

# Alitalia 1<sup>st</sup> Quarter 2003 Results

Thursday 15 May 2003



# Introduction

*Piero Ceschia*  
*(SVP Corporate Finance & Strategy)*



# Alitalia

## *“ confirming a difficult year”*

### **2003 Airline industry scenario**

Alitalia confirms 2003 as a very difficult year for the airline industry as a whole and for Alitalia.

The current crisis is something the airline industry has never faced before and we are convinced revenue structure has changed permanently.

Revenues are falling more than our achievements on the cost side therefore reducing significantly our margins, Alitalia will have to face the new scenario with significant actions targeted at improving margins through further reduction and flexibilization of costs.

In order to better fit with the new challenging competitive scenario as well as possible future shocks such measures will have to achieve a major and long term impact on the entire Alitalia cost base.

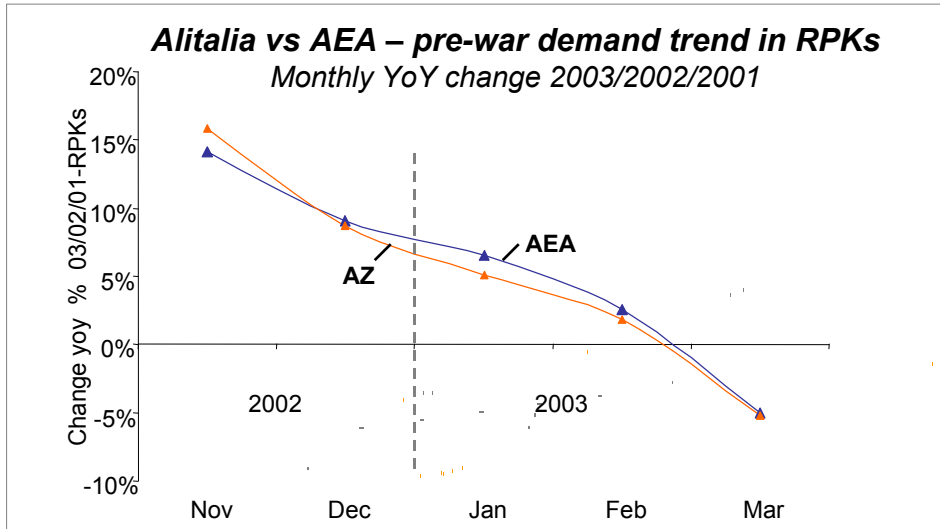
# The Air Transport 2002 results

*Giulio De Metrio*  
*(MD Air Transport Division)*

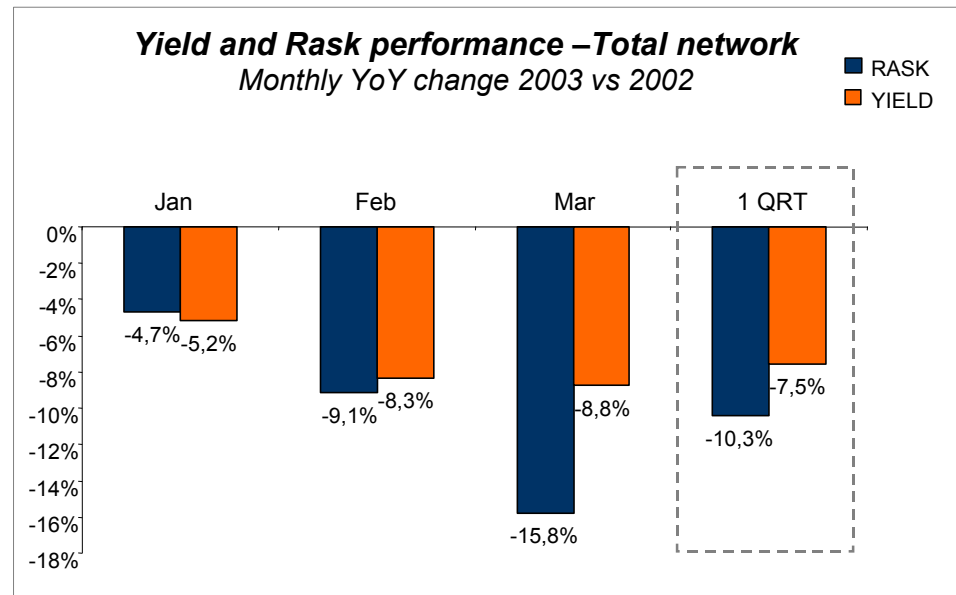
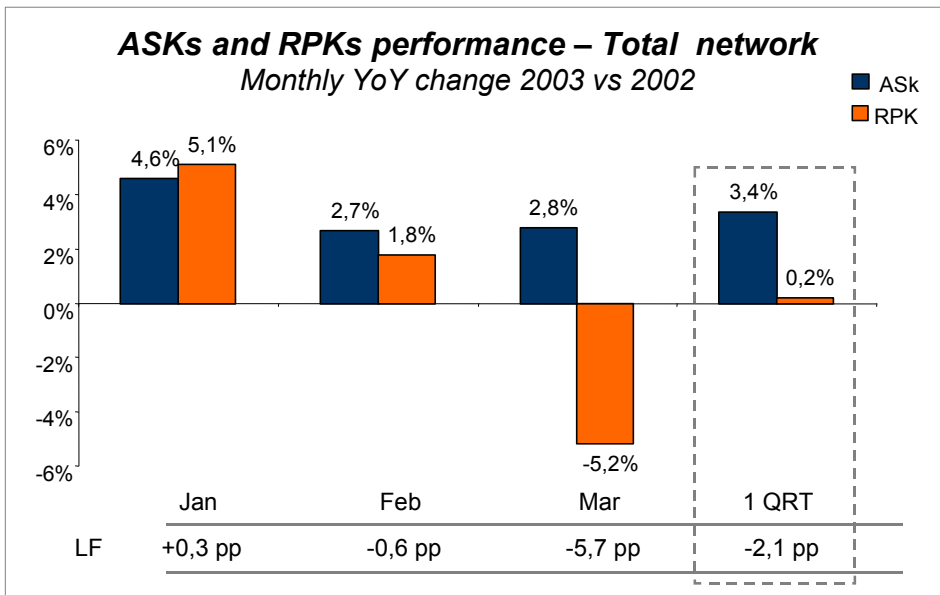


# The Air Transport Business

## Alitalia total network results



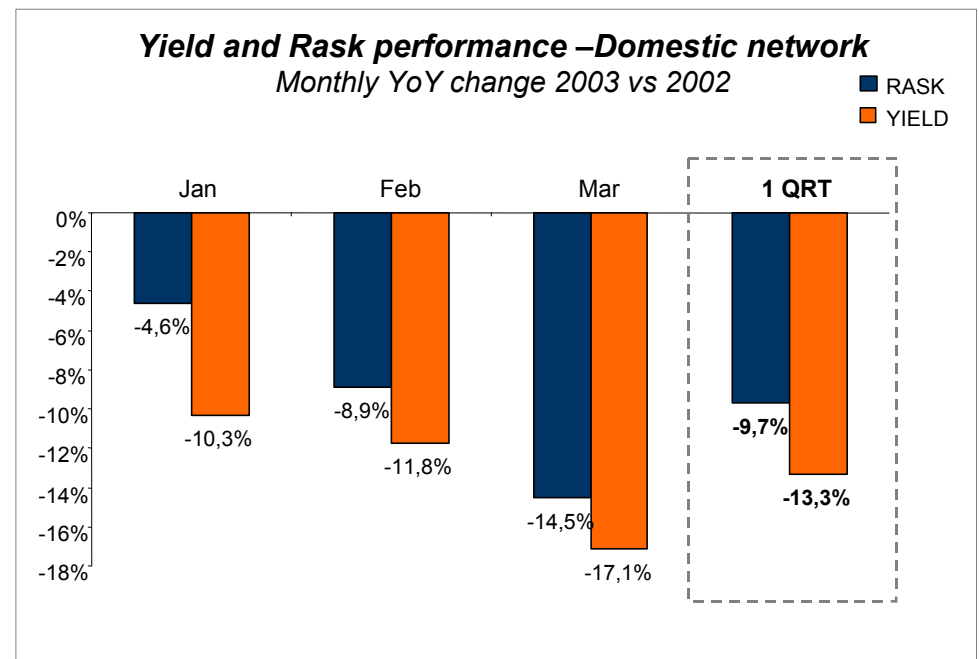
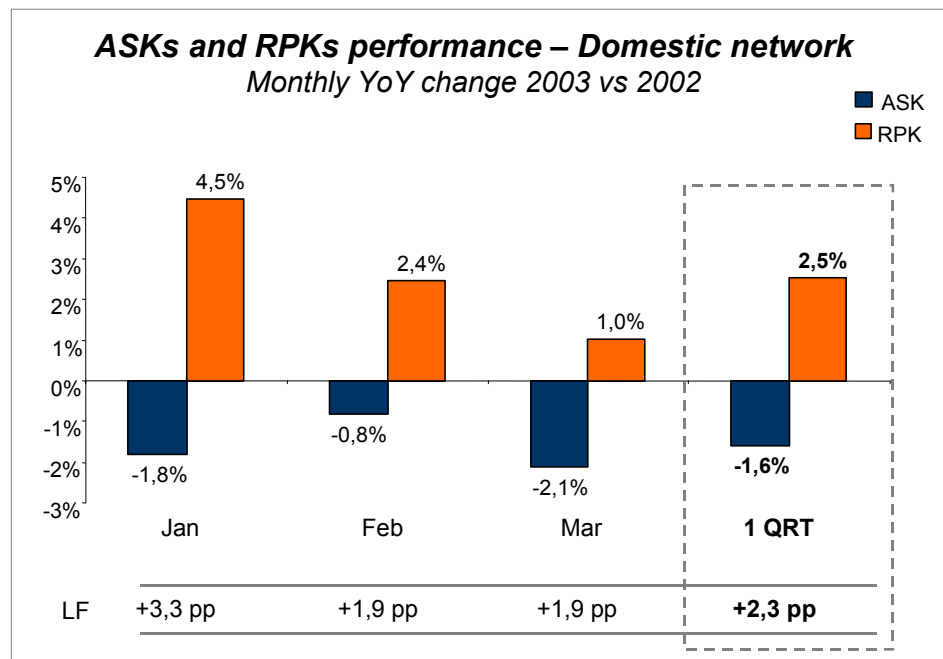
- In the last few months because of the threat of the outbreak of the war we saw a sharp downturn in air travel demand very similar to the one observed before the first Gulf war in 1991
- Looking at the last 5 months traffic (including 1<sup>st</sup> quarter 2003 network results) Alitalia was very much aligned with AEA and like all the major carriers had a sharp decrease in load factor mainly on its international (Middle East and North Africa) and intercontinental routes (North America and Far East)
- The overall scenario had a very negative effect on yield (lowered to stimulate traffic) and rask (high load factor drop in March)



# The Air Transport Business

## Alitalia Domestic network

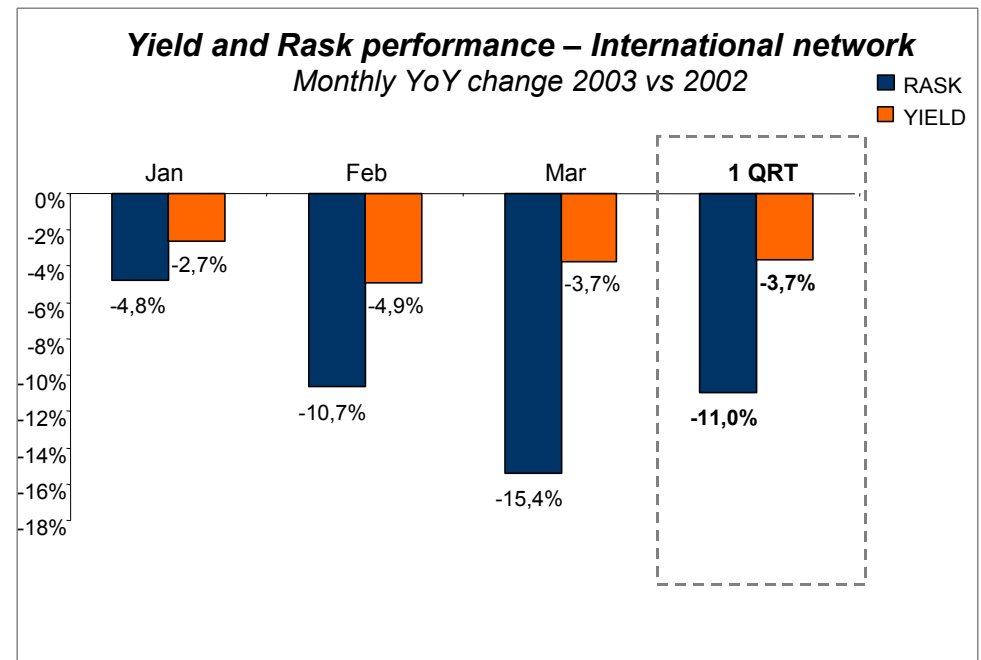
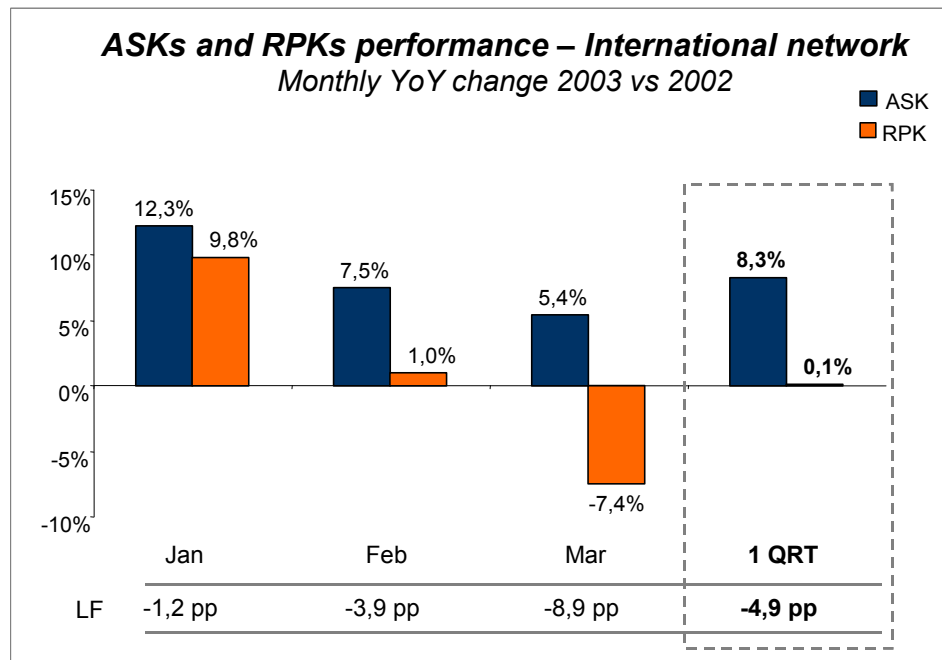
- We confirm that increasing competitive pressure on price and capacity growth by other competitors are causing also in the first quarter of 2003 a significant reduction on yield, not balanced by traffic and load factor improvements
- In particular Alitalia available capacity reduction of approximately 1,9% resulted in a load factor increase of 2,3 p.p up to 57,9%
- In the first quarter 2003 Rome-Milan route remained the best performing route on the domestic (“Link” product development), though showing a slight decrease in load factor
- Competitive pressure on prices due to overcapacity on the domestic market and Alitalia commercial actions aimed to simplify price structure and generate additional traffic resulted in a significant decrease of yield (-13,3%)



# The Air Transport Business

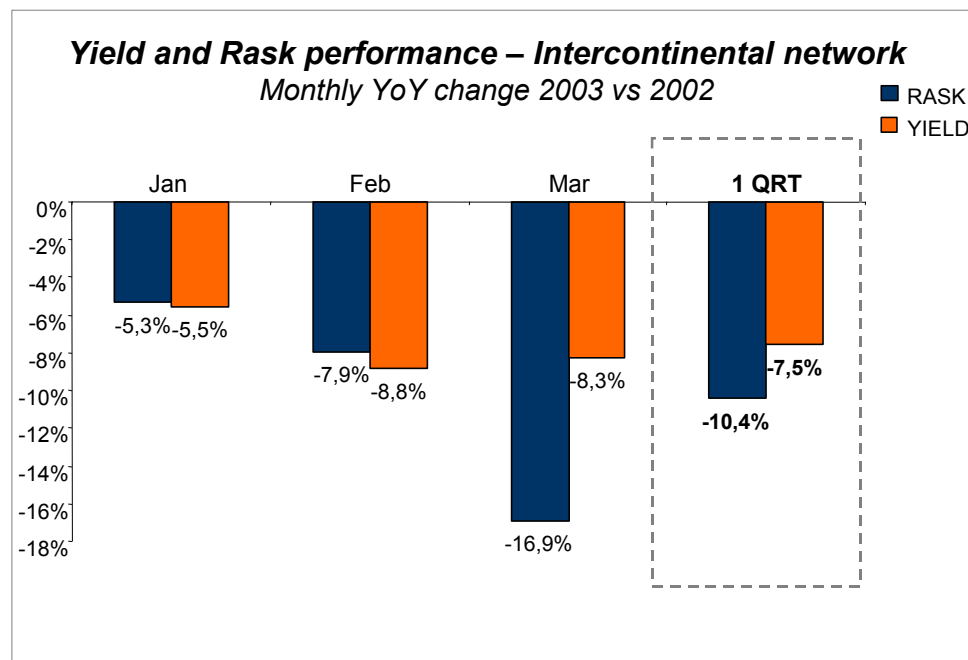
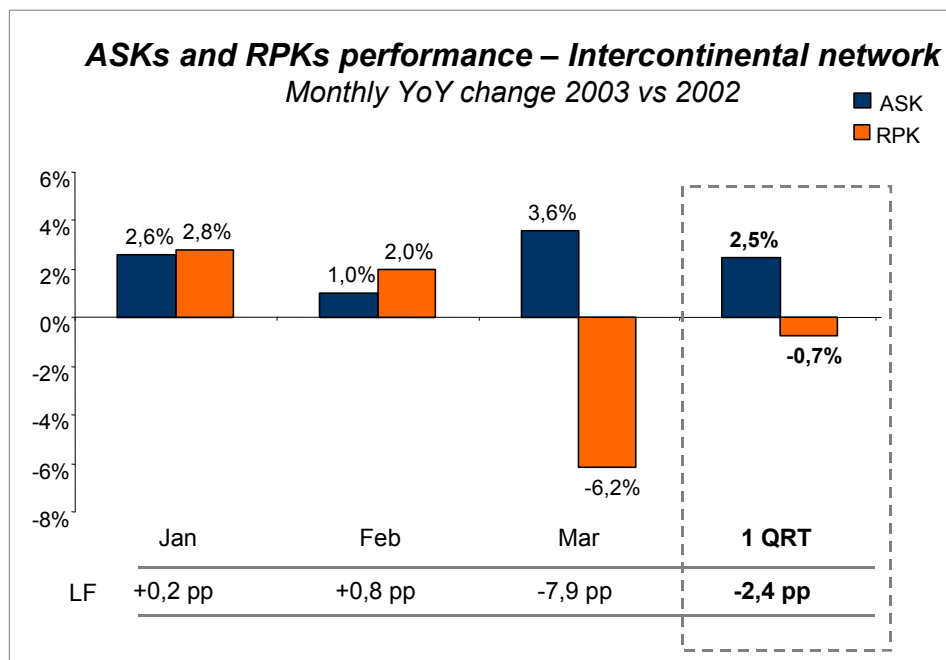
## Alitalia International network

- In the first quarter 2003 Alitalia faced a progressive decline of Load Factor (-4,9 p.p.) and yields (-3,7%) on international network due to sharp drop in demand related to the threat and actual outbreak of Iraq conflict and increasing competition from low cost carriers (mainly on UK, Germany and Belgium routes)
- On EU destinations Alitalia available capacity increased of approximately 4,2% in the first quarter was offset by a continuous decline in passenger traffic (-3,2%), with an even increasing pressure on yields related to low cost expansions (Start-up of Ryanair base in Milan BGY)
- Negative impacts of Iraq conflict were even more dramatic on Middle East and North Africa destinations, resulting in a traffic drop on these sector of approximately 16,5% in the month of March



## The Air Transport Business Alitalia Intercontinental Network

- In the first quarter 2003 Alitalia intercontinental network showed a progressive decline of passenger traffic (-0,7%) and load factor (-2,4p.p) due to Iraq War and, most recently, the consequences of SARS
- Yield dropped by 7,5%, mainly due to negative effect of changed exchange rate of the US dollar and Japan Yen to Euro
- In particular North America is the intercontinental sector most effected by Iraq war outbreak, resulting in a reduction of passenger (-13%) overcoming the capacity reduction (-6,1%) operated by Alitalia during the first quarter 2003
- On Far East destinations, Alitalia capacity increase (+30,7% mainly on Japan) resulted in a traffic increase of approximately 17,6% with a decline of load factor and yield, also due to exchange rates negative effects



## The Air Transport 2002 results

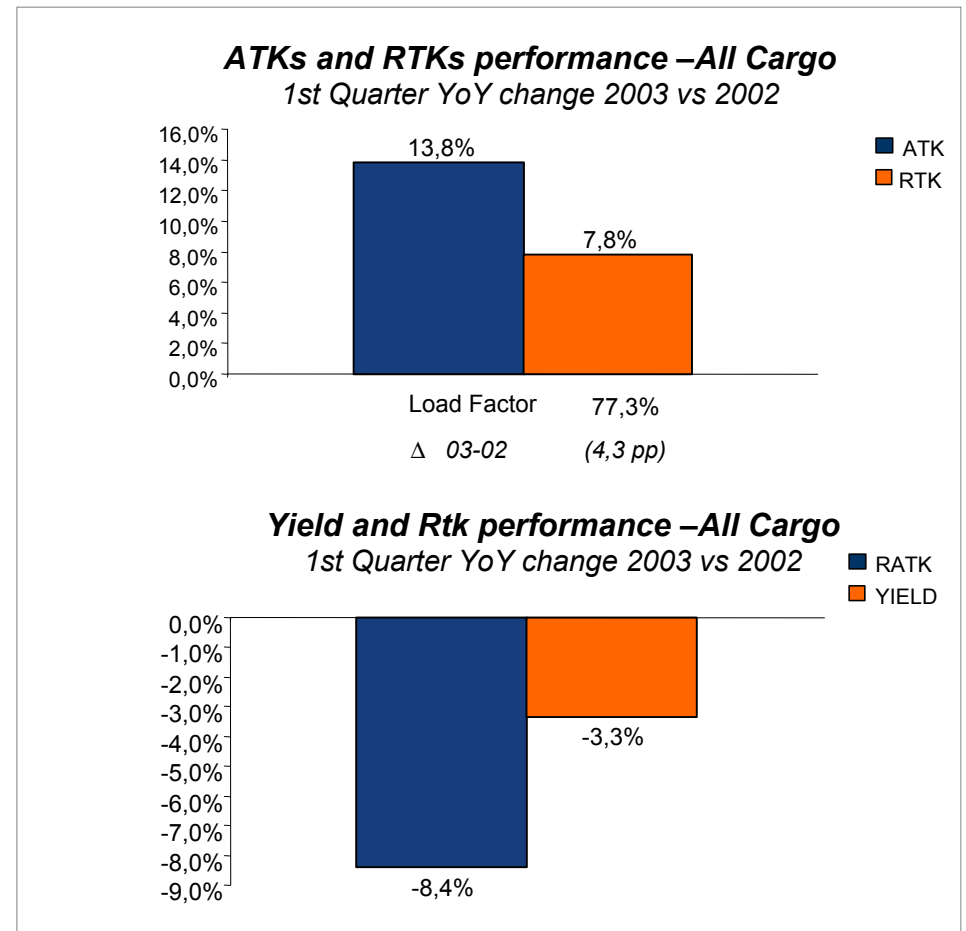
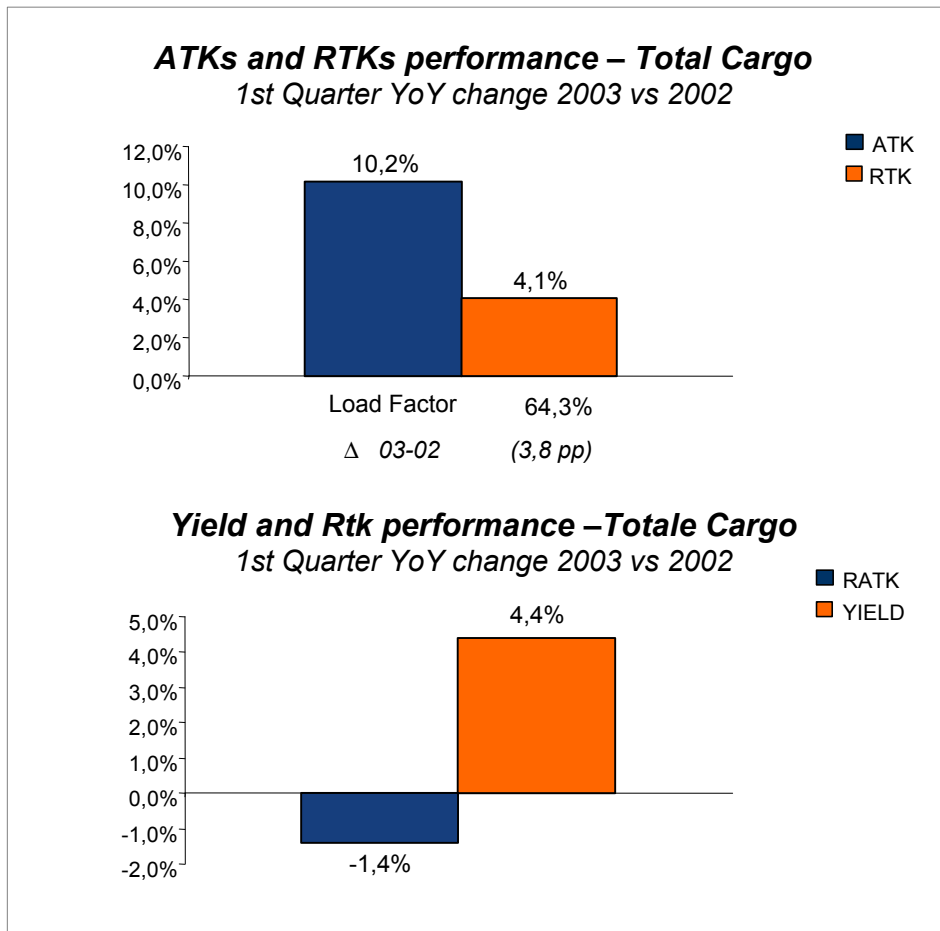
*Massimo Panagia*  
*(MD Air Cargo Division)*



# The Air Transport Business

## Alitalia 1<sup>st</sup> quarter 2003 Air Cargo and logistics results

- In the first quarter 2003 Alitalia total cargo network shows a capacity increase of approximately 10%, as a result of a significant increase on Far East (+33,8%) and disinvestments on North America (-9,7%)
- Yield increased in the same period by 4,4% with a positive effect on total cargo revenues, which grew by approximately 7%



## The Alitalia 2002 main financial figures

*Luca Egidi*  
*(Chief Financial Officer)*



## Alitalia 1<sup>st</sup> quarter 2003 main financial figures

### *Material effect on margins of airline industry crisis*

	<u>1<sup>st</sup> Qrt 2003</u>	<u>1<sup>st</sup> Qrt 2002*</u>	<u>Change</u>
Revenues	1.035	1.100	-6%
Materials and Service Expenses	(804)	(822)	+2%
<i>% of Revenues</i>	79%	73%	
Labour Expenses	(284)	(292)	-3%
<i>% of Revenues</i>	27%	27%	
EBITDAR	(70)	4	
<i>% of Revenues</i>	-6,8%	0,4%	
EBITDA	(93)	(17)	
<i>% of Revenues</i>	-9,0%	-1,5%	
EBIT	(166)	(89)	
<i>% of Revenues</i>	-16,0%	-8,1%	
Result Before Extraordinary Items & Taxes	(198)	(103)	
<i>% of Revenues</i>	-19,1%	-9,4%	

*\*2002 figures have been slightly reclassified (EUR 7,4 mln) in order to make the P&Ls fully comparable.*

*Note: Interest charges relating to financial leases are included in interest expenses (EUR 7 mln 1<sup>st</sup> quarter 2003). To reconcile with Operating Result in Statutory Accounts: EBIT+leases interest charges ( (166)+(7)=(173) ); margins below EBIT level do not need reconciliation.*

## Alitalia 1<sup>st</sup> quarter 2003 main financial figures

*Margins were effected the most by a drop in revenues*

### Revenues

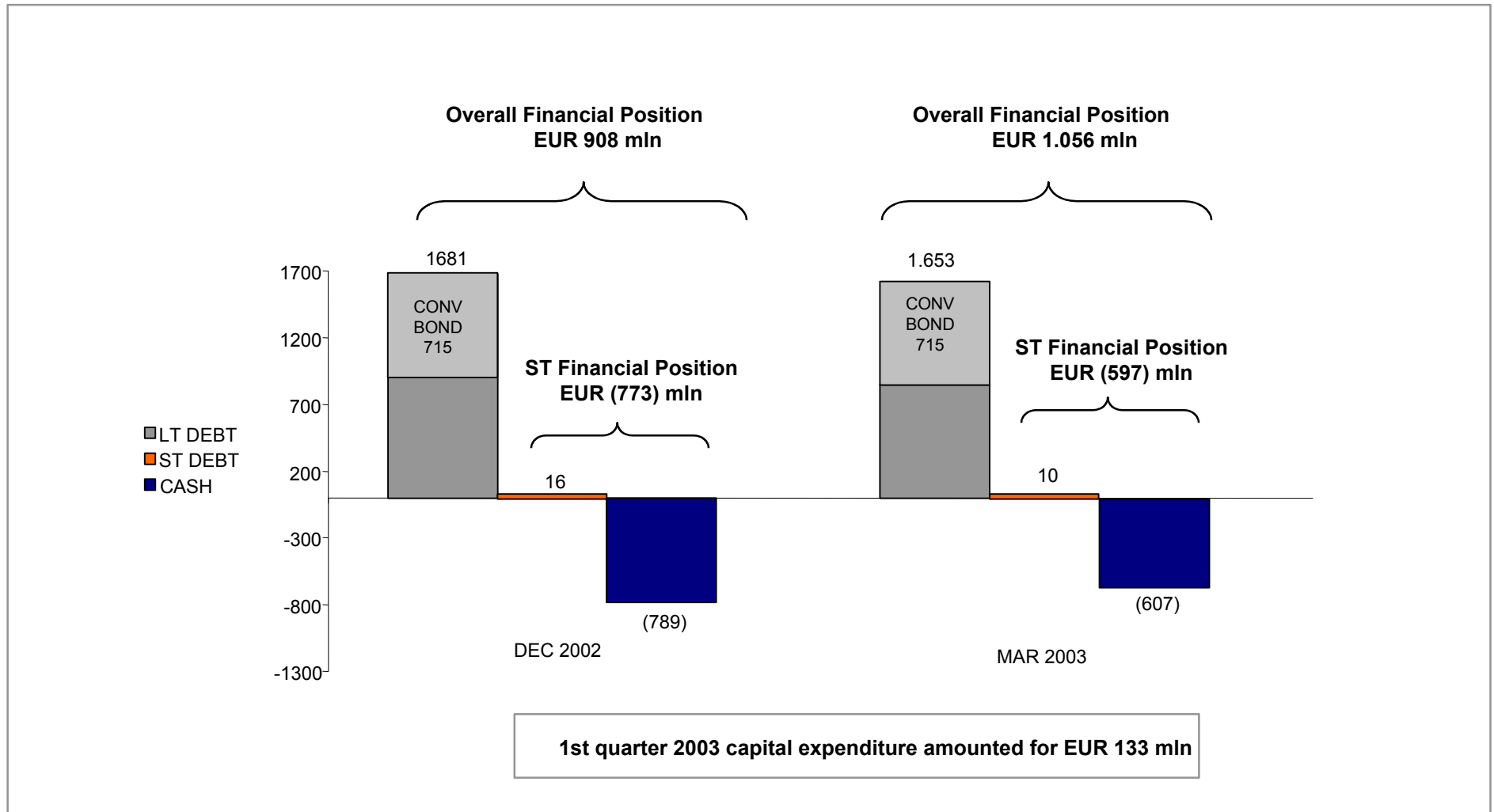
- **Total revenues** show a year-on-year reduction of approximately 65 Euro Million, mainly due to the general drop in air travel demand and the negative effects of changed exchange rate of the US dollar and Japan Yen to Euro (-33 Euro million)
- In particular **Passenger revenues** declined by approximately 7%, mainly due to drop in demand and yields (-7%)
- On the other hand **Cargo revenues** increased by approximately 7%, showing a less dramatic impact of Iraq war on freight traffic

### Costs

- **Materials and Service Expenses** increased by 18 Euro Million (+1,9%) to 822 Euro Million, resulting from negative changes in fuel and air traffic control fees and landing charges cost. To be noted that exchange rate gains accounted for 53 Euro million mainly related to US Dollar depreciation
- In particular Iraq conflict outbreak resulted in **higher oil prices**, generating a total increase of fuel cost of 29 Euro Million
- **Air traffic control fees and landing charges** increased by 22 Euro Million, due to increased tariffs compared to same period of last year
- On the other hand, **Labour expenses** dropped by 3% mainly due to solidarity contacts and early retirement initiatives, partially offset by the Alitalia Express flight crew increase (144 employees) resulting from the regional jet fleet development

# Alitalia 1<sup>st</sup> quarter 2003 main financial figures

## *Alitalia still very strong financially*



# Alitalia response on the war and current airline industry scenario

## *Alitalia identified contingency and structural actions*

### Contingency actions

- Frequencies/destinations cuts according to drop in demand and routes economic sustainability
- Capex freeze
- Aircraft options freeze
- Quick actions on cost base:
  - Stop to open-end contracts
  - Stop to personnel hirings
  - Stop to special retributions
  - Compulsory days-off

*Actions already fully implemented*



### Structural actions

- Network re-shaping according to drop in demand and routes profitability
- Non-core assets disposals acceleration
- More productivity and cost of labor related actions
- More actions to increase cost structure flexibility
- Re-negotiations with key suppliers (airports, fuel providers, fleet, insurance, etc)
- Commercial cost cuts (commission cut to travel agencies)
- Overheads and other general costs cut (consultancies, etc)

*Actions currently in progress*

# Alitalia

## *Some details on the first actions taken and under evaluation to face the airline industry crisis*

In order to deal with the unforeseen crisis related to **the contingent drop in demand and the structural problems that the airline industry** poses in the short and medium term Alitalia decided to implement some innovative actions on industrial organisation and cost structure.

### **Actions regarding capacity reductions vs planned schedule**

- **Domestic/ intra-Europe / Middle East / Long haul on North Atlantic and to Far East:** Estimate of Asks reduction by 5-6% vs planned schedule (may be subject to changes due to future demand trends)

### **Actions regarding distribution costs and fares increase**

- **Distribution cost cuts:** Commissions cut to travel agents from 6% to 3% (domestic only) from May 3<sup>rd</sup> 2003
- **Fare increases:**
  - Fuel surcharge in Italy and other markets from March 15<sup>th</sup> 2003 (DOM:EUR 6 INT:EUR 8 INC: EUR 12)
  - Full fare increase on domestic by 3% from April 10th 2003
  - IATA fares increase by 2-3% in INT and INC from April 2003

### **Actions regarding personnel**

- **Redundancies :** Measures to absorb excess personnel resulting from capacity cuts
- **Flight attendants:** Change the current composition of cabin crews (domestic and international) according to a simplification of on-board services and a new configuration of the MD82 aircraft. Change in composition of B777 cabin crews.
- **Flight crews Milan base:** Set up a more efficient system for flight crews based in Milan by transferring the required personnel in loco.
- **Flight Technicians:** Reduction of flight technicians due to the forthcoming B747 cargo aircraft phase-out