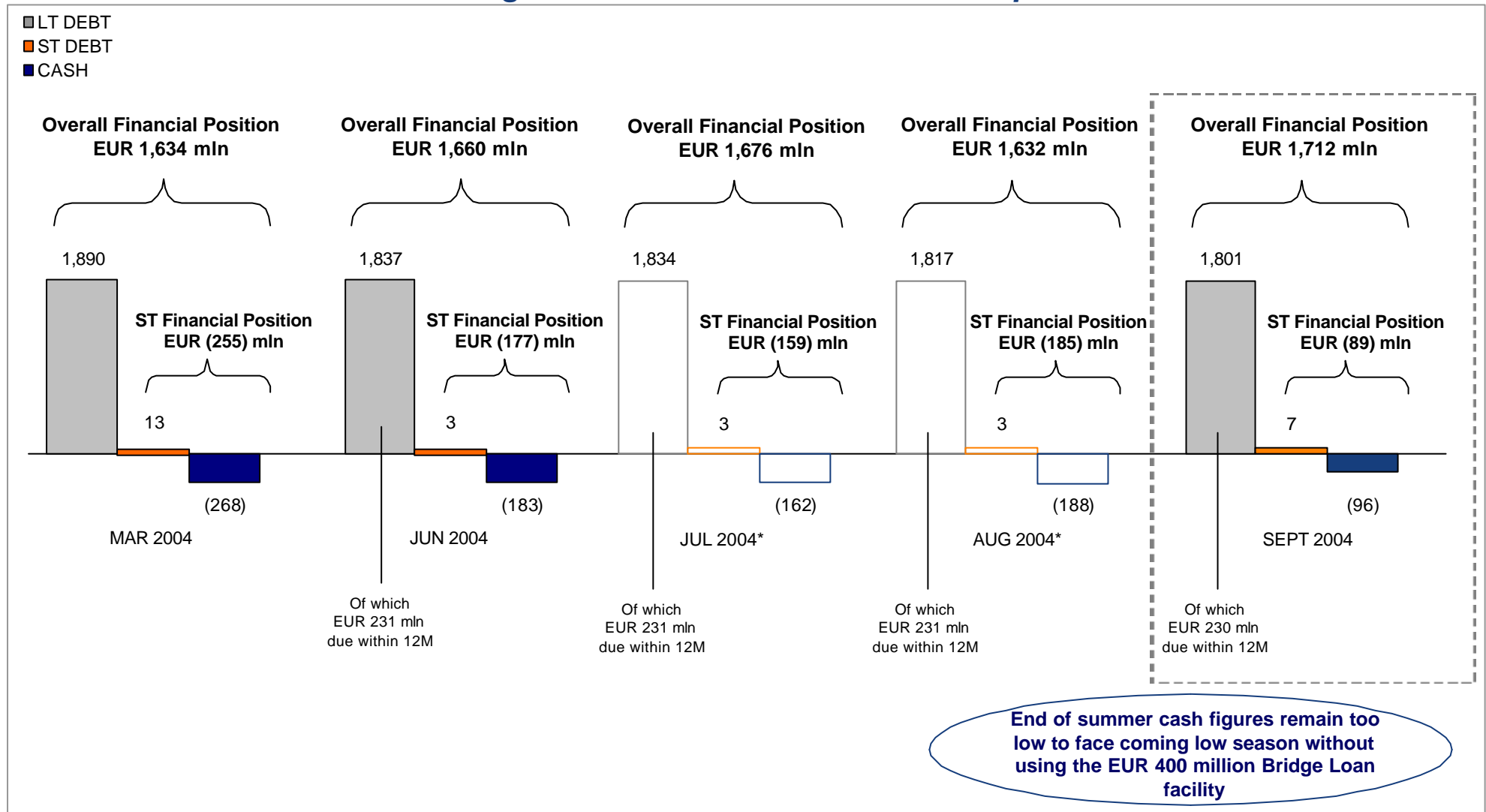
- **Total revenues** show a year-on-year reduction of approximately EUR 43 million, mainly due to changes in passengers boarding taxes accounting (EUR -79 million). Total Revenues would otherwise have grown by EUR 36 million.
- **Passenger revenues** grew by 4.6% despite increased capacity (approx +14% in ASKs terms on total network).
- **Cargo revenues** were up by approx. EUR 7 million due to Far East markets growth.

#### Costs

- **Materials and Service Expenses** decreased by EUR 44 million (-5%) to EUR 751 million mainly due to changes in pax boarding taxes accounting (EUR -79 million) and a positive forex impact (EUR 17 million).
- **Labor expenses** were almost flat in the quarter (See Appendix for details regarding first 9 months Group workforce)

## 3<sup>rd</sup> Quarter 2004 Main Financial Figures

### Cash figures under EUR 100 million in September



\*July and August 2004 Overall Financial Positions from management accounts only and they have been disclosed before 3rd Quarter 2004 Financial Statements formal BoD approval in order to be compliant with recent CONSOB requirements.

# Appendix

## 1<sup>st</sup> Half 2004 Main Financial Figures

### *Negative impact of growing labor expenses*

	<u>Jan-Jun 2003</u>	<u>Jan-Jun 2004</u>	<u>Change</u>
Revenues	2,193	1,948	-11%
Materials and Service Expenses	(1,641)	(1,395)	-15%
<i>% of Revenues</i>	75%	72%	
Labor Expenses	(590)	(623)	+6%
<i>% of Revenues</i>	27%	32%	
EBITDAR	(38)	(70)	
<i>% of Revenues</i>	-1.7%	-3.6%	
EBITDA	(81)	(115)	
<i>% of Revenues</i>	-3.7%	-5.7%	
EBIT	(251)	(287)	
<i>% of Revenues</i>	-11.4%	-14.8%	
Result Before Extraordinary Items & Taxes	(321)	(329)	
<i>% of Revenues</i>	-14.6%	-16.9%	
Net Result	(315)	(620)	
<i>% of Revenues</i>	-14.4%	-31.8%	

(figures in EUR/mln)

Note: Interest charges relating to financial leases are included in interest expenses (EUR 11 mln 1<sup>st</sup> half 2004). To reconcile with Operating Result in Statutory Accounts: EBIT+leases interest charges (-287-12 = -299); margins below EBIT level do not need reconciliation.

## 9 Months 2004 Main Financial Figures

*Results aligned with last year's*

	<u>Jan-Sept 2003</u>	<u>Jan-Sept 2004</u>	<u>Change</u>
Revenues	3,301	3,074	-6.9%
Materials and Service Expenses	(2,394)	(2,146)	-10.3%
<i>% of Revenues</i>	73%	70%	
Labor Expenses	(871)	(913)	+4.8%
<i>% of Revenues</i>	26%	30%	
EBITDAR	36	15	
<i>% of Revenues</i>	1.1%	0.5%	
EBITDA	(15)	(62)	
<i>% of Revenues</i>	-0.4%	-2.0%	
EBIT	(269)	(296)	
<i>% of Revenues</i>	-8.1%	-9.6%	
Result Before Extraordinary Items & Taxes	(365)	(358)	
<i>% of Revenues</i>	-11.1%	-11.6%	

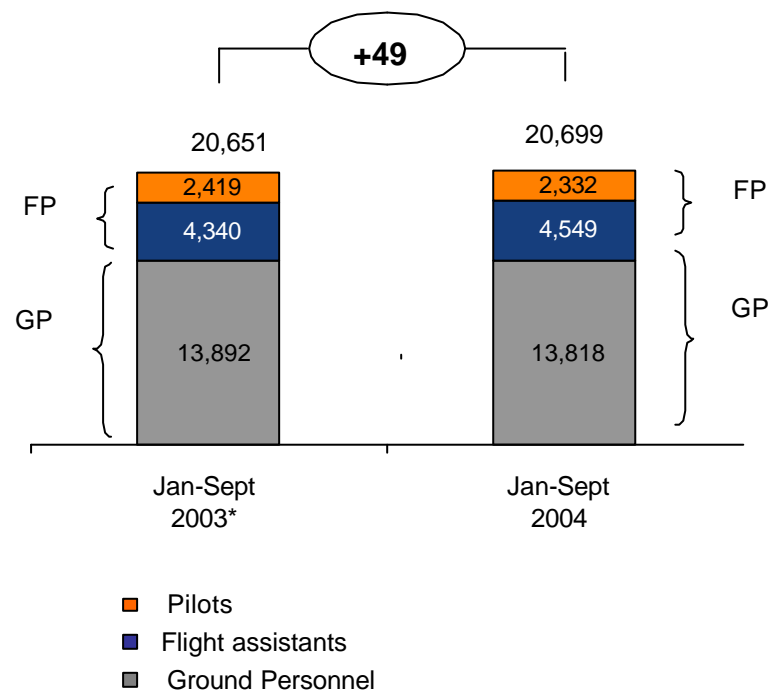
(figures in EUR/mln)

Note: Interest charges relating to financial leases are included in interest expenses (EUR 16 mln 9 months 2004). To reconcile with Operating Result in Statutory Accounts: EBIT+leases interest charges (-296-16 = -312); margins below EBIT level do not need reconciliation.

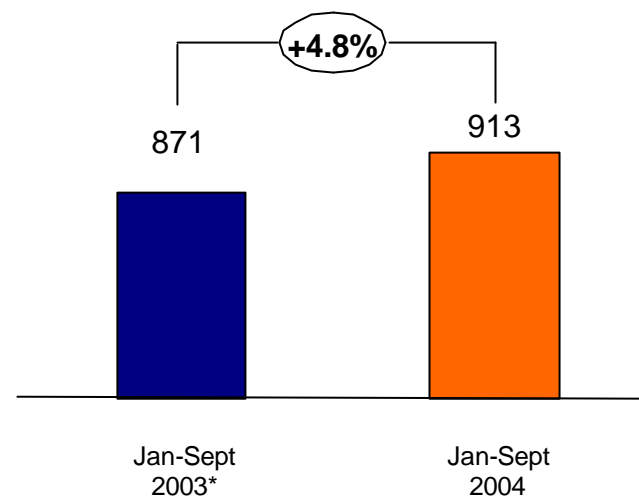
## 9 Months 2004 Workforce Analysis

*Increase in workforce mainly due to Alitalia Express growth*

**Average employees: Jan-Jun 2004 vs Jan-Jun 2003  
(EUR/million)**



**Labor Cost: Jan-Jun 2004 vs Jan-Jun 2003  
(EUR/million)**



\*2003 figures include disposed subsidiary Eurofly

# 9 Months 2004 Traffic Figures

## Total passengers reached over the 16.5 million figure

9 Months 2004

