

30 July 1999



The Alitalia KLM Alliance Equity Analysts and Investors Presentation

Settlement Agreement



Key Points

- ◆ Leading the industry into a new era by creating the most far-reaching global airline alliance
- ◆ Creation of Europe's largest passenger airline
- ◆ Full alignment of economic interests and equitable sharing of results
- ◆ Synergies of Euro 400 million already identified
- ◆ 1st November 1999 effective date, subject to regulatory approvals
- ◆ Further integration to be investigated

Agenda

- 1. Framework of Alliance**
- 2. Economic Arrangements**
- 3. Expected Benefits**
- 4. Next Steps**
- 5. Conclusion**

Framework of Alliance



Mission Statement

Passenger

- ◆ Alitalia and KLM will build together with other partners one of the world's strongest global airline systems
- ◆ The Alliance plans to strengthen its market presence through internal growth and alliance marketing agreements with other carriers

Cargo

- ◆ Establish highly competitive air logistics service supplier globally
- ◆ Deliver complete transportation & logistics solutions to the customer in a reliable and problem solving fashion, thereby enhancing customer preference
- ◆ Improve economic margins, competitive position and operating efficiency

Create one of the world's strongest passenger and cargo airline systems



Objectives

RIGHT MARKET...

- ◆ Deliver high growth in traffic and revenues
- ◆ Increase market share through integrated sales
- ◆ Secure European feed to the global alliance

RIGHT NETWORK...

- ◆ Develop European multi-hub strategy
- ◆ Combine fleet strengths
- ◆ Offer customers more attractive product
- ◆ European arm of the global alliance

RIGHT PRODUCT...

- ◆ Combine brand strengths
- ◆ Develop new ways to reach customers
- ◆ Develop core of travel services in home markets

...for our customers

BEST WORK PRACTICE...

- ◆ Single unified management
- ◆ Create rewarding work environment
- ◆ Develop pan-European mind set

SUSTAINABLE PROFIT...

- ◆ Deliver economies of scale and efficiencies
- ◆ Achieve world class cost effective commercial and support processes

...for our employees

...for our shareholders



Alliance Features vs. Other Alliances



Customers

Schedule Alignment	✓	✓			✓
Lounge Access	✓	✓	✓	✓	✓
Joint/Reciprocal FFP		✓	✓	✓	✓
Umbrella Branding		✓	✓	✓	✓

Company

Integrated Network Management					✓
Integrated Sales Force					✓
Integrated Marketing					✓
Integrated Revenue Management					✓
Integrated Product Development					✓

Financial

Profit Sharing					✓
Joint Fleet Decisions and Investments					✓

Source: Published information



The most far reaching global Alliance



Market Position vs. Other European Airlines

- ◆ Alitalia and KLM will be effectively operated as one airline



Passengers Carried (m)	39,169	38,503	36,593	33,498
RPK (m)	92,840	75,438	116,001	74,598
ASK (m)	125,640	102,111	163,486	98,990
Number Aircraft	260	295	280	203
Hubs	3	2	2	1
Destinations	377	306	255	196

Source: IATA World Air Transport Statistics 6/99; OAG as at Dec 1998; pro-forma for Alitalia and KLM; includes codeshare destinations



Creation of Europe's largest passenger airline

Alitalia

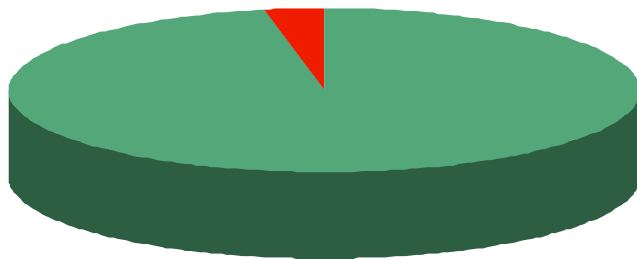
KLM

Business Model: Alliance Perimeter

- ◆ The Alliance will involve Alitalia's and KLM's core businesses, represented by their scheduled air transport operations (passenger and cargo), excluding corporate overhead
- ◆ 93% of AZ's Consolidated revenues and 85% of KL's Consolidated revenues are contributed to the Alliance

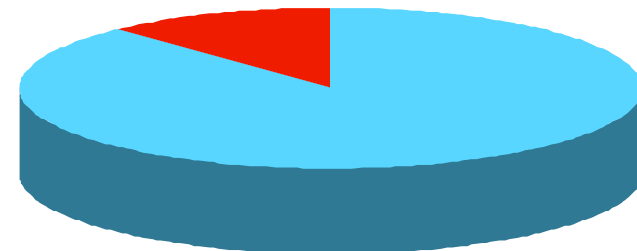
Alitalia Group - Revenue Split 1998

Core Business
Alitalia
Alitalia Team
Alitalia Express



KLM Group - Revenue Split 1998

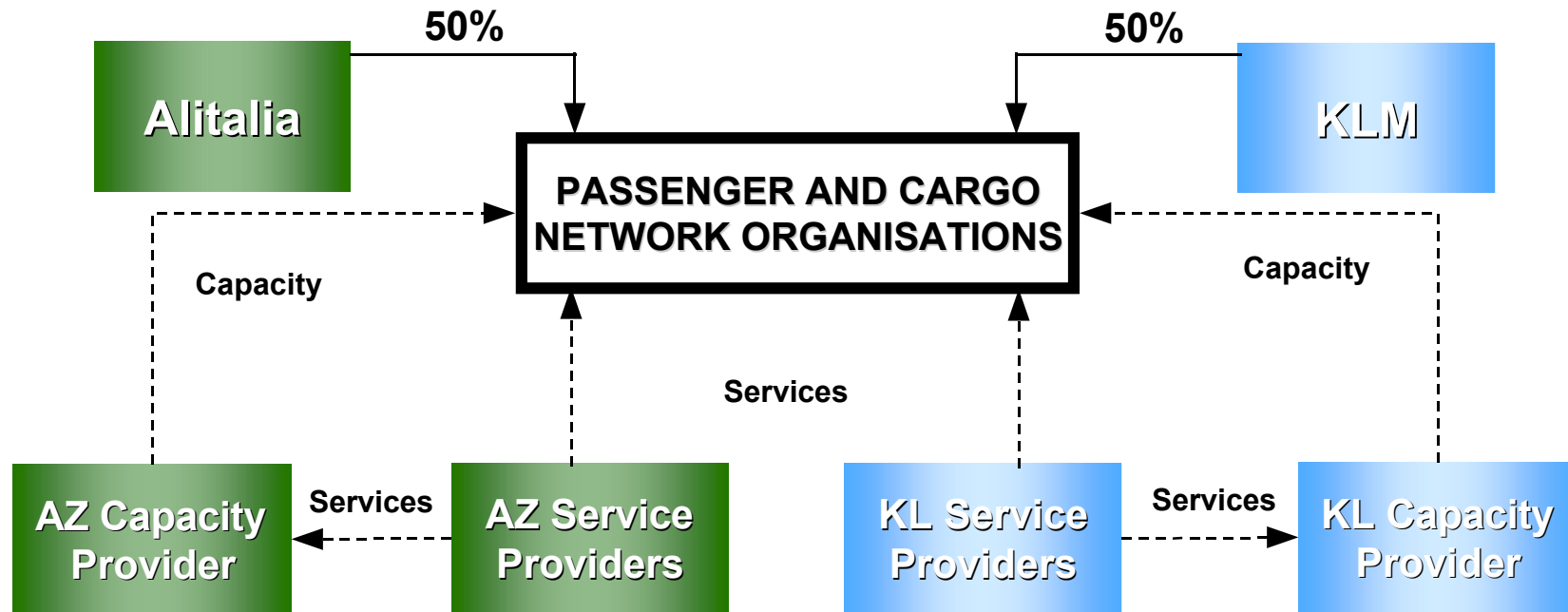
Core Business
KLM
KLM cityhopper



Substantially all of the earning power of Alitalia and KLM contributed to the Alliance



Business Model: Joint Venture Structure



Joint ventures are in effect “virtual airlines”



Economic Arrangements



Profit Sharing: Objectives

- ◆ Equitable sharing of results
 - ◆ recognises current size and global nature of KLM, with its specialist hub management skills
 - ◆ recognises home market position and superior growth prospects of Alitalia
- ◆ Fully aligns economic interests of Alitalia and KLM
 - ◆ incentivises partners to fully co-operate to grow revenues on current cost base
 - ◆ provides framework for optimal deployment of each partners' relevant resources
 - ◆ optimises future fleet investments and development



Profit Sharing: Approach

- ◆ Sharing at the level of “Adjusted EBITDAR”⁽¹⁾
 - ◆ EBITDAR represents the most appropriate measure of an airline’s profitability and cash generation ability
- ◆ Sharing on a 50:50 basis
 - ◆ reflects equal contribution by partners and full alignment of economic interests
- ◆ Minimum sharing threshold until 31st March 2001 of the Alliance
 - ◆ protects each partner against unanticipated industry volatility as Alliance benefits phase in
- ◆ Joint decision and investment in new fleet
 - ◆ minimise procurement costs and optimise major capital investments
- ◆ KLM’s sharing in Malpensa investment
 - ◆ Malpensa is key growth engine of the Alliance

(1) Earnings before Interest, Tax, Depreciation, Amortisation, Rentals, before corporate overheads and after depreciation and rentals of non-fleet assets

Profit Sharing: Terms

- ◆ Alitalia and KLM will share the joint result of their passenger and cargo joint ventures on a 50:50 basis
 - ◆ the result will be equal to the airlines' net revenues, having deducted the joint ventures' own organisation costs (i.e. sales, marketing, etc.) and charges from capacity and service providers
 - ◆ charges from capacity and service providers will be based either on actual costs or on prevailing market rates
 - ◆ depreciation of non fleet assets will also be charged
- ◆ Each airline will retain its own corporate overhead costs and will separately bear existing fleet operating lease charges, fleet depreciation, amortisation, interest and corporate tax charges
- ◆ Until 31st March 2001, sharing will involve only the individual contributions in excess of Euro 450 million (on annual basis)



Profit Sharing: Terms


- ◆ Excessive increases of cost of labour will be capped for both parties
 - ◆ increases above pre-set benchmarks will be borne by each party separately
- ◆ Existing fleet available to the Alliance at no charge
 - ◆ proceeds from disposal of fleet will be shared by the parties on a 50:50 basis during the Alliance
- ◆ Joint investments and full economic exposure for new fleet
 - ◆ through a fleet company or alternatively contractually
- ◆ KLM will pay Alitalia Euro 100 million as a contribution towards the investments incurred by Alitalia for the initial development of Malpensa



Profit Sharing: Pro-Forma 1998 Results

- ◆ Based on the year to 31st December 1998⁽¹⁾, Alitalia and KLM estimate that the pro-forma result of the Alliance would have been the following:

(Euro in Millions)

	Alitalia	KLM	
Net Revenues	4,005	5,101	9,106
Adjusted EBITDAR⁽²⁾	582	649	1,231

(1) Pro-forma for KL

(2) Earnings before Interest, Tax, Depreciation, Amortisation, Rentals, before corporate overheads and after depreciation and rentals of non-fleet assets

Expected Benefits



Economic Benefits: Amount

- ◆ Estimated synergies (at operating income level) expected to materialise within 3 years from the start of the Alliance

ESTIMATED SYNERGIES (EURO MILLIONS)

Commercial Synergies	153
Network Optimisation	57
Fleet Expansion	30
Commercial Costs Savings	90
Cargo	70
Total Synergies	400



Euro 400 million of annual synergies

Alitalia



Economic Benefits: Scope

COMMERCIAL SYNERGIES

- ◆ Code sharing in EU and elsewhere, when allowed
- ◆ Unified Network Organiser management structure

NETWORK OPTIMISATION

- ◆ Focus on higher margin routes
- ◆ Improved use of resources
- ◆ Development and optimisation of feeders
- ◆ Further development of hubs

FLEET EXPANSION

- ◆ Further fleet expansion to exploit:
 - ◆ Italian hubs growth
 - ◆ availability of traffic rights

COMMERCIAL SAVINGS

- ◆ Sales structures integration
- ◆ Increased competitive position in all distribution channels

CARGO

- ◆ Network integration and optimisation
 - ◆ unique multi-hub and sub-hubs system in Europe
 - ◆ increased market share in strategic markets
 - ◆ focus on higher yield traffic
 - ◆ higher load factor
 - ◆ higher hub efficiency
- ◆ Handling and road network cost savings

Alitalia



Euro 400 million of annual operating income synergies



Next Steps



Next Steps: Further Integration

- ◆ As agreed in the MCA, Alitalia and KLM will continue to study forms of further integration
- ◆ Set target timeframe: by 1st April 2002
- ◆ Mutual financial incentives to implement further integration



Conclusion

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