

Alitalia Group

Presentation of the Industrial Plan 2004-2006

Rome, December 11th 2003



Introduction

Industrial Plan enhancement

The airline industry scenario of 2003 needed to be addressed with further actions

The strategy implemented by Alitalia after the September 11th crisis, both in terms of strategic positioning and business model, allowed the **Company to achieve the financial and operational targets for 2002.**

- **The business model has now been rationalized thanks to the full achievement of the non-core activity disposal program**
 - Sale of Sigma, Italiatour, Eurofly and real estate properties generated total proceeds for approx. EUR 300 million

- **The financial structure and cash position have been strongly enhanced**
 - D/E ratio from 1,2 in December 2001 to 0,8 in June 2003

- **The long-haul fleet renewal and rationalization program has been accomplished as planned**
 - 9 new B777 are now flying our long haul network

- **All the actions identified to face the 2002 crisis were carried forward**
 - Cost reduction initiatives (55 projects) as well as Group workforce reduction (approximately 900 early retirements and further 900 units from disposals) have been achieved

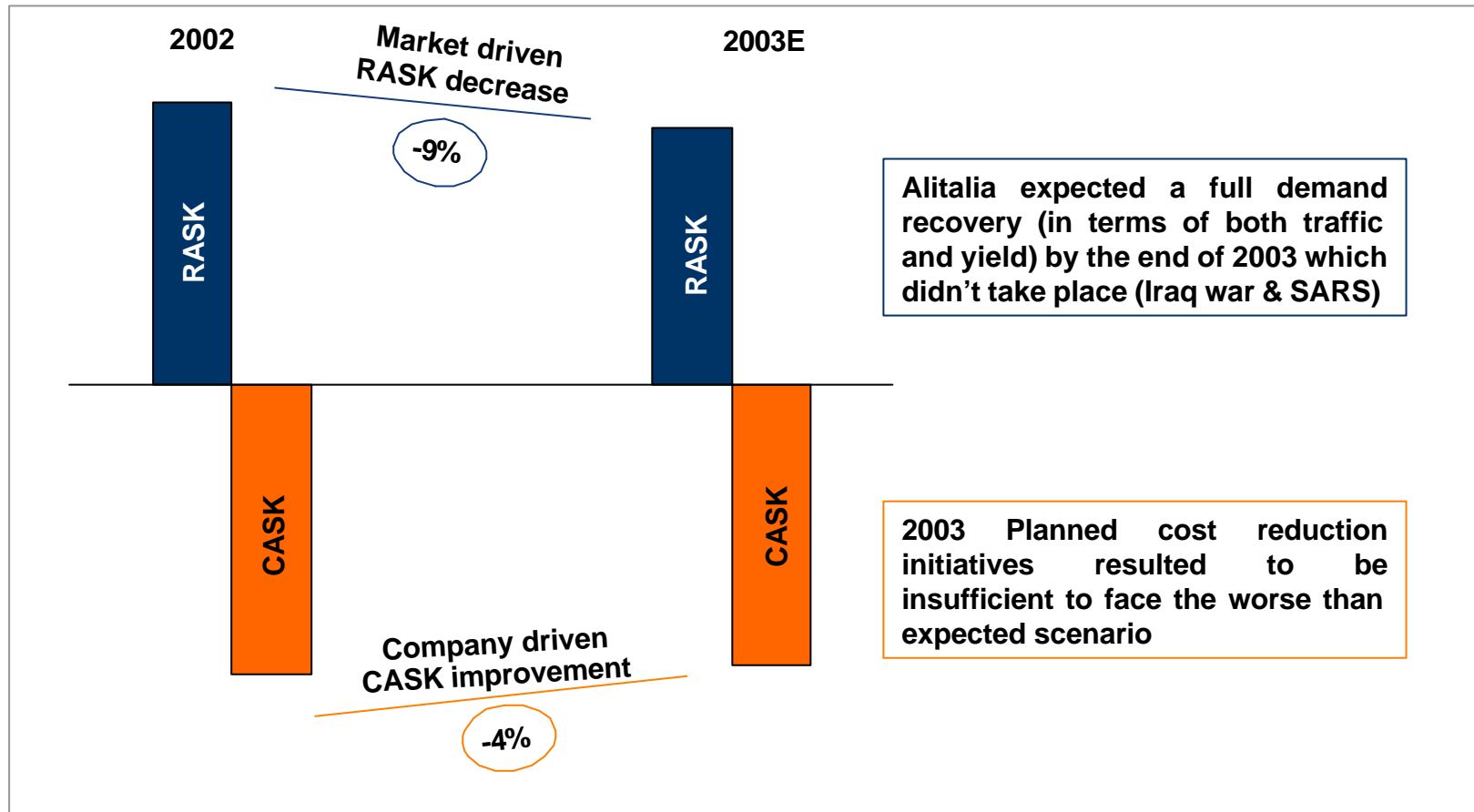
- **2002 operational and bottom line results were better than planned**

The 2004-2006 Industrial Plan we are presenting today further enhance the Company strategy in order to give an appropriate response to the 2003 scenario that resulted to be worse than expected.



Introduction

Year 2003 results strongly affected by revenues

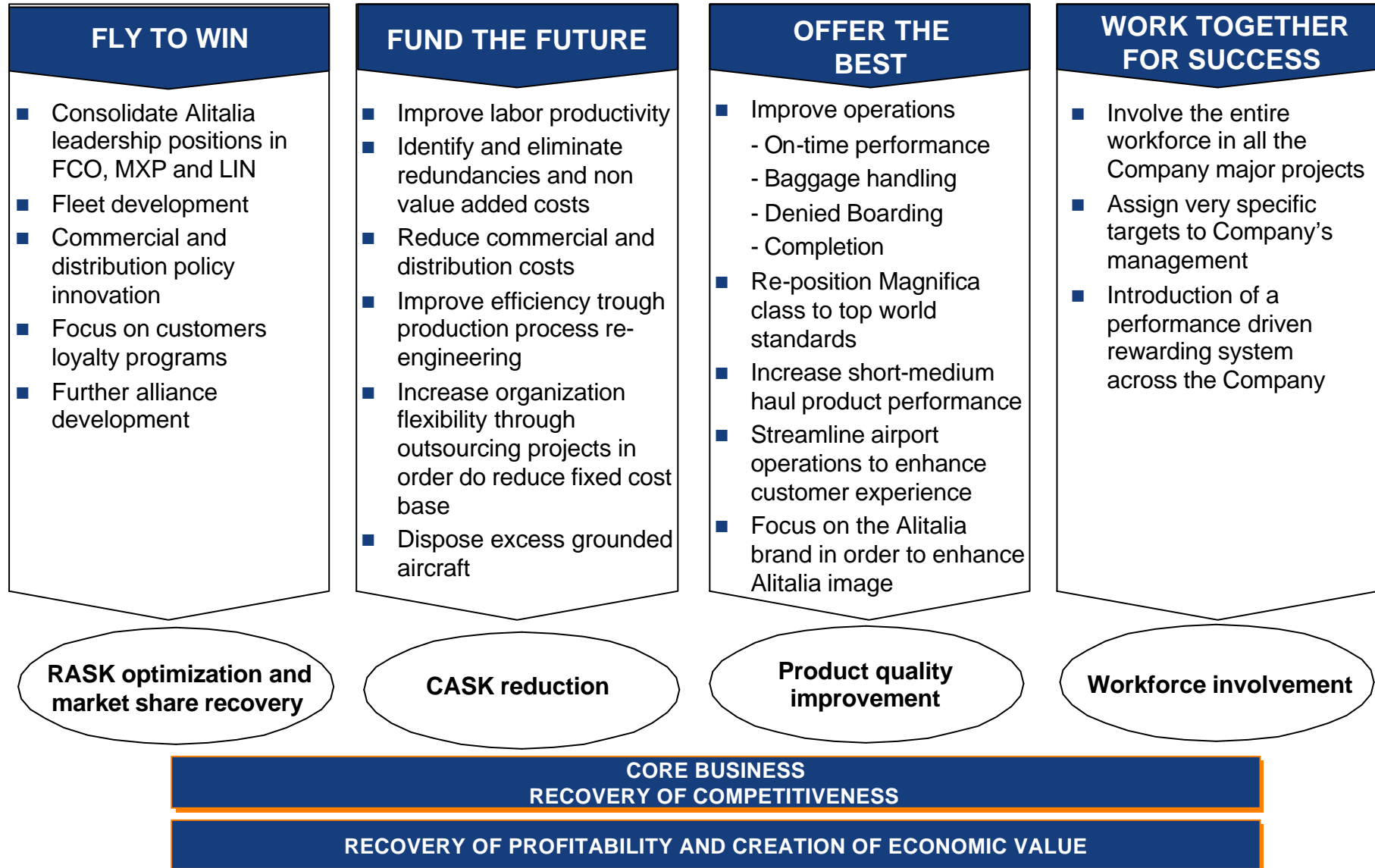


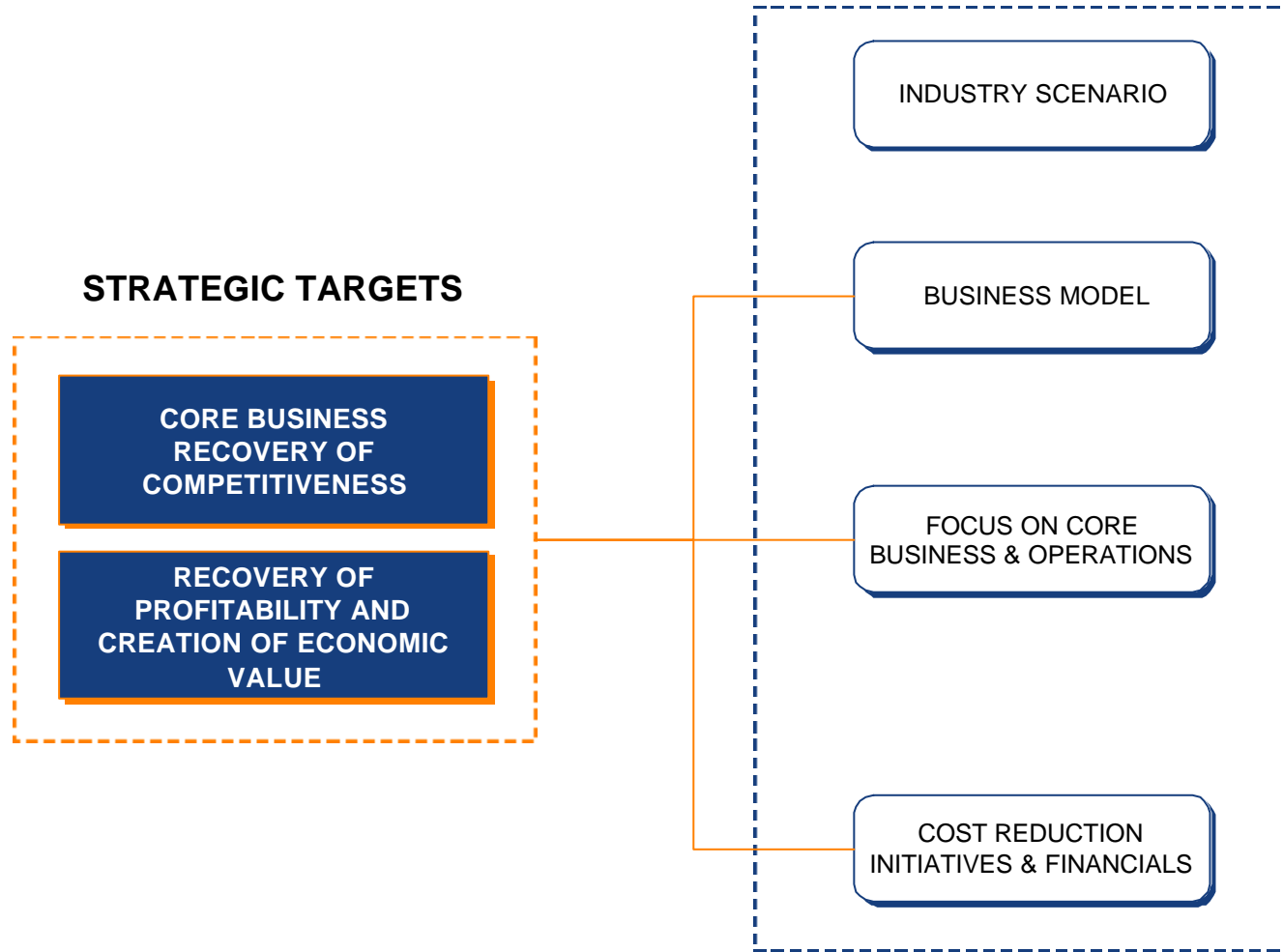
Recovery in profitability trend started in 2002 was deeply impacted by 2003 worse than expected scenario.



Alitalia Strategy

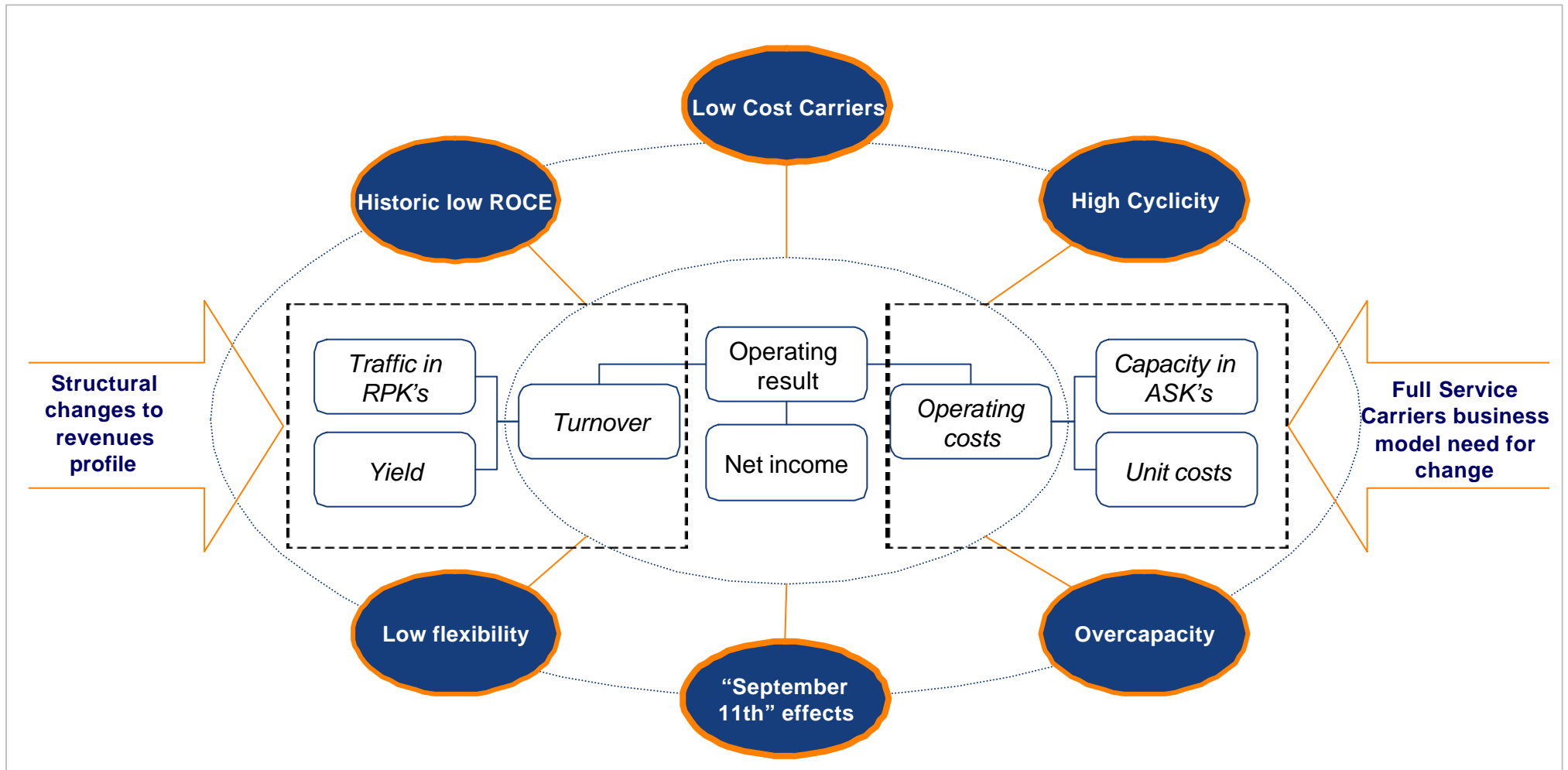
Key areas to be addressed





Industry Scenario

Airline sector structural changes to revenues profile

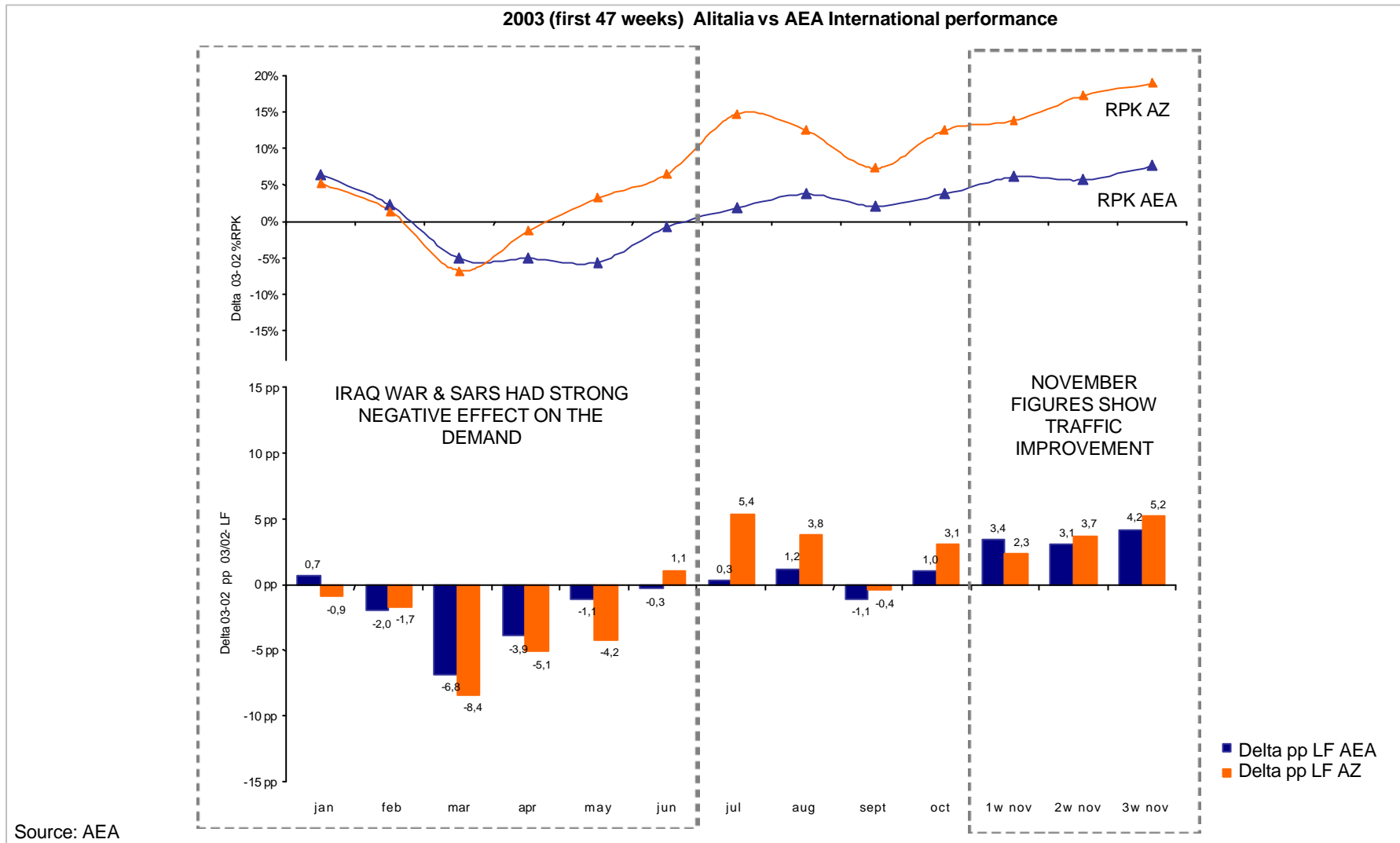


We confirm our view on an air transport industry which is structurally changing and very much effected by many drivers Full Service Carriers must cope with.



Industry Scenario

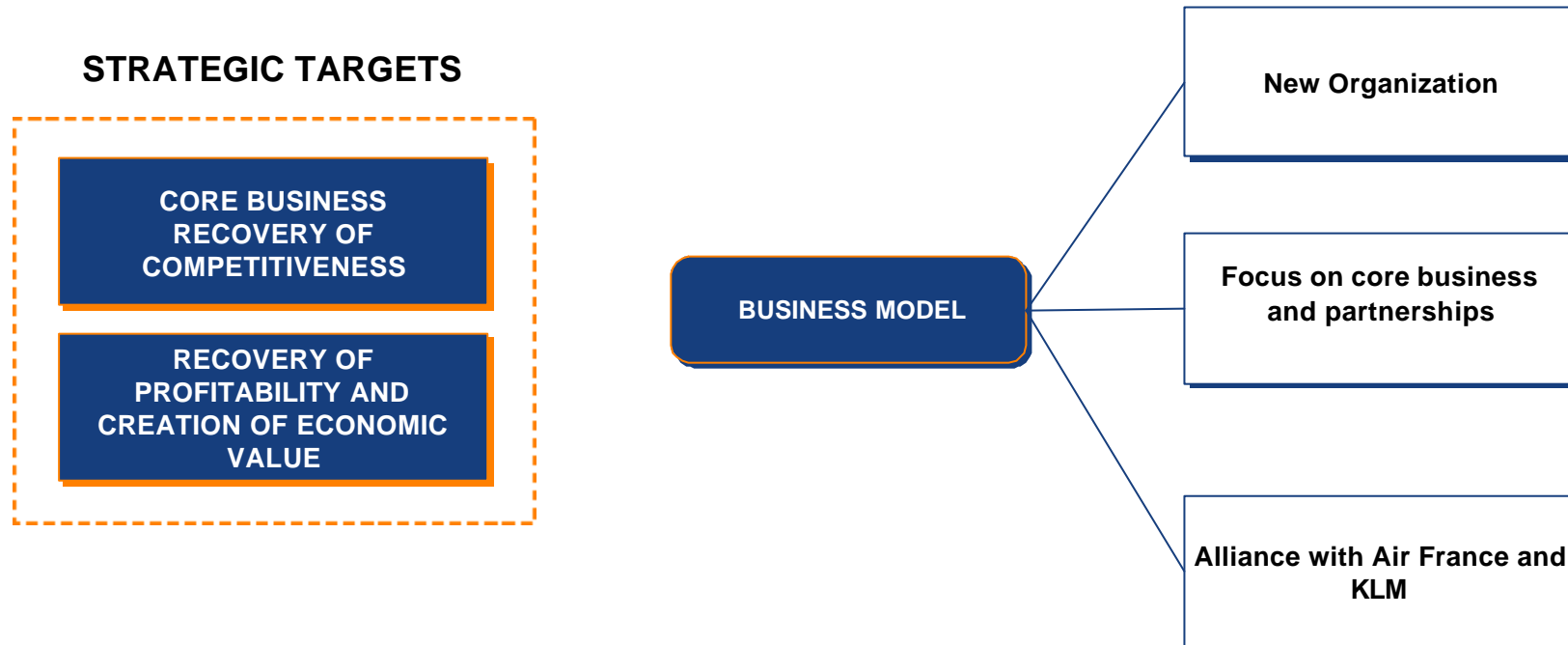
Positive demand trends show industry recovery in terms of traffic



While pressure on yields appears structural demand has been improving in last part of 2003.

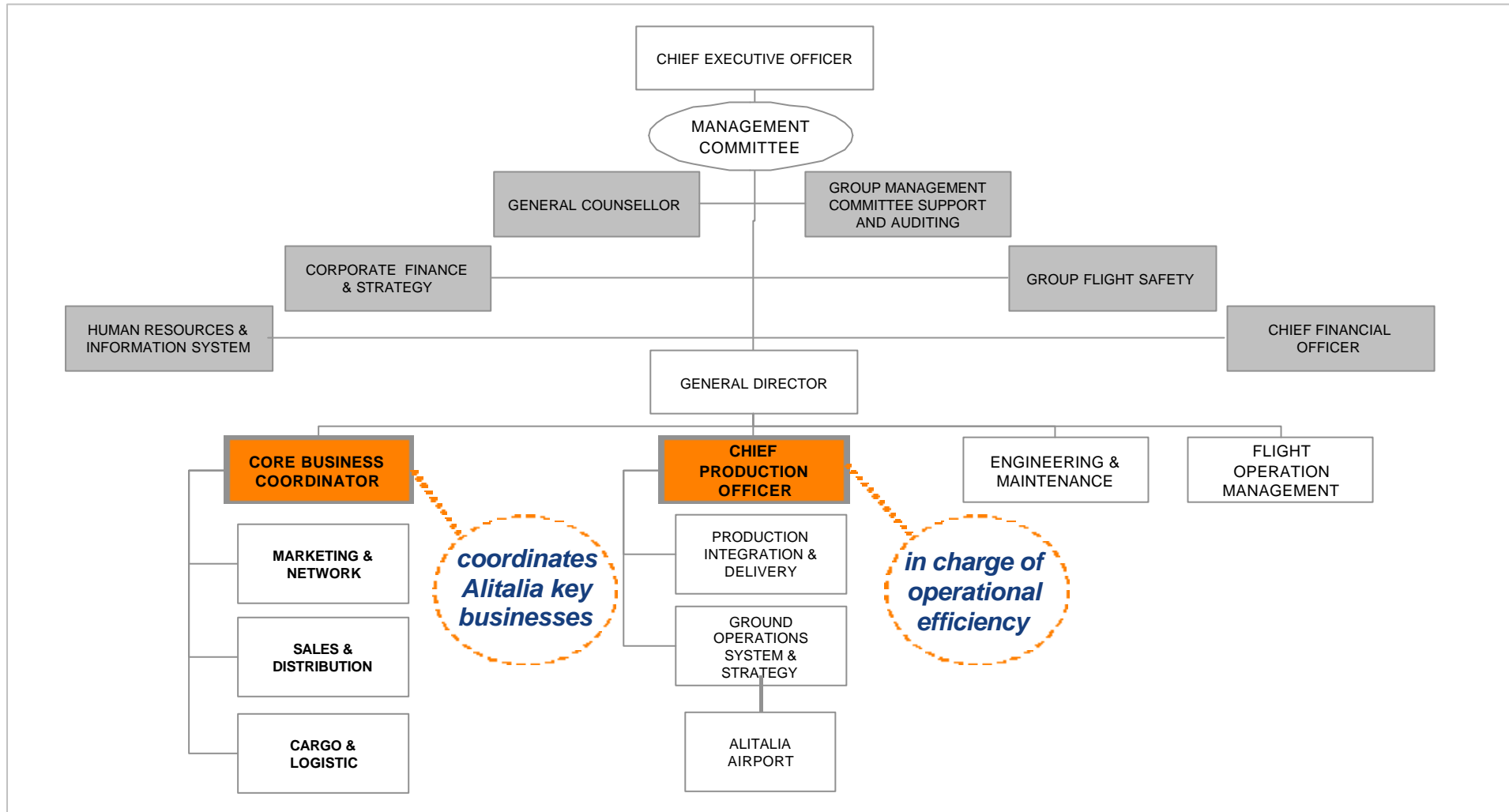


Alitalia Business Model



Alitalia Business Model

New organization



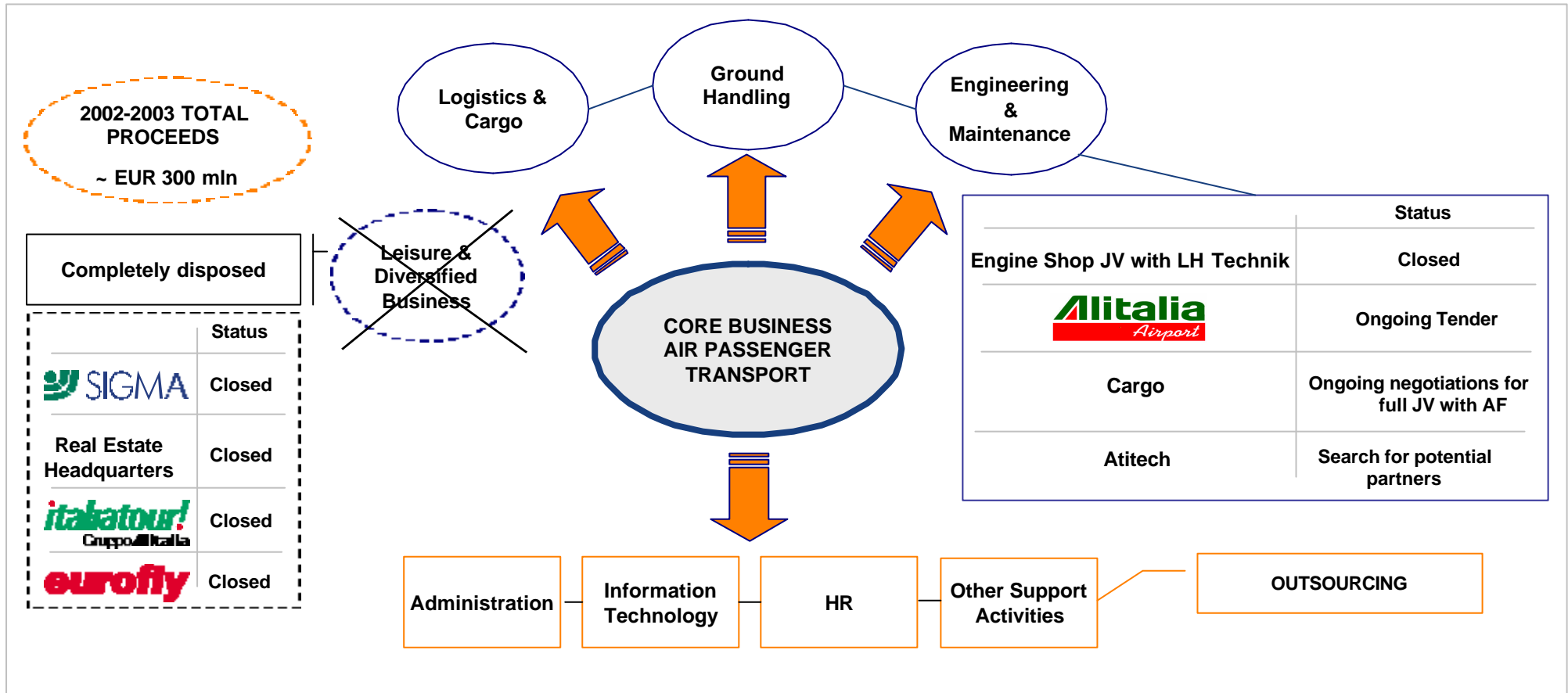
Organization was shaped in accordance to a more focused business model.

Strong attention given to delivering operations consistently.



Alitalia Business Model

Business Model



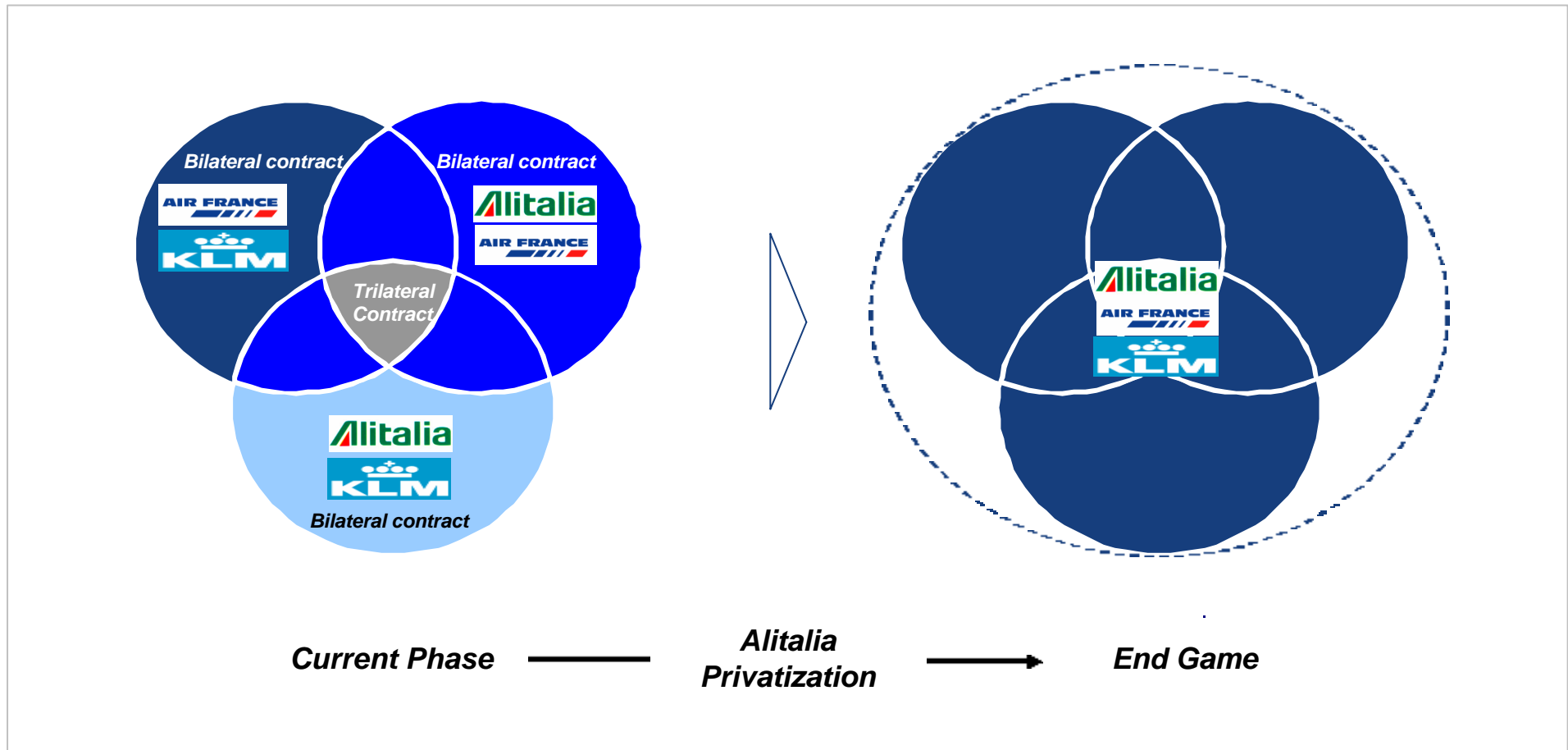
After completing the disposal program for non core activities, Alitalia will focus its future business model on the core business of air passenger transportation.

Outsourcing and partnerships/JVs strategies with industrial partners for Cargo, Maintenance, and Handling operations will be pursued.



Alitalia Business Model

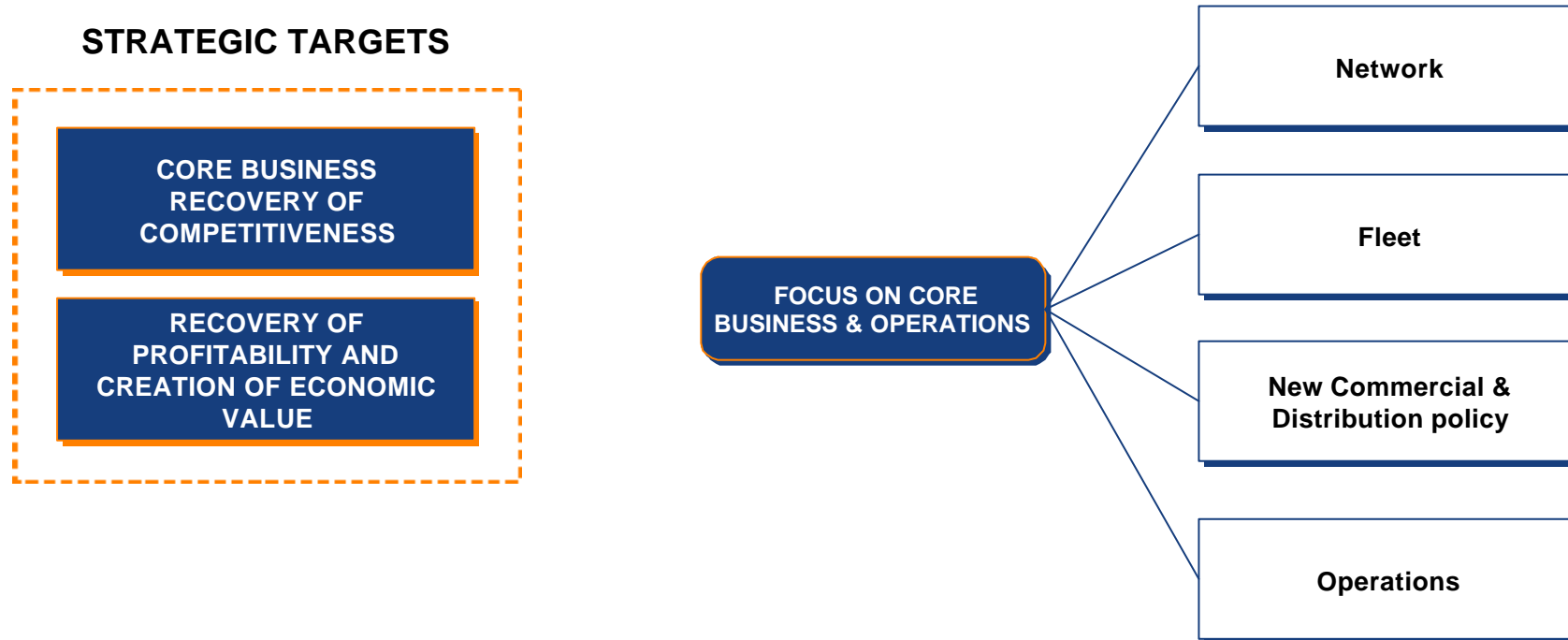
Alliance with Air France and KLM



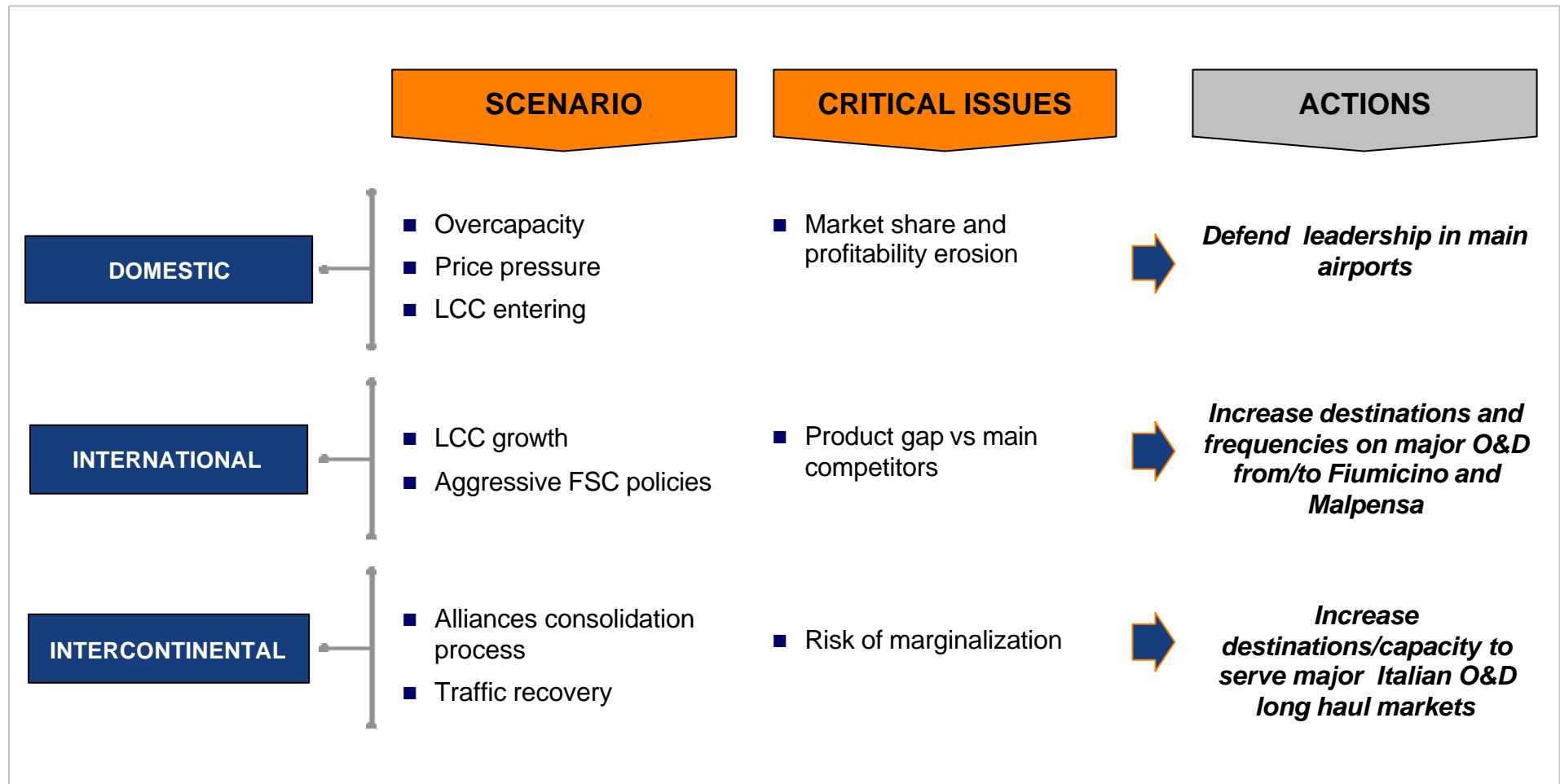
Alitalia has been granted the right to negotiate its entry in the AF-KLM Group



Focus on Core Business & Operations



Focus on Core Business & Operations Network Strategy

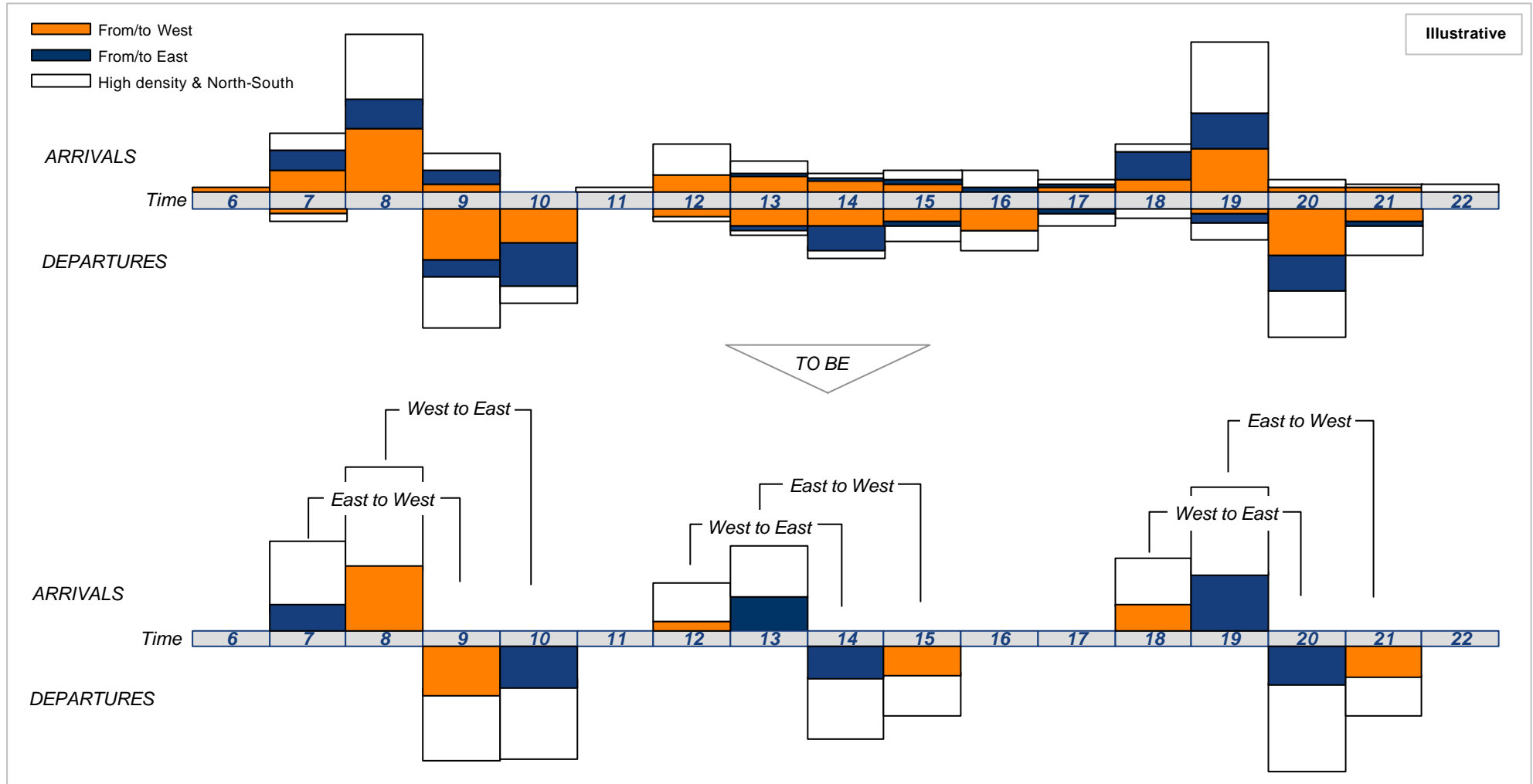


Alitalia has identified specific strategic actions to address each of its core business product.



Focus on Core Business & Operations

Malpensa Hub designed to better catch natural flows over Italy

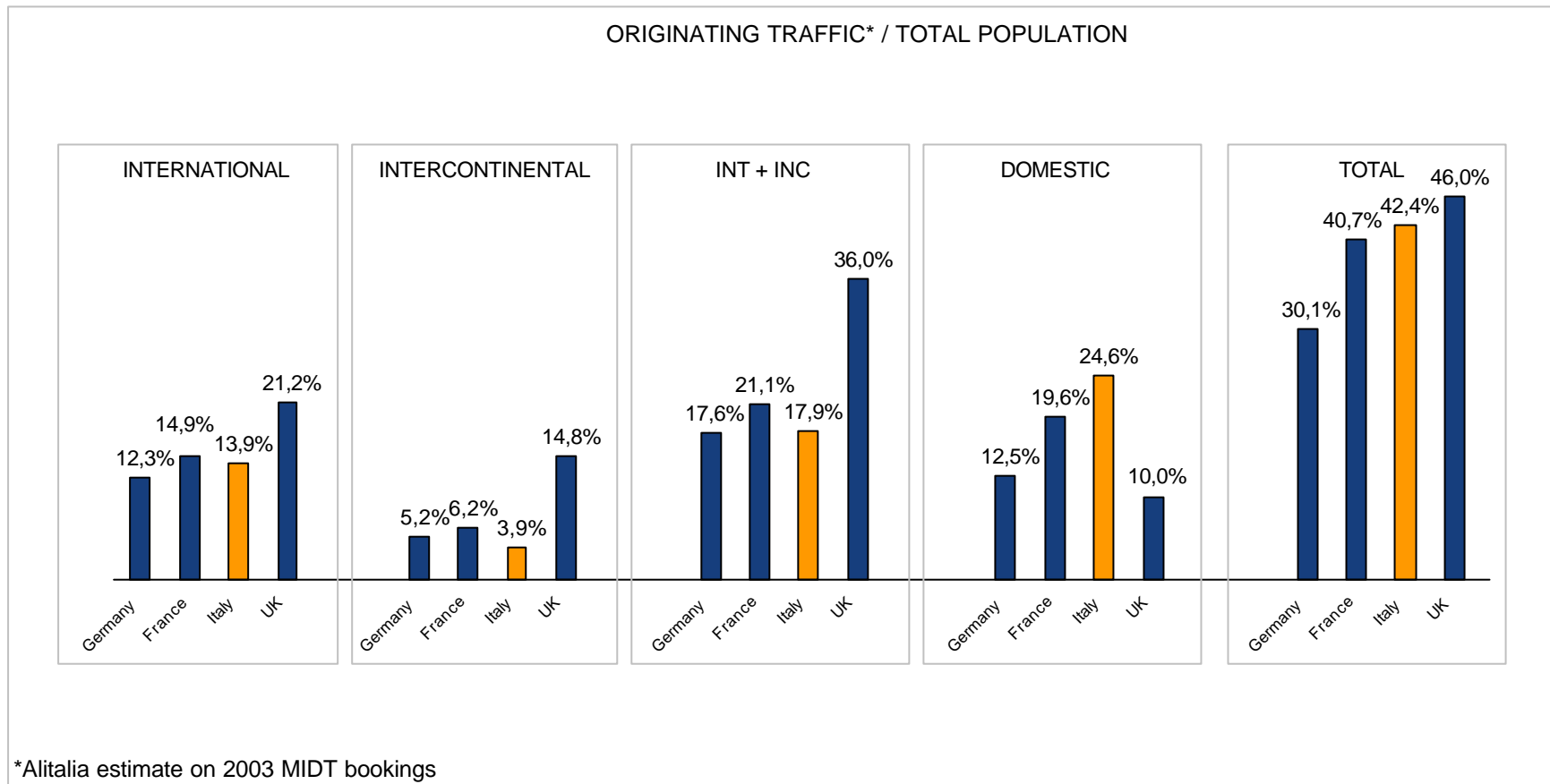


Consistently with our “natural hubs for natural flows” strategy Malpensa waves have been modeled to better serve west-east markets.



Focus on Core Business & Operations

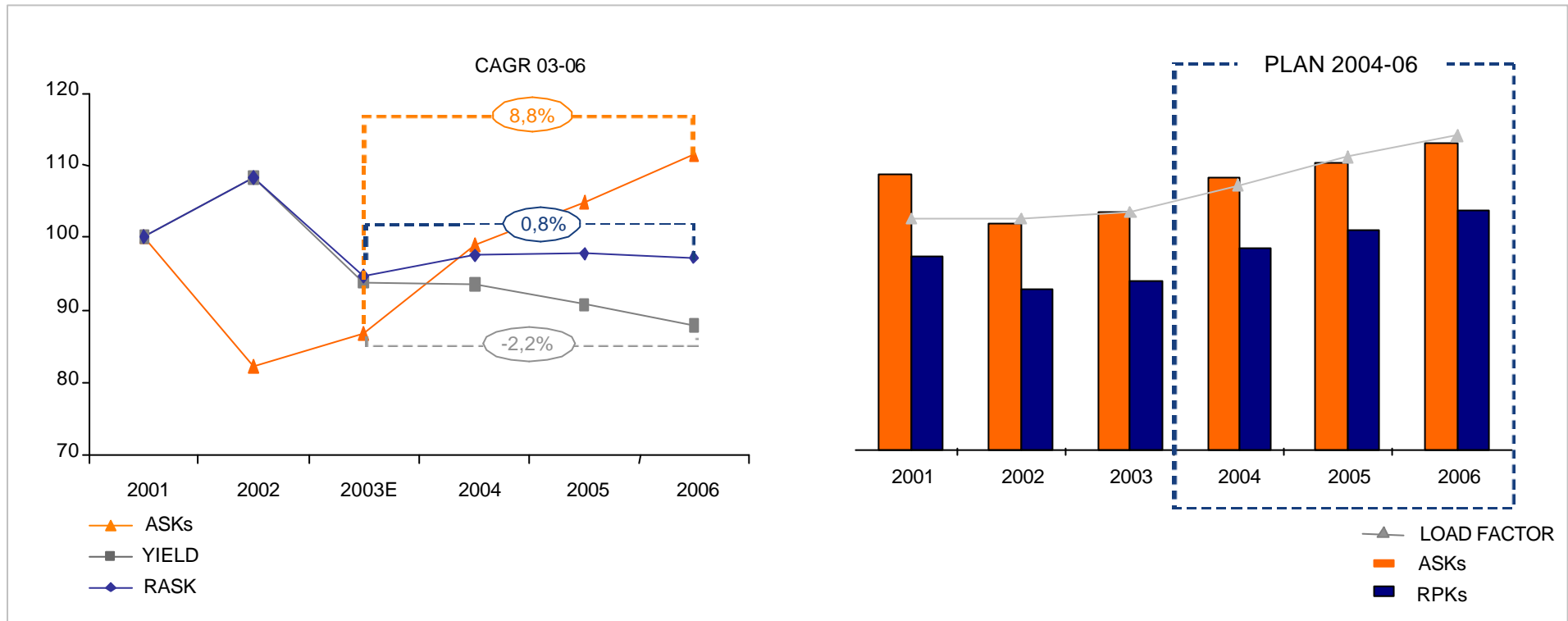
Italian Market Overview



As of today the Italian market high air travel penetration is mainly due to the domestic intra-Italy traffic (depressed yields by overcapacity combined with geographical shape of Italy). The international and intercontinental markets from Italy (on which the Plan growth is mainly focused) show higher growth opportunities with respect to other major European countries.



Focus on Core Business & Operations Total Network



Total network capacity increases primarily driven by:

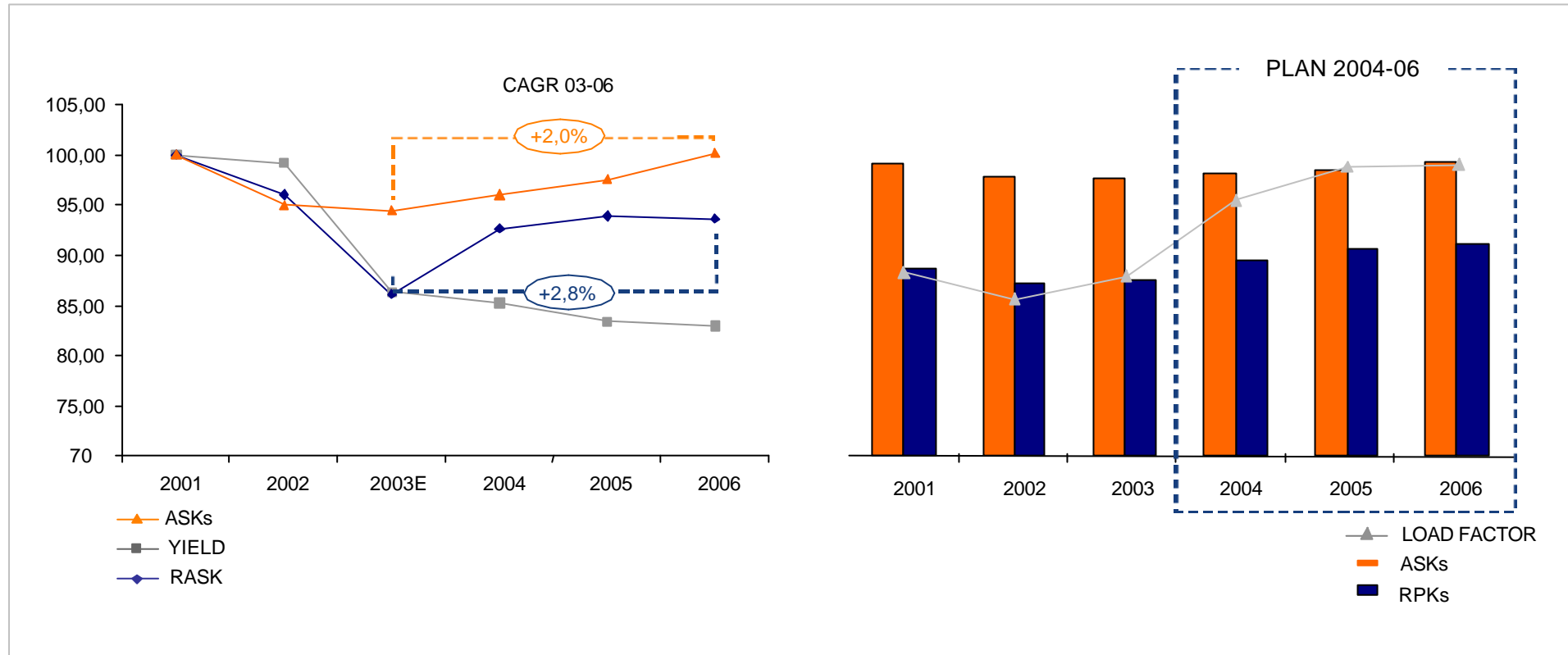
- Strong intercontinental growth
- Frequency additions to large unserved/underserved Italian markets
- Fleet reconfigurations

Significant load factor improvement due to:

- Demand recovery
- New network
- New commercial policy



Focus on Core Business & Operations Domestic Network

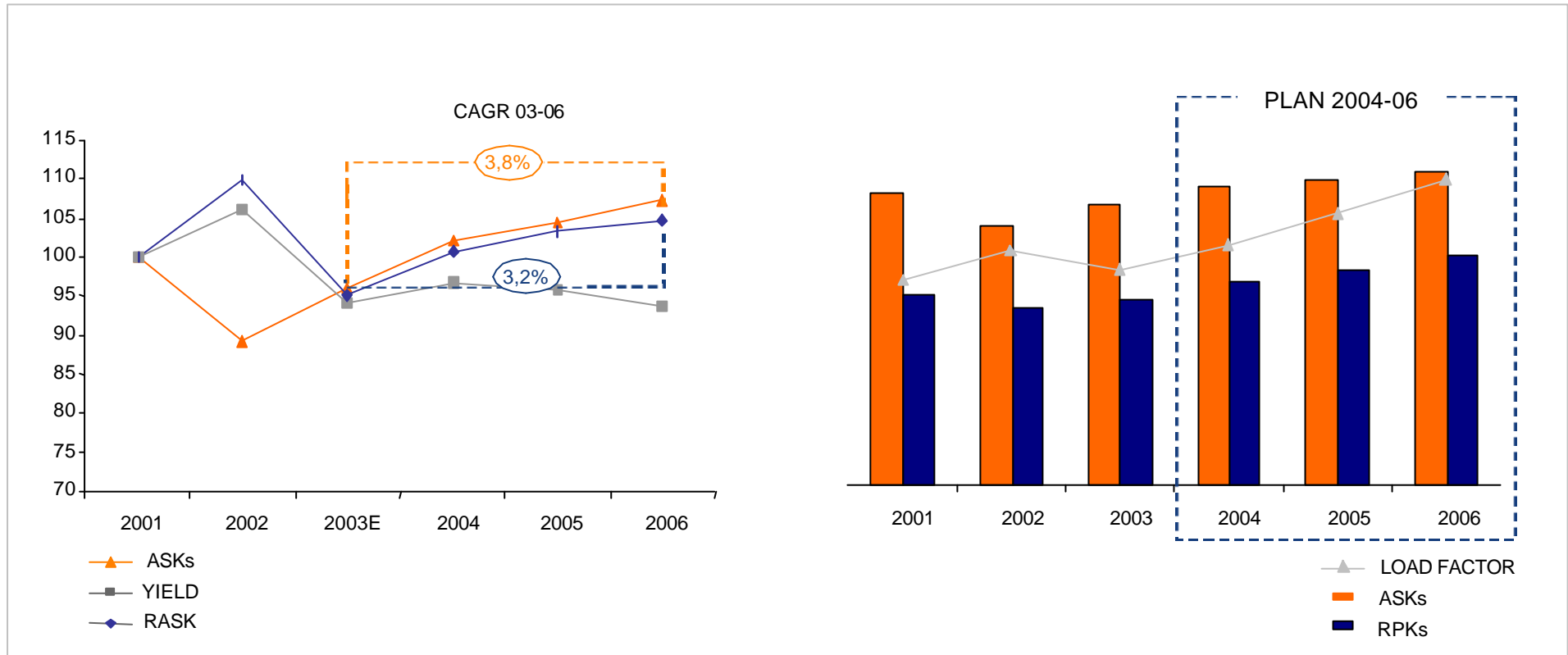


Slight increase in capacity with a good improvement in revenues due to load factor increase mainly driven by fare restructuring and better capacity management.

Forecasted yield decrease (CAGR -1,4%) to be more than offset by load factor generating a positive RASK performance (CAGR +2,8%).



Focus on Core Business & Operations *International Network*



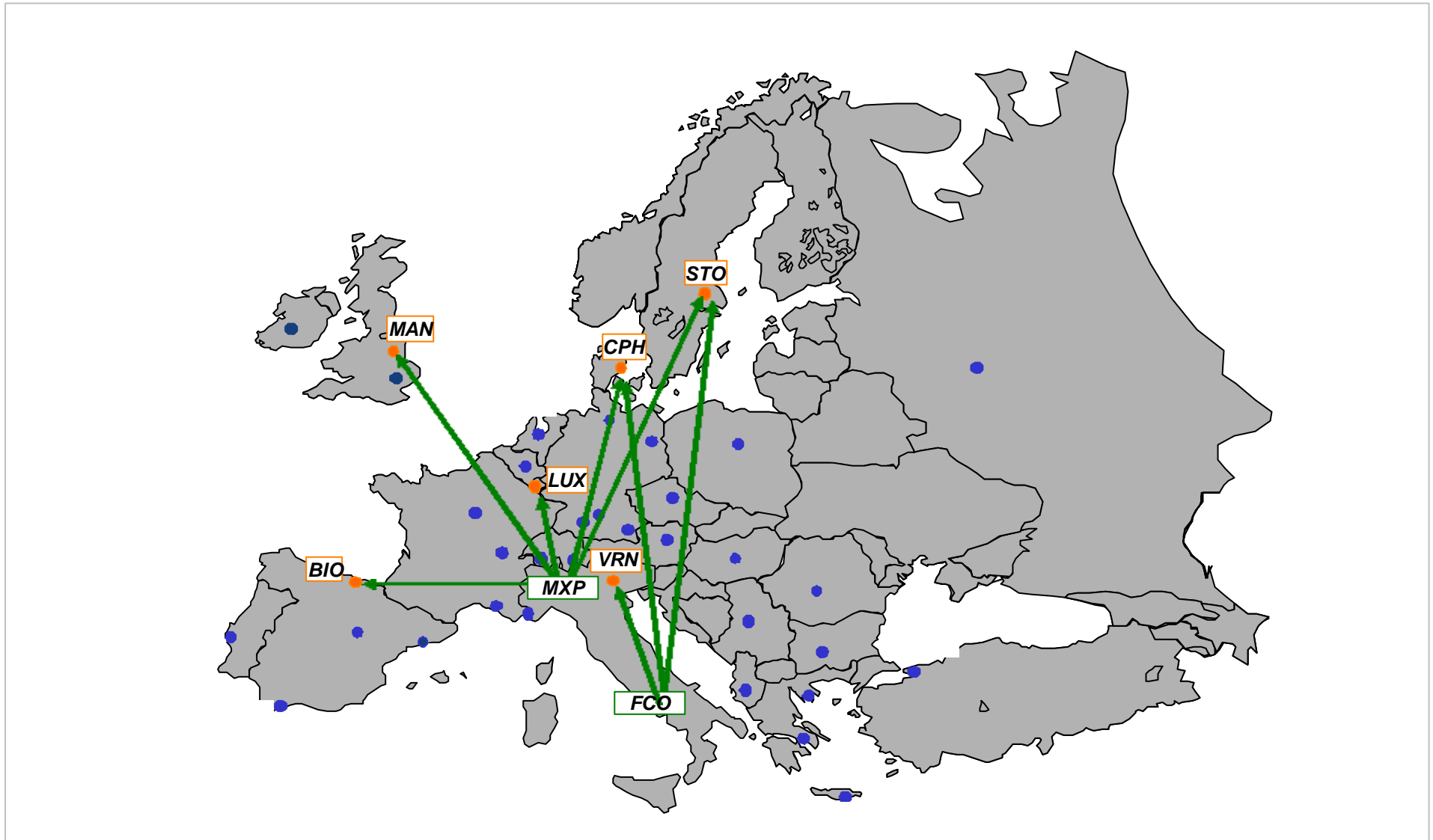
Total international network grows at a 3,8% yearly rate mainly due to increased frequencies and new destinations within Europe.

Increasing load factor caused by improved capacity management and positive market trends.

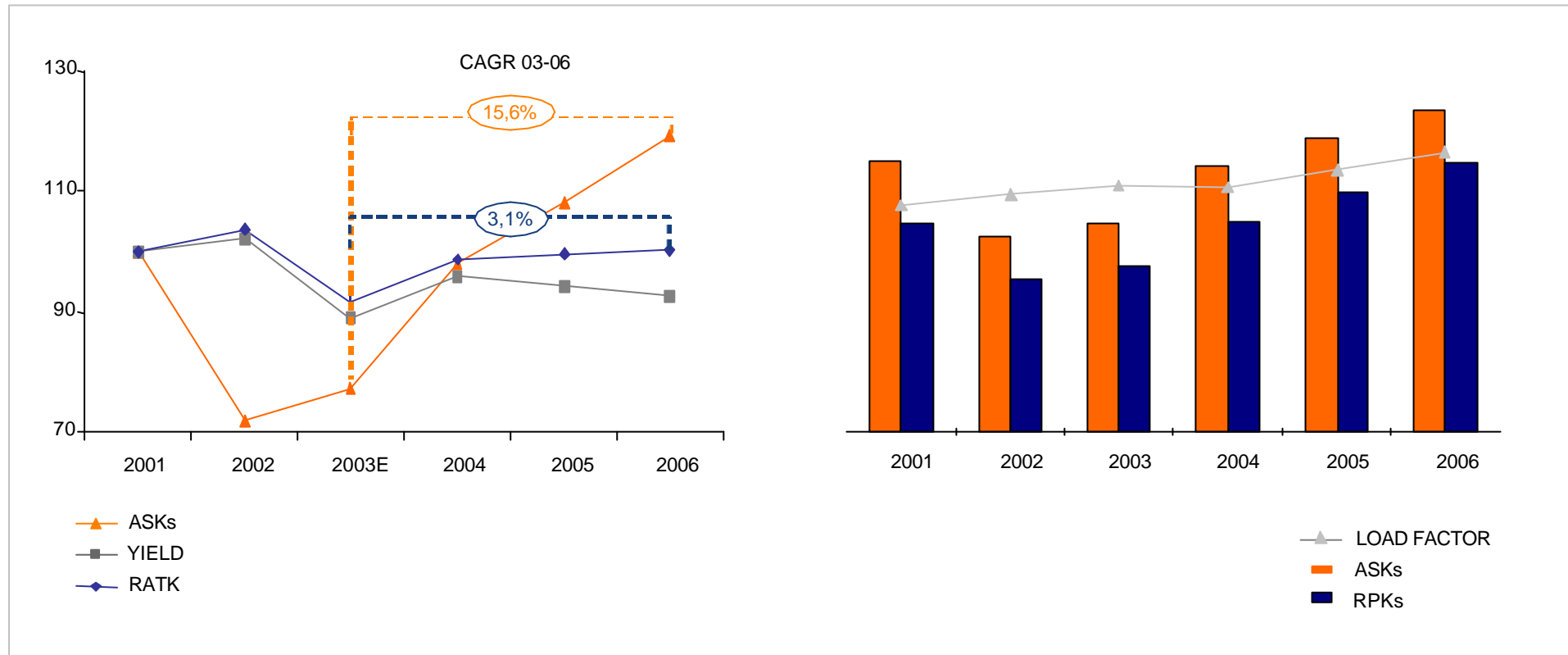


Focus on Core Business & Operations

New 2004 Short-Medium Haul routes



Focus on Core Business & Operations *Intercontinental Network*



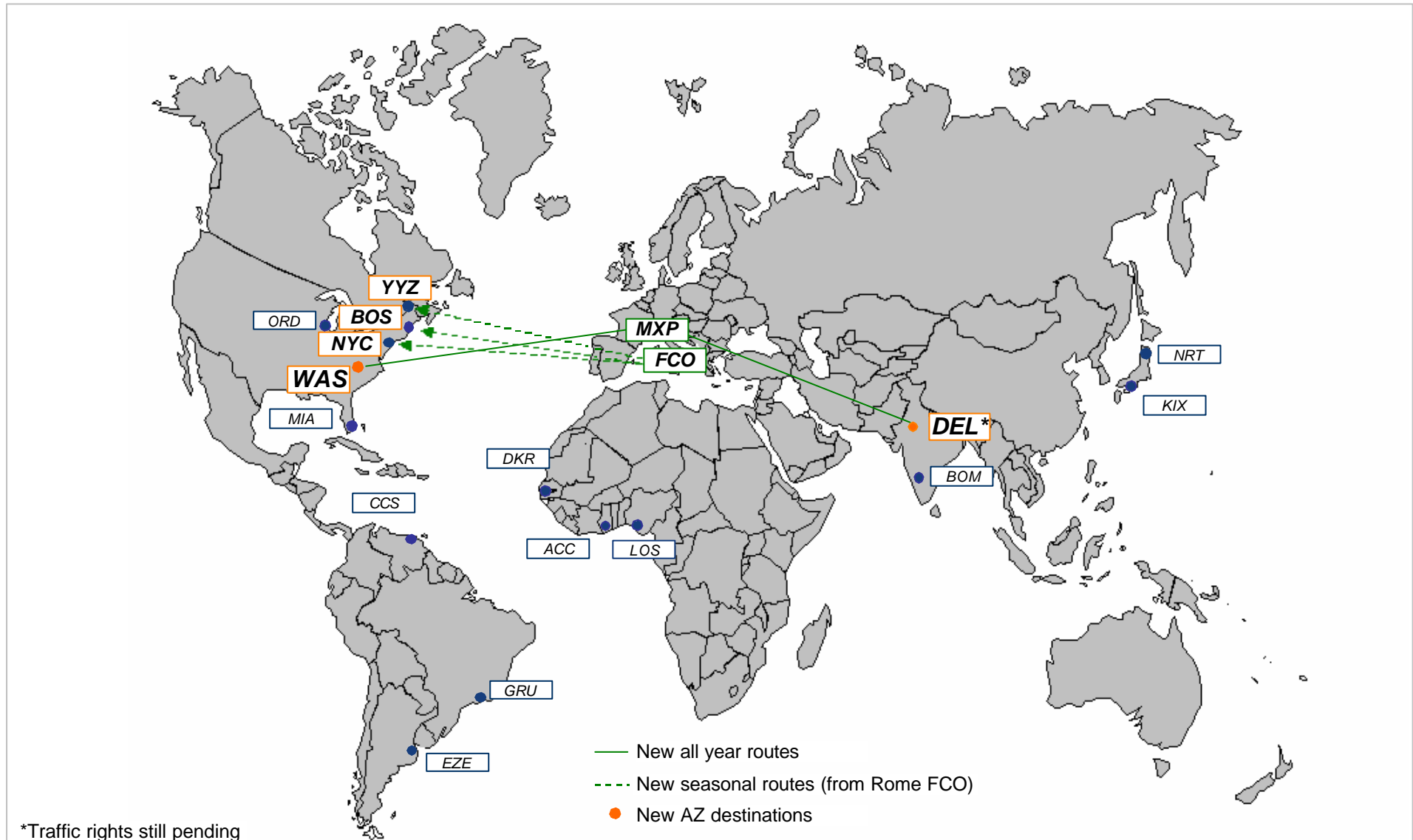
Intercontinental capacity grows significantly throughout the plan period (CAGR +15,6%) due to new routes openings and higher frequencies to currently served destinations.

Improvements in product quality, new commercial policies, demand recovery and high yield gap fulfilment will drive a RASK recovery (CAGR +3,1%).

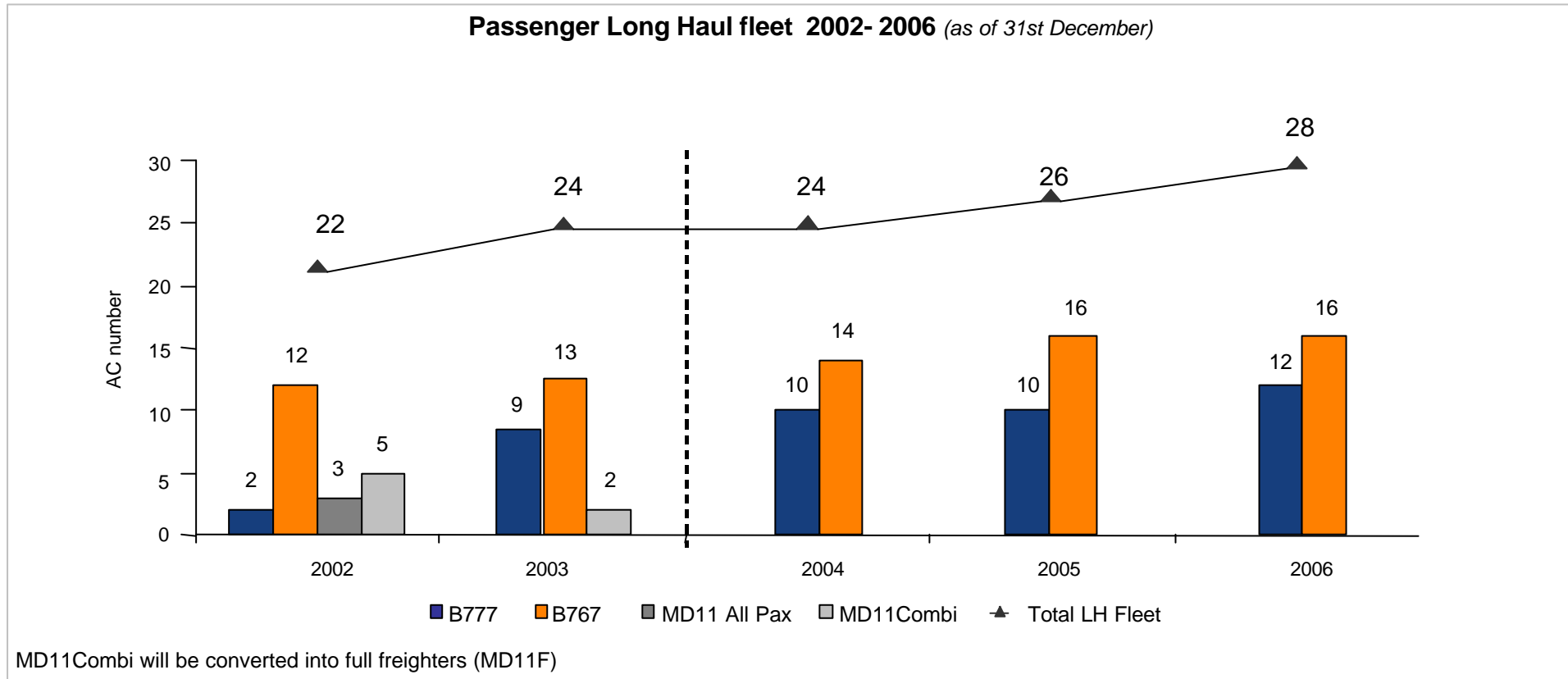


Focus on Core Business & Operations

New 2004 Long Haul routes



Focus on Core Business & Operations Fleet – Long Haul



Long haul fleet commonality to be fully achieved by 2004.

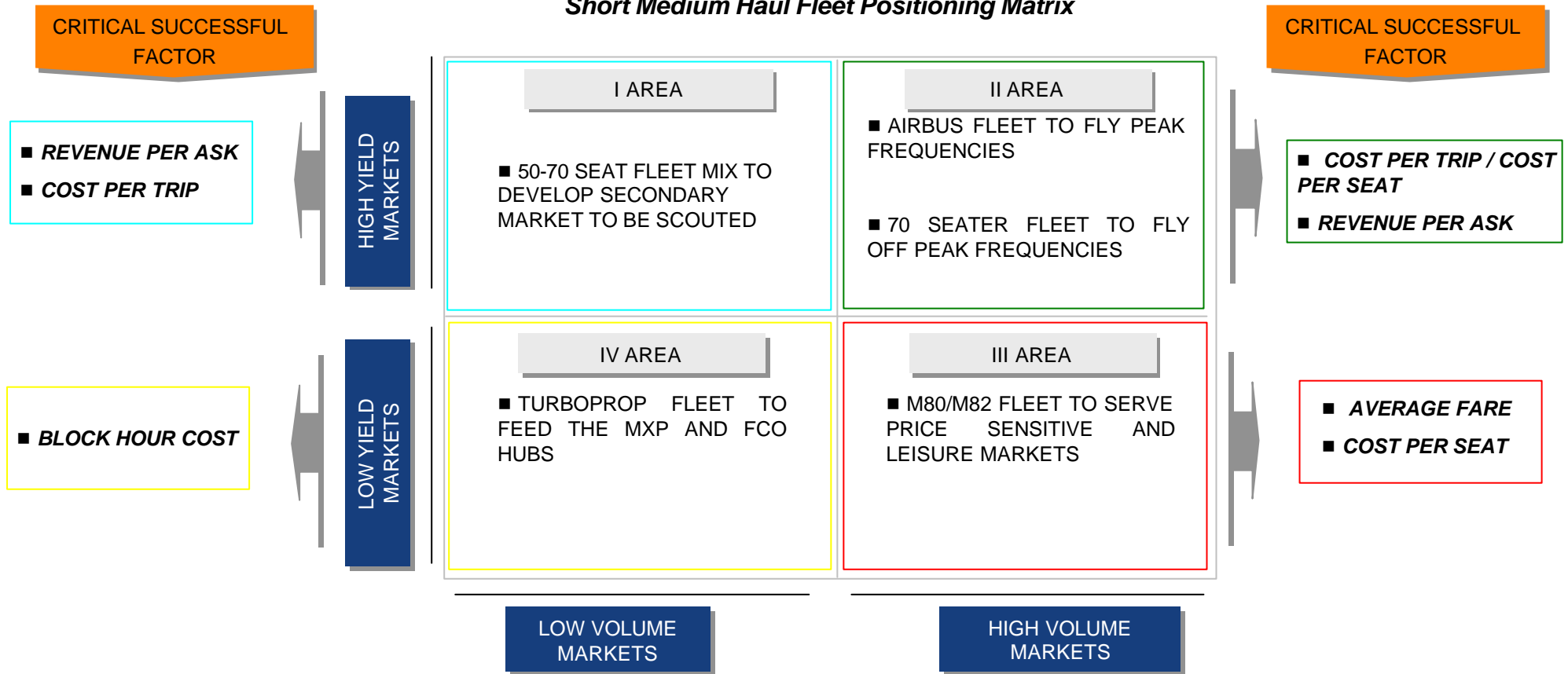
Long Haul A/C utilization to improve significantly in 2004 from approximately 14 hours a day to more than 15 hours a day.



Focus on Core Business & Operations

Fleet – Medium Haul

Short Medium Haul Fleet Positioning Matrix

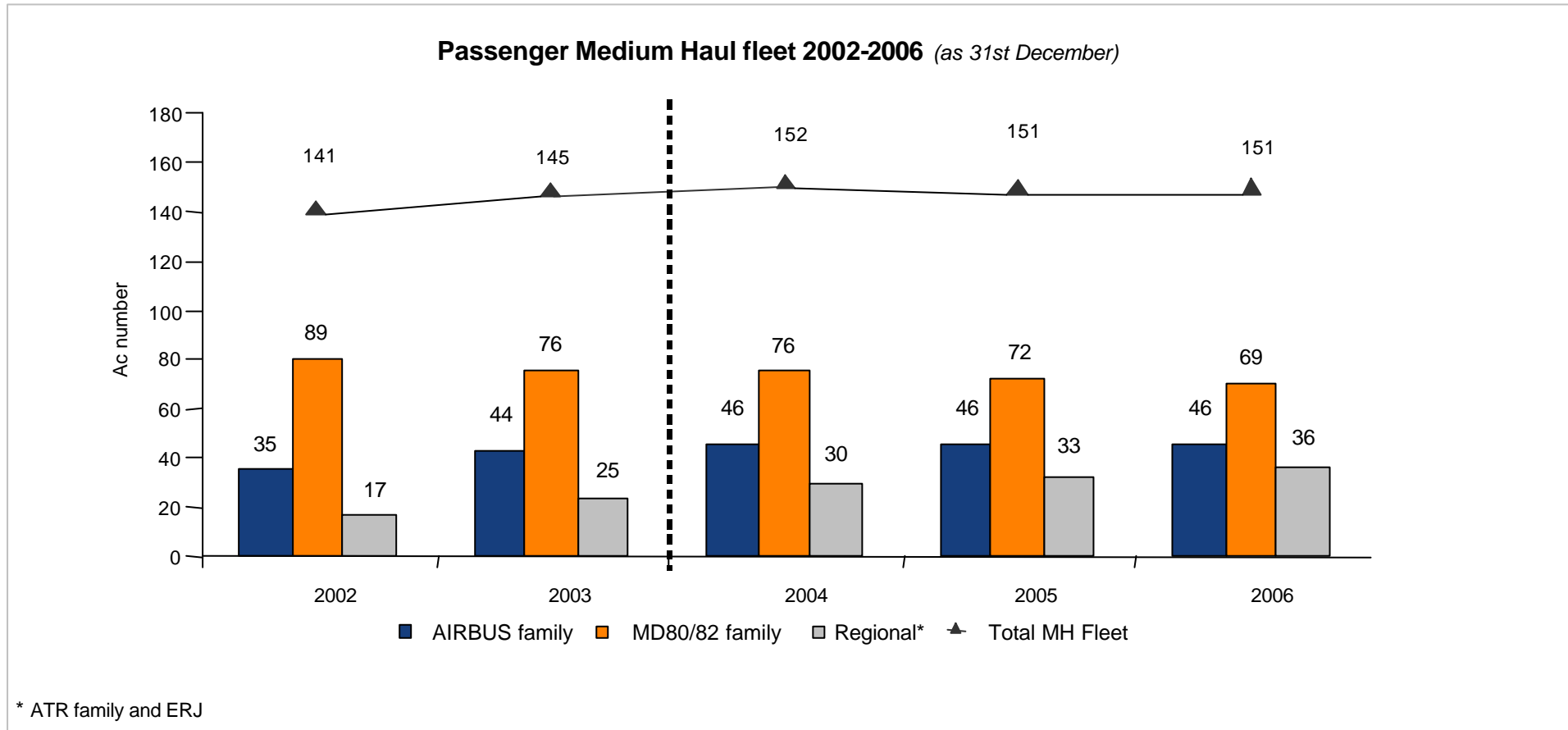


Alitalia regional fleet is to fulfill two strategic missions: scouting of secondary markets and frequency coverage.



Focus on Core Business & Operations

Fleet – Short Medium Haul

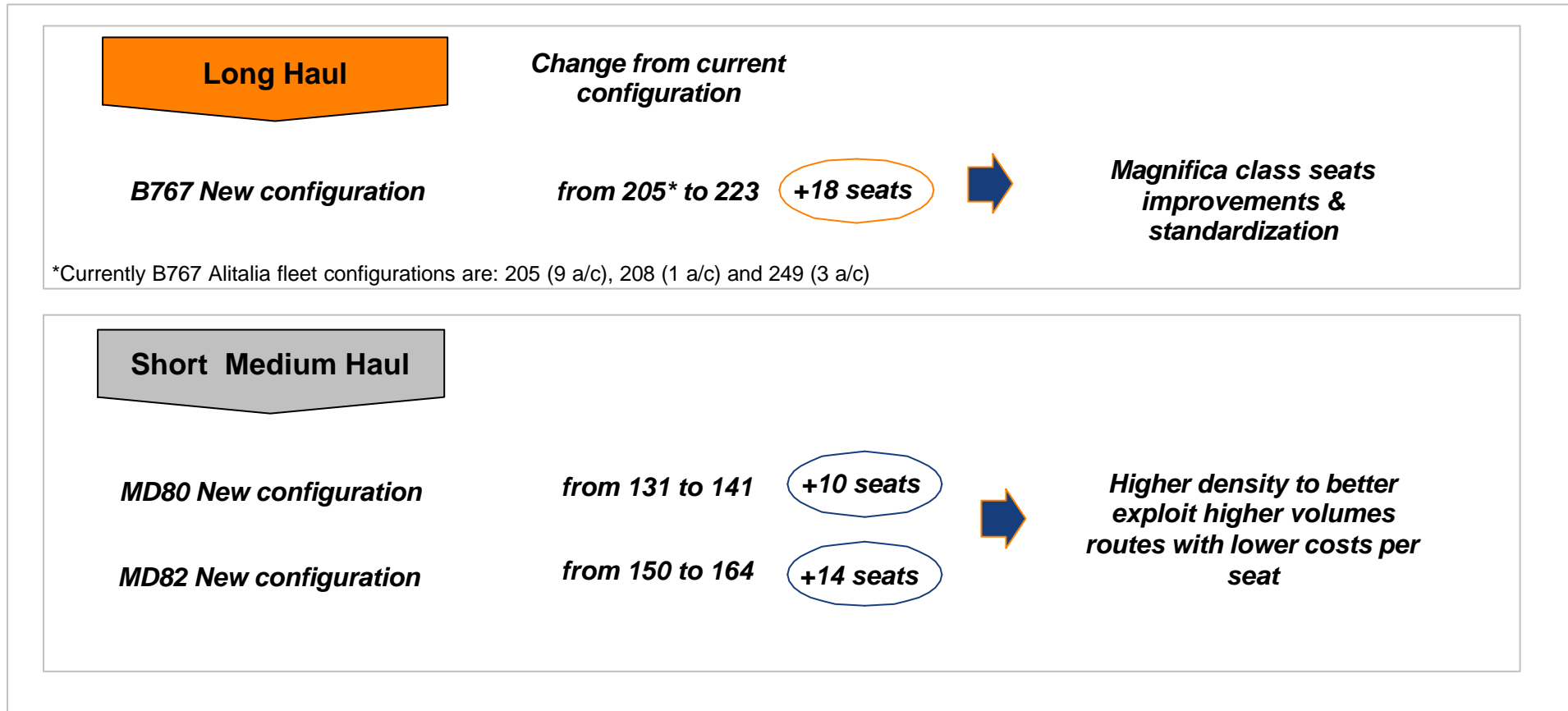


Smaller and more efficient new aircraft (A319 and RJs) combined with new configurations on older fleet (MD80s) will provide Alitalia a fleet to serve at best Alitalia's different short medium haul markets.



Focus on Core Business & Operations

Improvement in aircraft commercial configurations

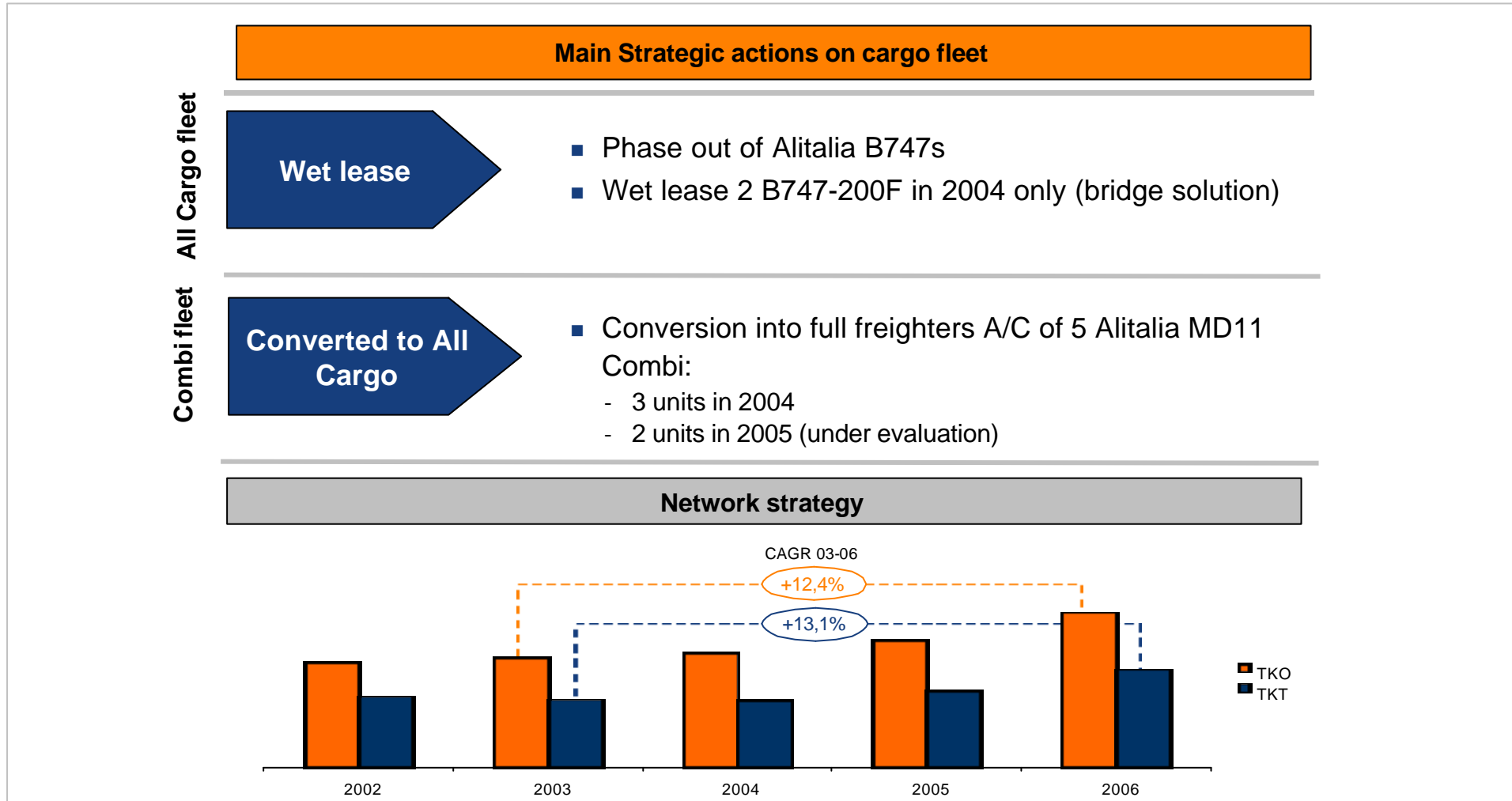


By adjusting aircraft configurations to better serve its markets Alitalia will also reduce its **CASK** through a higher seat density.



Focus on Core Business & Operations

Cargo

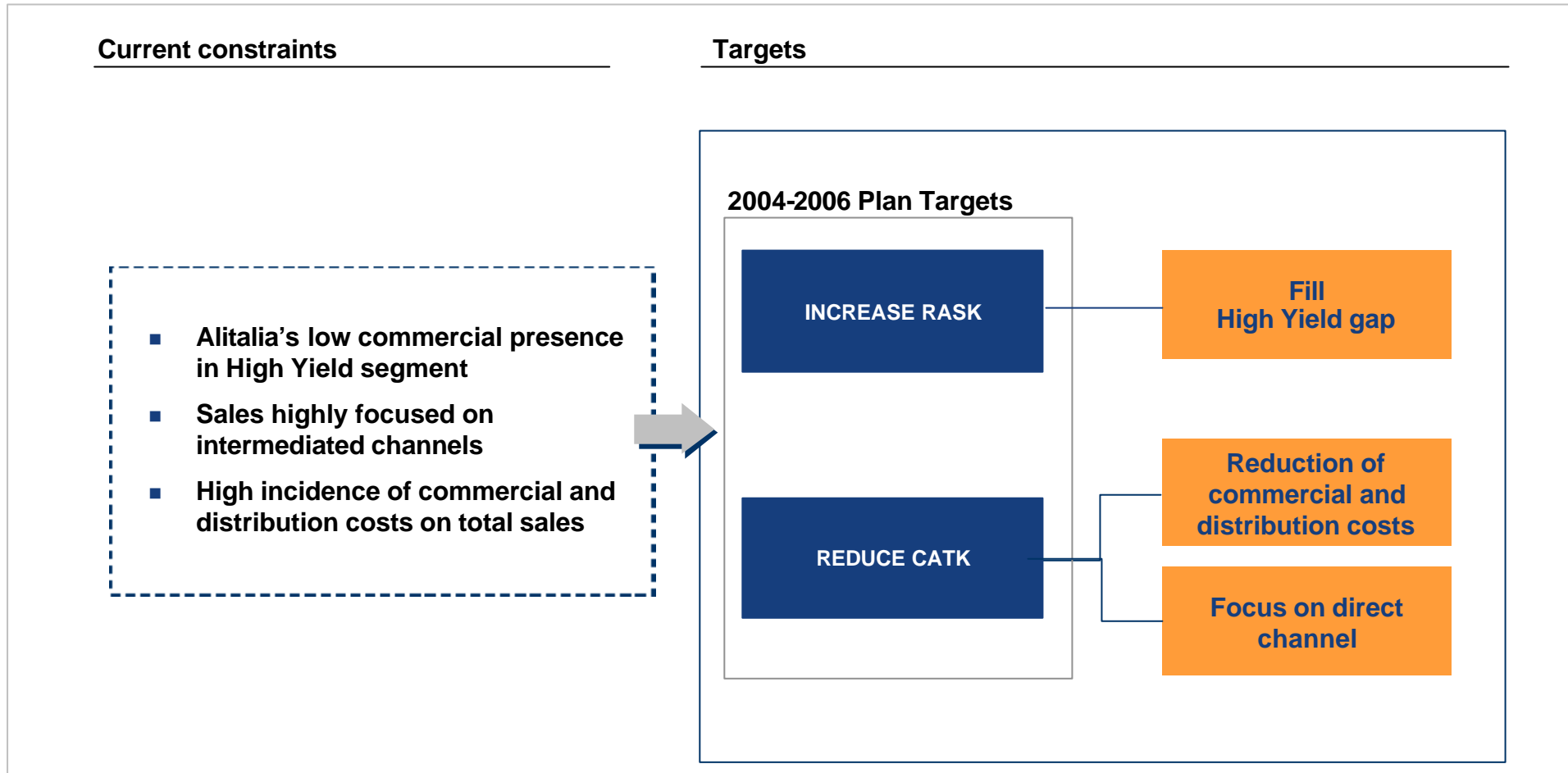


Cargo business will greatly benefit in terms of lower unit costs and less complexity through important changes to the Alitalia Cargo fleet to be achieved by 2005.



Focus on Core Business & Operations

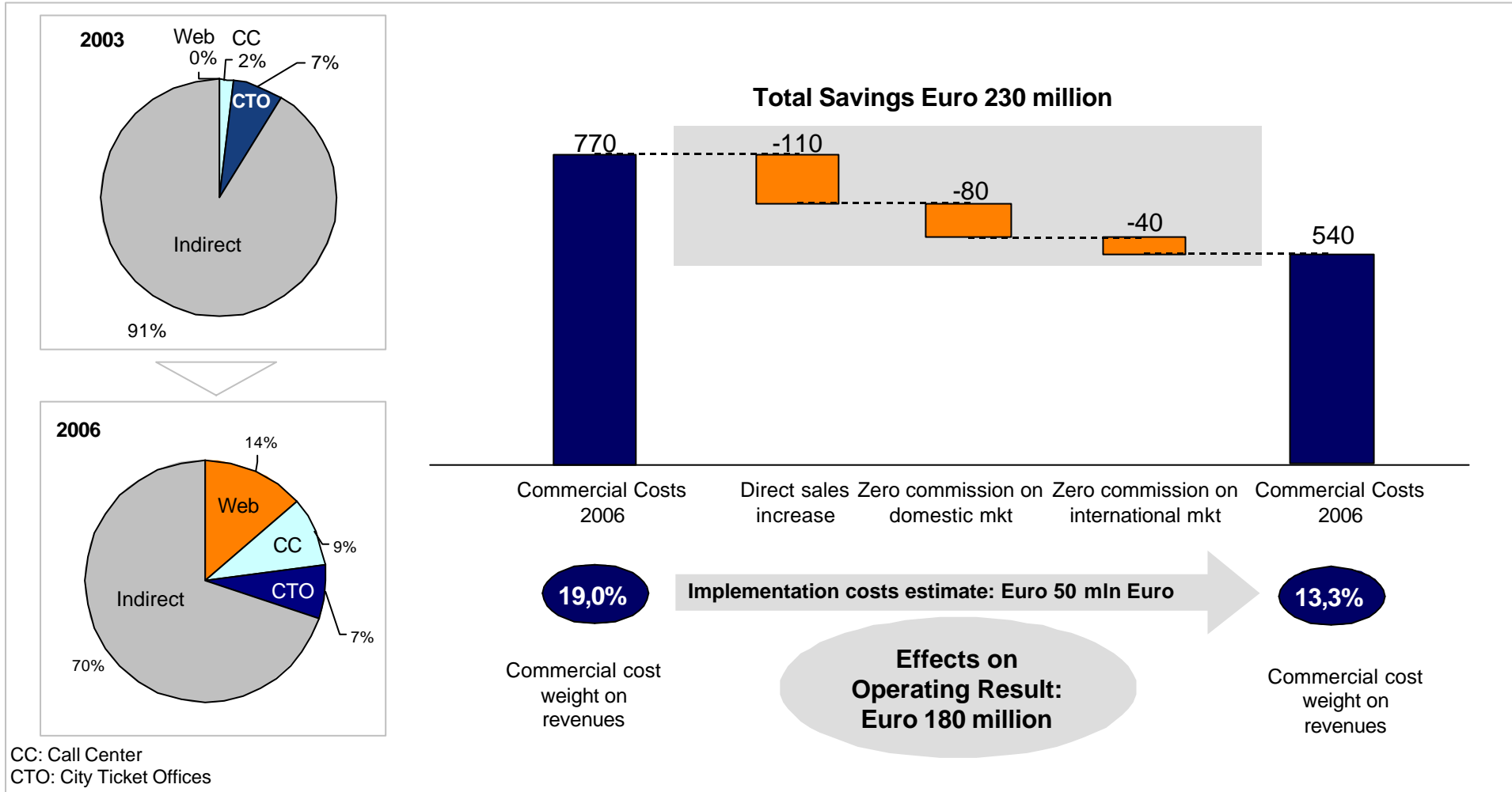
New Commercial and Distribution policy



New commercial policy will allow Alitalia to achieve significant positive results in terms of higher revenues and lower costs.



Focus on Core Business & Operations New Commercial and Distribution policy

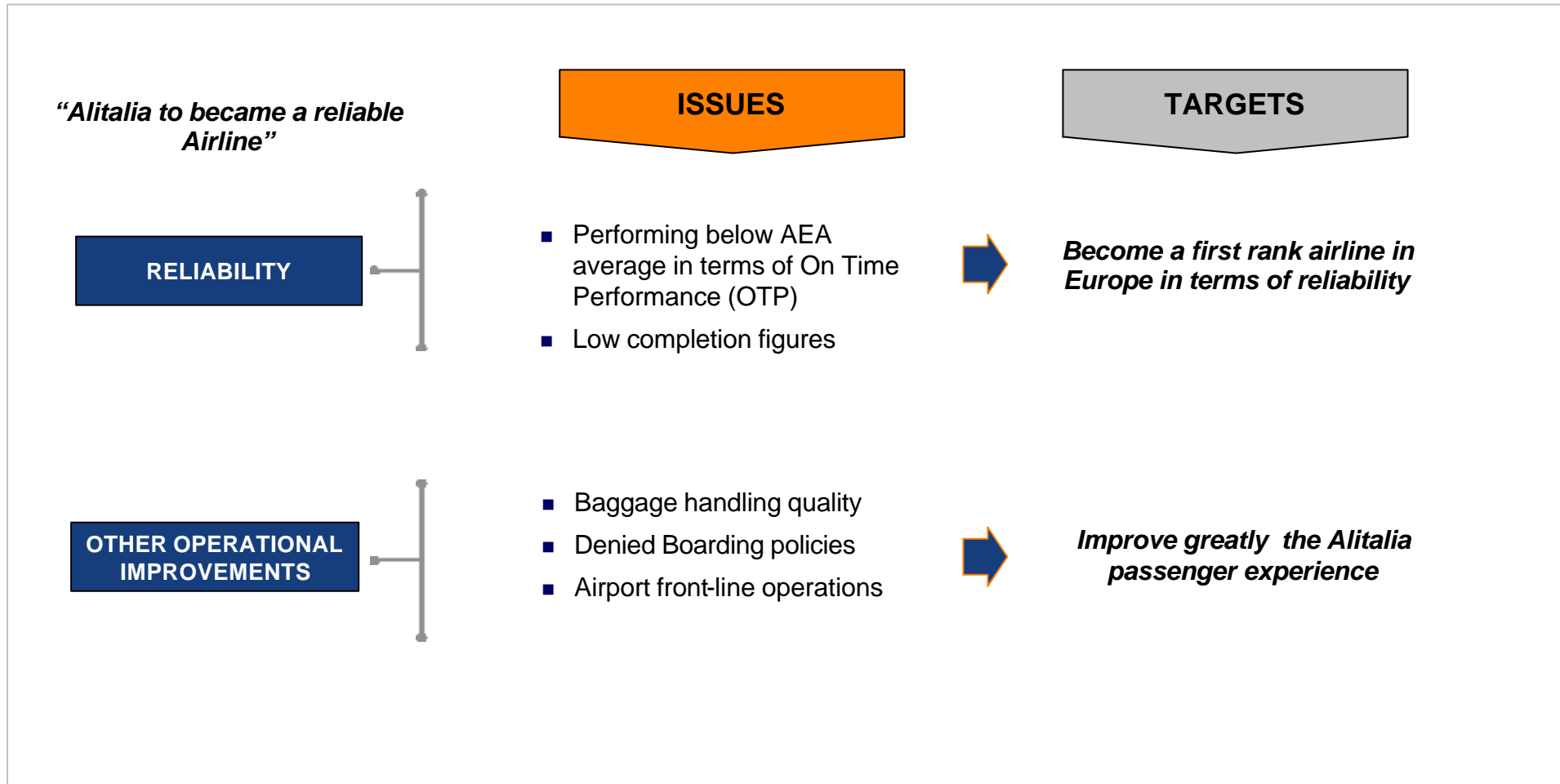


Direct sales increase as well as lowering commissions will generate a significant positive effect on EBITDAR.



Focus on Core Business & Operations

Improvement in operational performance “Back to Basics”



Alitalia has identified specific strategic actions to significantly improve current operational performance.



Focus on Core Business & Operations

Flight Operations

Current issues

Flight Personnel (Pilots)

- Low gross utilization levels
- High crew index (copilot/pilot ratio)
- Absenteeism effecting reserves
- Crew base in Milan Malpensa issue
- Current rules not fitting for full cargo schedule
- Temporary overstaffing generated by capacity cuts and aircraft types phase out

Flight Personnel (Flight Attendants)

- Low gross utilization levels
- High absenteeism effecting reserves
- Scheduling complexity generated by contract differences between pilots and flight attendants
- Crew base in Milan Malpensa issue

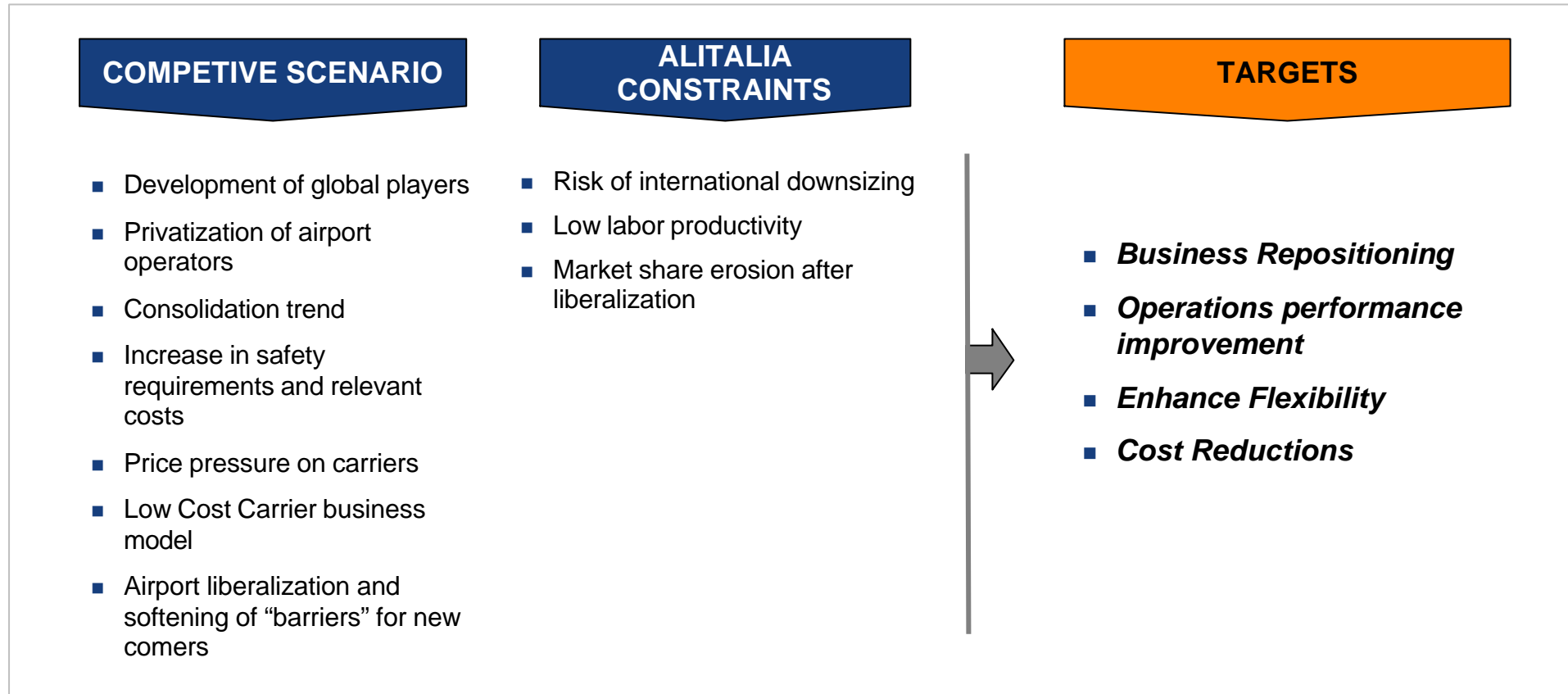
Negotiation of new flight personnel contracts

Flight Personnel productivity improvements combined with fleet better utilization will allow the Company to “grow for free”.



Focus on Core Business & Operations

Improvement in Ground Operations performance

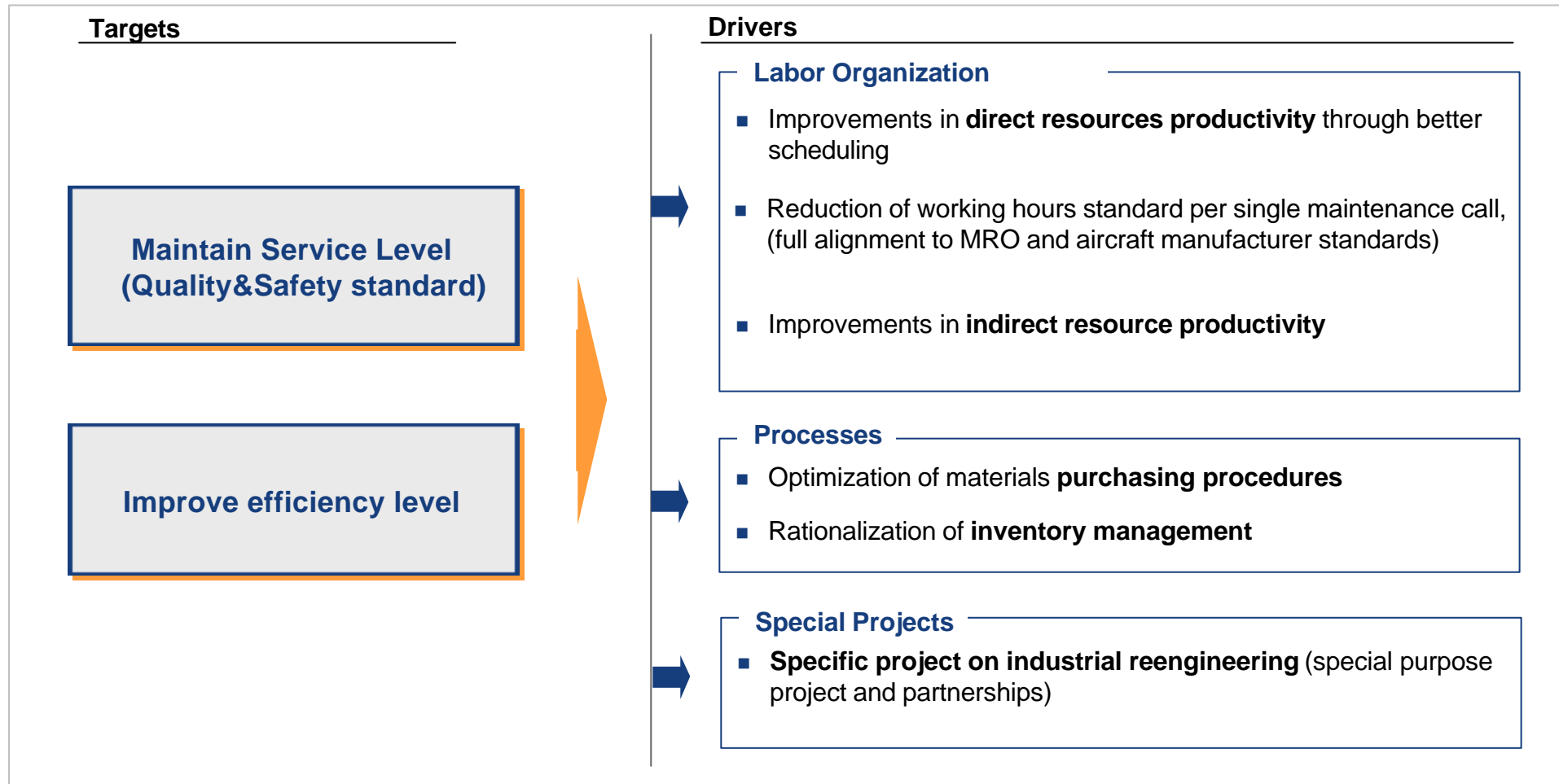


Improving operational performance in Alitalia’s ground handling activities will be a key driver of the Company’s new positioning to its customers (OFFER THE BEST).

Specific projects will be carried forward to achieve significant cost savings in the area.



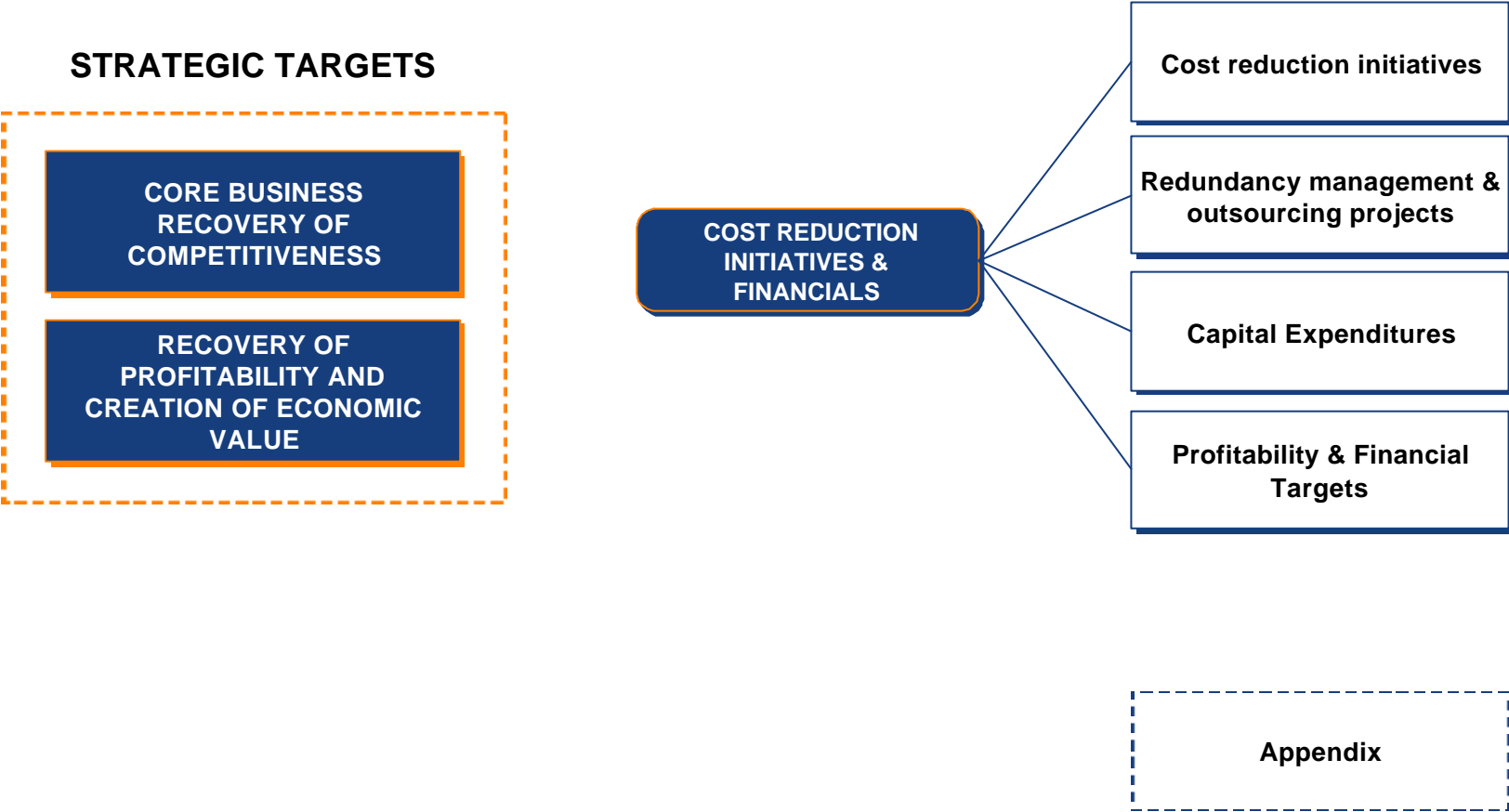
Focus on Core Business & Operations *Engineering & Maintenance*



Maintenance new organization provides the airline a more efficient tool to reach its quality and productivity targets.



Cost Reduction Initiatives & Financials



Cost Reduction Initiatives & Financials

2002-2003 Cost cutting promises fully achieved

	Announced Financial Benefits* 2002-2003	Achieved Financial Benefits* 2002-2003
<div style="border: 1px solid black; padding: 10px; width: fit-content; margin: auto;"> Cost Efficiency Projects (cumulative vs 2001) </div>	<p>120 Euro million by end of 2003</p>	<p>110 Euro million implemented (Nov 2003 year-end estimate)</p>
<div style="border: 1px solid black; padding: 10px; width: fit-content; margin: auto;"> Labor Cost Reductions (yearly savings vs 2001) </div>	<p>132 Euro million in 2002 102 Euro million in 2003</p>	<p>120 Euro million in 2002** 112 Euro million in 2003** (Nov 2003 year-end estimate)</p>

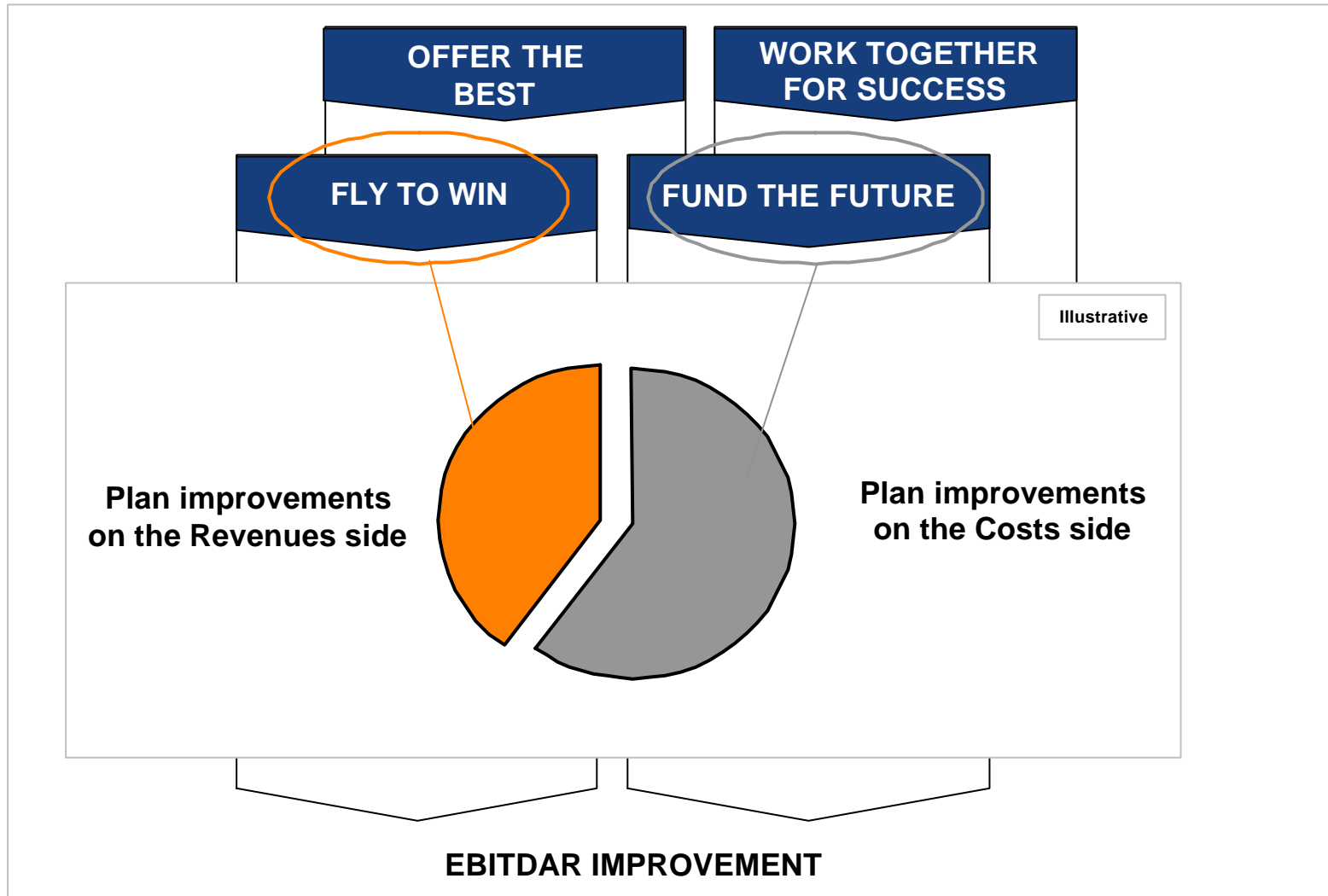
*Impact on EBITDAR
 **Including early retirements, disposals and transitional items (solidarity contracts and others)

2003 costs were in line with expectations but not sufficient to cope with the worse than expected scenario.



Cost Reduction Initiatives & Financials

Cost reductions to fund revenue and market share improvements

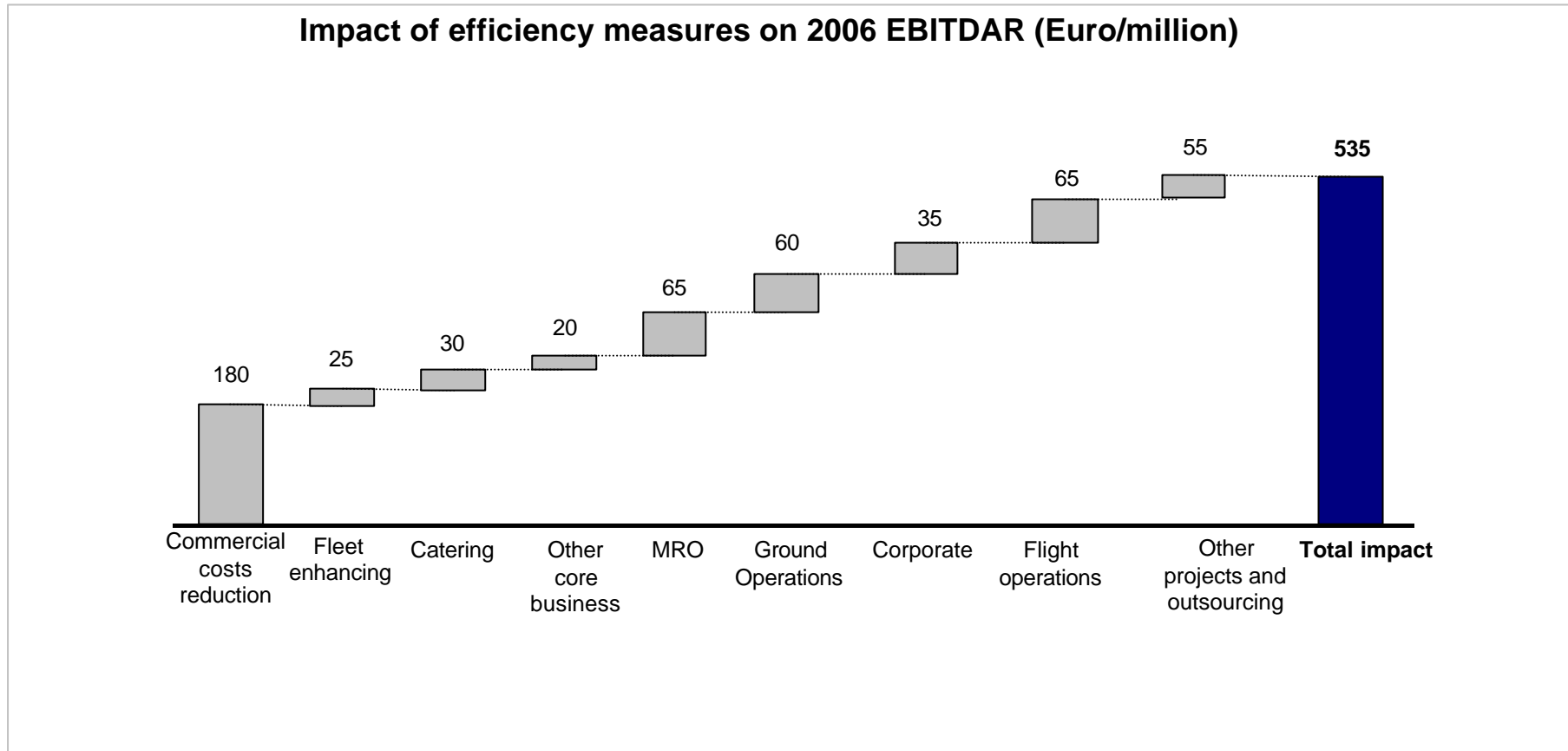


In order to achieve profitability Alitalia will fund its network strategy with identified cost reduction initiatives.



Cost Reduction Initiatives & Financials

Cost reduction initiatives

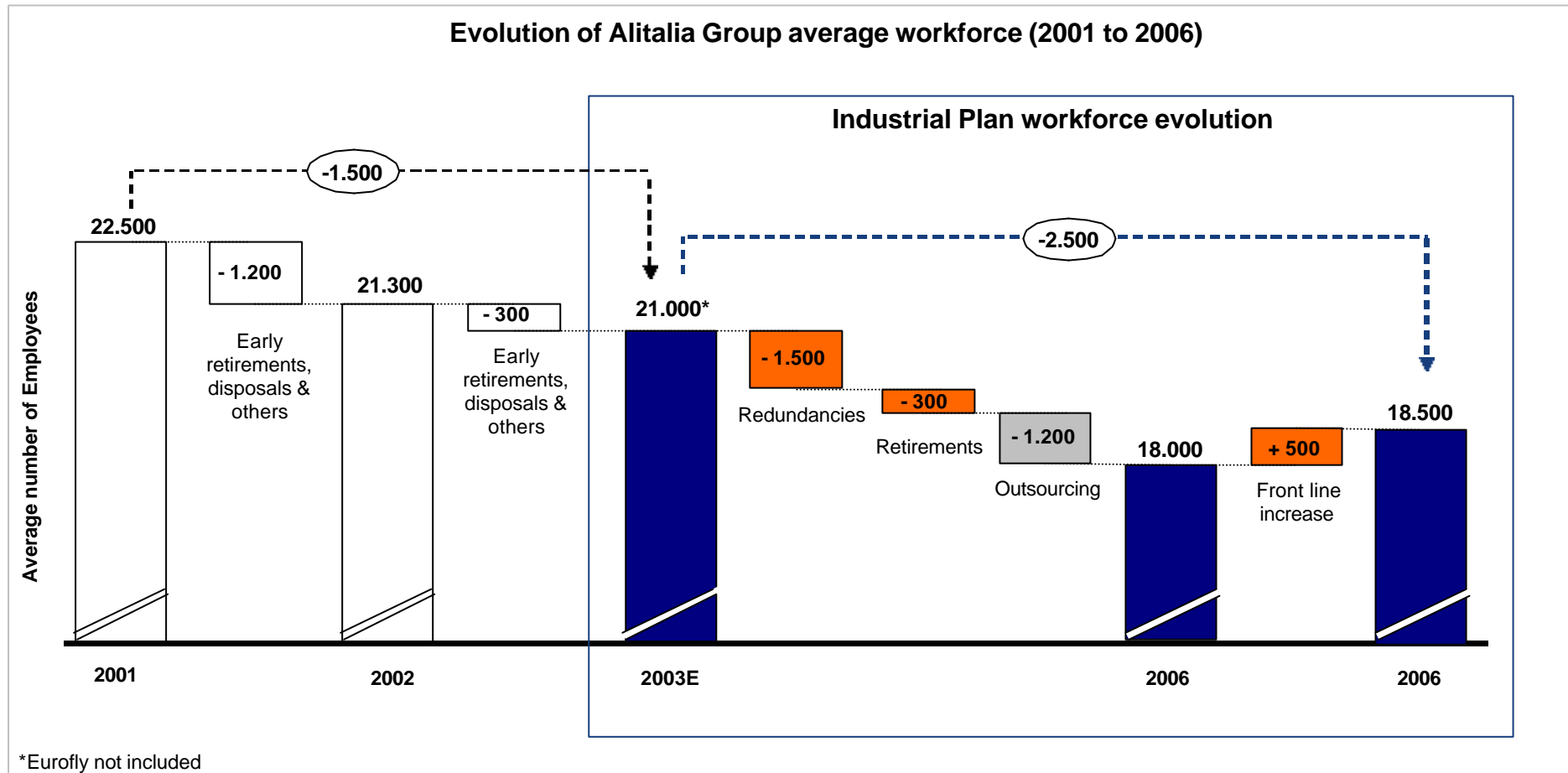


Efficiency measures on commercial costs, MRO activity, Ground Operations as well as on Flight Operations will be the most important savings within the Plan accounting of more than 50% of total savings identified.



Cost Reduction Initiatives & Financials

Redundancy management and outsourcing projects

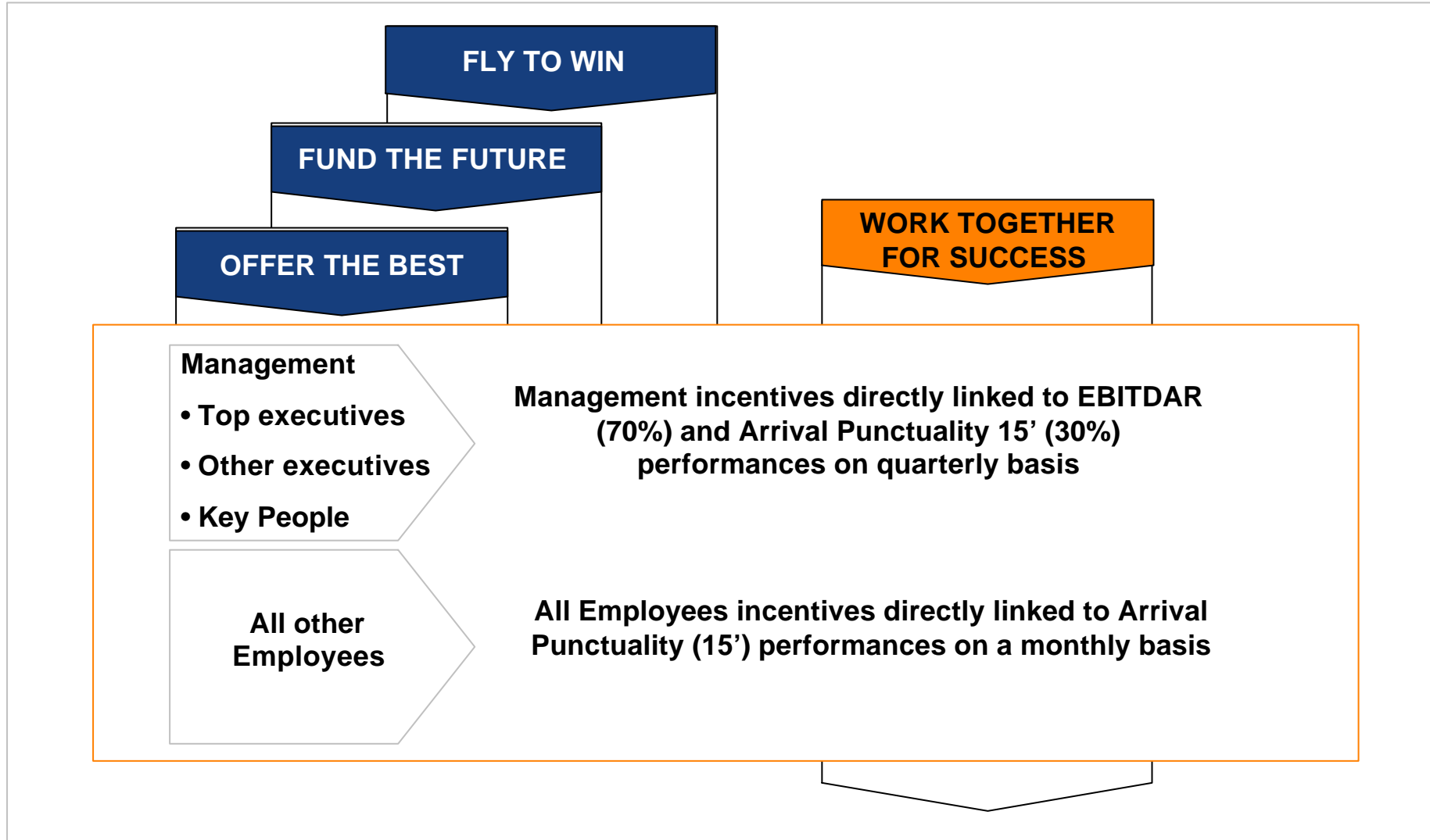


Notwithstanding the significant capacity increase Alitalia average total workforce will significantly decrease from 2003 to 2006 due to redundancy and outsourcing projects.



Cost Reduction Initiatives & Financials

New incentives programs linked to performance to the entire workforce

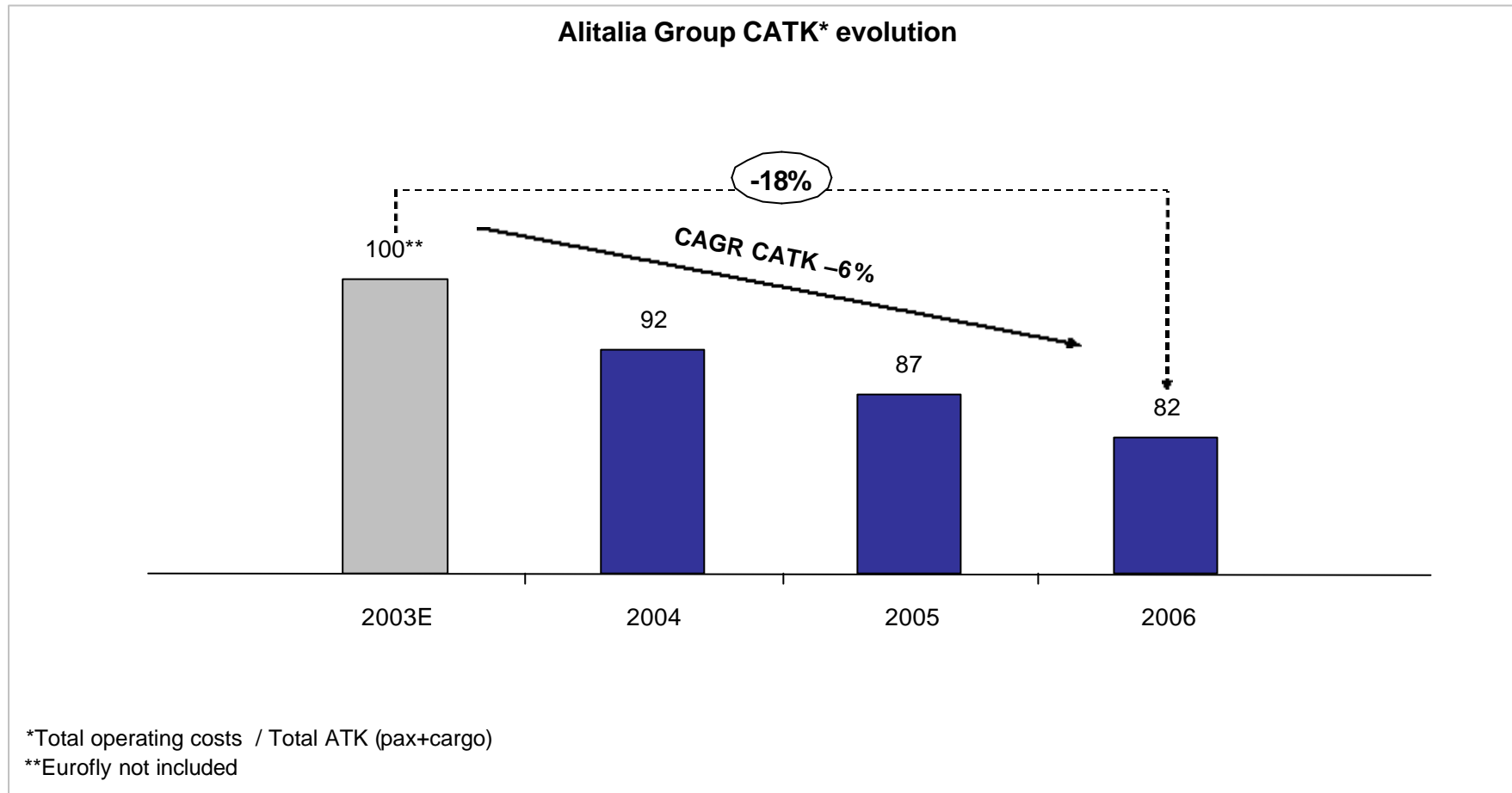


A simple rewarding plan has been prepared to ensure the full involvement of Alitalia workforce in the Company turnaround.



Cost Reduction Initiatives & Financials

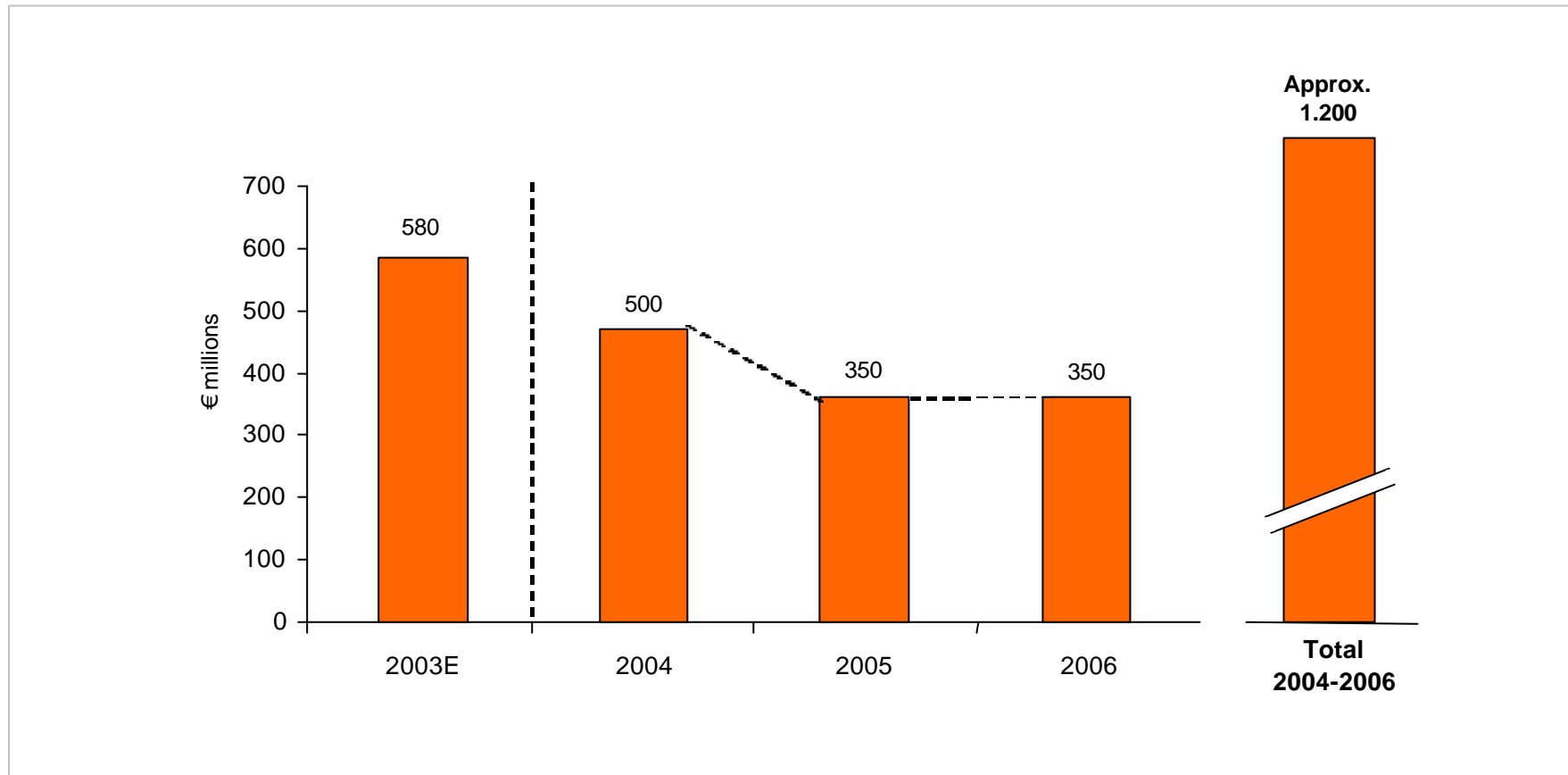
Unitary Costs



Unit costs will decrease by approximately 18% from 2003 to 2006 allowing Alitalia to adjust its cost structure to the structural drop in yields.



Cost Reduction Initiatives & Financials *Capital Expenditure Program*

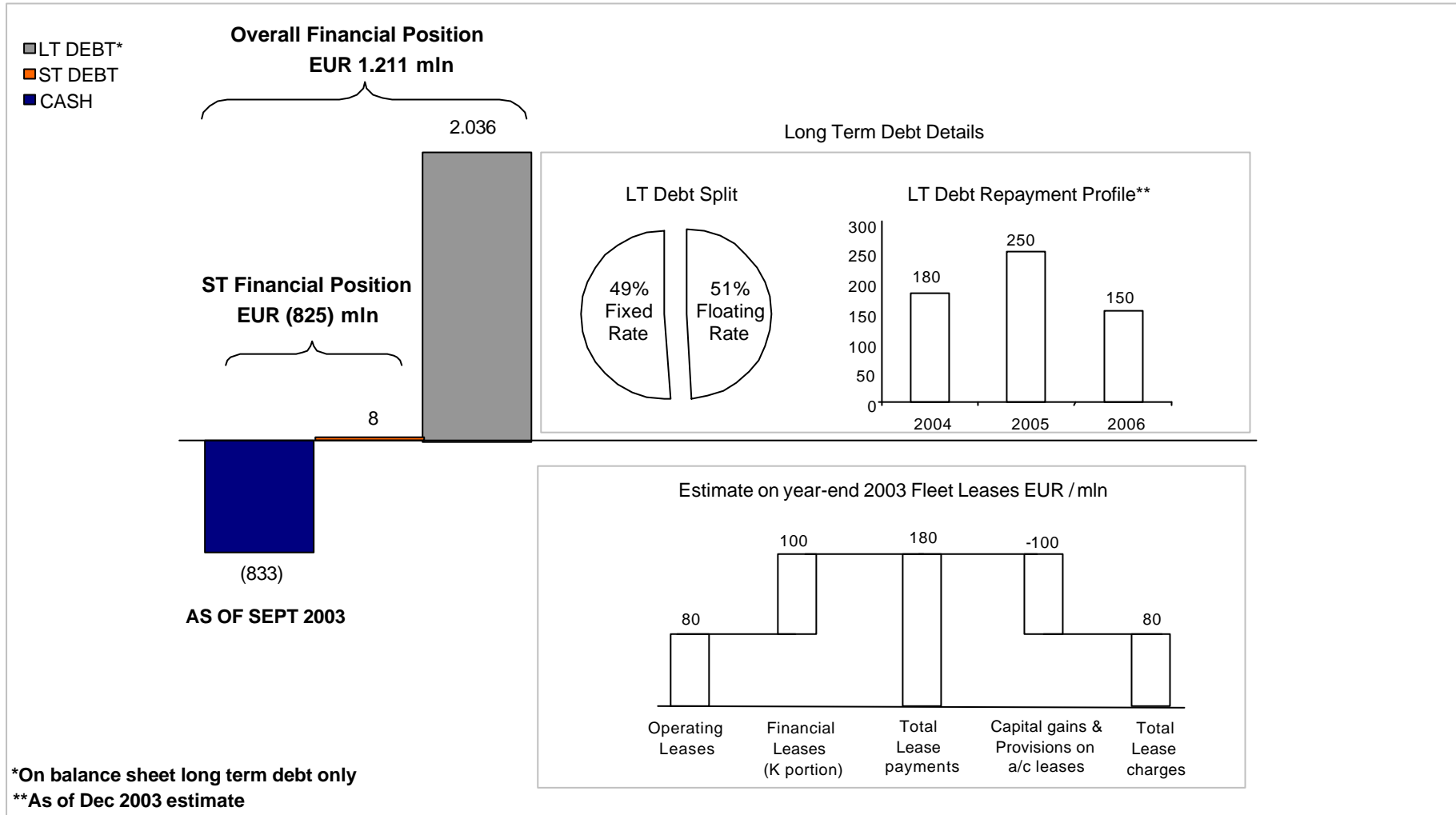


The capital expenditure program shows yearly investments in the range of 350/400 million Euro to complete the short-medium haul and regional fleet upgrade with new 70 seats aircraft as well as to change configurations on some aircraft types.



Cost Reduction Initiatives & Financials

Details on Alitalia Balance Sheet

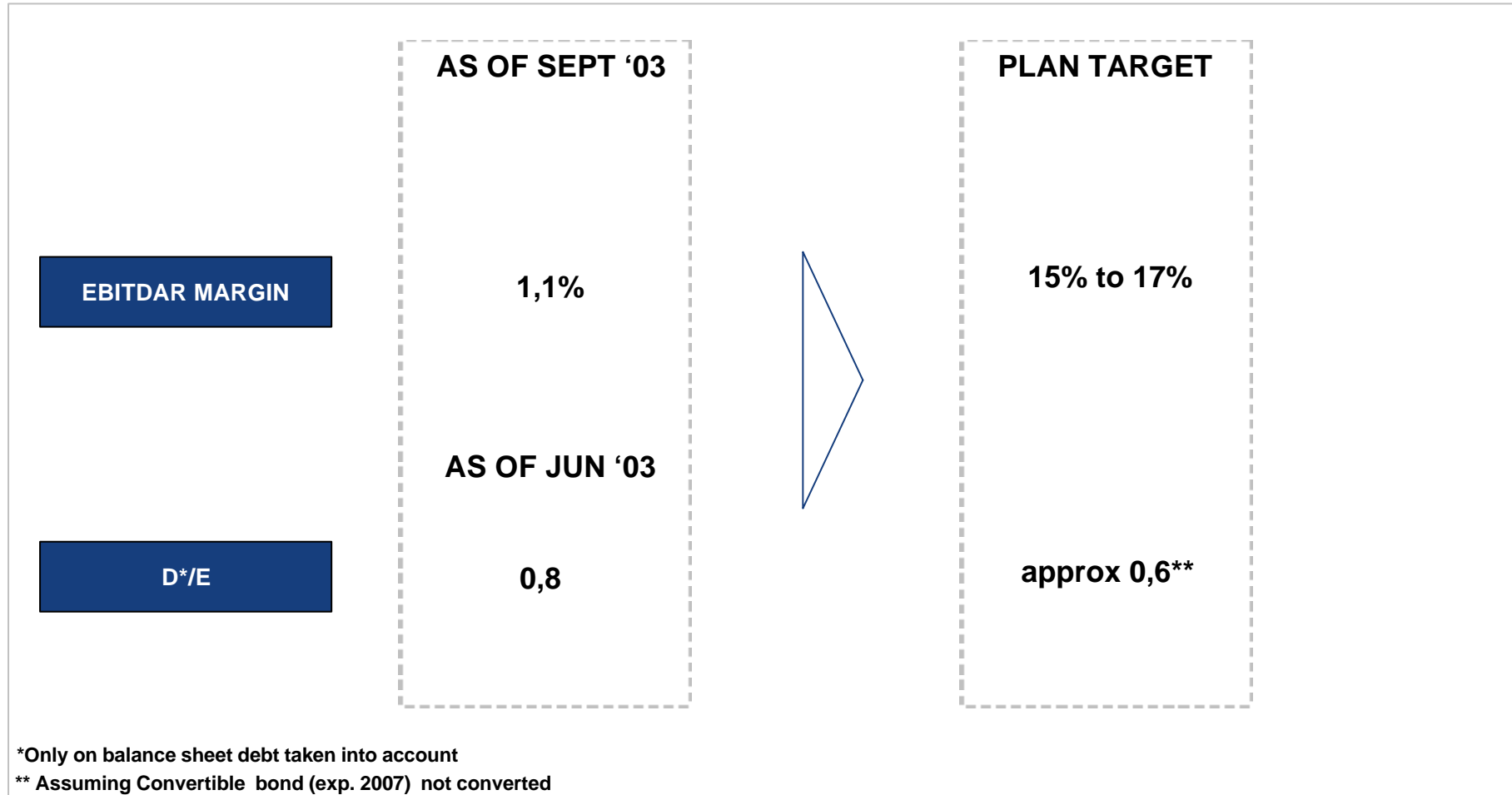


Alitalia has a strong liquidity position to be able to face further industry developments/crisis.



Cost Reduction Initiatives & Financials

Financial Targets



Alitalia EBITDAR target 15% to 17% and D/E target 0,6 to be achieved within Plan period



Alitalia



Appendix



Appendix

2003 First 9 months result very much effected by negative first half year performance

	<u>9M 2002*</u>	<u>9M 2003</u>	<u>Change</u>
Revenues	3.687	3.301	-10%
Materials and Service Expenses	(2.547)	(2.394)	-6%
<i>% of Revenues</i>	69%	73%	
Labor Expenses	(851)	(871)	+2%
<i>% of Revenues</i>	23%	26%	
EBITDAR	289	36	
<i>% of Revenues</i>	7,8%	1,1%	
EBITDA	220	(15)	
<i>% of Revenues</i>	6,0%	-0,4%	
EBIT	21	(269)	
<i>% of Revenues</i>	0,6%	-8,1%	
Result Before Extraordinary Items & Taxes	(93)	(365)	
<i>% of Revenues</i>	-2,5%	-11,1%	

*2002 figures include Italiatour and Eurofly.

Note: Interest charges relating to financial leases are included in interest expenses (EUR 15 mln 3rd quarter 2003). To reconcile with Operating Result in Statutory Accounts: EBIT+leases interest charges (-269-15 = -284); margins below EBIT level do not need reconciliation.

