Alitalia Group

ANNUAL REPORT

AND CONSOLIDATED FINACIAL STATEMENT

FOR BUSINESS YEAR 2000

Linee Aeree Italiane S.p.A.

Registered offices in Rome
V.le Alessandro Marchetti, No. 111
Share capital Lire 1,548,444,168,000 fully paid-in
Register of Enterprises of Rome No. 2029/46
R.E.A. Rome No. 135156
Fiscal Code 00476680582
VAT number 00903301000

Directors' Report on Activities and Financial Statements of the Alitalia Group and Alitalia S.p.A. for the year ended December 31, 2000

BOARD OF DIRECTORS

(in office up to the Shareholders' Meeting of June 16, 2000)

Chairman	*	Fausto	CERETI
Managing Director	*	Domenico	CEMPELLA
Directors		Guido	ABBADESSA
		Emilio	ACERNA
		Augusto	ANGIOLETTI
		Fabrizio	ANTONINI
		Giuseppe	BORGIA
	*	Pietro	CIUCCI
		Giuseppe	CONSOLO
		Alberto	CORRIAS
	*	Vincenzo	DETTORI
		Serafino	GATTI
		Ezio Francesco	LEPIDI
		Maurizio	MARESCA
		Virgilio	MASCIA
	*	Tommaso Vincenzo	MILANESE
		Giuseppe	SURRENTI
Secretary		Leopoldo	CONFORTI

* *Member of the Executive Committee*

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General Manager:	Giovanni	SEBASTIANI

BOARD OF DIRECTORS
(elected for the three year term 2000-2002)
Shareholders' Meeting June 16, 2000

Chairman	*	Fausto	CERETI
Managing Director	*	Francesco	MENGOZZI (since 9 February, 2001)
	*	Domenico	CEMPELLA(until 2 February, 2001)
Directors		Emilio	ACERNA
	***	Augusto	ANGIOLETTI
		Fabrizio	ANTONINI
		Silvano	BARBERINI
		Domenico	CEMPELLA (until 14 February, 2001)
	*	Pietro	CIUCCI
		Giuseppe	CONSOLO
		Alberto	CORRIAS
	*	Vincenzo	DETTORI
		Mario	FRANCHI
		Serafino	GATTI
	*	Vittorio	GRILLI (until 30 November, 2000)
		Maurizio	MARESCA
	**	Tommaso Vincenzo	MILANESE
		Egidio Enrico	PEDRINI
	*	Maurizio	PRATO
	*	Carlo	TAMBURI (since 9 March, 2001)
Secretary		Leopoldo	CONFORTI

* *Member of the Executive Committee*
** *Member of the Executive Committee until 28 March, 2001*
*** *Member of the Executive Committee since 2 April, 2001*

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General Manager	Giovanni	SEBASTIANI (until 28 March, 2001)

Up to date as at 2 April, 2001

BOARD OF STATUTORY AUDITORS

(elected by the Shareholders' Meeting of June 11, 1999 for the three year term 1999-2001)

Chairman	Bruno	STEVE
Standing members	Leone	BARBIERI
	Luigi	PACIFICO
	Sergio	SCIBETTA
	Franco	TONUCCI
Alternate members	Giorgio	FERRARI
	Giuseppe	SERRENTINO

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External auditors: *Deloitte & Touche S.p.A.*

Management - Powers

The Board of Directors is vested with the widest powers for the ordinary and extraordinary management of the Company. It has the power to take such action as it deems fit to pursue and achieve the corporate objectives with the exclusion of the powers which are reserved to the Shareholders' Meeting under statutory provisions.

The Chairman of the Board of Directors has the power to represent the Company before third parties and has the power of signature.

In this context, the Board of Directors:

- has delegated to an Executive Committee the powers to resolve upon matters and acts of particular significance (purchase and sale of shares, fleet, medium/long-term financial agreements, etc.), with the exclusion of the power – lying with the Board of Directors – to decide upon corporate strategies, general and organisational guidelines, negotiation of agreements for the operation of airlines and the reaching of international agreements of strategic significance outside the bounds of routine operations;

- has also vested the Executive Committee, in urgent cases, with all the powers inherent in or pursuing the corporate objectives, except for those powers which cannot be delegated under Art. 2381 of the Italian Civil Code;

- has vested the Managing Director – pursuant to Art. 2381 of the Italian Civil Code and within certain limits of value – with the power to perform all acts necessary to manage and operate the Company, except for those acts that are reserved to the Board of Directors or the Executive Committee.

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**DIRECTORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000**

Dear Shareholders,

Operations during the year ended December 31, 2000 were marked by a series of events which had a major impact on the performance of the Group, adversely affected the result for the year and determined the difficult economic strategy currently being undertaken.

In particular, we refer to the unexpected failure of the AZ-KLM joint venture and the resulting urgent measures that were taken very quickly to cancel the results of many months of co-operation.

This took place against a background of existing problems including

- ongoing difficulties regarding the slow take-off of operations at Malpensa;
- continuing EU related operating restrictions regarding the share capital increase effected in 1997;
- rising fuel costs and the worsening of the USD/Euro exchange rate.

Air transport activities improved gradually and turnover increased but the events listed above meant that operating costs rose by more than Lire 1,500 billion; total income was unable to match production costs even though it increased by more than Lire 1,300 billion.

As a result, gross operating margin decreased by around Lire 200 billion (it was actually negative by Lire 50 billion) while losses before extraordinary items and taxation amounted to Lire 483 billion.

The negative trend seen during the year as a result of the above factors was already commented upon in the Directors' Report on Operations for the six months ended 30 June 2000 which revealed a loss before extraordinary items and taxation of Lire 343 billion.

At that time, certain improvements seen at the start of the second half of the year in relation to occupancy co-efficients and yield led to expectations of an overall improvement compared to the second half of 1999 (loss of Lire 64 billion) although there were no expectations of offsetting the losses already made in the first six months.

The possibility was also expressed that the operating loss could be countered by some forms of extraordinary income that was in the process of materialising.

The actual result for the second half of the year was a loss of Lire 140 billion. This was mainly due to larger than expected increases in fuel costs and to the fact that the extraordinary items expected, mainly consisting of gains on disposal, only had a limited impact on the result for the period. This was because, for the reasons considered in this Report (pages 33 – 36), it was decided to defer much of the gains on disposal to future periods.

Given the performance in the first few months of 2001 and the outlook for the year as a whole, we believe that losses may be at best reduced in 2001.

Finally, it should be noted that the particular Group structure (organised based on a system of subsidiaries that operate as capacity providers and guarantee air transport under contracts which pay them based on costs incurred) is especially significant when reading the results of the Group at consolidated level; the consolidated financial statements are the only true reflection of the performance of the Alitalia Group.

The Alitalia Group

The Alitalia Group companies operate essentially in the air transport sector and/or connected sectors.

The subsidiaries of the Alitalia Group are the following:

Alitalia Team S.p.A. - Rome
Operation of passenger and cargo airline transport services, directly or on behalf of third parties, in Italy, between Italy and foreign countries and in foreign countries.

Alitalia Express S.p.A. - Rome
Operation of passenger and cargo airline transport services, directly or for third parties, in Italy, between Italy and foreign countries and in foreign countries.

Eurofly S.p.A. - Turin
Operation of chartered passenger and cargo airline transport services in Italy, between Italy and foreign countries and in foreign countries.

Alitalia Airport S.p.A. - Rome
Ground services for Alitalia Group and third party passengers, cargo and aircraft.

Atitech S.p.A. - Naples
Maintenance and overhaul of aircraft, and construction, repair, maintenance and overhaul of aircraft parts and components.

Italiatour S.p.A. - Rome
Research, organisation, promotion and sales in the tourism industry.

Racom Teledata S.p.A. - Rome
Supply, in Italy and abroad, of computer and data transmission systems for the transport and tourism industries and related sectors, directly and indirectly through ownership interests in third parties in Italy and abroad; including all forms of equity and other investments/interests in Italian and foreign companies and entities.

Sigma - Società Italiana Gestione Multi Accesso S.p.A. - Rome
Supply of computer systems and databases for the transportation and tourism service businesses, to Alitalia and third parties, to travel agents and transportation and tour operators, and supply of computerised ticketing systems to authorised operators.

Sigma Travel System S.p.A. - Rome
Definition and marketing of data transmission products and services from third party suppliers to the transport and tourism industries and travel agents.

Aviofin S.p.A. - Rome
Purchase, management and co-ordination of equity and other interests in companies, consortiums and other entities operating in the air transport, handling and cargo industries.

Alinsurance S.r.l. - Rome
Agent for a number of insurance companies, mainly acting on behalf of the Alitalia Group.

BUSINESS HIGHLIGHTS OF ALITALIA GROUP

Business highlights *(in millions of Lire)*	**31 Dec '00**	**31 Dec '99**	**31 Dec '98**	**31 Dec '97**	**31 Dec '96**
Fixed assets:					
- intangible	187,925	201,502	194,388	117,747	115,807
- tangible	5,369,649	4,697,225	4,388,778	4,165,285	4,227,838
- financial	223,099	160,981	195,973	130,906	272,498
Total fixed assets	5,780,673	5,059,708	4,779,139	4,413,938	4,616,143
Working capital	(649,638)	(792,826)	(837,920)	(1,234,803)	(1,296,414)
Employee severance pay	(766,327)	(694,074)	(679,832)	(672,497)	(708,533)
Net capital employed	4,364,707	3,572,809	3,261,386	2,506,638	2,611,196
Net equity	2,897,305	3,393,498	3,518,467	1,801,684	377,025
Net indebtedness:					
- m/l term	1,523,973	835,859	961,714	1,387,037	2,168,740
- short term (liquidity)	(56,570)	(656,549)	(1,218,795)	(682,082)	65,431
Total indebtedness	1,467,402	179,310	(257,081)	704,955	2,234,171
Revenues	10,438,258	9,308,349	8,946,747	8,583,816	8,058,913
Value of production	10,574,740	9,433,081	9,087,533	8,656,796	8,150,422
Cost of raw materials and external services	(8,335,290)	(6,935,008)	(5,930,349)	(5,797,050)	(5,513,648)
Personnel costs	(2,288,983)	(2,153,368)	(1,945,296)	(2,032,155)	(2,084,219)
Amortisation and depreciation	(567,574)	(507,785)	(465,301)	(418,371)	(446,007)
Adjustments and provisions for liabilities and charges	(99,465)	(280,661)	(199,580)	(176,258)	(59,695)
Other income (expense) net	208,950	245,747	58,523	113,047	21,844
Operating (loss) profit	(507,622)	(197,995)	605,531	346,008	68,697
Net financial income (expense) (*)	24,580	25,050	(66,918)	(145,142)	(333,813)
Net extraordinary income (expense)	66,427	206,229	(24,099)	361,588	(919,965)
Income taxes	(78,362)	(21,547)	(106,820)	(124,616)	(17,814)
Net (loss) profit	(494,977)	11,737	407,694	437,838	(1,202,895)
Investments	2,015,294	908,910	860,695	466,966	230,166
Number of employees at year-end	23,478	20,770	19,683	18,825	18,850

(*) including adjustments to value of financial assets

The economic environment

In 2000, the world economy enjoyed significant growth, at different rates, in almost all parts of the world. Worldwide GDP growth approached 5% reflecting the positive economic situation at an overall level even though there were some hotbeds of inflation especially in the more industrialised countries.

More worrying signs emerge from a more detailed analysis of the quarterly figures. These show a very favourable situation in the early part of the year and a sharp slowdown of growth in the third and fourth quarters as a result of the grounding of the US economy; the situation was made worse by the abnormal increase in the cost of petroleum. The result was that the second half of 2000 saw exchange rate instability, policy changes by the central banks and turbulence on the leading financial markets.

In addition to the aforementioned slowdown of the US economy – US GDP growth decreased from 5% in the first half of the year to 1.4% in the final quarter – the Japanese economy did not perform very well with year on year growth amounting to only 1.9%. Meanwhile, more solid and stable growth was seen in the other Far East countries which registered total growth of around 7%.

The Euro area countries also started the year with rapid growth but, from the second quarter onwards, saw the rate of growth slow down. Nonetheless, GDP growth for the year as a whole totalled 3.4%, one of the highest levels recorded since the 1980s (source: OECD).

The Italian economy largely reflects the situation in the other European countries although the level of growth was somewhat lower than the European average – GDP 2000 +2.9% - and the rate of inflation slightly higher. It struggled to enter the group of countries which performed best i.e. Spain, France and the Netherlands.

The most reliable sources forecast that 2001 will see the continuation of the factors that adversely affected the second half of 2000. These will continue at the start of the year at least and a recovery can only be expected for the later part of the year.

The less favourable economic performance together with the expected firming up of Euro area countries should have a calming effect on oil prices and bring the USD/Euro exchange rate back towards the level of parity. This will lead to a situation of greater stability for European businesses although they could suffer from a likely fall in exports.

Against this macroeconomic background, the air transport industry grew at a very sustained rate in 2000.
International traffic increased by 8%, outstripping forecasts of a 6.6% increase (source IATA).

More specifically, the European airlines belonging to the AEA (Association of European Airlines) saw their international traffic grow by 7.2%; Alitalia recorded a 12.6% increase and was second only to Iberia which had a 16.5% increase.

Percentage increases:

Available seats km

	IATA	5.0
	AEA	4.3
	ALITALIA	4.7

Revenue Pax km

	IATA	6.0
	AEA	7.5
	ALITALIA	12.3

The increase in the level of traffic – for Alitalia it was partly due to the effect of the difficult launch of Malpensa airport on last year's figures, decisions regarding the role of each of Milan's airports and other factors that had an adverse effect on 1999 – only partially offset the increase in fuel prices and the strength of the Dollar making for a difficult situation for the entire air transport industry.

These factors hit the European airlines worst and they generally sought to rationalise their networks during the year – eliminating non-profitable routes – as well as seeking to cut costs and improve unitary income. The measures taken included inevitable ticket price increases due to rising fuel costs; the increases reported by the various airlines compared to the prior year range from 40% in the case of British Airways to around 80% for Air France and KLM, depending on specific hedging policies.

Based on initial available data, the positive effects of these measures could be seen in the second half of the year meaning that the negative differentials recorded in the first half of the year were recovered – especially by airlines with well developed hubs belonging to effective alliances.

The situation of the Alitalia Group

In the scenario described above which is characterised, on the one hand by encouraging prospects for passenger and cargo traffic and, on the other, by the serious economic effects of the abnormal increases in the price of fuel (and is even worse for European carriers due to the unfavourable $/Euro exchange rate) the ALITALIA Group found itself particularly exposed to a series of factors – more than other airline groups – which have adversely affected the course of business during the year. This was due to the combination of the aforementioned events which have generally affected the sector and the specific events such as the well-known problems connected with Malpensa and the alliance with KLM.

The air transport business, made up of ALITALIA, ALITALIA Team and ALITALIA Express, was especially affected by the situation described above. This sector accounts for about 95% of the consolidated turnover and is, therefore, of great significance within the Group results of operations. The scenario described above has also affected the operations of the charter sector, operated through Eurofly. Operations in the other business sectors have achieved satisfactory returns.

In addition to these difficult circumstances, the Group has been continuously replanning the network structure and from the end of April it had to deal with the problems arising from the termination of the Alliance with KLM. Though in a difficult situation, the Group has implemented measures aimed at controlling losses in the short term, such as a retrenchment of job opportunities and employment down to levels which are far below the original targets. It has also taken steps intended to lead to the completion of more strategic projects aiming at making the production structure more competitive by creating a significant basis for the new Business Plan which is currently being prepared. The most significant plans include:.

The most significant projects include:

- the finalisation of an order for six B777-200 as part of a plan to restructure the long-haul fleet by replacing the B-747 fleet (one such aircraft was sold during the year) and introducing aircraft with a smaller capacity (B-777 and B-767);

- the entry of the Regional Jet Embraer into the fleet;

- the acquisition of important contracts lasting several years to develop maintenance services on third party fleets;

- the unification, effective 1 April, of flight operations in ALITALIA Team (except for the regional operations which are handled by ALITALIA Express and the “all cargo” activities which are retained by the parent company);

- the launch of the ALITALIA Airport activity whose role is to provide and sell airport assistance services. On 1 July, the company began operating thought its activities were limited to supplying ramp services to ALITALIA Group aircraft using 1,531 staff from Rome Airports. 1 September and 1 December saw the parent company finalise the sale of its "Rome Fiumicino Airport passenger assistance" and "Italian airports" business units thus completing ALITALIA Airport's operating structure in Italy.

Economically speaking, the Group made a net loss of Lire 495 billion for the year ended 31 December 2000 compared to a net profit of Lire 12 billion in 1999. The result for 1999 was boosted by a higher level of extraordinary income (Lire 206 billion in 1999 and Lire 66 billion[1] in 2000) and taxation charges were also lower (Lire 22 billion compared to Lire 78 billion).

As a consequence, the performance of ordinary operations is best reflected by the result before extraordinary items and taxation which amounted to Lire 483 billion, Lire 310 billion worse than in 1999 even after absorbing a Lire 736 billion increase in fuel costs (Lire 452 billion relating to price increases).

It should be noted that more than two thirds of the loss and the worsening of the situation compared to last year were the result of the poor performance in the first half of the year. The loss before extraordinary items and taxation recorded for the second half of the year was very similar to that for the same period in 1999 (a loss of around Lire 141 billion compared to a loss of around Lire 64 billion in 1999) even though fuel costs increased further (+Lire 400 billion approx.) and sundry income and expenses had a lesser impact (- Lire 76 billion).

The trend regarding gross operating margin is also significant: after worsening by Lire 205 billion in the first six months of the year, it improved by Lire 5 billion in the second half despite the aforementioned increase in fuel costs. The fourth quarter saw a Lire 26 billion improvement in gross operating margin and a Lire 233 billion increase in fuel costs.

In summary, while the situation remains critical, the year did see a trend of gradual improvement thanks to a commercial recovery in relation to air transport activities which, thanks to the increased stability and better quality of services along with price increases by the main airlines, led to an increase in turnover.

The operating performance of the individual business sectors is analysed in further detail below.

- The **scheduled air transport sector** found itself affected by the uncertainties regarding the unexpected delays in transferring traffic from Linate to Malpensa Airport (after a

[1] It should be noted that the extraordinary items for 2000 are stated net of the deferral of gains totalling Lire 304 billion on the sale of 20 MD-80 aircraft; this is better explained on page 33. In addition, in 2000 as in 1999, the parent company and the consolidated financial statements do not include the remaining deferred tax asset – around Lire 550 billion net of deferred tax liabilities (including more than 50% relating to prior years)– as it is not reasonably certain that there will be sufficient future taxable income to enable these assets to be recovered (see page 351).

12 month delay this should have taken place in November '99 but this date was subsequently put back to mid-December '99 and only took place on 20 April 2000 and was subject to further recent changes) but, nonetheless, recorded increases in both passenger and cargo traffic; these increased by 10.7% and 8.1%, respectively, in terms of km tonnes transported while capacity increased to a more limited extent (3.6% and 5.6%, respectively)

These figures confirm the ability of the new network centred on the Malpensa hub (and Rome Fiumicino) to attract new traffic although it should be recalled that they are compared with 1999 figures badly affected by problems especially in the first half of the year (ATC delays, Kosovo, problems with the launch of Malpensa).

In the passenger traffic sector, this also led to a dilution of yield (revenues per passenger) as a result of the addition of ongoing traffic, with its lower returns, to traditional point-to-point traffic.

In the first half of the year, the business traffic sector continued to be weak and this affected yield. Business traffic had been kept away by the unstable services, fierce price competition especially on the Italian market as competitors sought to establish market share, problems regarding the new ALITALIA network and the formation of a new Alliance.

Nonetheless, in the second half of the year, as all airlines faced up to the need to take action to combat the effect of rising fuel prices, passenger yield improved mainly as a result of higher ticket prices and the impact of foreign exchange fluctuations (from –5% to +7%) which recorded a slight improvement for the year as a whole (+1%).

Passenger traffic increased by 12% while cargo traffic increased by around 20% as a result of an increase in the cargo transported and the improvement in yield as a result of foreign exchange factors.

ANALYSIS OF THE RESULT OF OPERATIONS OF THE AIRLINE TRANSPORT BUSINESS

(in millions of lire)	31.12.2000	31.12.1999	CHANGES
A. REVENUES	***9,920,687***	***8,896,690 (*)***	***1,023,996***
Change in work in progress, semifinished and finished products inventory	***4,813***	***755***	***4,058***
Assets increase for internal costs	***71,501***	***59,152***	***12,349***
B. VALUE OF "NORMAL" PRODUCTION	***9,997,001***	***8,956,598***	***1,040,403***
Costs of raw materials and external services :	***(8,042,163)***	***(6,637,462)***	***(1,404,700)***
C. ADDED VALUE	***1,954,838***	***2,319,136***	***(364,297)***
Personnel cost	***(2,077,981)***	***(2,033,154)***	***(44,827)***
D. GROSS OPERATING MARGIN	***(123,143)***	***285,982***	***(409,124)***
Amortisation, depreciation & writedowns	***(533,524)***	***(478,600)***	***(54,924)***
Other adjustments	***(15,281)***	***(1,625)***	***(13,656)***
Provisions for liabilities and charges	***(78,975)***	***(269,499)***	***190,524***
Net other income (expenses)	***209,619***	***245,133***	***(35,514)***
E. OPERATING LOSS	***(541,304)***	***(218,610)***	***(322,694)***

(*) In 1999, revenues included Euro 100 million (Lire 193.6 billion) paid by KLM in relation to the sharing formula agreements as a contribution towards the cost of launching the Malpensa hub. This led to an increase in added value and gross operating margin while, at net profit / (loss) level the effect was neutralised by a prudent accrual made to the provision for liabilities and charges in relation to a dispute over the refund requested by KLM following the break-up of the alliance.

Turnover in the passenger and cargo traffic sectors increased by a total of 13% (peaking at +17% in the fourth quarter). This enabled the gradual reduction of the gap regarding the total increase in costs mainly as a result of the soaring fuel prices.

As shown in the table containing the income statement of the air transport sector, operating margins fell significantly. In particular:

- value of production which reflects the trend regarding revenues increased by some Lire 1,040 billion (+11.6%). If, for the sake of consistency, we exclude the Euro 100 million contribution received from KLM in 1999 under the "sharing formula" agreements and the launch of the Malpensa hub the increase amounts to Lire 1,234 billion (+14%);

- raw materials and external services increased by a total of Lire 1,405 million (+21%) mainly because of higher fuel costs – up by Lire 696 billion for the sector (+85%) –, selling costs which rose by Lire 157 billion (+11%) as a result of action taken to support turnover levels and booking costs. Other items increased by Lire 552 billion, a 13% increase of which 6 percentage points related to the higher volume of business and the remainder, above all, to exchange rate fluctuations.

Added value in the sector decreased by Lire 170 billion (or by Lire 364 billion if the contribution made by KLM is included in the 1999 figures). This, together with the, albeit limited, increase in personnel costs of Lire 45 billion (+2%) mainly because of an increase in the average workforce, an increase in amortisation, depreciation and provisions (Lire 72 billion excluding the KLM contribution) and the lower level of net sundry income and charges (Lire 35 billion) caused the operating result to worsen by a total of Lire 323 billion and an operating loss of Lire 541 billion was recorded.

- The **charter** sector (Eurofly) recorded an operating loss of Lire 31 billion compared to an operating loss of Lire 20 billion in 1999.
  In this sector, too, the situation was primarily due to the higher operating costs as a result of the increase of the price of fuel and the appreciation of the US dollar. These rises in a very competitive sector such as the charter sector, characterised as it is by excess capacity offered on the Italian market, could not be charged to tour operators.
  The company is currently restructuring its long-haul business – much of the loss for 2000 relates to this sector – and is building up its short-haul activities at the same time. Five A-320 aircraft will replace the same number of MD-80s which are less suitable for charter business with effect from next summer.

- The **aircraft maintenance** sector (Atitech) recorded an operating profit of Lire 9 billion in 2000, broadly in line with the Lire 10 billion profit made in 1999; this was achieved even though the company saw a sharp increase in the amount it pays to use state-owned assets.
  During the period, the company was heavily involved in two projects to expand its facilities. These included:
  - the construction of a new hangar and support facilities to replace old facilities at Naples Capodichino Airport. The old facilities are built on state-owned land and will be returned to the state when the new plant comes into operation in 2002;
  - a new facility in Grottaglie including a three bay hangar which will become operational in the second half of 2001 in order to offer a greater, more varied range of maintenance services.

- The **data transmission** sector (Sigma and Sigma Travel System) recorded a very good operating profit of Lire 51 billion which was well up on the Lire 37 billion recorded in 1999.
  The improvement was made by Sigma Travel System and essentially relates to an increase in commission income (Galileo) and income from travel agents. Commission income increased both in unitary terms and as a result of the strengthening of the Dollar. The increase in income from travel agents is due to the higher volume of business.

- The **tourism** sector (Italiatour Group) recorded a Lire 3 billion operating profit compared to a similar sized loss in 1999. The improvement is essentially due to the increase in business volumes and the "average revenue" on package deals sold in Italy and abroad.

- Alitalia Airport commenced its activities in the **airport handling** sector on 1 July 2000 and made an operating profit of Lire 3 billion.

- The **financial sub-holding companies** (Racom and Aviofin) and the **insurance** division (Alinsurance) did not record any significant differences in operating result compared to the previous year; an operating profit was recorded in both 1999 and 2000.

Further information about the Group's results in relation to the income statement, balance sheet and financial position is provided below in the comments on the various tables.

ANALYSIS OF THE CONSOLIDATED PROFIT AND LOSS STATEMENT

(in millions of lire)

	31.12.2000	31.12.1999	*CHANGES*
A. REVENUES	***10,438,258***	***9,308,349 (*)***	***1,129,909***
Change in work in progress, semifinished and finished products inventory	***4,813***	***755***	***4,058***
Assets increase for internal costs	***131,669***	***123,977***	***7,693***
B. VALUE OF "NORMAL" PRODUCTION	***10,574,740***	***9,433,081***	***1,141,660***
Costs of raw materials and external services	***(8,335,290)***	***(6,935,008)***	***(1,400,282)***
C. ADDED VALUE	***2,239,450***	***2,498,073***	***(258,623)***
Personnel cost	***(2,288,983)***	***(2,153,368)***	***(135,615)***
D. GROSS OPERATING MARGIN	***(49,533)***	***344,705***	***(394,237)***
Depreciation and amortization	***(567,574)***	***(507,785)***	***(59,789)***
Other adjustments	***(18,491)***	***(4,174)***	***(14,317)***
Provisions for liabilities and changes	***(80,974)***	***(276,487)***	***195,514***
Net other income (expenses)	***208,950***	***245,747***	***(36,797)***
E. OPERATING PROFIT	***(507,622)***	***(197,995)***	***(309,627)***
Financial income (expenses), net	***31,917***	***26,172***	***5,745***
Adjustments to financial assets	***(7,337)***	***(1,122)***	***(6,215)***
F. PROFIT BEFORE EXTRAORDINARY ITEMS AND TAXES	***(483,042)***	***(172,945)***	***(310,098)***
Extraordinary income (expenses)	***66,427***	***206,229***	***(139,802)***
G. PROFIT BEFORE TAXES	***(416,615)***	***33,284***	***(449,899)***
Income taxes	***(78,362)***	***(21,547)***	***(56,814)***
H. NET PROFIT FOR THE YEAR	***(494,977)***	***11,737***	***(506,713)***
of which:			
- Parent company share	***(496,566)***	***15,318***	***(511,884)***
- Minority interest	***1,589***	***(3,581)***	***5,171***

(*) Refer to the previous table reporting the Air Transport income results for the effect on 1999 data of the KLM deposit. Excluding the said effect for comparison homogeinity the gross operating margin decrease becomes of L/mld 200 circa.

Group - Analysis of the results

An analysis of the main consolidated profit and loss statement items, as set out in the relevant table, is provided below.

The financial statements for the year ended 31 December, 2000 report a net loss of Lire 495 billion compared to a net profit of Lire 12 billion in 1999.

As mentioned under "The situation of the Alitalia group" and with particular reference to the air transport sector, the loss stems from the series of unfavourable events that badly affected operations in 2000 (the uncertainties on the traffic allocation within the Milan airport system, the low reliability of the network because of continual changes, the termination of the alliance with KLM and the large increase in the cost of fuel).

As a result, the significant increase in revenues that was, nonetheless, achieved was not enough to offset the total rise in costs.

In further detail:

Revenues amount to Lire 10,438 billion and have increased by Lire 1,130 billion (+12.1%) compared to last year.

The total increase mainly relates to the following factors:

- passenger income (+ Lire 781 billion) and cargo income (+ Lire 172 billion);
- incidental traffic related income (+ Lire 153 billion), essentially fees paid by other carriers and boarding taxes;
- maintenance for third parties (+ Lire 66 billion);
- charter hire (+ Lire 59 billion);
- tourism income (+ Lire 30 billion).

In 1999, revenues included Euro 100 million paid by KLM under agreements regarding the "sharing formula" and the launch of the Malpensa hub. If we exclude this amount for the sake of consistency, the increase was Lire 1,323 billion (14%).

Value of production amounts to Lire 10,575 billion and has increased by Lire 1,142 billion (+12.1%) compared to 1999; this amount includes a relatively higher figure for capitalisation of internal costs and change in inventories of materials under construction. The effect of the contribution from KLM was the same as that mentioned under revenues.

The **cost of materials and external services** amounts to Lire 8,335 billion and has increased by Lire 1,400 billion (+20.2%) compared to 1999. This reflects the higher costs related to the additional capacity now available (+4% for passengers and cargo) and, especially, the effect of price increases (mainly relating to fuel) and exchange rate fluctuations that have characterised the year.

The following should be noted in relation to individual cost categories:

– fuel costs have increased by Lire 736 billion (+85%). 63.6% of the increase relates to price increases, 27.6% to exchange rate fluctuations and the remainder to the higher volume of business;

– selling costs have increased by Lire 161 billion (+11%) due to higher brokerage and booking costs while promotional and advertising costs have been more contained;

– traffic and airport costs have increased by Lire 126 billion (+6%) mainly because of higher boarding taxes (this increase is offset by the analogous item included under incidental traffic related income);

– rental and hire costs have risen by Lire 120 billion (+16%) mainly in relation to block space agreements for "all cargo" hires and to higher finance and operating lease costs;

– fleet maintenance costs, including materials, have increased by Lire 113 billion (+16%). This is mainly due to an increase in maintenance work done for third parties, the expansion of the Group's fleet and the worsening of the Euro/USD exchange rate;

– other items have increased by a total if Lire 144 billion (+13%). This is mainly due to the development of flight, tourism and customer assistance services which led to higher hotel, transport, professional services and general costs.

As a result of the above, **added value** amounts to Lire 2,239 billion and has decreased by Lire 259 billion compared to 1999; the decrease is only Lire 65 billion if the aforementioned contribution from KLM in 1999 is excluded.

Personnel costs amount to Lire 2,289 billion and have increased by Lire 136 billion. Lire 54 billion of the increase relates to the employment by Alitalia Airport of staff formerly employed by *Aeroporti di Roma* in order to provide ground services at Rome Fiumicino airport (a 789 employee increase). The remaining increase of Lire 82 billion is the result of a 1,039 employee increase in the average workforce, mainly in the air transport operations and commercial sectors as a result of the higher volume of business.

The factors described above mean that **gross operating margin** was negative (Lire 50 billion) and deteriorated by Lire 394 billion compared to 1999 (Lire 200 billion excluding the KLM contribution).

An operating loss of Lire 508 million was made, Lire 310 billion more than the loss in 1999.
In addition to the change at gross operating margin level, the following must be considered:

- an Lire 60 billion increase in depreciation mainly due to the increase in the average number of owned aircraft in the fleet (six ERJ-145, five MD-80, three A-320, three B-767 and one ATR-72);

– a Lire 181 billion decrease in accruals to adjusting provisions and provisions for risks and charges. In 1999, a prudent accrual was made in respect of the full amount of the contribution received from KLM.

– a Lire 37 billion decrease in net other income. This was mainly due to the lower level of utilisation and absorption of certain provisions where the events the provisions were created for had come to pass; this was partly offset by gains on the sale of one B-747 and one ATR-42 aircraft.

Net financial income amounts to Lire 25 billion and is broadly in line with the previous year. The balance includes an accrual of Lire 42 billion to the provision for forward sale/purchase agreements regarding future charges regarding contracts to hedge fuel cost variations which are countered by exchange gains.

The **loss before extraordinary items and taxation** amounts to Lire 483 billion and has worsened by Lire 310 billion.

Net extraordinary income and charges show a positive balance of Lire 66 billion, mainly in relation to gains of Lire 36 billion realised on the sale of land in Magliana and Lire 13 billion on the sale and leaseback of 20 MD-80s. It should be noted that the total gain on the sale and leaseback operation was Lire 317 billion but Lire 304 billion has prudently been deferred to future periods in proportion to the leaseback payments to be made for the aircraft.

Turning to examine the accounting treatment of gains on the disposal of fixed assets, it should first be noted that gains on routine fixed asset disposals (i.e. those relating to the sale of a B-747 and a ATR-42) do not form part of extraordinary items; these are recorded under other income and charges. However, gains on disposals that take place for other reasons are considered under extraordinary items (See Italian Accounting Standard no 12).

Accordingly, the gains on real estate operations regarding the Magliana site and the aforementioned sale and leaseback of 20 MD-80s do form part of extraordinary items – the latter of these was effected in order to avoid the risks regarding the highly likely volatile prices for used aircraft in the coming years. The sale and leaseback operation meant that a reasonable price was immediately realised for older aircraft in the fleet which are no longer in production (production ceased in 1999) and which are used by a limited number of airlines (Alitalia is the second largest user in terms of aircraft numbers). These aircraft are not the most modern especially in relation to engine noise and a large quantity of them will probably be available on the second hand aircraft market in the coming years.

Moreover, as Alitalia was already planning to replace these aircraft as from the end of 2004, the sale transaction was accompanied by the leaseback of the aircraft until the planned decommissioning date (on average over five years).

As a result of this transaction Alitalia realised a total gain of Lire 317 billion in 2000 and will pay lease instalments with a present value of around Lire 300 billion over the coming years.
The lease instalments are far higher than the depreciation that would have been charged over the periods in question if the transaction had not gone ahead.
The coming years will also be affected by costs regarding the replacement of thermal acoustic cushions by mid-2005. Under the contracts, the lessor is responsible for these costs which must be incurred under a Directive issued by the Federal Aviation Administration last June which was already in force when the sale and leaseback contract was agreed.

The specific motivations behind the transaction and its contractual characteristics are the essential point of reference in deciding how it should be treated in terms of international accounting standard and, especially, under International Accounting Standard no 17 which states that the accounting treatment of gains realised upon sale and leaseback operations depends on whether they are operating leases or finance leases: this cannot always be easily determined. In the case of finance leases, the gain must be deferred over the period of the instalments while, for operating leases, gains are to be recognised immediately and recorded in the profit and loss statement.

The distinction is even more uncertain in the case of the aircraft in question. In fact, one of the elements considered by IAS no 17 in drawing the distinction is the remaining "useful life" of the aircraft: in the case of the MD-80s, this is increasingly hard to quantify. The reason lies in the presence of opinions tending to limit the state of use of these aircraft, in particular in relation to the aforementioned engine noise, as confirmed by experts of the sector. The ICAO (International Civil Aviation Organisation)'s Environmental Protection Committee recently made a statement along these lines. These developments have led to an increased level of volatility on the used aircraft market and the transaction in question was intended to avoid such risks.

US accounting standards (FAS) have eliminated the distinction and provide for the identical accounting treatment of gains made under leasebacks involving finance and operating leases: in both cases, any gains must be deferred.

This situation raises some doubts about the application of IAS no 17 and close attention was paid to the matter based on the general accounting principles which, under the Italian Civil Code, regulate the preparation of statutory financial statements.

Under general accounting principles, we concentrated on the fact that the sale and leaseback both take place at the same time and can be considered to form part of one transaction; any gain made on the sale tends to be balanced out by the lease charges subsequently paid. In this case, we have the recent developments in the second hand MD-80 market which will presumably come to be reflected in both selling prices and leasing costs.

We also considered the most recent internal and external factors that shows signs of uncertainties regarding the Group's current and future situation.

Specifically, the slowing down of the worldwide economy could lead to a less favourable cycle for air transport. This would inevitably lead to changes to the Alitalia Business Plan for the next four years.

Any such changes will have to reflect the new arrangement for traffic at Milan's airports, in particular, the greater use of Linate airport. This leads to the requirement to look after two nerve centres (Linate and Malpensa) in addition to Fiumicino in a manner that has not been planned for and with resources that cannot immediately be expanded.
The uncertainties are heightened by the review on arrangements for the two airports, made possible for the end of this year, under the Transport Ministry Decree of 5 January 2001.

Despite the recovery that is now underway, these developments could lengthen the time needed to restructure the Group economically taking this process beyond that included in the recent Business Plan.

Taking account of all of the above and given the clear uncertainty as to whether the leaseback may be considered an operating lease or a finance lease, it, nonetheless, appears prudent to adopt the accounting treatment prescribed by IAS no 17 for finance leases. Given the matters highlighted above, this approach appears to reflect better the substance of the operation which must always be considered in deciding what accounting method to apply.

Accordingly, the gain has been deferred in relation to the lease instalments as required by IAS no 17.

For balance sheet purposes, the deferral of the gain on disposal gives rise to deferred income reported under liabilities which will be reflected on net equity as it is released to the profit and loss statement in future years in relation to the lease instalments.

It should be noted that extraordinary income includes Lire 28 billion of deferred tax assets arising in prior years that may be recognised as it is reasonably certain that there will be taxable income to set them off against. The deferred tax assets in question relate to provisions that have been subject to taxation and which, as part of the business unit rental, are being transferred to the subsidiary Alitalia Team which this acquires the right to deduct the costs.

The **loss before taxation** of Lire 417 billion compares with a profit before taxation of Lire 33 billion in 1999.

Net tax items show a net charge of Lire 78 billion compared to Lire 22 billion in 1999; they essentially relate to the IRAP (Regional Tax on Business Activity) charge for the year.

The result of the above is that the Alitalia Group financial statements report a **net loss** of Lire 495 billion. The loss pertaining to parent company is Lire 497 billion.

At this point, it is worth examining the reasons for the loss given that the forecast contained in the Quarterly report on the 3rd quarter confirmed break-even expectations already mentioned in the interim financial statements thanks to the expected contribution of extraordinary items:

- to a considerable extent, the reason lies with extraordinary items and taxation. One of the major causes is the aforementioned deferral of the gain on disposal of Lire 304 billion, the delayed sale of the investment in Equant and of some ATR aircraft as well as the lower level of tax credits.

- The remainder, around 15% of the total variance, relates to operating and financial factors that are reflected in lower earnings before extraordinary items and taxation. In particular, this relates to lower revenues from passenger and cargo traffic as a result of the unexpected Middle East crisis, instances of conflict with the trade unions and emergency weather conditions at Malpensa which had a negative impact of around Lire 40 billion on the profit and loss statement. In addition, we have higher fuel costs in respect of which a provision of Lire 42 billion has been made in relation to hedging contracts in for 2001 prices. There were some cost savings largely in relation to exchange rate differences and exchange gains increased; these are recorded under financial income and expenses.

ANALYSIS OF CONSOLIDATED BALANCE SHEET
(in millions of lire)

	31.12.2000	31.12.1999	CHANGES
A.- NET FIXED ASSETS			
Intangible assets	*187,925*	*201,502*	*(13,578)*
Tangible assets	*5,369,649*	*4,697,225*	*672,424*
Financial assets	*223,099*	*160,981*	*62,118*
	5,780,673	**5,059,708**	**720,964**
B.- WORKING CAPITAL			
Inventories	*448,130*	*408,731*	*39,400*
Trade receivables	*444,993*	*325,269*	*119,725*
Other assets	*1,975,449*	*1,336,923*	*638,525*
Trade payables	*(1,001,559)*	*(872,572)*	*(128,988)*
Provision for liabilities and charges	*(668,038)*	*(724,628)*	*56,590*
Other liabilities	*(1,848,613)*	*(1,266,549)*	*(582,064)*
	(649,638)	**(792,826)**	**143,188**
C.- CAPITAL EMPLOYED, net of liabilities (A+B)	**5,131,034**	**4,266,882**	**864,152**
D.- PROVISION FOR EMPLOYEE SEVERANCE PAY	**766,327**	**694,074**	**72,254**
E.CAPITAL EMPLOYED, net of liabilities for the period and the provision for employees severance pay (	**4,364,707**	**3,572,809**	**791,898**
covered by:			
F.- NET EQUITY			
attributable to parent company	*2,892,194*	*3,389,968*	*(497,774)*
attributable to minority interest	*5,111*	*3,530*	*1,581*
	2,897,305	**3,393,498**	**(496,194)**
G.- MEDIUM /LONG TERM FINANCIAL INDEBTEDNESS	**1,523,973**	**835,859**	**688,114**
H.-NET SHORT-TERM FINANCIAL INDEBTENESS (NET CASH RESOURCES)			
- short-term financial payables	*394,490*	*7,753*	*386,737*
- cash, cash equivalents and short-term financial receivables	*(451,061)*	*(664,302)*	*213,242*
(G+H)	**1,467,402**	**179,310**	**1,288,092**
I.- TOTAL (F+G+H)	**4,364,707**	**3,572,809**	**791,898**

Group - Balance sheet analysis

Capital employed, net of current liabilities and employee severance pay, amounts to Lire 4,365 billion and has increased by Lire 792 billion compared to the financial statements for the year ended 31 December 1999.

The individual balances have changed as follows.

Net fixed assets amount to Lire 5,781 billion and have increased by Lire 721 billion; they may be analysed as follows:

- **investments** amount to Lire 2,015 billion including Lire 80 billion of intangible assets, Lire 1,861 billion of tangible fixed assets and Lire 74 billion of financial fixed assets (for further details see the subsequent section on the Group's financial situation));

- **amortisation and depreciation** for the period amounted to Lire 568 billion;

- **disposals**, net of gains made thereon, amount to Lire 720 billion. They include Lire 450 billion relating to the return of advances relating to five B-747 aircraft following the cancellation of the related purchase contract, Lire 200 billion relating to the sale of twenty MD-80, one A-321 aircraft (these aircraft were then leased back) and one ATR-72, Lire 26 billion relating to the repayment of advances on an A-320 aircraft which is no longer being purchased but leased instead, Lire 9 billion relating to the sale of land in Magliana and Lire 2 billion to the sale of investments in Cofiri Factor & Leasing and Emittente Titoli.

- **Writedowns** of equity investments amounted to Lire 7 billion.

Working capital shows a Lire 650 billion surplus of liabilities over assets compared to a similar surplus of Lire 793 billion at 31 December 1999.

The Lire 143 billion difference may be analysed as follows:

- Assets have increased by Lire 798 billion. This includes: a Lire 39 billion increase in inventories needed in order to support the increased size of the fleet and the higher level of maintenance activities, also for third parties; a Lire 120 billion increase in trade receivables as a result of extended passenger transport activities and increases in the charter, tourism, maintenance and data transmission sectors; and Lire 639 million relating to increases in other assets. The last of these increases includes Lire 495 billion regarding the receivable that has arisen following the cancellation of an order for B-747 aircraft (the advances paid will be refunded in April 2001) and Lire 144 billion relating to receivables from agents as a result of increased activities, advances paid to suppliers, deferred tax assets and receivables from employees;

- Liabilities have increased by Lire 655 billion. This includes: a Lire 129 billion increase mainly relating to trade payables due to petroleum companies as a result of higher fuel prices and the increased level of flight activity; a Lire 582 billion increase in relation to deferred gains relating to the sale and leaseback of twenty MD-80 aircraft (+Lire 304 billion), tax liabilities (+Lire 57 billion), amounts payable to other airlines and travel agents (+Lire 98 billion) and increased amounts payable to employees and social security and pension institutions (+Lire 57 billion).

  These increases have been partly countered by a Lire 56 billion decrease in provisions for liabilities and charges essentially relating to a reduction in the provision for sundry risks (-Lire 32 billion) following the positive settlement of a number of matters and utilisation of restructuring provisions (-Lire 26 billion) in relation to redundancy incentives and other personnel related amounts. The provision for unrealised exchange losses has fallen by Lire 12 billion, the tax provision by Lire 28 billion (following the release of a part of the provisions for deferred taxes made in 1997 by Racom and Aviofin) while the provision for forward sale and purchase commitments of Lire 42 billion has been created in relation to fuel price hedging transactions.

Employee severance pay amounted to Lire 766 billion, with an increase of Lire 72 billion due to the accruals made for current allowances, partially offset by amounts paid out to leavers during the year and by the advances granted to employees in accordance with applicable laws.

Net equity, amounting to Lire 2,897 billion, decreased by Lire 496 billion reflecting the net loss for the year.

Net financial debt amounted to Lire 1,467 billion, with an increase of Lire 1,288 billion as follows:

- **Medium/long-term financial indebtedness** increased by Lire 688 billion (from Lire 836 billion at 31 December 1999 to Lire 1,524 billion at 31 December 2000), due to the raising by the parent company of new loans of Lire 928 billion, partially offset by Lire 240 billion of repayments made during the year;

- **Short-term net financial indebtedness** increased by Lire 600 billion due to:

  ⇒ A Lire 387 billion increase in short-term indebtedness (from Lire 8 billion to Lire 395 billion);

  ⇒ A Lire 213 billion reduction in cash and short term financial receivables (from Lire 664 billion to Lire 451 billion).

CONSOLIDATED CASH FLOW ANALYSIS
(in millions of lire)

	31.12.2000	31.12.1999
A.- NET OPENING CASH AND CASH EQUIVALENTS (NET OPENING SHORT - TERM INDEBTEDNESS)	656,549	1,218,795
B.- CASH - FLOW FROM OPERATING ACTIVITIES		
Net loss for the year	(494,977)	11,737
Depreciation and amortisation	567,574	507,785
(Gains) losses on disposals of fixed assets	(394,712)	(200,584)
Assets revaluation/ write-downs	7,615	1,815
Change in working capital	(143,188)	(45,094)
Change in employee severance pay	72,254	14,241
	(385,434)	289,900
C.- CASH-FLOW FROM DISPOSAL/ACQUISITION OF FIXED ASSETS		
Assets acquisition:		
.intangible	(79,967)	(100,131)
.tangible	(1,860,656)	(799,269)
.financial	(74,671)	(9,510)
.Sales proceeds and reimbursements	1,112,644	319,325
.Assets increase/decrease from changes to consolidation base		
Other changes		148
	(902,650)	(589,437)
D.- CASH-FLOW FROM FINANCING ACTIVITIES		
.New loans	928,122	0
.Shareholders' contributions		
.Repayments from/to third parties	3	(710)
.Capital contributions		10,950
.Loan repayments	(169,131)	(154,931)
.Share capital repayments		
.Other changes to share capital		(23,245)
.Other changes in financing	(70,877)	29,076
	688,117	(138,860)
E.- PROFIT DISTRIBUTION	(12)	(123,849)
F.- CASH - FLOW FOR THE YEAR	(599,979)	(562,246)
G.- NET ENDING CASH AND CASH EQUIVALENTS POSITION (NET ENDING SHORT-TERM INDEBTEDNESS)	56,570	656,549

Analysis of the Group's financial situation

During 2000, the Group undertook a major capital investment programme which saw it invest a total of Lire 2,015 billion. This is gross of divestments but exceeds the sum of total capital expenditure in the last two years (Lire 1,747 billion).

The cash requirements for this programme together with the negative cash flow on operating activities meant that the Group had to seek new cash resources as well as using existing ones.

Overall, medium/long term indebtedness increased by Lire 688 billion while the short-term cash position deteriorated by Lire 600 billion.

In further detail:

- the **negative cash flow from operating activities** of Lire 385 billion results from the fact that the cash generating capacity (profit/loss + depreciation/amortisation + change in employee severance pay provision) of Lire 145 billion did not cover the increase in working capital of Lire 143 billion (see balance sheet section for analysis of this increase) and the effect of capital gains on fixed asset disposals and writedowns of the value of certain equity investments of Lire 387 billion.
  The last item essentially relates to the capital gains realised on the sale of land in Magliana, the sale of an ATR-42, a B-747 aircraft and the sale of twenty MD-80 aircraft.

  It should be noted that the Lire 387 billion referred to above includes the total gain arising on the sale and leaseback of twenty Md-80 aircraft, Lire 13 billion of which was recorded in the profit and loss statement with the remaining Lire 304 billion reflected in change in working capital (following the deferral of the capital gain to future years in relation to the lease instalments payable).

- the **negative cash flow from investment activities** of Lire 903 billion consisted of investments of Lire 2,015 billion and disposals that brought in Lire 1,112 billion.

The investments include:

⇒ *investments in intangible fixed assets* of Lire 80 billion mainly relating to software development costs (Lire 26 billion), work on leased aircraft in the fleet (Lire 27 billion), improvements at agencies and offices and work on buildings and equipment on state-owned land (Lire 7 billion), staff training (Lire 7 billion), incidental charges relating to loans (Lire 2 billion) and assets in progress (Lire 11 billion).

⇒ *Investments in tangible fixed assets* of Lire 1,861 billion included investments in the fleet (Lire 928 billion), advances paid in relation to the fleet (Lire 785 billion), other equipment (Lire 45 billion), IT equipment, office furniture and equipment (Lire 24 billion),equipment and motor vehicles (Lire 18 billion) and fixed assets under construction (Lire 61 billion).

The investments in the fleet related to the purchase of three A-320s, one A-321, two B-767s, six ERJ-145s and the payment of the final lease instalment in relation to five MD80s and one B-747 for a total of Lire 725 billion, the purchase of an engine and spare parts for ERJ-145 aircraft (Lire 30 billion), the purchase of replacement parts (Lire 75 billion) and modifications and overhauls of owned aircraft (Lire 98 billion).
The advances paid in relation to the fleet related to orders and options for A-319, A-320, Embraer, B-777 and B-747 aircraft (the B-747 advance is to be refunded as the contract was terminated during the year) and include financial charges on the advances paid.

⇒ *Investments in financial fixed assets* of Lire 74 billion essentially relate to receivables due following the sale of land in Magliana (Lire 21 billion) and the restatement of items denominated in foreign currency (Lire 21 billion – in contrast with the provision for deferred exchange gains included in current assets) as well as the subscription of a share capital increase by Sasa (Lire 7 billion), the acquisition of 9.14% of O.T.P. Ltd (Lire 14 billion) and the revaluation of taxes paid in advance on employee severance pay provision (Lire 5 billion).

Disposal proceeds totalled Lire 1,112 billion. This included Lire 450 billion relating to the cancellation of advances regarding five B-747 aircraft after the related purchase contract was terminated. The remaining Lire 662 billion mainly relates to the sale of twenty MD-80 aircraft (then leased back), a B-747 and an A-321 for a total of Lire 553 billion, the sale of land in Magliana for Lire 45 billion, the refund by a supplier of advances paid for an A-320 aircraft which was not actually purchased but leased instead (Lire 26 billion). The remaining Lire 38 billion mainly relates to the sale of aeronautics materials, the sale of equity investments and the refunds of guarantee deposits.

- **The positive cash flow from financing activities** of Lire 668 billion represents the difference between new medium/long term loans of Lire 928 billion and repayments made during the year, including related exchange differences, of Lire 240 billion.

As a result of the above, at 31 December 2000, the Alitalia Group had net cash resources of Lire 57 billion compared to net cash resources of Lire 656 billion at 31 December 1999.

Other significant events during the year

- The action described below has been taken under the various projects – contained in the Business Plan 1996-2000 – in order to relaunch the individual business sectors to provide them with the autonomy and means necessary to achieve competitive levels of effectiveness and efficiency.

  - 1 April 2000 saw the completion of the transfer of scheduled airline services from the parent company to the subsidiary Alitalia Team, with the sole exclusion of the "all cargo" business.

    This transfer was performed by means of business unit rental agreements relating to personnel and all intangible and tangible assets connected thereto in the performance of the air transport activity. In particular, Alitalia Team is given under a lease contract all the fleet operated by Alitalia – with the exclusion of all cargo B-747s – with the flight and cabin crew and all facilities needed in order to operate flights.

    The transfer saw the completion of the planned restructuring of the Group's scheduled flight activities. The intention was to make the H.C.C. (high competitive carrier) Alitalia Team fully responsible for main activities with Alitalia Express dealing with regional activities.

    Alitalia which continue to hold the licence to provide air transport services and will still be the owner of the licensed routes; it will be responsible for network planning and commercial management. For operational reasons, Alitalia will acquire the aircraft operated by Alitalia Team and Alitalia Express under "wet" leases. The latter companies may also perform side activities on their own but these are expected to be limited for the time being.

  - The subsidiary Alitalia Airport commenced operating on 1 July 2000. Its role is to provide and sell airport assistance services. The activities got underway with runway services for Alitalia Group aircraft at Rome Fiumicino airport. For this purpose, and in accordance with Article 14 of Legislative Decree 18/99, 1,531 members of staff (including 1,024 permanent and 507 under fixed term contracts) were transferred from Aeroporti di Roma with effect from that date.

    On 1 September 2000, the parent company Alitalia finalised the transfer of its "passenger assistance – Rome Fiumicino airport" business, consisting of persons employed at the airport (947 employees) and related tangible and intangible fixed assets, thus completing the project regarding the Rome airport.

    Finally, on 1 December 2000, the parent company Alitalia finalised the transfer of its "Italian airports" business unit which comprises staff employed at domestic airports (1,146 employees), together with assets used to perform handling activities throughout Italy.

- The Group's e-business activities have seen it participate in a project backed by Europe's leading airlines which aims to develop and sell a European travel portal by means of the company O.T.P. LTD which was set up on 14 August 2000.

  The new company, in which Alitalia has temporarily acquired an interest of 9.14%, shall eventually be owned as follows - 20% by AF, BA and LH, 8% by AZ, IB, KLM and SAS, 2.5% by Austrian and British Midland, 1.5% by Finnair, 1% by Aer Lingus with the remaining 0.5% reserved for management.

  Share capital will come to total Euro 333 million. On 28 August 2000, Alitalia subscribed the first instalment of Euro 7.18 million (Lire 13.9 billion). Additional share capital increases will be effected by 2004.

  The objective is to develop business travel in Europe by means of innovative, advanced sales channels and to win new clients over to air transport.

- The year 2000 saw the continuation of controls to ensure that the conditions imposed by the European Commission at the time of the approval of the Business Plan 1996-2000 and the authorisation of the Lire 2,750 billion share capital increase, defined as "State assistance compatible with common market rules", were being respected. This process has been entrusted to L.E.K. Consulting, a new firm engaged by the Commission. It considered final figures for 1999 and there were no significant findings.

  It should be recalled that based on the European Union's decision, the share capital increase was to take place as follows:

1996	prior to submission of Business Plan	Lire 1,000 billion
1997	after approval of the Business Plan	Lire 1,000 billion
1998	May	Lire 500 billion
1999	May	Lire 250 billion

  The European Union's decision provided that the 1998 and 1999 instalments would be paid only after a check had been conducted to ensure that the conditions imposed had been respected by the Italian Government and Alitalia.

  After the positive reports prepared by Ernst & Young – the consultants initially appointed to check that the conditions had been respected – the Commission authorised payment of Lire 500 billion in 1998 and Lire 250 billion in July 1999. These payments were not, in fact, made as a share capital increase of Lire 3,000 billion was organised in 1998 with major participation from the market and without any additional outlay on the part of IRI.

  It should also be recalled that Alitalia appealed against the European Commission's 15 July 1997 decision which defined the recapitalisation operation as "State assistance compatible with the rules of the common market". On 12 December 2000, the

European Community Court of first instance accepted many of Alitalia's main arguments. In particular, it was held that the "principle of the private investor in a market economy" had been wrongly applied, it invalidated this decision and with it the conditions imposed upon Alitalia. The Court also ordered the European Commission to pay its own and Alitalia's costs. The Commission recently announced that it would reconsider its decision without appealing against the Court's verdict.

- The following procedures were undertaken in order to appraise the value of the land in Magliana

  - ♦ January saw the approval of an agreement between Rome Municipal Council and Lazio Region regarding the future of the land and the removal or modification of restrictions on its use;

  - ♦ In March, a contract was signed for the sale of a plot of around 63,000 square metres to Toyota Motor Leasing which plans to build offices on it;

  - ♦ In December, contracts were signed for the sale of land to be used for a private residential complex (around 163,000 square metres) and for a hotel complex (around 72,000 square metres).

- With regard to Alitalia's other real estate properties, it should be noted that the New Town-Planning Scheme of the Municipal Administration of Fiumicino is currently under approval. The Scheme accepts the zoning and land use proposals needed by the Company for it to be able to implement its real estate development plan at the Rome airport.

  We also note that the initial phase of the IT centre restructuring work has been completed. The planning stage of the main part of the work has also been completed and the work commenced at the end of February 2001.

- In relation to the fleet, we note that, as part of the plan to renew the short and medium haul fleet, twenty MD-80 aircraft were sold and leased back towards the end of 2000; the leaseback will run until these aircraft are replaced.
  On average each leaseback agreement lasts for five years.

  This operation aims to avoid the risk of trying to sell on the market a type of aircraft which has been out of production since 1999 and which is expected to be available on the market in large quantities in the coming years as the main airlines stop using it.

  The USD 200 million operation involved 20 aircraft built between 1983 and 1985. It was concluded with leading specialists in the aircraft leasing sector after detailed market research.

  Under the lease agreements, any costs resulting from work required under directives issued by the aeronautics authorities shall be shared by the parties in relation to the remaining period of the lease. The only exception relates to the replacement of thermal-acoustic cushions by June 2005 which will be the responsibility of Alitalia.

It should also be noted that, on 8 November 2000, an agreement was reached with Boeing in relation to the purchase of six B777-200ER aircraft along with six options on the recently launched B777-300ER version and six rolling options, all with General Electric engines.

At the same time, Alitalia decided not to proceed with the purchase of five B747-400s or to exercise three options relating to such aircraft; the reasons for choosing these aircraft in the first place were related to the alliance with KLM which has, of course, now been terminated.

- As for the most significant changes in the securities portfolio, the Company:

  - has subscribed the capital increase up to Lire 45 billion resolved by the extraordinary Shareholders' Meeting of Alitalia Express;

  - has subscribed the capital increase up to Lire 15 billion resolved by the extraordinary Shareholders' Meeting of Alitalia Airport;

  - has subscribed the capital increase to Lire 107.5 billion by the subsidiary Alitalia Team;

  - has subscribed its portion of the increase to USD 10,400,000 of the share capital of Belac LLC, based in Florida and whose objects include the production of spare parts for aircraft engines; Alitalia holds a 5% stake in the company;

  - has subscribed its portion (Lire 6,926,585,461) of the capital increase of Lire 73,578,260,000 resolved by an extraordinary Meeting of Sasa Assicurazioni Riassicurazioni Società per Azioni;

  - has subscribed its share of the share capital increase to Lire 1.2 billion by Edindustria – Centro per le Comunicazioni d'Impresa S.p.A.;

  - has become the owner of the entire share capital of Italiatour S.p.A. as the other shareholder did not exercise its option rights following an operation regarding the subsidiary's share capital;

  - has become the owner of the entire share capital of Eurofly S.p.A. as the other shareholders did not exercise their option rights following an operation regarding the subsidiary's share capital;

  - has taken part, together with Elsag S.p.A. which has many years' experience in the electronic document management sector, in the setting up of Ales S.p.A. which will operate in the data processing market. Specifically, the new company will provide optical and physical archiving services, document reading and management, especially in relation to airline tickets. This will be done using systems and equipment based on mechanical, electronic, electromechanical, IT and telecommunications technology. The Company has subscribed a 49% stake of share capital amounting to Lire 500 million;

- has taken part, as a shareholder of "SITA – Societè Internationale de Telecommunications Aeronautiques", in the setting up of "SITA Information Networking Computing NV", a company that will operate in the new economy.
  More specifically, this investment has been taken through a foundation under Dutch law called Stichting - "The SITA INC Foundation", in which Alitalia holds 1,025,353 certificates of deposit including 615,212 provisional ones that may be redistributed in 2004 depending on the commercial performance recorded in from 2000 to 2003.

- has purchased from Istituto per la Ricostruzione Industriale (IRI) S.p.A. a 1% interest in the share capital of CO.FI.RI. Compagnia Finanziamenti e Rifinanziamenti S.p.A..

- has sold 120,000 shares in Emittenti Titoli SpA, a company established to promote the stock market for the interest of Italian companies with securities traded on regulated markets; it continues to own 142,000 shares;

- has sold to 7C (Holdings) Ltd. 60,000 shares in Alidata Società per Azioni, (name changed to 7C Italia S.p.A.), but continues to own 40% of the company's share capital.
  Subsequently, it subscribed its share of an increase in share capital from Lire 1 billion to Lire 6.8 billion;

- has sold its entire holding, of 150,000 shares, in Cofiri F&L S.p.A.

Finally, it should be noted that, on 22 December 2000, Istituto per la Ricostruzione Industriale (IRI) S.p.A. (in liquidation) transferred its 820,880,882 ordinary shares in Alitalia, representing 53.01% of the share capital, to the Ministry for the Treasury, Budgeting and Economic Planning.

Significant events subsequent to the year-end

- On 2 February 2001, IRI exercised its option to purchase a 1% interest in CO.FI.RI. Compagnia Finanziamenti e Rifinanziamenti S.p.A. which Alitalia had, in turn acquired from IRI during 2000.

- On 2 February 2001, Mr Domenico Cempella submitted his resignation as Managing Director of Alitalia S.p.A..

  A Board of Directors meeting held on 9 February 2001 accepted Mr Cempella's resignation and, pursuant to Article

2386 of the Italian Civil Code, appointed Mr Francesco Mengozzi as a Director and made him Managing Director.

The same Board meeting also engaged the new Managing Director to investigate the problems regarding the recent decision of the European Commission and subsequent Decree by the government minister Mr Bersani in respect of the regulation of air traffic in the Milan airport system and to take the necessary action with the authorities to ensure long-term stability.

- On 9 March 2001, Alitalia and all of the trade unions approved the renewal of the Collective Labour Agreement of Alitalia, Alitalia Team and Atitech ground staff which had expired on 31 December 1999.

  The new contract will remain in force in until 31 December 2003 for regulatory matters and until 31 December 2001 for financial matters. The financial conditions are in line with the understanding reached on July 23, 1993 and are consistent with the labour costs included in the Business Plan 2000-2004.

Business outlook

Although a fairly large operating loss (Lire 483 billion) was made for the year, the results nonetheless show that there has been a gradual commercial recovery since the second quarter of 2000.

The passengers sector, in particular, has seen a better balance between persons transported and the load factor and yield has improved. This has led to more noticeable increases in turnover over time.

While this trend was largely due to the foreign currency related contribution made by overseas sales and to the ticket price increases introduced by the airlines to cover rising costs, it does demonstrate the gradual benefits resulting from the more stable, reliable services offered following the agreement reached in April 2000 on a stable split of traffic between the Milan airports.

It should be noted that the changes regarding Milan Linate which have been introduced without adequate planning from the next summer season will lead to further difficulties for the company in operating efficiently out of the two airports.

Another very important factor that affects the outlook regards the trend of oil prices. Prices are currently going through a phase of stability which appears to be more consolidated and this follows the less encouraging prospects for worldwide consumption resulting from economic slowdowns. This should provide some breathing space for Alitalia which is also protected against any new fuel price increases thanks to its partial hedging transactions.

All the same, the above factors do not seem sufficient to suggest a new-found situation that will enable satisfactory economic results to be achieved in the short term.

Performance is still largely affected by seasonal factors although the new Malpensa hub should have limited this to a considerable extent. The company still needs to improve its commercial presence in North Italy which has, traditionally, been the area where competitors have managed to siphon off a large part of the potential business, especially in relation to the most profitable traffic. Finally, the delays regarding Alitalia's entry into a competitive alliance makes the airline and the Group ever more vulnerable to competition which is increasingly fierce and well-organised.

Finally, it is still very hard to take any action in relation to the operating structure at least so long as the recently drawn up Business Plan has not been thoroughly reviewed and any necessary changes identified.

While the Group is currently trying to take the necessary action to limit losses e.g. by trying to obtain the best from its commercial network and contain costs, it is likely that the year 2001 will once more record an operating loss although it should be far smaller than in 2000.

The fleet

The Alitalia Group covers its air transport network with an operating fleet comprising 166 aircraft with an average age of 8.9 years.

Following the aforementioned restructuring of operations which was completed on 1 April 2000, the aircraft included in the fleet - except for 3 B-747 all-cargo planes which are still directly operated by Alitalia - are operated by subsidiaries Alitalia Team and Alitalia Express. They are used on Alitalia flights under "wet" lease contracts (aircraft, crew, maintenance and insurance). The aircraft used for the charter sector are operated by subsidiary Eurofly.

Compared to 31 December 1999, the fleet has increased by 3 aircraft following the entry into operations of 6 ERJ-145s, 4 A-320s and 1 A-321 and the disposal of 7 ATR-42s and 1 B-747. In the charter fleet, a B-747 200 has been replaced with a B-747 400 (both leased planes).

As mentioned previously, the sale and leaseback operation involving twenty MD-80s was completed in November. These aircraft will be leased until it is time for them to be replaced.

Overall, Alitalia owns 65% of the aircraft used on its network.

The following tables summarise the allocation and ownership of the operating fleet.

Allocation

Type	**Alitalia**	**Alitalia Team**	**Alitalia Express**	**Eurofly**	**Total at 31.12.2000**	**Total 31.12.1999**	D
B-747	3	7	-	-	10	11	**-1**
MD-11	-	8	-	-	8	8	**-**
B-767	-	9	-	3	12	12	**-**
A-321	-	23	-	-	23	22	**+1**
A-320	-	6	-	-	6	2	**+4**
MD-80	-	89	-	5	94	94	**-**
ATR-42	-	-	-	-	-	7	**-7**
ATR-72	-	-	7	-	7	7	**-**
ERJ-145			6	-	6	-	**+6**
Total	**3**	**142**	**13**	**8**	**166**	**163**[2]	**+3**

[2] It should be noted that in the financial statements as at 31 December 1999, the Group operating fleet included two DC9-51 allocated to Eurofly which had been used in the first nine months of 1999 only.

Fleet	Ownership	31/12/2000	31/12/1999	D	Note
B-747 All Pax	Owned Alitalia	6	6	-	(*)
	Capital lease Alitalia	1	-	+1	(*)
	Rental Alitalia	-	2	-2	
B-747 All Cargo	Owned Alitalia	1	1	-	
	Capital lease Alitalia	1	1	-	
	Rental Alitalia	1	1	-	
MD-11	Owned Alitalia	6	6	-	(*)
	Leasing Alitalia	2	2	-	(*)
B-767	Owned Alitalia	2	-	+2	(*)
	Capital lease Alitalia	9	11	-2	(**)
	Owned Alitalia Team	1	1	-	
A-321	Owned Alitalia	15	15	-	(*)
	Leasing Alitalia	8	7	+1	(*)
A-320	Owned Alitalia	4	1	+3	(*)
	Leasing Alitalia	1	-	+1	(*)
	Leasing Alitalia Team	1	1	-	
MD-80	Owned Alitalia	65	80	-15	(*)
	Leasing Alitalia	1	6	-5	(*)
	Capital lease Alitalia	22	2	+20	(*)
	Owned Alitalia Team	1	1	-	
	Capital lease Eurofly	5	5	-	
ATR 42	Owned Alitalia Express	-	6	-6	
	Owned Alitalia	-	1	-1	
ATR 72	Owned Alitalia Express	1	1	-	
	Capital lease Alitalia Express	6	6	-	
	Capital lease Alitalia Team	-	-	-	
ERJ-145	Owned Alitalia	6	-	+6	(***)
	OPERATING FLEET	**166**	**163**	**+3**	

(*) Aircraft included in the business segment leased to Alitalia Team
(**) Six aircraft included in the business segment and three sub-leased to Eurofly
(***) Operating lease to Alitalia Express

As at 31 December 2000 the total fleet also included the following aircraft:

- 6 A-300 owned by Alitalia and 6 ATR-42 owned by Alitalia Express which the company is trying to find a use for rather than selling them;

- 3 training aircraft owned by Alitalia.

Personnel

During 2000, the Group employed an average of 20,995 persons, representing an increase of 1,828 employees over 1999.

The increase may be analysed by employee category as follows:

	2000	**1999**	D
Executives	197.3	192.3	+5
Managers and clerks	9,652.0	9,080.5	+571.5
Labourers	3,932.0	3,072.3	+859.7
Pilots and flight engineers	2,403.5	2,344.2	+59.3
Flight attendants	4,809.9	4,477.0	+332.9
	20,994.7	**19,166.3**	**+1,828.4**

The increase mainly relates to scheduled air transport activities which have seen an increase of 1,010 employees[3] as a result of the following:

- ground staff (+628 employees) have increased because of a greater need for aircraft maintenance/overhaul work (+262 employees), for increased needs in the commercial department (+119 employees) and in the airport operations area (+193 employees),
- flight and cabin crew (+382 employees including 65 pilots and 317 flight assistants) as a result of the increase level of activity.

The remaining 818 employee increase in the average workforce essentially related to the airport handling sector which – through the subsidiary Alitalia Airport – commenced operations on 1 July 2000 (789 employees were transferred from Aeroporti di Roma) with the remainder relating to the IT sector (+30 employees) and the charter sector (+24 employees).

The increase was countered in part by decreases in the fire prevention unit (-9 employees following the termination of these activities) and in the maintenance sector (-11 employees).

The total Group workforce at 31 December 2000 included 23,478 employees compared to 20,770 employees at 31 December 1999, an increase of 2,708 employees.

[3] This increase also includes the change regarding personnel transferred on 1 September and 1 December from the parent company to the subsidiary Alitalia Airport in order to provide airport handling activities.

Operation of air transport

In 2000, the total routes flown were 98.9% of those that had been planned, with an improvement – in all sectors - of the regularity index by 0.4 percentage points from 31 December 1999.

Departures on time (within 15 minutes delay) have increased by 12.2 percentage points compared to 1999 to stand at 75.5% (63.3% in 1999). A particular mention must be made of the improved efficiency at Malpensa which recorded a 20 percentage point improvement from 47.6% to 67.6%. It should also be recalled that the first half of 1999 was badly affected by problems regarding the launch of the new airport which opened at the end of 1998 while other external factors such as the conflict in the Balkans and Air Traffic Control disputes also took their toll.

With regard to quantities, the average fleet operating on scheduled routes in 2000 consisted of 155 aircraft, around three aircraft more than in 1999. This, together with improved use of aircraft and greater use of chartered aircraft, led to a 3.1% increase in total hours of flight. A breakdown by type of aircraft with the changes in the fleet is provided in a specific section.

AIR TRANSPORT ACTIVITIES OF THE ALITALIA GROUP

	1998	*1999*	*2000*	Chg. % ***00/98***	Chg. % ***00/99***
PASSENGERS					
Passengers carried (000s)	24,103	24,058	25,542	6.0	6.2
Available seats-kilometres (000s)	51,652,315	54,498,061	56,435,101	9.2	3.6
Passengers carried Km (000s)	35,527,186	36,762,313	40,693,465	14.5	10.7
Available tonne-kilometres (000s)	5,113,579	5,395,308	5,587,075	9.2	3.6
Tonnes carried Km (000s)	3,517,191	3,639,469	4,028,653	14.5	10.7
Passenger load factor (%)	68.8	67.5	72.1	3.3 p.p.	4.6 p.p.
PASSENGERS (including franchising)					
Passengers carried (000s)	24,783	25,185	26,694	7.7	6.0
Available seats-kilometres (000s)	52,421,820	55,662,889	57,483,444	9.6	3.3
Passengers carried Km (000s)	35,971,267	37,523,566	41,436,273	15.1	10.4
Available tonne-kilometres (000s)	5,189,760	5,510,626	5,690,861	9.6	3.3
Tonnes carried Km (000s)	3,561,155	3,714,833	4,102,191	15.2	10.4
Passenger load factor (%)	68.6	67.4	72.1	3.5 p.p.	4.7 p.p..
CARGO AND MAIL					
Available tonne-kilometres (000s)	2,158,994	2,374,274	2,506,151	16.0	5.6
Tonnes carried Km (000s)	1,521,708	1,637,029	1,767,385	16.1	8.0
Load factor (%)	70.5	68.9	70.5	----.	1.6 p.p.
TOTAL SCHEDULED SERVICE *(1)*					
Available tonne-kilometres (000s)	7,272,573	7,769,582	8,093,226	11.2	4.2
Tonnes carried Km (000s)	5,038,899	5,276,498	5,796,038	15.0	9.8
Load factor (%)	69.3	67.9	71.6	2.3 p.p.	3.7 p.p.
TOTAL SCHEDULED SERVICE (including franchising) *(1)*					
Available tonne-kilometres (000s)	7,348,754	7,884,900	8,197,012	11.5	4.0
Tonnes carried Km (000s)	5,082,863	5,351,862	5,869,576	15.5	9.7
Load factor (%)	69.2	67.9	71.6	2.4 p.p.	3.7 p.p.
TOTAL SERVICES (including franchising) *(2)*					
Hours flown by Alitalia aircraft(000)	535	584	602	12.5	3.1
Hours flown by chartered aircraft (000)	68	93	96	41.2	3.2
Total hours flown (000)	603	677	698	15.8	3.1
Total Km flown (000)	329,351	364,199	380,875	15.6	4.6
Available tonnes Km (000)	7,557,571	8,217,093	8,815,756	16.6	7.3

(1) includes mixed scheduled flights and all cargo flights;
(2) includes mixed scheduled flights and all cargo flights plus night-time postal flights and charters;

Passenger traffic The following table shows the changes compared to 1999 in passenger traffic figures per network sector.

	Available (ASK)	***Carried (PTK)***	***Load factor***	***Income from Passengers***
Domestic	+1.5 %	+2.7 %	+0.7 p.p.	+5.5%
International	+4.0 %	+9.6 %	+3.4 p.p.	+8.8%
Intercontinental	+4.2 %	+13.9 %	+6.7 p.p.	+19.3%
Total Network	**+3.6 %**	**+10.7 %**	**+4.6 p.p.**	**+11.8 %**

During 2000, available capacity across the entire Alitalia network increased by 3.6% compared to 1999 (+3.3% if services operated under franchising agreements are considered[4]).

There was a larger increase (+10.7%) in the number of passengers carried (+10.4% if franchising is considered).

As a result, the load factor improved significantly – by 4.6 percentage points – to stand at 72.1% compared to 67.5% in 1999.

However, despite being boosted by exchange rate factors, the yield was only slightly up on last year with a modest 1% increase. However, total income increased by 11.8% in line with the rise in volumes.

These results must be interpreted bearing in mind the previously mentioned factors that affected 1999, especially in the first half of the year. These factors, including ATC problems, the conflict in Kosovo and the launch of Malpensa, all caused significant disruption to the normal operations of the network and led to a major loss of efficiency and competitiveness especially in the most remunerative sectors. On the whole, in 1999, these factors led to a 2% fall in revenues compared to 1998 while available capacity increased by 5.3%.

The situation may be analysed further as follows:

Domestic flights Compared to 1999, activities in the domestic sector saw a limited increase in the number of seats available (+ 1.5%) but a larger increase (+2.7%) in passengers transported. The load factor improved by just 0.7 percentage points from 65.6% to 66.3% but the yield increased by 2.7% leading to a 5.5% rise in total income.

[4] Franchising agreements are reached with carriers which use their own aircraft in Alitalia livery and match Alitalia service standards to operate flights, mainly feeder flights and flights on new markets, generally at lower prices than those offered by Alitalia as the types of aircraft used are generally better suited to this type of flights.

The results are broadly similar if the franchising activities are included.

The year’s performance was split into two clearly separate phases: until July, there was a significant increase in volumes as activities out of Malpensa became more established and as a result of the success of special offers. Volumes began to decrease from August onwards although this was due to a policy of increasing average income per passenger leading to a rise in turnover growth rate.

On the operations side, it is worth noting that additional flights have been added between Fiumicino and Linate (32 flights a day in the 2000/2001 winter season) in order to offer the best possible service at peak times. The Fiumicino-Malpensa hub-to-hub service has also been improved to take it to 12 flights a day.

Certain flights operated under franchising agreements by Minerva Airlines (direct flights between Bari and other non-hub airports) were discontinued in October 2000. This decision was made for economic reasons and for the need to concentrate franchising activities on feeder flights for the Malpensa hub.

Finally, it should be noted that competition has become tougher as a result of the higher number of flights offered by competitors and British Airways’ entry into the Italian domestic market through a carrier that operates under a franchise agreement (National Jet Italia).

International flights

The increase in available capacity (+4.0%) was easily outstripped by the rise in passengers transported (+9.6% in terms of tonnes km) leading to a satisfactory 3.4 percentage point increase in the load factor.
In general, the positive trend regarding international traffic may be attributed to the gradual improvement of operations out of the Malpensa hub which has lived up to expectations after a difficult initial period.

Even though yield has been eroded (-0.7%) as a result of Malpensa’s establishment as a European hub with the related impact on connecting traffic, total income did increase by an excellent 8.8%.

Including franchise services, the performance does not differ much in terms of availability (+4.0%), passengers transported (+9.6%) and total turnover growth (+8.8%). Franchise activities which mainly relate to Malpensa have been boosted significantly by the hub effect.

The individual sectors may be analysed as follows:

Europe – in western Europe, a slight decrease in available capacity (-0.2%) was met with a 5.1% increase in traffic leading to a positive impact on the load factor (+3.2 percentage points).

The increase in revenues (+4.8%) was affected by the slight drop in yield (-0.2%) due to increased connecting traffic and to price competition on those markets most exposed to competition. The situation changes little if franchise activities are considered (availability – 0.2%, traffic + 5.1%, yield – 0.2%, revenues +4.8%). The following may be noted at individual route level:

- traffic between Italy and Turkey recovered well following a collapse in 1999 as a result of a hardening of political relations between the two countries;
- passengers transported increased well in excess of the increase in availability for Austria, Switzerland, France, Germany, Greece, Malta and Spain;
- there was a slight fall in volumes for the United Kingdom where the competition is particularly fierce.

In Eastern Europe, the increase in availability (+14.7%) must be considered bearing in mind the fact that, in 1999, the conflict in the Balkans had led to the suspension of services to Belgrade and to major reductions in services for Albania, Croatia and Bulgaria. Passengers carried recorded a very positive increase (+ 27.3%) which more than offset the increased availability. As a result load factor increased by 6.7 percentage points. These factors and the fact that yield substantially held firm (-1.0% over the year but + 7.5% in the last quarter thanks to increased business traffic) meant a 26.1% increase in revenues.

North Africa – Now that the Malpensa hub is operating normally, certain routes that had only just been launched in the first half of 1999 are now establishing themselves. This has led to excellent results on flights from Milan to all North African destinations. The increase in seat availability (+13.6%) was exceeded by passengers transported (+17.2%) leading to a sharp increase in revenues (+21.7%) thanks also to a 3.9% increase in yield due to the increased incidence of richer routes for Libya and Algeria.

Middle East – the availability of additional licences has enabled the company to increase availability on many routes (+21.8%). Traffic has increased by 23.7% and the load factor has increased by 1.1 percentage points. These results are due to an excellent performance in the first nine months of the year while there was a degree of stagnation in the last quarter mainly because of instability in the area. Traffic did, however, show signs of a decent recovery as from December. Yield has increased by 6.0& thanks to an increased number of local passengers and to particularly rapid growth in the business sector.

Intercontinental flights

Availability increased by 4.2% compared to 1999 essentially as a result of investment in North America (+12.1%) and the Far East (+2.1%) and reduced availability for Oceania (-14.9%) and long haul African destinations.

The increased capacity on offer has been more than matched by the rise in passengers carried (+13.9%), especially on routes to the Americas, thanks also to economic recovery in Venezuela and Brazil. The load factor has increased by 6.7 percentage points.

It is also worth stressing that the increase in revenues (+19.3%) exceeds the increase in passengers carried but this also includes exchange rate benefits resulting from weakening of the Euro (-10.2%) and this must be taken into account when examining apparent yield growth (+4.8%).

The performance of the various sectors may be analysed as follows:

North America – Compared to 1999, seat capacity has increased by 12.1% mainly thanks to the doubling of flights to New York, to the start – in June 1999 – of new routes from Malpensa to San Francisco to Toronto and to the introduction of a extra flight for Miami with effect from April.

Passengers carried increased by almost twice as much (+24.1%). It should, however, be remembered that the results for 1999 were adversely affected by the problematic launch of Malpensa. The load factor increased by 8 percentage points to arrive at 79% and exceed even the 75.9% achieved in 1998.

The yield has increased by much less as the positive impact of exchange rates has been absorbed by strong competitive pressure from the main North American airlines. This forced Alitalia to bring its ticket prices into line with those of its competitors. Overall, revenues increased by around 26%.

Central America – Seat capacity did not change significantly in terms of capacity compared to 1999 but was split differently between Malpensa and Fiumicino.

This operating decision plus the exit from the market of the Venezuelan airline Avensa – which cancelled its four times a week service for Caracas – and the end of the recession enabled Alitalia to improve its performance and passengers carried increased by 20.4%. This, together with yield recovery 30.5% meant a significant (+ 8.4%) increase in revenues.

South America – Available seat capacity decreased by 4.5% following the restructuring of operations for Brazil. Capacity remained largely unchanged for Argentina but there was a redistribution between Fiumicino and Malpensa. These measures resulted in a decrease in total seat capacity but resulted in a significant increase in passengers carried (13.3%) with a major impact on the load factor (+12.5 percentage points) which returned to levels in excess of those seen in 1998 (79.5% compared to 73.2%).

Total revenues increased by a smaller amount (+11.6%) also because of a slight fall in yield (-1.6%).

It should be noted that, despite improvements in the general economic situation, the results in this sector are largely conditioned by competition from Aerolineas Argentinas which has offered flights from Buenos Aires to Italy, via Madrid, since July 1999.

Far East – Available seat capacity increased by 2.1% following the introduction of a sixth Malpensa – Tokyo flight under a code sharing arrangement with JAL and as a result of the doubling of weekly flights to Bombay.

Overall, passengers carried grew satisfactorily (+3.7%) thanks to the good performance of traffic to Osaka.

The increase in revenues was more significant (+ 22.1%) thanks to the strengthening of all of the main Asian currencies and this led to 17.7% increase in yield.

Oceania – Seat capacity on offer decreased significantly (-14.9%) following the cancellation of activities in this sector in the second half of 2000. This had a negative effect on other indicators with passengers carried falling by 17% and revenues by 18.6%.

It should be noted that the termination of the alliance with KLM badly affected this area.

Africa (long haul) – Seat capacity on offer in this sector fell slightly (-2.5%) mainly due to the cancellation of services to Nairobi and Addis Abeba.

However, passengers carried increased by 3.4% thanks to the good performance of flights to Senegal. As a result, the load factor improved on all routes.

Revenues increased by 5.7%, outpacing the increase in passengers carried thanks to favourable exchange rate trends.

Cargo traffic

In 2000, cargo traffic recorded 9.3% growth worldwide (Source: IATA). The performances of North American and Asian airlines are especially noteworthy as they achieved growth of 10% and 11%, respectively.

These results are essentially due to the fine performance of the US economy and to the recovery in Asia which have led to an upturn in cargo activities.

The cargo carried by European, AEA member airlines increased by a total of 6.6% in 2000. The first half of the year saw AEA airlines record average increases of 8.4% due to economic recovery and to an increase in exports thanks to the constant strengthening of the Dollar against the Euro. The second half, however, felt the effects of the slowdown in the rate of growth of the US economy and of the continued rise in oil prices.

Considering the background, Alitalia's performance must be considered especially positive as it has managed to record growth at above the European average rate enabling it to recover a small amount of market share (from 6.1% in 1999 to 6.3% in 2000).

Capacity available increased by 5.6% while cargo carried increased by 8.1% and the load factor improved by 1.7 percentage points to stand at 69.5%.

The positive performance of cargo activities in 2000 was due to the better use of aircraft (especially in the North Atlantic and Far East sectors), to the consolidation of the joint venture with Nippon Cargo and to a new agreement with Korean Air. It should also be noted that July 2000 saw a B747-400F come into service in place of a B747-200 and this aircraft has significant advantages in terms of its greater cargo hold and its efficiency. It should also be noted that any comparison with 1999, especially in the first half of the year, must be performed considering the problematic launch of the Malpensa hub.

Revenues increased by 20% and this reflects both the higher quantity of cargo carried and yield growth (+11%) as a result of a good tariff policy and favourable exchange rates.

Mail traffic

The performance of the mail traffic in 2000 differed greatly between the first and second half of the year. The first half of the year recorded a decrease of 11.1% essentially due to the decision of several overseas administrations not to entrust their mail to the Group. A clear recovery was seen in the second half of the year due to the commercial policy introduced in May 2000 with a view to building up loyalty on the part of the main clients and thanks to code sharing agreements with Northwest and Continental. Mail carried recorded a total increase of 15.6% compared to 1999.

Revenues for the period in question increased by 35.7% compared to 1999; 12% was due to favourable exchange rates while 9% was due to improved use of available space.

The increase in revenues from night-time mail flights was smaller and amounted to 2.8%; it was the result of a 5.3% increase in flight hours. The performance in this sector must be considered bearing in mine the new mode of operations agreed with Poste Italiane S.p.A. which provides for a greater role in the night-time post sector.

It should be noted that a new contract was signed with Poste Italiane S.p.A. in April in relation to that company's "Priority mail" service. As a result, a new network has been set up with its hub at Rome Fiumicino and links with 16 Italian cities.

Alitalia and Poste Italiane S.p.A. are examining the possibility of further developing the night-time airmail service – perhaps using all cargo aircraft – in order to fulfil the new operating requirements of postal transport which involves the gradual replacement of mail bags with metal containers.

Charter traffic

The figures regarding charter traffic in Italy show a recovery in terms of demand which is more than satisfied by constant increases in available capacity (in 2000: +16% for long haul and +24% for medium haul) in both medium and long haul sectors.

It should also be noted that there were numerous cancellations by some of the leading clients, partly as a result of the heightening of tension in the Middle East. The excess supply has made the airlines' negotiating position towards the Tour operators somewhat critical in relation to the penalties to be applied in case of cancellations and to contractual price adjustment clauses.

This situation has characterised the Group's charter activities which have increased from Lire 292 billion at 31 December 1999 to Lire 340 billion at 31 December 2000, especially as a result of the increased seat availability offered by the subsidiary Eurofly following the introduction into its fleet of a third B-767. However, despite the increase in revenues, a loss has been made because of cost increases (fuel, the Dollar effect) which could not be passed on to clients.

Italian and EU regulatory framework

There follows a description of the main changes that occurred during 2000 within the regulatory framework together with developments regarding certain matters already mentioned in previous Directors' Reports.

- As regards the allocation of traffic within the Milan airport system, it should be noted that on 14 December 1999 the transfer of flights from Linate to Malpensa was blocked due to a judgement of environmental incompatibility issued by the Minister for the Environment. On 3 March 2000, further to the adoption of measures aimed to lessen environmental problems, the Minister of Transport issued a new order for the traffic allocation between Linate and Malpensa which at the same time serves two purposes: a greater use of Linate and the appropriate development of the Malpensa hub.

  The new decree lays down that EU airlines may operate "point-to-point" flights to and from Linate, using "narrow body" type aircraft, for other EU airports. These flights shall be determined based on certain parameters applied to passengers traffic volumes for 1999. This means that Linate still has flights to and from European capital cities and cities in Southern Italy while maintaining a high number of flights on the Rome – Milan route.

  According to the so called Bersani Decree operations at Linate airport must be performed as follows:

  a) one daily return service per airline on routes with passenger traffic ranging between 350,000 and 700,000 passengers;

  b) two daily return services per airline on routes with passenger traffic ranging between 700,000 and 1,400,000;

  c) three daily return services per airline on routes with passenger traffic ranging between 1,400,000 and 2,800,000 passengers;

  d) unlimited services on routes with traffic in excess of 2,800,000 passengers.

  Further to a new appeal filed by several foreign carriers against the Bersani Decree, the EU Commission has instructed a consulting firm, S.H. & E., to check Malpensa's capacity to cope with the transfer of flights, especially in connection with new take-off and landing procedures required by the Minister of Environment to control the environmental impact on the area round the airport. The Minister of Transport, however, required that the transfer be implemented from 20 April 2000, also pending the report of the consulting firm. After about a month's work, the European Commission officially removed the consulting firm from its engagement as one of the appealing airlines held

an interest in it and put the work out to tender; the review of Malpensa was then assigned to Cranfield University.
The new advisor issued its conclusions in September and it broadly confirmed that the future development of Malpensa could be affected if certain measures are not taken as follows:

- the expansion of the air traffic control centre for the Milan area to enable it to cope with at least 95 flight movements per hour;
- the construction of bay C at Terminal 1;
- the introduction of new aircraft parking areas;
- the construction new high speed links to the runways;
- the construction of a third runway.

Based on the conclusions contained in the Cranfield Report and the Commission's negative opinion regarding the decree's compliance with EU regulations, the Transport Ministry approved certain changes, as follows, last December:

- an increase in traffic for Linate with the maximum number of flight movements per hour raised from 13 to 18;
- at least one daily return flight from Linate to all European capital cities;
- a minimum of two daily return flights with Linate for all EU airports which handled more than 40 million passengers in 1999;
- a review of the functioning of the traffic allocation rules for the Milan airport system prior to the end of 2001.

The changes brought about by the new decree issued by the Transport Ministry on 5 January 2001 – it will become fully operational on 25 March 2001 with the start of the new summer season – means a series of new connections with the main European capital cities. These cities will be served by both Linate and Malpensa and there are likely to be problems in making services from both airports efficient and profitable.

- With regard to external relations, the EU Commission persists in its plan to negotiate air transport agreements with other countries in the name and on behalf of the 15 EU Member Countries. Negotiations with Switzerland have been concluded but ratification by the Parliaments of the EU Member States is needed.

  It should also be noted that, in June 1996, the Council of Transport Ministers gave the Commission the mandate to negotiate an open sky agreement with the United States. This mandate specifically excluded the negotiation of " hard rights" i.e. traffic, capacity and tariff rights. The Commission was authorised to negotiate harmonisation of competition rules on both sides of the Atlantic.

  Over the years, numerous European countries have negotiated bilateral open sky agreements with the United

States. The Commission feels that these agreements are against the interests of Europe and, in October 1998, it reported the countries in question to the European Court of Justice.

In December 1999, once the US authorities had issued anti-trust immunity to the then alliance between Alitalia, KLM and Northwest, Italy also signed an open sky agreement with the United States, completely liberalising air traffic between the two countries.

In January 2000, the European Commission announced that it would be taking action against Italy and the country was added to the list of those already reported. It is, however, likely that before the Court issues its verdict, the initial concrete steps will have been made towards creating a "Transatlantic Common Aviation Area". Under this agreement, based on a multilateral open sky agreement between Europe and the United States, cross-Atlantic air traffic will be gradually liberalised.

The Council of Transport Ministers also appointed the European Commission to negotiate air transport agreements with ten central European countries. This multilateral treaty is expected to be signed by the end of 2001.

The Commission was also called upon to negotiate, on behalf of the 15 EU countries, the renewal of the appendices to the General Agreement on Trade and Services (GATS 2000). As regards air transport, it may be presumed that this renewal will be limited to "soft rights". It is unlikely that these negotiations will be completed within the next five years.

- As far as airport regulation is concerned, it should be noted that the EU Directive on ground-handling introduced, in 1998, the gradual liberalisation of the sector starting with self-handling activities. In 1999, this was extended to providing handling assistance to third parties at all EU airports with more than 3 million passengers per annum.

  The EU directive was implemented in Italy through a legislative decree issued in December 1998. This measure raised uncertainties in terms of illegality on the minimum number of service suppliers admitted to operate within the airport and on whether the existing employment rates would be maintained. In May 1999, ENAC issued an Implementation Circular confirming the spirit of the Legislative Decree. Following an appeal by consumer associations and independent handlers, in May the European Commission informed the Italian Government that the decree was not entirely in compliance with the requirements and objectives of the Directive. It invited the Italian Government to submit its own observations on the issues it has raised.

Finally, as provided in the Legislative Decree, Alitalia Airport has been approved by ENAC to provide self-handling services at Fiumicino airport for Alitalia Group companies. Alitalia Airport began operating on 1 July 2000.

Inter-governmental agreements

Eleven inter-governmental agreements were reached in 2000 as follows:

- new treaties were signed with Armenia, the Maldives, New Zealand and Ukraine;
- changes were made to existing agreements with Australia, Iran, Egypt, Morocco, Poland, Romania and the Dominican Republic.

Exploratory government level talks were held with representatives from Japan.

Inter-company alliances and agreements

Undoubtedly, the most significant event regarding inter-company alliances and agreements to have taken place during the year was the traumatic and unexpected termination of the Alliance with KLM. Alitalia has continued to look for new partnerships with other airlines in order to strengthen its position on the international air transport market.

In the North Atlantic market, now that three-way co-operation with KLM and Northwest is no longer possible, Alitalia has continued to negotiate with Northwest and has expanded the range of destinations that it can now reach inside the United States. A decision was taken to end the purchase from Continental of seats on connections for Newark following operating changes by the US airline; the two airlines are, however, looking at possible forms of co-operation.

In Europe, existing code-sharing agreements with several local airlines (Croatia, CSA, Cyprus Airways, Eurowings, Lot and Malev) have been reviewed. An agreement has been reached with Air Europa for connections for domestic routes in Spain in relation to Alitalia flights between Spain and Italy.

Co-operation with Meridiana has been extended to several international routes.

With regard to the Far East, full code-sharing with JAL is in place on all flights between Italy and Japan, activities with Korean Air have been restored and relations with Malaysia and Air Seychelles have been cancelled.

A co-operation agreement for Australia has been signed with Qantas and it will come into force with effect from the next summer season.

For South America, code-sharing agreements remain in force with Argentinas while full code-sharing with Varig for Italy-Brazil routes is expected to be introduced by summer 2001.

The termination of the Alitalia – KLM Alliance

The Alliance with KLM, created with the signing of a *Master Cooperation Agreement* on 27 November 1998 and effective since 1 November 1999, was unilaterally terminated by the Dutch airline by means of a letter dated 28 April 2000. In its letter, KLM referred to a communiqué issued on 31 March 2000 and cited three reasons for the termination of the *Master Cooperation Agreement*: (i) the modifications to the Burlando Decree (Ministerial Decree no 46T of 5 July 1996, regarding the organisation of air traffic at Milan's airports) which prejudiced the competitiveness and growth prospects of the Malpensa hub, (ii) the parties' failure to reach agreement over the Alliance's fiscal and legal status and (iii) the failure to reach a trilateral agreement between Alitalia, KLM and Northwest in relation to the North Atlantic sector. In the same letter dated 28 April 2000, KLM also requested repayment of the Euro 100 million (plus interest) contribution it had paid Alitalia in relation to the launch of the Malpensa hub at the end of December 1999.

As soon as it received the letter of 28 April 2000 and, consistent with the position adopted in prior months, Alitalia informed KLM that it felt that its decision to end the Alliance was unjustified and not in good faith. It held KLM responsible for a serious, irreversible breach of the *Master Cooperation Agreement*. Accordingly, Alitalia refused to refund the Euro 100 million contribution paid by KLM and reserved the right to sue KLM for additional damages resulting from the breach of its obligations.

Without prejudicing its case against KLM regarding its responsibility for the premature ending of the Alliance, since early May 2000, Alitalia's primary objective has been to liquidate the Alliance in an orderly and rapid fashion so that both parties can safeguard their interests and the requirements of their customers, shareholders and employees as well as possible and avoid aggravating the damage incurred by Alitalia as a result of KLM's unjustified breach of the Alliance.

The *Master Cooperation Agreement* required the parties to seek, in good faith, an amicable settlement for any disputes arising between them within 90 days of the dispute; such cases should lead to arbitration under Article 16.7 of the *Master Cooperation Agreement*. The arbitration procedure went ahead and culminated in a meeting between the Managing Directors of the two airlines at the end of July 2000. However, it did not have a positive result given the unbridgeable gap between the position of the two airlines. On 1 August 2000, Alitalia commenced arbitration proceedings against KLM by filing a Request for Arbitration with the *Nederlands Arbitrage Instituut*. The request sought to obtain:

- a declaration as to the illegitimacy of KLM's decision to terminate its agreements under the Alliance;
- the subsequent finding of serious breach of the *Master Cooperation Agreement* by KLM and of the legitimacy of

Alitalia's refusal to refund the Euro 100 million contribution regarding the Malpensa hub;

- the recognition of damages incurred and to be incurred by Alitalia. It was noted that these exceeded Euro 50 million thus triggering the contractual penalty of Euro 250 million subject to considering the legal basis for a claim for greater damages.

On 8 September 2000, KLM lodged its summary response with *Nederlands Arbitrage Instituut*. It rejected Alitalia's requests and stated that Alitalia had breached the *Master Cooperation Agreement* by failing to refund the aforementioned Euro 100 million contribution meaning that Alitalia was bound to refund this amount, plus interest, together with all other damages incurred by KLM as a result of Alitalia's breach of the agreement.

It should be noted that, pursuant to Art. 16.7 of the *Master Cooperation Agreement*, the arbitration proceedings take place in Amsterdam according to the procedural rules of the *Nederlands Arbitrage Instituut* and that Italian Law applies as the parties expressly agreed that the *Master Cooperation Agreement* would be governed by Italian Law. In accordance with the aforementioned procedural rules, the introductory submissions to the arbitration institute contain a summary of the parties' positions. The respective claims, exceptions and evidence must then be included in subsequent documents, the "*Statement of Claim*" for the plaintiff Alitalia and the "*Statement of Defense and Counterclaim*" for the respondent KLM.

The Arbitration Board met over the following weeks. It consists of three internationally renowned lawyers, an Italian, a Dutchman and a German. Pursuant to Art. 16.7 of the *Master Cooperation Agreement* the names of each of these persons were chosen, in agreement, by the parties based on proposals made by the Secretary General of the International Court of Arbitration of the International Chamber of Commerce in Paris.

The first hearing was held on 1 December 2000. Its scope was to define the organisation of the most important aspects of the proceedings and the outcome was set down in an order of the Board of Arbitration dated 7 December 2000 (as modified on 8 January 2001).

In particular, the following timetable was drawn up: Alitalia shall deposit its "*Statement of Claim"* (including supporting documentation) by 26 April 2001 and KLM its "*Statement of Defense and Counterclaim"* (including supporting documentation) by 27 July 2001; Alitalia will then deposit its "*Statement of Reply*" (i.e. the response to the first real defence arguments by KLM, including supporting documentation) by 19 October 2001 and KLM will reply to this by lodging a *"Rejoinder*" (with any additional documentation) by 21 December 2001. The hearing of evidence has been set for April 2002; only at the end of that hearing will the Board of Arbitration make public the date by which it will announce its decision although it is bound to decide within a reasonable period of time.

In its financial statements at 31 December 1999, Alitalia made a specific provision for risks in the amount of the aforementioned contribution made by KLM (included in income that year) plus interest; this provision was made in the interests of prudence only as Alitalia is convinced that the unilateral termination of the Alliance by KLM does not require it to refund the Euro 100 million. In consideration of the pending international arbitration proceedings, Alitalia has decided to maintain the aforementioned provision for risks in its financial statements as at 31 December 2000.

Industrial relations and organisation structure

During 1999 Alitalia renewed or extended all the collective labour contracts expiring on 31 December, in accordance with the Draft Interconfederal Agreement for the Jubilee dated 3 June 1999. The one-year extension (until 31 December 2000) of the agreement concerning the pilots' labour contract and of the Alitalia collective labour contract for ground personnel falls within this context. By doing so, it avoided being involved in contractual renewal negotiations during the year which could have resulted in inconveniences for passengers.

On 17 February at ENAC Alitalia, Aeroporti di Roma, ENAC and Trade Unions entered into a Draft Understanding defining the implementation methods set out by Legislative Decree No. 18 of 1999 for the transfer of the human resources from Aeroporti di Roma to Alitalia Airport Srl (1,531 employees) which will manage all of the handling activities for Alitalia aircraft. As stated, this initial transfer enabled operations to get underway at Fiumicino airport on 1 July 2000.

Subsequent transfers on 1 September 2000 - involving Alitalia staff at Fiumicino airport (around 1,000 employees) - and on 1 December 2000 – involving Alitalia staff at other Italian airports (around 1,150 employees) were effected by means of the transfer of the related business units under Article 2112 of the Italian Civil Code. This enabled the completion of the transfer of handling and ground assistance activities in Italy to Alitalia Airport.

The terms and conditions agreed in the understanding of 1 August 2000 and regulated by the Collective Labour Agreement of the airport management company have been applied to all staff transferred. This initially led one of the trade unions to adopt a negative position and led to some industrial action and the failure to sign the agreements reached with other trade unions. It did not, however, prevent the process from going ahead and the new structure from operating fully.

On 1 April the new unified contractual provisions for flight attendants became effective. This made it possible to complete the concentration of scheduled flight services under Alitalia Team and complete the restructuring of Alitalia in its role as a capacity provider. The process has involved the transfer to Alitalia Team of all flight crew and ground staff involved in operating activities; it has been performed pursuant to Article 2112 of the Italian Civil Code that relates to the rental of business segments.

More detailed information about labour agreements, expiry dates, the outlook for negotiations and so-called social matters for each category of staff is set out below:

PILOTS AND FLIGHT ENGINEERS. For this category there is an agreement which is expected to overcome staffing and related problems (hiring, promotion, holidays). Matters regarding the renewal of the contract which expired on 31 December 2000 have also been considered without any industrial action to date.

ANPAC has presented its position, a list of areas where action is required; a particularly delicate and complex negotiations process can be expected.

Previvolo. The pension fund for pilots and flight engineers has obtained authorisation to operate and recognition of its legal status from the relevant authorities: COVIP (31.10) and the Labour Ministry (22.11). December also saw changes to the pension fund by-laws in relation to the coming into force of new regulations for Pension Funds (Legislative Decree no 47/2000).
The invitation for tenders by prospective Banks and Administrative Services has led to the respective bodies being identified.
In December, employer and employee contributions for 2000 were paid in accordance with existing contractual requirements which require contributions of 2% of remuneration considered for employee severance pay purposes – up to a maximum of Lire 2,500,000 – by the employee and matched by the employer as well as the payment into the Fund of the entire accrual for the year for employee severance pay.

Sanivolo. The Board of Directors of the Healthcare Fund, SANIVOLO, began performing market research in July and August in order to arrange a health insurance policy in accordance with the contents of the transitory provisions of the Draft Protocol.
The Board studied the proposals of the various insurance companies it invited to make an offer and selected what it considered to be the best one in terms of cost and guaranteed services. A contract was signed with effect from 1 September 2000.

FLIGHT ATTENDANTS. Relations with trade unions have almost entirely been dedicated to the application of the renewal agreement of December 16, 1999 which will lead to a single contract system in place of the two separate ones that were in place for Alitalia and Alitalia Team. The largest trade union began a series of industrial action in June 2000 because of complaints against Alitalia Team. The reunification contract expired on 31 December 2000. It had practically made the situations of Alitalia and Alitalia Team equal. During the renewal negotiations, certain modifications will be required in order to eliminate certain elements of inflexibility that have emerged in relation to the employment norms; these have prevented productivity levels in keeping with the Business Plan assumptions from being achieved.

Fondav. In 2000, the Supplementary Pension Scheme for Cabin Crew (FONDAV) completed the procedure to elect its Board of Representatives. At the end of the electoral process, the outcome which arose upon counting the votes was not expressly covered by the by-laws and the last seat could not be allocated.
On 16 November 2000, the Board of Directors noted the impossibility of allocating the last seat and declared the electoral process closed. All relevant documents were referred

to the Supervisory Commission for Pension Funds in the hope of finding a solution to the problem.

GROUND STAFF - ALITALIA, ALITALIA TEAM, ATITECH. The bridging agreement signed in February 2000 led to the creation of a Joint Technical Contractual Commission whose role is to hold discussions with the trade unions in order to ensure that respective requirements are considered. As a result, it appears that it will be possible to conclude negotiations quickly without any industrial action.

Mercurio. The final details of the Ground Staff Supplementary Pension Fund - Mercurio – are being drawn up. These are the responsibility of the trade unions and are necessary in order for the final Pension Fund constitution to be completed.

In addition to the previously mentioned reorganisation that has affected Alitalia Team and Alitalia Airport, specific changes have been made to other parts of the organisation as a result of the termination of the alliance with KLM. In particular, the end of the joint venture in respect of passengers and cargo has led to the creation of a Business Passenger Division and a Cargo Division reporting to the General Manager. These are responsible for developing the airline's commercial activities in relation to passengers and cargo. A special team, together with a Steering Committee has also been set up to co-ordinate the liquidation of the joint ventures.

Research and development

The Group did not engage in any research and development activities in 2000.

Alitalia Group and the EURO

The action already taken for the compliance with the European single currency have involved applications IT/Software interfacing with the external world and making transactions in Euro possible; these are applications relating to issued and received invoicing, banks and cash position and market-operating applications (issue of tickets, tariffs, etc.).

The Euro compliance programme envisages two more steps. The first one, expected to be completed in the first half of 2001, will include the functions that are present and available in the SAP system which was already set up to use the Euro as money of account.

The second phase will see the completion of work on operating, information and management systems that supply data to the accounting system. This action will take longer also because of the need to maintain databases in different currencies (Lire and Euro) during the transitional phase. This phase should be completed during the second half of 2001, in line with the deadline for full adoption of the Euro (January 2002).

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2000

CONSOLIDATED BALANCE SHEET

(in millions lire)

	ASSETS				31.12.2000				31.12.1999
A)	**AMOUNTS OWING BY SHAREHOLDERS FOR CAPITAL**			0	**0**			0	**0**
B)	**FIXED ASSETS**								
I	**INTANGIBLE FIXED ASSETS**								
1)	. Start-up and capital increase costs			32,817				46,430	
2)	. Research, development & advertising costs			2,881				4,341	
3)	. Design rights, patents, copyright and intellectual property rights			47,903				37,609	
4)	. Trademarks and licences			2,252				2,941	
5)	. Consolidation differences			2,629				5,003	
6)	. Intangible assets under development and advances			14,183				17,151	
7)	. Other			85,260	187,925			88,028	201,502
II	**TANGIBLE FIXED ASSETS**								
1)	. Land and buildings			249,689				268,927	
2)	. Plant and machinery								
	a) Fleet		4,186,947				3,741,594		
	b) Other		68,103	4,255,050			36,553	3,778,147	
3)	. Industrial and commercial equipment			52,595				47,249	
3bis	. Assets subject to reversion free of charge			95,033				109,752	
4)	. Other			74,301				73,170	
5)	. Assets under construction and advances			642,981	5,369,649			419,979	4,697,225
III	**FINANCIAL FIXED ASSETS**								
1)	. Investments in:								
	a) subsidiaries		4,583				6,117		
	b) associated companies		3,445				500		
	d) other companies		22,618	30,646			7,028	13,645	
1bis	. Payment for investments			67				67	
2)	. Receivables:	(*)				(*)			
	a) from subsidiaries		0				0		
	d) sundry	4,247	192,155	192,155		2,012	147,028	147,028	
3)	. Other securities			231	223,099			241	160,981
	Total fixed assets				**5,780,673**				**5,059,708**
C)	**CURRENT ASSETS**								
I	**INVENTORIES**								
1)	. Materials and consumables			440,200				405,614	
2)	. Work in progress			7,930	448,130			3,117	408,731
II	**RECEIVABLES**	(**)				(**)			
1)	. Trade			439,750				319,013	
2)	. Subsidiaries			1,838				2,048	
3)	. Associated companies			3,405				4,208	
4)	. Parent companies			0				0	
5)	. Other								
	a) Airline companies		178,832				233,716		
	b) Travel agents		597,299				522,756		
	c) Sundry	3,113	1,374,485	2,150,616	2,595,609	2,411	820,156	1,576,628	1,901,897
III	**CURRENT FINANCIAL ASSETS**								
4)	. Other equity investments			7,838				0	
6)	. Securities			11,963	19,802			137,906	137,906
IV	**CASH AND BANKS**								
1)	. Bank and postal accounts			144,434				198,505	
2)	. Cheques			60				25	
3)	. Cash on hand			33,476	177,969			14,642	213,172
	Total current assets				**3,241,510**				**2,661,704**
D)	**ACCRUED INCOME AND PREPAID EXPENSES**			78,123	**78,123**			73,520	**73,520**
	Total assets				**9,100,306**				**7,794,933**

(*) due after less than one year

(**) due after more than one year

CONSOLIDATED BALANCE SHEET

(in millions lire)

	LIABILITIES AND SHAREHOLDERS' EQUITY				31.12.2000				31.12.1999
A)	**SHAREHOLDERS' EQUITY**								
I	. SHARE CAPITAL				1,548,444				1,548,444
II	. SHARE PREMIUM RESERVE				1,242,753				1,242,753
I bis	. SHARES SUBSCRIBED ON CAPITAL INCREASE IN PROGRESS (i.e.: SHAREHOLDER'S CAPITAL PAYMENTS)				0				0
III	. REVALUATION RESERVES								
1)	. Law 413/91			0				0	
2)	. Law 72/83			0	0			0	0
IV	. LEGAL RESERVE				24,575				22,992
VII	. OTHER RESERVES								
1)	. Capital grants reserve - law 64/86 and181/89			28,272				28,272	
2)	. Reserve for share issue - art. 2349 ICC			2,289				2,289	
3)	. Consolidation reserves			57	30,618			57	30,618
VIII	. RETAINED EARNINGS				542,371				529,844
IX	. NET LOSS FOR THE PERIOD				(496,566)				15,318
	Group consolidated shareholders' equity				2,892,194				3,389,968
X	. Share capital and reserves attributable to minority interest				3,521				7,111
XI	. Net profit attributable to minority interest for the period				1,589				(3,581)
	Shareholders' equity attributable to minority interest				5,111				3,530
					2,897,305				**3,393,498**
B)	**PROVISIONS FOR LIABILITIES AND CHARGES**								
2)	. Taxes			44,699				64,472	
3)	. Other:								
	a) Provision for exchange fluctuations		0				12,148		
	b) Provision for prizes and promotion		82,404				83,481		
	c) Prov. for forward purchase/sale commitments		41,600				0		
	e) Provision for other risks		499,335	623,339	**668,038**		564,527	660,157	**724,628**
C)	**PROVISION FOR EMPLOYEE SEVERANCE PAY**				**766,327**				**694,074**
D)	**PAYABLES**	**(**)**				**(**)**			
3)	. Banks	1,326,391		1,887,921		590,603		806,179	
4)	. Other lenders	18,517		21,056		-		0	
5)	. Advances			2,509				1,134	
6)	. Trade	-		998,969		-		868,018	
8)	. Subsidiaries			7,000				7,672	
9)	. Associated companies			2,478				0	
10)	. Parent companies	-		0		21,043		33,080	
11)	. Taxes			124,741				67,797	
12)	. Social security agencies			86,810				84,296	
13)	. Other:								
	a) Prepaid tickets		334,003				327,936		
	b) Share capital increase		0				13		
	c) Airline companies		324,383				261,836		
	d) Travel agents		137,728				102,073		
	e) Sundry	17,555	410,246	1,206,361	**4,337,846**		355,126	1,046,984	**2,915,160**
E)	**ACCRUED LIABILITIES AND DEFERRED INCOME**				**430,790**				**67,572**
	Total liabilities and shareholders' equity				**9,100,306**				**7,794,933**

(*) due after less than one year

(**) due after more than one year

CONSOLIDATED MEMORANDUM ACCOUNTS
(in millions lire)

	31.12.2000			31.12.1999		
1. PERSONAL GUARANTEES GIVEN						
a) Sureties						
- in favour of subsidiaries	271			1,175		
- in favour of associated companies	0			0		
- in favour of parent companies	0					
- in favour of subsidiaries of said				0		
parent companies	0			0		
- in favour of others	2,914	3,185		2,903	4,078	
b) Endorsements						
- in favour of subsidiaries	0			0		
- in favour of associated companies	0			0		
- in favour of parent companies	0			0		
- in favour of subsidiaries of said						
parent companies	0			0		
- in favour of others	0	0		0	0	
c) Other						
- in favour of subsidiaries	0			0		
- in favour of associated companies	0			0		
- in favour of parent companies	0			0		
- in favour of subsidiaries of said						
parent companies	0			0		
- in favour of others	449	449	**3,634**	449	449	**4,526**
2. SECURED GUARANTEES GIVEN						
a) third party obligations						
- in favour of subsidiaries	0			0		
- in favour of associated companies	0			0		
- in favour of parent companies	0			0		
- in favour of subsidiaries of said						
parent companies	0			0		
- in favour of others	0	0		0	0	
b) own obligations other than debt		0			0	
c) debt carried in the balance sheet						
- Fleet		1,293,734			454,151	
- Land and buildings		150,000			159,091	
- Plant and machinery		0	**1,443,734**		0	**613,241**
3. PURCHASES AND SALES COMMITMENTS			**6,170,984**			**2,992,529**
4. OTHER			**6,158,405**			**3,636,338**
			13,776,757			**7,246,635**

CONSOLIDATED PROFIT AND LOSS STATEMENT
(in millions lire)

		31.12.2000		31.12.1999
A) VALUE OF PRODUCTION				
1.- Revenues from sales and services		10,438,258		9,308,349
2.- Change in work in progress inventory		4,813		755
3.- Change in work in progress on orders		0		0
4.- Capitalisation of internal construction costs		131,669		123,977
5.- Other revenues and income				
a) operating grants	0		0	
b) gains on disposal of assets	44,530		15,865	
c) other	341,099	385,629	366,407	382,272
Total		10,960,369		9,815,353
B) COST OF PRODUCTION				
6.- Technical materials, fuel, and consumables		(2,197,670)		(1,466,907)
7.- Service expenses		(5,218,240)		(4,735,966)
8.-Lease and rental costs		(951,256)		(827,326)
9.- Personnel costs:				
a) salaries and wages	(1,709,034)		(1,604,146)	
b) social security contributions	(402,871)		(378,100)	
c) employee severance pay	(102,894)		(96,163)	
d) retirement benefits and similar	(2,735)			
e) other	(72,225)	(2,289,758)	(82,328)	(2,160,737)
10.- Amortisation, depreciation and write-downs:				
a) amortisation	(81,696)		(81,119)	
b) depreciation	(485,879)		(426,666)	
c) other fixed asset write-downs	(277)		(693)	
d) write-downs of current receivables and cash and cash equivalents	(18,215)	(586,066)	(3,481)	(511,959)
11.- Changes in technical materials spares and consumables inventories		34,587		78,765
12.- Provision for liabilities and charges		(34,828)		(215,685)
13.- Other provisions		(46,146)		(60,803)
14.- Other operating expenses		(160,543)		(121,752)
Total		(11,449,919)		(10,022,370)
Value of production less cost of production		(489,550)		(207,018)

CONSOLIDATED PROFIT AND LOSS STATEMENT
(in millions lire)

		31.12.2000		31.12.1999
C) FINANCIAL INCOME AND EXPENSES				
15.- Investment income				
a) dividends from associated companies	425		200	
b) dividends from other companies	533		508	
c) other investment income	1,316	2,274	1,338	2,046
16.- Other financial income				
a) from long-term receivables	5,628		2,446	
b) from securities in fixed assets not representing investments	419		1,092	
c) from securities in current assets not representing investments	1,725		0	
d) other	148,081	155,853	91,114	94,652
17.-Interest and other financial expenses				
. Interest and commissions to subsidiaries	(326)		(149)	
. Interest and commissions to parent companies	(2,120)		(2,754)	
. Interest and commissions to others, and sundry	(141,836)	(144,282)	(58,601)	(61,504)
Total financial income and expenses		13,845		35,195
D) ADJUSTMENTS TO FINANCIAL ASSETS				
18.- Revaluations		79		3,619
19.- Write-downs		(7,416)		(4,741)
Total adjustments to financial assets		(7,337)		(1,122)
E) EXTRAORDINARY INCOME AND EXPENSES				
20.- Income				
a) income resulting from prior year adjustments	59,324		56,054	
b) gains on disposal of fixed assets	51,440	110,764	194,587	250,641
21.- Expenses				
a) losses resulting from prior year adjustments	(19,735)		(23,807)	
b) losses on disposal of fixed assets	(10)		(3,290)	
c) prior year taxes	(2,058)		(770)	
d) other expenses	(22,534)	(44,337)	(16,545)	(44,412)
Total extraordinary income and expenses		66,427		206,229
Loss before income taxes		(416,615)		33,284
22.-Income taxes		(78,362)		(21,547)
23.- Net profit for the period		**(494,977)**		**11,737**
25.- Group		(496,566)		15,318
26.- Minority interest		1,589		(3,581)
		(494,977)		**11,737**

CONSOLIDATED BALANCE SHEET

(in thousands of Euro)

	ASSETS			31.12.2000				31.12.1999	
A)	**AMOUNTS OWING BY SHAREHOLDERS FOR CAPITAL**			0	**0**			0	**0**
B)	**FIXED ASSETS**								
I	**INTANGIBLE FIXED ASSETS**								
1)	. Start-up and capital increase costs			16,949				23,979	
2)	. Research, development & advertising costs			1,488				2,242	
3)	. Design rights, patents, copyright and intellectual property rights			24,740				19,423	
4)	. Trademarks and licences			1,163				1,519	
5)	. Consolidation differences			1,358				2,584	
6)	. Intangible assets under development and advances			7,325				8,858	
7)	. Other			44,033	97,055			45,462	104,067
II	**TANGIBLE FIXED ASSETS**								
1)	. Land and buildings			128,954				138,889	
2)	. Plant and machinery								
	a) Fleet		2,162,378				1,932,372		
	b) Other		35,172	2,197,550			18,878	1,951,250	
3)	. Industrial and commercial equipment			27,163				24,402	
3bis	. Assets subject to reversion free of charge			49,080				56,682	
4)	. Other			38,373				37,789	
5)	. Assets under construction and advances			332,072	2,773,192			216,901	2,425,914
III	**FINANCIAL FIXED ASSETS**								
1)	. Investments in:								
	a) subsidiaries		2,367				3,159		
	b) associated companies		1,779				258		
	d) other companies		11,681	15,827			3,630	7,047	
1bis	. Payment for investments			35				35	
2)	. Receivables:	(*)				(*)			
	a) from subsidiaries		0				0		
	d) sundry	2,193	99,240	99,240		1,039	75,933	75,933	
3)	. Other securities			119	115,221			125	83,140
	Total fixed assets				**2,985,468**				**2,613,121**
C)	**CURRENT ASSETS**								
I	**INVENTORIES**								
1)	. Materials and consumables			227,345				209,482	
2)	. Work in progress			4,096	231,440			1,610	211,092
II	**RECEIVABLES**	(**)				(**)			
1)	. Trade			227,112				164,756	
2)	. Subsidiaries			949				1,058	
3)	. Associated companies			1,759				2,173	
4)	. Parent companies			0				0	
5)	. Other								
	a) Airline companies		92,359				120,704		
	b) Travel agents		308,479				269,981		
	c) Sundry	1,608	709,862	1,110,700	1,340,520	1,245	423,575	814,260	982,248
III	**CURRENT FINANCIAL ASSETS**								
5)	. Other equity investments			4,048					
6)	. Securities			6,179	10,227			71,222	71,222
IV	**CASH AND BANKS**								
1)	. Bank and postal accounts			74,594				102,519	
2)	. Cheques			31				13	
3)	. Cash on hand			17,289	91,913			7,562	110,094
	Total current assets				**1,674,100**				**1,374,656**
D)	**ACCRUED INCOME AND PREPAID EXPENSES**								
	a) Unamortised discounts on issues and similar charges			0				0	
	b) Other accrued income and prepaid expenses			40,347	**40,347**			37,970	**37,970**
	Total assets				**4,699,916**				**4,025,747**

(*) due after less than one year

(**) due after more than one year

CONSOLIDATED BALANCE SHEET

(in thousands of Euro)

	LIABILITIES AND SHAREHOLDERS' EQUITY	(**)			31.12.2000	(**)			31.12.1999
A)	**SHAREHOLDERS' EQUITY**								
I	. SHARE CAPITAL				799,705				799,705
II	. SHARE PREMIUM RESERVE				641,828				641,828
II bis	. SHARES SUBSCRIBED ON CAPITAL INCREASE IN PROGRESS (i.e.: SHAREHOLDER'S CAPITAL PAYMENTS)				0				0
III	. REVALUATION RESERVES								
1)	. Law 413/91			0				0	
2)	. Law 72/83			0	0			0	0
IV	. LEGAL RESERVE				12,692				11,874
VII	. OTHER RESERVES								
1)	. Capital grants reserve - law 64/86 and181/89			14,601				14,601	
2)	. Reserve for share issue - art. 2349 ICC			1,182				1,182	
3)	. Consolidation reserves			29	15,813			29	15,813
VIII	. RETAINED EARNINGS				280,111				273,642
IX	. NET LOSS FOR THE PERIOD				(256,455)				7,911
	Group consolidated shareholders' equity				1,493,694				1,750,773
X	. Share capital and reserves attributable to minority interest				1,819				3,673
XI	. Net profit attributable to minority interest for the period				821				(1,850)
	Shareholders' equity attributable to minority interest				2,639				1,823
					1,496,333				**1,752,596**
B)	**PROVISIONS FOR LIABILITIES AND CHARGES**								
2)	. Taxes			23,085				33,297	
3)	. Other:								
	a) Provision for exchange fluctuations		0				6,274		
	b) Provision for prizes and promotion		42,558				43,114		
	c) Prov. for forward purchase/sale commitments		21,485				0		
	e) Provision for other risks		257,885	321,928	**345,013**		291,554	340,942	**374,239**
C)	**PROVISION FOR EMPLOYEE SEVERANCE PAY**				**395,775**				**358,459**
D)	**PAYABLES**	**(**)**				**(**)**			
3)	. Banks	685,024		975,030		305,021		416,357	
4)	. Other lenders	9,563		10,875				0	
5)	. Advances			1,296				586	
6)	. Trade	-		515,925		-		448,294	
8)	. Subsidiaries			3,615				3,962	
9)	. Associated companies			1,280				0	
10)	. Parent companies	-		0		10,868		17,084	
11)	. Taxes			64,423				35,014	
12)	. Social security agencies			44,833				43,535	
13)	. Other:								
	a) Prepaid tickets		172,498				169,365		
	b) Share capital increase		0				7		
	c) Airline companies		167,530				135,227		
	d) Travel agents		71,131				52,716		
	e) Sundry	9,066	211,874	623,033	**2,240,310**		183,407	540,722	**1,505,555**
E)	**ACCRUED LIABILITIES AND DEFERRED INCOME**				**222,484**				**34,898**
	Total liabilities and shareholders' equity				**4,699,916**				**4,025,747**

(*) due after less than one year

(**) due after more than one year

CONSOLIDATED MEMORANDUM ACCOUNTS
(amounts in thousands of Euro)

	31.12.2000			31.12.1999		
1. PERSONAL GUARANTEES GIVEN						
a) Sureties						
- in favour of subsidiaries	140			607		
- in favour of associated companies	0			0		
- in favour of parent companies	0			0		
- in favour of subsidiaries of said parent companies	0			0		
- in favour of others	1,505	1,645		1,499	2,106	
b) Endorsements						
- in favour of subsidiaries	0			0		
- in favour of associated companies	0			0		
- in favour of parent companies	0			0		
- in favour of subsidiaries of said parent companies	0			0		
- in favour of others	0	0		0	0	
c) Other						
- in favour of subsidiaries	0			0		
- in favour of associated companies	0			0		
- in favour of parent companies	0			0		
- in favour of subsidiaries of said parent companies	0			0		
- in favour of others	232	232	**1,877**	232	232	**2,338**
2. SECURED GUARANTEES GIVEN						
a) third party obligations						
- in favour of subsidiaries	0			0		
- in favour of associated companies	0			0		
- in favour of parent companies	0			0		
- in favour of subsidiaries of said parent companies	0			0		
- in favour of others	0	0		0	0	
b) own obligations other than debt		0			0	
c) debt carried in the balance sheet						
- Fleet		668,158			234,549	
- Land and buildings		77,469			82,164	
- Plant and machinery		0	**745,625**		0	**316,712**
3. PURCHASES AND SALES COMMITMENTS			**3,187,048**			**1,545,512**
4. OTHER			**3,180,551**			**1,878,012**
			7,115,100			**3,742,574**

CONSOLIDATED PROFIT AND LOSS STATEMENT
(amounts in thousands of Euro)

A) VALUE OF PRODUCTION		31.12.2000		31.12.1999
1.- Revenues from sales and services		5,390,910		4,807,361
2.- Change in work in progress inventory		2,486		390
3.- Change in work in progress on orders		0		0
4.- Capitalisation of internal construction costs		68,001		64,029
5.- Other revenues and income				
a) operating grants	0		0	
b) gains on disposal of assets	22,998		8,194	
c) other	176,163	199,161	189,233	197,427
Total		5,660,558		5,069,207
B) COST OF PRODUCTION				
6.- Technical materials, fuel, and consumables		(1,135,002)		(757,594)
7.- Service expenses		(2,694,996)		(2,445,922)
8.-Lease and rental costs		(491,283)		(427,278)
9.- Personnel costs:				
a) salaries and wages	(882,642)		(828,472)	
b) social security contributions	(208,065)		(195,272)	
c) employee severance pay	(53,140)		(49,664)	
d) retirement benefits and similar	(1,412)		0	
e) other	(37,301)	(1,182,561)	(42,519)	(1,115,928)
10.- Amortisation, depreciation and write-downs:				
a) amortisation	(42,192)		(41,894)	
b) depreciation	(250,935)		(220,355)	
c) other fixed asset write-downs	(143)		(358)	
d) write-downs of current receivables and cash and cash equivalents	(9,407)	(302,678)	(1,798)	(264,405)
11.- Changes in technical materials spares and consumables inventories		17,863		40,678
12.- Provision for liabilities and charges		(17,987)		(111,392)
13.- Other provisions		(23,832)		(31,402)
14.- Other operating expenses		(82,913)		(62,880)
Total		(5,913,390)		(5,176,122)
Value of production less cost of production		(252,831)		(106,916)

CONSOLIDATED PROFIT AND LOSS STATEMENT
(amounts in thousands of Euro)

		31.12.2000		31.12.1999
C) FINANCIAL INCOME AND EXPENSES				
15.- Investment income				
a) dividends from subsidiary companies	0		0	
b) dividends from associated companies	219		103	
c) dividends from other companies	275		263	
d) other investment income	680	1,175	691	1,057
16.- Other financial income				
a) from long-term receivables	2,906		1,263	
b) from securities in fixed assets not representing investments	216		564	
c) from securities in current assets not representing investments	891		0	
d) other	76,477	80,491	47,057	48,884
17.-Interest and other financial expenses				
. Interest and commissions to subsidiaries	(168)		(77)	
. Interest and commissions to parent companies	(1,095)		(1,422)	
. Interest and commissions to others, and sundry	(73,252)	(74,516)	(30,265)	(31,764)
Total financial income and expenses		7,150		18,177
D) ADJUSTMENTS TO FINANCIAL ASSETS				
18.- Revaluations		41		1,869
19.- Write-downs		(3,830)		(2,449)
Total adjustments to financial assets		(3,789)		(579)
E) EXTRAORDINARY INCOME AND EXPENSES				
20.- Income				
a) income resulting from prior year adjustments	30,638		28,949	
b) gains on disposal of fixed assets	26,567	57,205	100,496	129,445
21.- Expenses				
a) losses resulting from prior year adjustments	(10,192)		(12,295)	
b) losses on disposal of fixed assets	(5)		(1,699)	
c) prior year taxes	(1,063)		(398)	
d) other expenses	(11,638)	(22,898)	(8,545)	(22,937)
Total extraordinary income and expenses		34,307		106,508
Loss before income taxes		(215,164)		17,190
22.-Income taxes		(40,470)		(11,128)
23.- Net profit for the period		**(255,634)**		**6,062**
25.- Group		(256,455)		7,911
26.- Minority interest		821		(1,850)
		(255,634)		**6,062**

RECONCILIATION BETWEEN PARENT COMPANY AND CONSOLIDATED

SHAREHOLDERS' EQUITY AND PROFIT/LOSS FOR THE PERIOD

(in millions of Lire)	SHAREHOLDERS' EQUITY					PROFIT/LOSS FOR THE PERIOD				
	2000	1999	1998	1997	1996	2000	1999	1998	1997	1996
Shareholders'equity and net profit(loss) of the parent company	2,678,301	3,158,444	3,250,616	1,473,423	204,933	(480,143)	31,671	459,831	268,490	(1,217,259)
A) Elimination of fiscal adjustments and provisions in compliance with tax laws:										
- Reclassification as per art. 54 of Presid. Decree No. 597 of 1973	41,183	48,932	56,349	63,766	71,183	(7,250)	(7,417)	(7,417)	(7,417)	(9,632)
- Gains/Losses on disposal						(499)				
- Recl. for deferred taxes as per art. 54 Pres. Dec. No. 597 of 1973	(16,989)	(20,186)				3,197	3,059			
- Effect of accelerated depreciation included in the financial statements	(0)	(0)	2,242	973	614	0	(2,242)	1,179	340	(605)
B) Elimination of carrying value of consolidated investments:										
- Excess of net equities and net profits	245,824	253,242	255,078	242,173	42,880	44,348	111,461	72,095	213,536	28,716
- Revaluations/ write-downs of subsidiaries						36,208	25,116	757	(106)	2,158
- Consolidation difference	2,629	5,003	8,238	7,322	6,024	(2,374)	(3,235)	(3,235)	(2,120)	(1,721)
- Evaluation of subsidiaries on the equity method	2,011	2,760				(749)	2,760			
- Evaluation of associated companies on the equity method	272	235	314	340	46,355	43	(79)	59	(36,425)	1,224
- Adaptation of accounting principles to group accounting principles						0	0	0		0
C) Elimination of inter-company transactions between consolidated companies										
- Elimination of intercompany profits/losses included:										
. in intangible fixed assets	(1,721)	(827)	(750)	(1,069)	(5,695)	(894)	(76)	385	320	299
. in tangible fixed assets:										
- fleet	(641)	(1,869)	(1,961)	(2,667)	(2,779)	1,228	93	706	110	(310)
- other	(163)	5	14	0	0	(168)	(9)	14		49
. in financial fixed assets	0	(102)	0	(132)	0	0	(102)	0	(132)	
- Elimination of differences due to transfer of business segment							(13)			
- Elimination of dividends:										
. paid						(30,999)	(90,000)	(57,357)		
. accrued	(58,513)	(55,671)	(60,444)	(995)	(13,298)	(58,513)	(55,671)	(60,444)	(995)	(13,298)
Consolidated shareholders' equity and net profit/loss	2,892,194	3,389,968	3,509,695	1,783,135	350,217	(496,566)	15,318	406,573	435,602	(1,210,379)

Commentary on reconciliation between Parent Company and Group shareholders' equity and net loss for the year

The parent company's net loss for the year of Lire 480 billion compares with a consolidated net loss of Lire 496 billion.

The Lire 16 billion difference relates to dividends received by Alitalia from retained earnings. Consolidated companies contributed profits of Lire 78 billion while dividends received by Alitalia were Lire 89 billion.

Consolidation adjustments and eliminations, in particular under Article 54 of Presidential Decree 597/93 as commented on in the notes to the financial statements, had a Lire 5 billion negative impact.

With regard to the results achieved by the consolidated companies, it is worth highlighting the good performances recorded in the data transmission sector (Lire 34 billion), the air transport sector (Lire 21 billion), the maintenance sector (Lire 7 billion) and by the financial sub-holding companies (Lire 16 billion).

The parent company's *shareholders' equity* of Lire 2,678 billion compares with consolidated shareholders' equity of Lire 2,892 billion.

The Lire 214 billion difference relates to the surplus of the net equities of consolidated companies (Lire 245 billion); to the aforementioned adjustment made under art. 54 of Presidential Decree No. 597 of 1973 (Lire 24 billion net of deferred taxes), and to the valuation of associated companies and non-consolidated subsidiaries on the equity method (Lire 4 billion); these factors are partially countered by the elimination of dividends for the year (Lire 59 billion).

PART A – CONSOLIDATION AREA, CONSOLIDATION METHOD, FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

Consolidation area The consolidated financial statements for the year ended 31 December 2000 have been prepared in accordance with Legislative Decree no 127/91 which implements EEC Directive VII.

The group consolidated financial statements include the financial statements of the parent company Alitalia – Linee Aeree Italiane SpA, of all the companies of which Alitalia holds more than 50% of the shares and of all the companies controlled, even though through a lower shareholding, by Alitalia.

During 2000, the consolidation area underwent the following changes:

- Italiatour SpA wrote off its share capital in order to cover losses from previous years and at the same time re-established the share capital. The parent company Alitalia subscribed and paid up the entire share capital including the part pertaining to minority interests which did not exercise their option right within the settled terms.;
- G.A. 2000 Travel Service Ltd and Global Executive Travel Selections Inc. – with share capital consisting of no par-value shares – have been included in the consolidated financial statements of Italiatour. These companies operate on the US market, selling tickets and providing air services, generally to the Alitalia group;
- Eurofly SpA wrote off its share capital to cover losses and at the same time re-established the share capital. Alitalia S.p.A. subscribed and paid up the entire share capital including the part pertaining to minority interests which did not exercise their option right;

Companies in liquidation (SISAM) or undergoing bankruptcy proceedings (Odino Valperga Italeuropa General Cargo) were not included in the consolidation area.

The companies included in consolidation – in addition to the parent company Alitalia S.p.A. - are:

Company	Shareholders	
Alinsurance S.r.l. – Rome Share capital Lire 200 million fully paid	Aviofin S.p.A. Alitalia S.p.A.	88% 6%
Alitalia Team S.p.A. – Rome Share capital Lire 107,500 million fully paid	Alitalia S.p.A.	100%
Alitalia Express S.p.A. – Rome Share capital Lire 45,000 million fully paid	Alitalia S.p.A.	100%

Atitech S.p.A. – Naples Share capital Lire 50,000 million fully paid	Alitalia S.p.A.	100%
Alitalia Airport S.p.A. – Rome Share capital Lire 15,000 million fully paid	Alitalia S.p.A.	100%
Aviofin S.p.A. – Rome Share capital Lire 1,000 million fully paid	Alitalia S.p.A. Racom Teledata S.p.A.	95% 5%
Eurofly S.p.A. – Turin Share capital Lire 7,200 million fully paid	Alitalia S.p.A.	100%
Italiatour GmbH – Munich Share capital DM 300,000 fully paid	Italiatour S.p.A.	60%
Italiatour Limited – London Share capital GBP 670,000 fully paid	Italiatour S.p.A.	100%
Italiatour S.A. - Madrid Share capital PTS 20,000,000 fully paid	Italiatour S.p.A.	100%
Italiatour B.V. – Amsterdam Share capital DFL 200,000 (paid up DFL 40,000)	Italiatour S.p.A.	100%
G.A. 2000 Travel Service Ltd – New York Share capital – zero	Italiatour S.p.A.	100%
Global Executive Travel Selections Inc – New York Share capital - zero	Italiatour S.p.A.	100%
Italiatour S.p.A. – Rome Share capital Lire 1,500 million fully paid	Alitalia S.p.A.	100%
Racom Teledata S.p.A. – Rome Share capital Lire 65,000 million fully paid	Alitalia S.p.A.	100%
Sigma - Società Italiana Gestione Sistema Multi Accesso per Azioni – Rome Share capital Lire 15,000 million fully paid	Racom Teledata S.p.A.	92%
Sigma Travel System S.p.A. – Rome Share capital Lire 3,000 million fully paid	Racom Teledata S.p.A. Sigma S.p.A.	55% 45%

All of the companies included in the consolidation area have a 31 December accounting year end.

Consolidation method

The consolidation method adopted is in accordance with the requirements of Article 31 of Legislative Decree 127/91.

In particular:

- The line-by-line consolidation method incorporating the full amount of all assets, liabilities, costs and revenues of consolidated companies, regardless of the percentage of the holding owned, has been adopted;

while the following are eliminated:

- balance sheet values of investments held in the consolidated companies and the corresponding amounts of shareholders' equity;
- all intra-group transactions affecting the profit and loss statement and the balance sheet, together with gains and losses on disposals of assets between group companies;

Financial statements

The balance sheet and profit and loss statement have been prepared in accordance with article 32 of Legislative Decree No. 127 of 1991, showing separately minority interests in net equity and net profit/loss.

In accordance with the practice permitted by Italian Accounting Standard no 17, the figures shown in the balance sheet, profit and loss statement and notes to the financial statements are expressed in millions of Lire to make them easier to read.

In accordance with the CONSOB recommendation, the financial statements have also been prepared in Euro.

Summarised analyses of balance sheet, financial and profit and loss statements have been included in the Directors' report in accordance with legislation in order to provide more thorough and transparent information. For the same purposes, a number of appendices have been prepared (Notes to the consolidated financial statements, Part D).

Accounting policies

The consolidated financial statements as at 31 December 2000 have been prepared using accounting policies consistent with those used by the Parent company.

The accounting policies used are prudent and have been applied on a going concern basis; they are in accordance with Article 2426 of the Italian Civil Code.
In particular, assets and liabilities have been evaluated using consistent criteria.

The accounting policies used are unchanged compared to the prior year except for the application of Italian Accounting Standard no 26 on receivables and payables denominated in foreign currency; no extraordinary events occurred which would have implied the exceptions indicated in Article 2423 (4) of the Italian Civil Code.

The accounting policies adopted are summarised below. For further details, please refer to the comments on single items of the financial statements.

Intangible fixed assets

Intangible fixed assets represent costs and charges which are expected to benefit future financial periods. They are recorded at cost and are amortised on a straight-line basis over their estimated useful life.
Start-up and capital increase costs, research, development and advertising expenses, and the goodwill on investments are capitalised and are amortised over a period not exceeding five years.

Tangible fixed assets

Tangible fixed assets are recorded at cost of purchase or production, including additional charges, improvements, modernisation and transformation costs.

Costs of overhaul of owned aircraft are capitalised and depreciated in line with their useful economical life, usually equal to the time between two overhauls.

Assets under construction are recorded at the supplier/manufacturer's invoiced cost, in accordance with the contract.

Other capitalised items include:

- financial charges related to advances paid to fleet suppliers;

- where applicable, part of the exchange rate losses related to financing in foreign currency, in accordance with Italian Accounting Standard No. 16;

Tangible fixed asset costs, determined as above, are depreciated as follows:

1. Industrial depreciation:

   Ordinary depreciation is determined on a straight-line basis, in accordance with business and technical rates consistent with the residual useful life of the assets.

   Fleet depreciation is in line with the usual depreciation practice in the air transport industry.

   More specifically:
   - long haul aircraft (B-767, B-747 and MD-11) are depreciated over a period of 20 years;
   - short haul aircraft (MD-80, A-321 and A-320) are depreciated over a period of 18 years;
   - ATR 72 turbo props are depreciated over a period of 14 years ;
   - aircraft bought second-hand or acquired upon exercising the purchase option under a finance lease agreement are depreciated based on their total useful life, calculated as from the date they were first used, which is similar to that of new aircraft.

   Finally, the value of aircraft which have been taken out of service is adjusted to bring it into line with estimated realisable value where this is lower than book value. As at December 31, 2000, the fleet included six A300s and six ATR-42s which fell into this category.

Depreciation is charged on a pro-rata basis in respect of significant tangible fixed assets (fleet and electronic installations) coming into course during the year taking account of tax benefits. Half of ordinary depreciation rates are charged in respect of all other fixed assets purchased during the year;

2. Financial depreciation:

   Financial depreciation is based on the book values of fixed assets located on State-owned property and is based on the duration of the concession rights.
   It is calculated instead of ordinary depreciation as defined in Legislative Decree no 669 of 31 December 1996 where the use of ordinary depreciation would not permit the fixed asset to be depreciated in full before the end of the concession period.

Financial fixed assets

Financial fixed assets refer to investments in non-consolidated companies, financial receivables, guarantee deposits and fixed income securities.

These items are recorded as follows:

1. equity investments:
   - in accordance with article 36 of Legislative Decree No. 127 of 1991, investments in associated companies are stated using the net-equity method indicated in article 2426 (4) of the Italian Civil Code;
   - investments in liquidation and other minor investments are valued using the cost method, adjusted for possible impairments in value of a permanent nature;
2. financial receivables and guarantee deposits: are stated at nominal value which also reflects estimated realisable value;
3. securities: are stated at nominal value which equals cost.

Inventories

Inventories include technical and consumable materials and materials under construction and manufacture. They are valued, by homogenous categories, at average purchase cost or, in the case of internally produced inventories, at cost of production, or if lower at market value.

Current financial assets

These are valued at the lower of purchase cost and estimated realisable value based on market trends.

Receivables and payables

Receivables are stated at estimated realisable value which corresponds to their nominal value adjusted by the provision for doubtful accounts receivable; they are shown in the balance sheet directly at net value.
Payables are stated at their nominal value.
In this regard, unearned revenues represent payables from the Group to third parties for air-transport services to be provided.

Prepaid expenses and accrued income/Accrued expenses and deferred income

Prepaid expenses and accrued income/Accrued expenses and deferred income are recorded in accordance with the principle of matching revenues and expenses and relate to income and expenses earned or incurred over two consecutive financial years, accounted for on an accrual basis as earned.

As at 31 December 2000, deferred income included the portion of the capital gain made on the sale and lease back of aircraft (20 MD-80s); the gain in question has been deferred over the term of the lease back transaction.

Cash and bank

Cash and banks are stated at nominal value. They include "cash in transit", i.e. funds being transferred at the end of the financial year from other offices to the head office.

EURO area currency balances

European Monetary Union currency balances have been valued at the fixed rates in effect as of 31 December 1998; all the related exchange rate differences were reflected in the profit and loss statement for the 1998 period.

Other foreign currency items or items subject to exchange rate risk

Foreign currency receivables and payables are initially translated into Italian Lire at the exchange rates in effect on the date of the underlying transaction. Exchange rate differences between the date of transaction and the date of collection or payment are reflected in the profit and loss statement.
Receivables and payables and cash and bank balances denominated in foreign currency are restated at year-end exchange rates or using the applicable rates under any hedging contracts. Any translation gains or losses arising are recorded in the income statement. If a net gain arises from the translation of medium/long-term receivables and payables (excluding the current portion) it is deferred by making an accrual to the "Provision for deferred exchange gains".

The financial statements of subsidiaries prepared in foreign currency are translated into Lire using year-end exchange rates for assets and liabilities and the average exchange rate for the year for profit and loss statement items.

Foreign investments are expressed at the historical rate at the date of purchase and at the current exchange rate as at the year end.

Memorandum accounts such as personal or secured guarantees, commitments expressed in foreign currency or subject to exchange rate risk are translated at year-end exchange rates.

Financial derivatives

Derivatives and foreign currency operations include hedging operations on financial transactions and forward purchase and sale operations for currency and fuel aimed at limiting exchange-rate and price risk of cash inflows/outflows expected for the financial period.

It should be noted that in the case of highly effective hedging operations, as defined by IAS no 39 (those that achieve a degree of coverage falling between 80% and 125% of the relevant fluctuation in the item being hedged), the accounting treatment – in line with the contents of CONSOB Communication DAC 28731 of 14-4-2000 which adopts the definition of IAS no 39 – is based on the accruals concept: gains and losses are taken to the profit and loss statement at the same time as the element covered impacts the profit and loss statement.

In other cases – especially those involving hedges which are not effective in terms of IAS no 39 – estimated losses are prudently recorded in the period in which the derivative contract was arranged. Where, for such operations, an excess gain is identified, it is not recognised. The notional amount of such operations are disclosed in the Memorandum Accounts.

It should be noted that at 31 December 2000, there were a number of derivative contracts in relation to fuel costs for 2001. These included swaps totalling USD 124 million (falling within the highly efficient operations) and "zero cost collar" transactions for USD 193 million which do not fall within the IAS no 39 definition. In fact, appropriate provisions for forward sale and purchase commitments have been made in respect of the latter given that an negative outcome is likely; see part B of the notes to the financial statements.

Provisions for liabilities and charges

Provisions for liabilities and charges are created for ascertained losses or liabilities that are certain or probable at the year-end but for which there is uncertainty as to the amount or the timing. The provision for taxes is shown as a separate line item and is estimated on the basis of available information with respect to expected future fiscal expenses.

Provision for employee severance pay

The provision is recorded, net of advances paid, on the basis of the estimated severance pay owing to employees as at 31 December 2000. It is adjusted annually in accordance with existing labour legislation and employment contracts.

Revenues and costs

Revenues and costs are recorded in the profit and loss statement on an accruals basis.

Taxation

Current income taxes, as well as deferred tax assets and liabilities, are recorded. Pursuant to Italian Accounting Standard no 25, deferred tax assets are recognised to the extent that it is reasonably certain that there will be sufficient taxable income to set them off against in the years in which the related timing differences will reverse.
As stated in the aforementioned accounting standard, timing differences are valued and accounted for by each consolidated company and are then included in the Group financial statements.
In addition, the consolidated financial statements include the tax effect resulting from the elimination of tax adjustments where these were made in the financial statements of individual

consolidated companies and or consolidation adjustments.

Memorandum accounts

Memorandum accounts are valued as follows:

Personal guarantees	Sureties given are recorded at the residual amount in case of loans and at the amount of the actual commitment, in the case of other obligations;
Secured guarantees	Secured guarantees given for liabilities recorded in the financial statements are recorded at their residual amount as at the balance sheet date;
Purchase and sale commitments	Commitments are recorded on the basis of actual contracts as at the balance sheet date i.e. at residual amount only if partially performed.
Other memorandum accounts	Secured or personal guarantees received are recorded at the amount of the actual commitment.

Third party goods held by the Group are recorded at the lower market value or recorded value;
Assets purchased under finance lease agreements are recorded at the nominal amount of the residual instalments, plus the purchase option;
Assets of the Group held by third parties are recorded at their net book value;
Financial derivatives and currency operations are recorded in memorandum accounts based on related notional capital;
Third party guarantees given on behalf of Group payables or other obligations are recorded at the actual amount of the commitment.

PART B - INFORMATION ON THE BALANCE SHEET AND THE MEMORANDUM ACCOUNTS

The analysis of the contents of and changes in the balance sheet and memorandum accounts refers to the financial statements at 31 December 2000 prepared in accordance with Legislative Decree No. 127 of 1991.
It should be read together with the appendices in part D of the notes to the consolidated financial statements.
The comparison and analysis of fluctuations have been done in comparison to the balance sheet and memorandum accounts as at 31 December 1999.
Any significant reclassifications are commented upon with reference to the specific items.

A) AMOUNTS OWING BY SHAREHOLDERS FOR CAPITAL

There were no such amounts at 31 December 2000.

B) FIXED ASSETS

Fixed assets amounted to Lire 5,780,673 million and showed a net increase of Lire 720,965 million.
In further detail:

I. INTANGIBLE FIXED ASSETS (appendices 1 and 2) amounted to Lire 187,924 million compared to Lire 201,502 million at 31.12.1999, a net decrease of Lire 13,578 million. They were analysed as follows:

1. **Start-up and capital increase costs** amounted to Lire 32,817 million and had decreased by Lire 13,613 million. The decrease was essentially due to the amortisation charge for the year (Lire 21,092 million) which was partly offset by increases regarding flight training for pilots (Lire 5,202 million) and staff training for maintenance and overhaul of new types of aircraft (Lire 1,044 million). It should be noted that, in order to improve compliance with Italian Accounting Standard no 24, with effect from these financial statements "start-up and capital increase costs" include capitalised staff training costs, costs regarding the introduction of aircraft into the fleet and staff retraining costs. For comparative purposes, the corresponding amounts (Lire 16,907 million) recorded under "research, development and advertising costs" in 1999 have been reclassified (see point 2 below);

2. **Research, development and advertising costs** mainly consist of amounts capitalised in 1998 in relation to Malpensa advertising. They amount to Lire 2,881 million and have decreased by Lire 1,460 million mainly as a result of the amortisation charge for the year. In 1999, this item

included Lire 16,907 million of costs which have been reclassified to “start-up and capital increase costs”.

3. **Design rights, patent and copyrights** mainly comprise the cost of software rights. They amount to Lire 47,903 million and have increased by Lire 10,294 million, essentially in relation to software purchases by the parent company. The increases relate to: YMS Cargo (Lire 4,523 million), SABRE product design (Lire 3,367 million), SAP new accounting system (Lire 2,262 million), Electronic Ticketing (Lire 2,172 million), Customer Loyalty (Lire 1,644 million), crew shifts system (Lire 1,227 million) and Cargo handling (Lire 1,296 million). The amortisation charge for the year was Lire 18,493 million.

4. **Trademarks and licenses**, representing the capitalisation of the costs incurred to use software produced by third parties, amounted to Lire 2,252 million, with a decrease of Lire 689 million compared to 31 December 1999. The decrease includes the Lire 896 million amortisation charge for the period, counterbalanced by the capitalised costs of Lire 205.

5. **Consolidation differences**, regarding the premiums paid when purchasing equity investments, amounted to Lire 2,629 million. This represented a decrease of Lire 2,374 million compared to 31 December 1999 as a result of the amortisation charge for the period.

6. **Intangible assets under development and advances** amount to Lire 14,183 million. The net decrease of Lire 2,968 million includes Lire 13,715 million of reclassifications following the completion of development of assets and Lire 10,745 million of investments for the year (mainly including sundry software, work on agencies, offices and airport buildings).

7. **Other** amount to Lire 85,260 million and show a net decrease of Lire 2,768 million.

   The most significant fluctuations are detailed below, including the reclassifications from the “intangible assets under development and advances” as shown in appendix 1:

   - An increase of Lire 25,979 million relating to improvements, conversions and “D” overhauls on leased aircraft (1 B-767, 1 B-747 and 1 MD-80);

   - An increase of Lire 4,130 million relating to work done in order to bring aircraft systems and buildings into line with legal requirements (Rome Fiumicino technical area);

   - An increase of Lire 3,244 million to fit out and restructure agencies and offices;

- A decrease of Lire 37,382 million as a result of the amortisation charge for the year;

It should be noted that, previously, charges on loans were registered in the item Prepaid Expenses and consequently the quota pertaining the period was registered in financial charges. Starting from the present period, as indicated in Italian Accounting Standard no 24, additional charges on loans are registered in Intangible Assets along with he quota pertaining the period. For comparative purposes, the corresponding amounts in 1999 (Lire 16,141 million) have been reclassified.

II. **TANGIBLE FIXED ASSETS** (appendix 3): amounted to Lire 5,369,649 million and showed a net increase of Lire 672,424 million compared to 31 December 1999. They were analysed as follows:

1. **Land and buildings** amount to Lire 249,689 million and have decreased by Lire 19,238 million. This is mainly due to the depreciation charge for the year of Lire 10,960 million and to the sale to third parties of a plot of land in Magliana (Lire 9,113 million) as countered by the capitalisation of the internal cost of improvements to owned buildings (Lire 754 million).

2. **Plant and machinery** amount to Lire 4,255,050 million and have increased by Lire 476,903 million, as follows:

   Fleet: amounts to Lire 4,186,947 and has shown a net increase of Lire 445,353 million.

   The main changes during the year may be analysed as follows:

   - An increase of Lire 724,523 million relating to the purchase of one A-321, three A-320s, two B-767s and six Embraers as well as the exercise of the finance lease purchase options regarding five MD-80s and one B-747;

   - An increase of Lire 335,058 million relating to the purchase of replacement stock (Lire 74,607 million), engines and spare parts for the Embraer fleet (Lire 30,227 million), the capitalisation of overhauls of 20 MD-80s, 3 B-747s, a B-767 and a MD-11 (Lire 77,043 million), modifications to the owned fleet (Lire 21,749 million) and reclassifications from advances paid to suppliers (Lire 131,432 million);

   - A decrease of Lire 200,633 million relating to the sale of 20 MD-80 aircraft (subsequently leased back), 1 A-321 aircraft (subsequently leased back) and 1 B-747, the decommissioning of a damaged MD-80, the disposal of an ATR-42 and the sale of replacement stock;

- A decrease of Lire 413,597 million relating to the depreciation charge for the year;

The gains realised on the sale of assets, accounted for in net equity during 1987 and previous years and subsequently reinvested in accordance with article 54 of Presidential Decree No. 597 of 1973 have not been transferred to accumulated depreciation as in the parent company's financial statements.
The above noted accounting policy, in accordance with the legislation governing the preparation of the consolidated financial statements, resulted for the year ended 31 December 2000 in higher depreciation for the Group of Lire 6,641 million and higher net equity in the amount of the above residual amount of the reinvested gain (Lire 29,222 million).

Other: consists of general systems and aeronautical equipment (flight simulators). The balance amounts to Lire 68,103 million and has increased by Lire 31,550 million mainly as a result of the acquisition (Lire 44,733 million) of two flight simulators (Piper – B-747), the upgrading of the MD-80 simulator MD-80 and equipment for handling activities as offset by the depreciation charge for the year (Lire 12,644 million) and disposals (Lire 539 million).

3. **Industrial and commercial equipment** includes motor vehicles, amounts to Lire 52,595 million and has increased by Lire 5,346 million compared to 31.12.1999.

The increase may be analysed as follows:

- An increase of Lire 18,562 million relating to purchases of new equipment (Lire 16,065 million) and motor vehicles (Lire 2,497 million);

- A decrease of Lire 10,696 million as a result of the depreciation charge for the year;

- A decrease of Lire 2,518 million due to the sale of assets to third parties.

3. **bis Assets subject to reversion free of charge** amount to Lire 95,003 million and have decreased by Lire 14,719 million mainly as a result of the depreciation charge for the year (Lire 14,354 million).

Gains realised on the sale of assets accounted for in net equity during 1987 and previous years and subsequently reinvested in accordance with article 54 of Presidential Decree No. 597 of 1973 have not been transferred to accumulated depreciation as in the parent company's financial statements.
The above noted accounting policy, in accordance with the legislation governing the preparation of the

consolidated financial statements resulted during the year ended 31 December 2000 in higher depreciation for the Group of Lire 1,108 million and higher net equity in the amount of the above noted residual amount of the reinvested gain (Lire 11,962 million).

4. **Other assets**, made up of electronic installations, furniture, fixtures and office equipment amounted to Lire 74,301 million, an increase of Lire 1,131 million, and were affected mainly by the purchases of It equipment, office furniture and equipment (Lire 24,658 million) and the depreciation charge for the year (Lire 23,628 million);

5. **Assets under constructions and advances** amounted to Lire 642,981 million and increased by Lire 223,002 million as a result of the following factors:

   - **Fixed assets under construction and advances**: amounted to Lire 91,883 million and increased by Lire 55,101 million as analysed below:

   - Increases totalled Lire 60,671 million, mainly in relation to as yet incomplete investments on the site in Grottaglie – Taranto, advances paid to suppliers for work on airport buildings, for the supply of technical materials, for upgrades to a flight simulator, for fleet modifications and for IT changes;

   - Decreases of Lire 5,570 million related to the reclassification of completed work;

   - **Advances for the fleet**: amounted to Lire 551,098 million and increased by Lire 167,902 million.
     The main changes are analysed below:

     – An increase of Lire 769,673 million relating to the payment of advances on twelve A-319s, five A-320s, two Embraers, six B-777s and five B-747s (which the Group decided not to proceed to purchase during the year) as well as options on a further six B-777s;

     – An increase of Lire 14,898 million following the capitalisation of financial charges on existing advances;

     – A decrease of Lire 616,669 million mainly relating to the reclassification to other receivables of the advances on the five B-747s; under the terms of the contract the amounts in question will be refunded in 2001 (Lire 449,739 million).
       The remaining decrease relates to reclassifications of aircraft which came into service during the year (Lire 141,358 million) as well as to the refund of an advance paid in respect of an aircraft which was not

purchased but acquired under a lease contract instead (Lire 25,572 million).

III. **FINANCIAL FIXED ASSETS** amounted to Lire 223,099 million, net of provisions for loss in value, an increase of Lire 62,118 million.

In more detail:

1. **Investments** (detail in appendices 4, 5 and 5bis) amounted to Lire 30,646 million and showed a net increase of Lire 17,001 million. They can be analysed as follows:

   - **in subsidiaries:** amounted to Lire 4,583 million and referred to Sisam, which was not consolidated as it is in liquidation. As at 31 December 1999 they amounted to Lire 6,117 million;

   - **in associated companies** amounted to Lire 3,455 million and have increased by Lire 2,945 million mainly due to subscription of a share capital increase by 7C (formerly Alidata) and to the appraisal of Verona Cargo Center and Sasco in accordance with the net equity method;

   - **in other companies** amounted to Lire 22,618 million and increased by Lire 15,590 million, mainly due to the following:

     – purchase of a 9.14% shareholding in the company O.T.P. Ltd (Lire 13,941 million);

     – subscription of a share capital increase by SASA (Lire 7,032 million). The Group continues to own a 10.05% interest in the company;

     – purchase of a shareholding in SITA Inc Fondation (Lire 2,278 million);

     – subscription of a share capital increase by BELAC LCC (Lire 1,045 million). The 5% interest has remained unchanged;

     – purchase of a 49% shareholding in Ales S.p.A. (Lire 245 million);

     – disposal of an investment in COFIRI F.&.L. (Lire 1,500 million);

     – disposal of part of an investment in “Emittenti Titoli” (Lire 120 million);

- writedown of investments in SASA (Lire 6,056 million) and LABIA SERVICE in liquidation (Lire 600 million);

1.bis Payments for investments (detailed in appendix 4) amounted to Lire 67 million and relate solely to Edindustria; unchanged in comparison with 31 December 1999.

2 Financial receivables (detailed in appendix 6) amounted to Lire 192,155 million, with a net increase of Lire 45,127 million, mainly in relation to the restatement of foreign currency balances under Italian Accounting Standard no 26 (Lire 20,790 million), the receivable generated by the sale of land in Magliana to the companies Russottfinance (Lire 16,000 million) and Acqua Marcia (Lire 5,000 million) and the inclusion of additional tax paid in advance on employee severance pay (Lire 3,124 million);

3 Other securities amounted to Lire 231 million, with a net decrease of Lire 106 million, essentially due to the reimbursement of SACF bonds drawn during the period. These are connected with the loans that granted by the autonomous department of the land credit of Banca Nazionale del Lavoro to build and purchase inexpensive housing for Alitalia's employees.

C) CURRENT ASSETS

CURRENT ASSETS amounted to Lire 3,241,510 and increased by Lire 579,806 million.
More specifically:

I. INVENTORIES totalled Lire 448,130 million with an increase of Lire 39,399 million compared to last year. The increase was mainly due to exchange rate factors, the increase in the size of the fleet and the greater technical inventories required for the expansion of maintenance activity also on third party aircraft.

In more detail:

1. **Materials and consumables** totalling Lire 440,200 million showed a net increase of Lire 34,586 million.

2. **Work in progress** increased by Lire 4,813 million to Lire 7,930 million.

II. RECEIVABLES amount to Lire 2,595,609 million and have increased by Lire 693,712 million.
They may be analysed as follows:

1. **Trade receivables,** net of the provision for doubtful accounts, amounted to Lire 439,750 million and increased by Lire 120,737 million compared to the prior year. The increase was mainly due to the increased level of credit card sales and to the higher level of activities in the charter, tourism and data transmission sectors;

2. **Receivables from subsidiaries** amounted to Lire 1,838 million and referred to Sisam in liquidation. As at 31 December 1999 receivables from subsidiaries amounted to Lire 2,048 million;

3. **Receivables from associated companies** amounted to Lire 3,405 million and referred to Sasco. As at 31 December 1999 the item was Lire 4,208 million;

5. **Other receivables**, net of the relative allowance for doubtful receivables, equal Lire 2,150,616 million and have increased by Lire 573,988.
   They may be analysed as follows:

   a) **Receivables from airline companies** amounted to Lire 178,832 million, with a decrease of Lire 54,884 million, mainly due to the lower number of other airlines' vouchers used on Alitalia Group aircraft and to the lower level of advances paid during the year;

   b) **Receivables from Travel agents** amounted to Lire 597,299 million, with an increase of Lire 74,543 million compared to the prior year, mainly in relation to higher receivables in the passenger sector (+ Lire 22,000 million) and the cargo sector (+ Lire 56,000 million);

   c) **Other receivables** amounted to Lire 1,374,485 million and showed a net increase of Lire 554,329 million, mainly relating to advances paid in respect of B-747 aircraft (USD 225.8 million) which shall be refunded under the terms of the related contract during 2001.
   In more detail:

   - **Sundry debtors and advances paid to suppliers**, amount to Lire 921,017 million and have increased by Lire 608,303 million in relation to the B-747 advances mentioned above, an increased level of work for third parties, higher deferred tax assets, higher receivables from personnel and a lower balance due from SEA;

   - **Amounts due from the tax authorities** amounted to Lire 192,341 million, with a net decrease of Lire 1,877 million, mainly due to lower tax credits and to the lower impact of IRAP payments on account;

   - **Bank deposits subject to restrictions,** made up of cash whose transfer is subject to approval and control by local government authorities, amounted to Lire 26,805 million. Specifically, the balance relates to cash balances in Libya, Iran and Nigeria. The decrease of Lire 12,420 million is mainly due to the depreciation of the Libyan currency;

   - **Short term financial receivables,** amounted to Lire 234,323 million, with a decrease of Lire 39,677 million compared to 31 December 1999. The cash investments at 31 December 2000 mainly refer to a deposit of Euro 100 million with the Banca Nazionale del Lavoro in relation to the possible repayment to KLM of a contribution made by it for the Malpensa hub start-up.

III. CURRENT FINANCIAL ASSETS amounted to Lire 19,802 million with a net decrease of Lire 118,104 million. They relate to investments in commercial credit policies of Eurofly (Lire 11,963 million) and to the equity investment in CO.Fi.Ri S.p.A.: (Lire 7,838 million). The decrease, compared to 31 December 1999, mainly refers to the securities portfolio of Racom managed by Cofiri SIM (Lire 100,474 million), to Treasury Credit Certificates owned by the parent company (Lire 24,490 million) and cashed in in March 2000 and to the acquisition of a 1% interest in Co.Fi.Ri S.p.A. (Lire 7,838 million) which was then sold in February 2001.

IV. CASH AND BANK amounted to Lire 177,969 million and has decreased by Lire 35,203 million compared to 31 December 1999.

D) ACCRUED INCOME AND PREPAID EXPENSES

ACCRUED INCOME AND PREPAID EXPENSES (detailed in appendix 12) totalling Lire 78,123 million have increased by Lire 4,603 million mainly as a result of higher aircraft lease and hire costs.

The balance includes prepaid expenses of Lire 74,726 million and accrued income of Lire 3,397 million. The majority of the prepaid expenses relate to leases and rentals, aircraft insurance and insurance for flight personnel.

It should be noted that in the 1999 comparative figures Lire 16,141 million regarding incidental charges relating to loans has been reclassified to item B.17 of Assets.

LIABILITIES AND SHAREHOLDERS' EQUITY

A) SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY totalled Lire 2,897,305 million and was made up of the balance pertaining to the parent company (Lire 2,892,194 million, detailed in appendix 13) and that of minority interests (Lire 5,111 million) as follows:

Parent company:

I. SHARE CAPITAL amounts to Lire 1,548,444 million and is made up of 1,548,444,168 shares with a par value of Lire 1,000 each. There have been no changes compared to 31 December 1999. It should be noted that, on 22 December 2000, Istituto per la Ricostruzione Industriale (IRI) S.p.A. in liquidation transferred 820,880,682 ordinary shares in Alitalia , representing 53.01% of the share capital of the parent company to the Ministry for the Treasury, Budgeting and Economic Planning.

II. SHARE PREMIUM RESERVE amounts to Lire 1,242,753 million and has not varied as compared to 1999.

IV. LEGAL RESERVE - amounting to Lire 24,575 million and increased by Lire 1,584 million in accordance with the shareholders' resolution of June 16, 2000.

VII. OTHER RESERVES amounting to Lire 30,618 million did not vary in comparison with 1999;
The balance may be analysed as follows:

1. **Capital grants reserve – law 64/86 and 181/89**, regarding the company Atitech which operates in Southern Italy, amounted to Lire 28,272 million, and did not vary in comparison with 31 December 1999;

2. **Reserve for share issue – article 2349 of the Italian Civil Code** amounts to Lire 2,289 million and has not varied compared to 31 December 1999;

3. **Consolidation reserve** amounting to Lire 57 million has not changed from the prior year end balance.

VIII. RETAINED EARNINGS totalled Lire 542,371 million with an increase of Lire 12,527 million mainly relating to the net profit for 1999 part of which was allocated to the legal reserve in accordance with a shareholders' resolution of 16 June 2000.

It should also be noted that in order to eliminate value adjustments and accruals made solely for tax purposes, Lire 28,748 million representing the gains realised on fixed assets and accrued in 1987 and prior periods and subsequently reinvested in accordance with article 54 of Presidential Decree 597 of 1973 have been reclassified to this item.

IX. The **LOSS FOR THE PERIOD** attributable to the parent company amounted to Lire 496,566 million.

As previously noted in the section dealing with tangible fixed assets, the elimination, in accordance with statutory consolidated reporting requirements, of adjustments and accruals made solely for tax purposes has meant a Lire 4,553 million decrease in net profit for the period. This is the result of a higher depreciation charge due to reinvested gains on disposals being recorded in net equity rather than by the parent company in accordance with article 54 of presidential Decree No. 597 of 1973 (for Lire 3,708 million), partially offset by the release of the provision for taxes (for Lire 1,530 million).
As mentioned under the comments on tangible fixed assets, the elimination of adjustments and provisions made exclusively for tax purposes, in accordance with consolidated statutory reporting requirements, resulted in a Lire 4,553 billion decrease in the result for the year. This related to a higher amortisation charge following the allocation to net equity – rather than to accumulated depreciation as by the parent company – of gains reinvested under Article 54 of Presidential Decree 697/73 (Lire 7,749 million) as countered by the absorption of the tax provision (Lire 3,196 million).

Minority interests:

X. **MINORITY INTERESTS IN SHARE CAPITAL AND RESERVES** amounted to Lire 3,521 million and decreased by Lire 3,590 million mainly as a result of the loss for 1999.

XI. **NET PROFIT FOR THE PERIOD PERTAINING TO MINORITY INTERESTS** amounted to Lire 1,589 million compared to a loss of Lire 3,581 million for the year ended 31 December 1999.

B) PROVISIONS FOR LIABILITIES AND CHARGES

PROVISIONS FOR LIABILITIES AND CHARGES (detailed in appendix 15) totalled Lire 668,038 million and decreased by Lire 56,590 million from 31 December 1999;

They may be analysed as follows:

2. The **provision for taxes,** created to cover estimated liabilities on as yet uncertain tax positions and deferred taxes amounted to Lire 44,699 million. They decreased by Lire 19,773 million mainly as a result of the utilisation of Lire 25,437 million of the deferred tax provision of the companies Racom and Aviofin as at 31 December 1997; it was partly countered by an accrual for deferred tax liabilities of Lire 8,644 million;

3. **Other provisions,** amounting to Lire 623,339 million, have decreased by Lire 36,818 million and can be detailed as follows:

   a) the **provision for unrealised exchange losses** amounted to zero compared to Lire 12,148 million as at 31 December

1999. The existing provision was utilised during the year – as the balances became certain – and the Group applied the new Italian Accounting Standard no 26 which requires foreign currency receivables and payables to be directly restated and shown at year end exchange rates;

b) the **provision for prize competitions and promotions** which amounts to Lire 82,404 million decreased by Lire 1,078 million compared to 31 December 1999 due to the almost constant level of such initiatives;

c) the **provision for forward sale and purchase commitments** was set up during the year and relates to charges under forward contracts to hedge fuel costs (zero cost collar); it amounts to Lire 41,600 million;

d) the **provisions for other risks** amount to Lire 499,335 million and decreased by Lire 65,192 million and mainly relate to the following:

- the **provision for commercial agreements** amounts to Lire 202,079 million. It relates to the risks connected to the possible reimbursement of the Euro 100 million paid by KLM towards the cost of launching the new hub of Malpensa, together with interest payable thereon. The increase of Lire 8,402 million from 31 December 1999 is due to interest accruing during the year;

- the **provision for early retirement costs** was created in 1997 and amounted to Lire 174,312 million at 31 December 2000. As required by the European Commission following its review of the Alitalia Plan, the provision covers costs incurred and to be incurred by the airline relative to 700 early retirements offered to employees of the parent company who left the company between 1995 and 1997.
  The increase of Lire 2,232 million relates to the interest accrued during the year on the "escrow account" which holds the first part of costs paid into the account in 1997 (Lire 56,600 million);

- The **provision for sundry risks** relates to accruals by the parent company and amounts to Lire 77,691 million. It has shown a net decrease of Lire 32,411 million essentially due to positive developments regarding matters involving social security institutions, the lower level of foreign currency cash balances subject to transfer restrictions and to amounts released following the settlement of legal disputes.
  The Lire 26,404 million provided during the year reflects a prudent evaluation of risks regarding legal and tax disputes;

- the **provision for improvements to technical areas** amounts to Lire 25,372 million and relates to potential costs to be incurred in ensuring that the aircraft are kept

in full working order, particularly in relation to scheduled maintenance work.
The decrease of Lire 8,259 million resulted from the utilisation of Lire 14,731 million of the provision in relation to the cost of eliminating certain backlogs that had built up as a result of the introduction of new maintenance schemes for engines, spare parts and third party engines and from an accrual of Lire 6,472 million in relation to the scheduled maintenance work;

- the **provision for deferred exchange differences** amounts to Lire 6,660 million and implements Italian Accounting Standard no 26 showing the excess of gains over losses resulting from the translation of medium/long-term receivables and payables net of the current portion;

- **provision for the failure to renew equipment hire** amounts to Lire 6,543 million and relates to the company. It has increased by Lire 1,976 million and was created in respect of costs that could arise in 2002 and 2003 if the hire of equipment that has not yet been fully depreciated and was acquired in relation to a supply of hardware platform in 1999 to 2001 was not renewed;

- the **provision for sundry expenses,** relating to Eurofly, amounted to Lire 5,061 million following an accrual made during the year in relation to the restructuring of long-haul charter activities. The Lire 13,000 million accrued in 1999 regarded the estimated loss resulting from the decommissioning of two DC 9/51 aircraft; it was utilised in full during the year following the termination of the related lease agreements;

- the **provision for ongoing litigation** which totals Lire 971 million mainly relates to a dispute between Atitech and INAIL regarding the restatement of parameters used by the Institute in prior years (Lire 757 million).
Last year the provision for ongoing litigation amounted to Lire 8,417 millionThe Lire 7,446 million decrease follows the utilisation of the provision after a sentence unfavourable to Atitech by the Court of Rome for a litigation started in 1995 against the Transportation, Finance and Treasury Ministries regarding the proposed trebling of the amounts payable for the use of state-owned land and property;

- the **provision for restructuring costs,** originally set up in 1996 for costs to be incurred in relation to the company's restructuring plan, now has a nil balance. It has decreased by Lire 26,124 million due to leaving incentives and other costs related to personnel;

- the **provision for ATR-72 commitments** has a nil balance. It was set up in 1996 and relates to an estimate of possible costs relating to commitments to purchase four ATR-72 aircraft upon expiry of the related finance lease agreements. The decrease of Lire 697 million follows an adjustment to the estimated market value of these aircraft (mainly as a result of foreign currency adjustments);

- **sundry other provisions** amount to Lire 646 million (Lire 1,556 million at 31 December 1999) and relate to specific costs and risks regarding certain subsidiary companies.

C) PROVISION FOR EMPLOYEE SEVERANCE PAY

The **PROVISION FOR EMPLOYEE SEVERANCE PAY**, amounts to Lire 766,237 million and has increased by Lire 72,253 million essentially due to the following:

- employee severance pay accrued for the period (Lire 102,894 million);

- use of the provision mainly relating to amounts paid to leavers and advances given to employees in accordance with the law (Lire 30,641 million).

D) PAYABLES

PAYABLES (appendices 22 and 23) total Lire 4,337,846 million, an increase of Lire 1,422,686 million from the prior year. Specifically:

3. **Amounts due to banks** amount to Lire 1,887,921 million (of which Lire 1,502,930 million relates to medium/long-term financing including the current portion and Lire 384,991 million to short-term borrowings). They increased by net Lire 1,081,742 million relating to major investments and the advances for the fleet made during the period. New medium/long term finance amounted to Lire 928,122 million while a Japanese Yen loan of Lire 122,512 million (including exchange rate adjustment) was repaid to Monte dei Paschi di Siena in Frankfurt.
   The medium to long-term indebtedness guaranteed by Group assets amounts to Lire 1,443,734 million.
   Short-term borrowings recorded a net increase of Lire 384,955 million to stand at Lire 384,991 million.

4. **Amounts due to other lenders** amounted to Lire 21,056 million and entirely related to IRI S.p.A. Last year, the balance in question was shown under “amounts due to parent company” as IRI was the majority shareholder (lire 33,080 million).
   The decrease of Lire 12,023 million regarded:
   - Loan repayments made as they fell due (Lire 8,672 million);
   - A Lire 3,351 million decrease in short-term debt mainly as a result of the lower VAT balance as the Group ceased to belong to the IRI Group VAT arrangement with effect from 1 January 2000.

5. **Advances** amounted to Lire 2,509 million and mainly related to customer advances received by Italiatour; the balance has

increased by Lire 1,375 million from prior year. It should be noted that the balance does not include advance billing by Eurofly which has been classified under “Other payables” as per last year;

6. **Trade payables** amount to Lire 998,969 million and have increased by Lire 130,951 million mainly due to the increase in payables to fuel suppliers connected with the increase in both fuel prices and flight operations as well as to investments made in equipment for handling activities. The balance also includes the residual balance of the lease contract regarding two DC9-51 aircraft that was terminated in December 2000;

8. **Payables to subsidiaries** amount to Lire 7,000 million and entirely relate to Sisam (in liquidation). At 31 December 1999, the balance amounted to Lire 7,672 million;

9. **Payables to associated companies,** including share capital subscribed but not yet paid, amount to Lire 2,478 million. The balance is payable to 7C Italia S.p.A. (Lire 2,307 million) and Ales S.p.A. (Lire 171 million). Last year, the amount payable to 7C Italia S.p.A. – formerly Alidata – of Lire 672 million was disclosed under “Amounts due to subsidiaries” as Alitalia was the majority shareholder in that company at 31 December 1999;

9. **Payables to parent companies** had a zero balance compared to Lire 33,080 million at 31 December 1999. The reason can be found in the comment on “Amounts due to other lenders”;

11. **Taxes payable** to the fiscal authorities, amounting to Lire 124,741 million, increased by Lire 56,944 million mainly as a result of VAT payable following the reactivation of the Alitalia Group VAT procedure, the higher IRPEG and IRAP exposure and the increased deductions at source from employee salaries due to increases in the size of the workforce;

12. **Payables to Social security institutions** amounted to Lire 86,810 million and increased by Lire 2,514 million due to an increase in contributions to be paid over to the authorities;

13. **Other payables** amounted to Lire 1,206,361 with an increase of Lire 159,377 million.
In further detail:

    a) **Unearned revenues** amounted to Lire 334,003 million with an increase of Lire 6,067 million from the year ended 31 December 1999. The small increase was the net result of an increase in sales and the quicker use of prepaid tickets. As mentioned previously, this heading includes advance billing by Eurofly as was the case last year;

    b) **Payables for share capital increases** totalled Lire 0 million showing a decrease of Lire 13 million compared to 31 December 1999.

c) **Payables to Airlines** amounted to Lire 324,383 million and increased by Lire 62,547 million over the prior year, mainly as a result of the lower level of services rendered to other companies under clearing house agreements and to a higher level of Alitalia tickets used on other airlines' flights;

d) **Payables to travel agents** for commission due to them totalled Lire 137,728 million and increased by Lire 35,655 million as a result of higher levels of traffic;

e) **Sundry payables** amounted to Lire 410,246 million and showed an increase of Lire 55,120 million, mainly due to higher amounts due to employees and to pension and insurance companies in relation to employees.

E) ACCRUED LIABILITIES AND DEFERRED INCOME

ACCRUED LIABILITIES AND DEFERRED INCOME (appendix 18) amount to Lire 430,790 million and have increased by Lire 363,218 million mainly as a result of the deferred gain on the sale of 20 MD-80 aircraft (this gain Lire 304,094 million has been deferred in relation to the lease instalments payable following the leaseback of the aircraft in question) and of the subsidy awarded by the Brazilian Government and the aircraft manufacturer in relation to the purchase of 6 Embraer aircraft (Lire 30,482 million). The remainder of the increase is due to an increase in the level of revenues relating to subsequent periods.

MEMORANDUM ACCOUNTS

MEMORANDUM ACCOUNTS amounted to Lire 13,776,757 million at 31 December 2000, a net increase of Lire 6,530,122 million over 31 December 1999.
Specifically:

1. **Personal guarantees given** for liabilities and other third party obligations amount to Lire 3,634 million and have decreased by a net Lire 892 million which can be detailed as follows:

   a. **Sureties**: amounted to Lire 3,185 million. The balance relates to patronage letters in favour of Sisam (in liquidation) for Lire 271 million and sureties in favour of others (Lire 2,914 million); it has decreased by Lire 893 million;

   c. **Other: on behalf of others** amounted to Lire 449 million and remained unchanged compared to last year. The balance relates to joint obligations with the purchasers for those shares not fully paid-up and transferred further to the sale of the company Aeroporto Fiorentino.

2. **Secured guarantees** (appendix 27), relating to guarantees issued for liabilities recorded in the financial statements, amounted to Lire 1,443,734 million and are for mortgages taken out on the following assets:

   - Aircraft for Lire 1,293,734 million, a net increase of Lire 839,584 million mainly as a result of new loans;

   - The parent company's new head office for Lire 150,000 million with a decrease of Lire 9,091 million.

3. **Purchase and sale commitments** (appendix 28) amounting to Lire 6,170,984 million, an increase of Lire 3,178,455 million over the year ended 31 December 1999.

   More specifically:

   - **Purchase commitments** amounted to Lire 2,893,373 million. The commitments relate to the following purchases:

     – new aircraft (12 A319s, 5 A320s, 6 B777/200ERs, 2 Embraers and a spare B 777 engine) for Lire 2,690,385 million;

     – inventories and spare parts relating to new aircraft (Lire 96,815 million);

     – supplies to modify aeronautical equipment (Lire 3,403 million);

     – services regarding hangar renovation, equipment maintenance and other work to meet legal requirements (Lire 27,747 million);

– data transmission networks (Lire 14,953 million), outsourcing services for data processing (Lire 5,500 million), equipment maintenance (Lire 5,565 million) and other services (Lire 1,405 million);

– forward contracts in foreign currency (Lire 7,461 million) regarding borrowings in US dollars to cover disbursements in foreign currency;

– future subscriptions by the parent company in O.T.P. Ltd (Lire 37,641 million) and Belac LLC (Lire 2,497 million).

Sale commitments amounted to Lire 3,277,612 million and increased by Lire 1,987,190 million. They relate to:

– the forward sale of USD (Lire 493,239 million) in relation to the receivable comprising advances paid on B747 aircraft which must be repaid under the contract in 2001;

– commitments for Lire 2,784,373 million related to the supply of technical services to third parties by the companies Alitalia, Sigma and Sigma Travel System. These mainly referred to long-term contracts for the supply of maintenance services by the parent company to Gemini Air Cargo.

Other memorandum accounts (appendix 29) total Lire 6,158,405 million and have increased by Lire 2,522,067 million from the prior year. Specifically:

- **Personal guarantees received** amounted to Lire 70,124 million and consisted of consist of bank and insurance company guarantees issued by travel agents and third parties;

- **Leased assets** amounted to Lire 1,536,820 million, Lire 55,820 million more than last year mainly as a result of a new lease agreement for 1 A-320 and 1 A-321 aircraft less instalments paid during the year.
  The balance specifically includes:

  ▪ Lire 1,513,298 million relating to aircraft, spare engines and spare parts;

  ▪ Lire 23,522 million relating to buildings.

  With regard to the leased aircraft, it should be noted that for those received from Paynsfield (Lire 762,645 million), the instalment payments and the purchase option instalments are correlated to hedging operations involving domestic currency swaps and forward contracts to purchase currency;

- **Third party assets on deposit and under operating leases** amounted to Lire 1,236,659 million and increased by Lire 309,751 million; the balance relates to leased aircraft

(Lire 1,231,711 million) and motor vehicles (Lire 4,621 million);

- **Assets with third parties** amounted to Lire 57,315 million and included electronic installations (Lire 1,475 million) and aeronautic materials (Lire 55,840 million). They have increased by Lire 27,816 million compared to 31 December 1999;

- **Guarantees from third parties on Group liabilities** mainly relate to sureties from third parties against liabilities of the Group. They amounted to Lire 541,418 million, a decrease of Lire 2,481 million from last year;

- **Derivative transactions** amounting to Lire 2,709,989 million, mainly relate to notional capital regarding interest rate swaps as well as to operations to hedge risks regarding exchange rate and fuel price fluctuations. The increase of Lire 2,141,976 million is due to new transactions entered into during the year in relation to new loans (Lire 1,334,094 million), to options on foreign currency forward contracts (Lire 139,654 million) and to fuel price hedging agreements (Lire 668,228 million).

Other memorandum accounts amount to Lire 6,080 million. They mainly include are penalties issued by the company Atitech to Grassetto Costruzioni SpA during the performance of the contract for the construction of the hangar complex, offices and workshops (Lire 5,380 million).

PART C – INFORMATION ON THE PROFIT AND LOSS STATEMENT

The analysis of the profit and loss statement and the changes thereto includes a comparison between the information contained in the financial statements at 31 December 2000, prepared in accordance with Legislative Decree No.127 of 1991, and that contained in the financial statements at 31 December 1999.
This document should be read together with the appendices in Part D of the Notes.
Any reclassifications of a significant character will be commented on in the relevant section.

A) VALUE OF PRODUCTION

VALUE OF PRODUCTION amounted to Lire 10,960,369 million and increased by Lire 1,145,016 million (+11.7%). It was analysed as follows:

1. **Revenues from sales and services** (also see appendix 30 for the related classification by geographical area) amounted to Lire 10,438,258 million and increased by Lire 1,129,909 million (+ 12.1%).
   Specifically:

   - **Traffic revenues** amounted to Lire 8,935,972 million with an increase of Lire 825,320 million (+10.1%) which may be analysed by category as follows:

     – scheduled flight **passengers** increased by Lire 780,733 million (+11.8%), mainly due to the increase in air traffic (TKT +10.7%) even though there was a smaller increase on the supply side (TKO +3.6%); the load factor increased by 4.6 percentage points. Yield was boosted by exchange rate related factors but was only slightly higher (+1%) than in 1999.. In terms of geographical areas, analysed by destination, the increase is due mainly to the North and Central America, the Middle East and Eastern Europe;

     – **Cargo** increased by Lire 172,235 million (+ 20%), due to a greater level of goods transported (TKT +8.1%) and to a higher yield (+9.1%), again helped by exchange rate factors. The increase especially relates to the Far East and North America sectors;

     – **The mail service** (day-time mail flights) increased by Lire 5,614 million (+35.7%) thanks mainly to the favourable exchange rate trends.

     – **Other traffic revenues** decreased by Lire 133,263 million mainly because last year's figures included a Euro 100 million (Lire 193.7 billion) contribution made by KLM under sharing formula agreements towards the cost of launching the Malpensa hub (as a result of the disputes which arose following the termination of the alliance with KLM a provision for the same amount was made under profit and loss item B-12 in 1999). Other factors to note include increased income from the charter sector (+Lire 59,513 million), block-space (+Lire 24,355 million) and night postal flights (+Lire 1,627 million), partially counterbalanced by the decrease of the activity with other carriers (-Lire 25,130 million);

- **Other services** amounted to Lire 1,458,024 million and increased by Lire 309,820 million (+27%), analysed as follows:

  – **Additional income from traffic** increased by Lire 152,531 million. Lire 89 billion of the increase related to "boarding taxes", as a result of an increase in passenger numbers, the introduction of a security charge at Italian airports and exchange rate factors. The increase was countered by an increase in the related cost item "Traffic and airport expenses". The remaining increase of around Lire 64 billion mainly relates to costs recharged (fuel surcharge), to sundry costs relating to cargo and penalties regarding passenger and charter traffic;

  – **Hire income** amounted to Lire 5.073 million and increased by Lire 4,622 million essentially in relation to ACMI hires of charter flights performed for other airlines*;*

  – **Services to third parties** amounted to Lire 751,829 million, increasing by Lire 152,667 million, mainly attributable to an increase in sundry services (+ Lire 54,560 million) – essentially advertising, training and other services – and an increase in maintenance performed for other airlines (Lire 65,753 million). The rest of the increase related to tourism revenues (+ Lire 30,211 million, Italiatour), airport and technical assistance revenues (+ Lire 2,008 million) net of lower revenues for seconded personnel (- Lire 3,325 million).

- **Revenues from the sale of goods** amounted to Lire 44,262 million and decreased by Lire 5,231 million mainly due to lower sales of on-board boutique products connected with the termination of the "duty free" activities at the European level from July 1999.

2. **Change in work in progress inventory** amounted to Lire 4,813 million, an increase of Lire 4,058 million from the prior year. The change is linked to the transformation of MD-11 landing gear.

4. The **capitalisation of internal construction costs** amounted to Lire 131,669 million, with an increase of Lire 7,693 million as compared to the year ended 31 December 1999.

In particular it relates to:

- capitalisation of financial expenses (Lire 14,898 million) linked to advances paid to suppliers in order to replace the fleet; this increased by Lire 12,269 million in relation to the higher level of doubt and an increase in interest rates;

- capitalisation of costs for modifications to aircraft and periodic overhauls (Lire 98,499 million) and other capitalised costs (Lire 18,272 million). There was an overall decrease of Lire 4,576 million as compared to the prior year mainly due to the lower level of work on the owned fleet;

5. **Other revenues and income** amounted to Lire 385,629 million and increased by Lire 3,357 million compared to the previous year;
   Specifically:

   b) **Gains on disposal of fixed assets** of Lire 44,530 million mainly relate to the sale of one B-747, one ATR-42, two engines and other materials; this led to an increase of Lire 28,665 million compared to last year;

   c) **Other** amounted to Lire 341,099 million and decreased by Lire 25,307 million. They mainly relate to:

      – the utilisation of provisions totalling Lire 89,079 million, compared to Lire 141,794 million in 1999, in respect of costs for prize competitions (Lire 32,759 million), upgrading of technical areas (Lire 2,731 million) and to excess provisions for sundry risks (Lire 52,892 million). This last item was significantly lower than in 1999 (Lire 101,025 million) and relates to a more limited level of cash resources in foreign countries subject to transfer restrictions (partly as a result of writedowns which led to exchange losses recorded under “interest and other financial charges”) and to disputes with social security institutions following a successful outcome;

      – the income from recovery of costs connected with trade collaboration contracts with Azzurra and Minerva (Lire 51,907 million, compared to Lire 56,087 million in 1999, related however to substantially the same trend of costs which are included in the item “other operating expenses ”);

      – positive differences arising during the period in relation to air services that need no longer be provided following the expiry of ticket validity (Lire 57,722 million compared to Lire 25,278 million in 1999);

      – differences relating to excess provisions made in prior years – Lire 89,094 million compared to Lire 82,660 million in 1999;

- commercial allowances paid by suppliers (Lire 24,139 million), the insurance refunds (Lire 11,871 million), contributions from Galileo to Sigma Travel System (Lire 6,350 million), the fees paid to Directors and Statutory Auditors (Lire 1,597 million), real estate investment income (Lire 1,921 million) and other income (Lire 7,419); there has been a total decrease of Lire 24,018 million mainly because the 1999 figure included a contribution made by SEA towards increased costs incurred by the company during the Malpensa start-up phase.

B) COST OF PRODUCTION

COST OF PRODUCTION amounted to Lire 11,449,919 million and increased by Lire 1,427,549 million compared to 1999 (+14.2%).

In more detail*:*

6. The **cost of technical materials, fuel and consumables** amounted to Lire 2,197,670 million and increased by Lire 730,763 million (+ 49.8%).
The balance may be analysed as follows:

- **Spare parts and technical material inventories** account for an increase in purchases of Lire 4,715 million. It should be noted that consumption, including changes in inventories, increased by Lire 45,324 million mainly as a result of exchange rate factors and totalled Lire 360,405 million;

- **Sundry materials** increased by Lire 9,912 million, including the change in inventories, for a total of Lire 213,996 million;

- **Fuel and oil costs** amounted to Lire 1,588,683 million and increased by Lire 719,706 million (+82.8%). The increase was mainly due to higher fuel prices (from USD 0.639 per US gallon in 1999 to USD 0.972 a gallon in 2000), to the unfavourable USD/Lire exchange rate trend and to the higher volume of business.

7. **Service expenses** totalled Lire 5,281,240 million, an increase of Lire 482,274 million (+10.2%)..
They may be analysed as follows*:*

- **Selling costs**, amounting to Lire 1,650,873 million, increased by Lire 161,122 million (+10.8%), in line with the percentage increase in revenues. The increase was mainly due to increases in brokerage fees and computerised booking costs, partially offset lower advertising and promotional expenses*;*

- **Traffic and airport expenses,** amounting to Lire 2,176,326 million, increased by Lire 126,128 million (+6.2%). The figure is also affected by the fact that Alitalia Airport has provided runway handling services since July 2000 in place of Aeroporti di Roma; as a result airport costs fell by around

Lire 94 billion while personnel expenses and depreciation/amortisation increased by a similar amount. If this change is set aside, the increase would have amounted to around 220 billion as analysed below:

- Lire 131 billion – boarding taxes and other airport duties; these are largely covered (Lire 97 billion) by the similar item included under other traffic related income;

- Lire 62 billion – increased airport assistance costs (+5%);

- Lire 27 billion (+10%) – an increase in in-flight meals as a result of the higher number of passengers and the increase in passenger assistance in relation to the growth of activities;

- **Fleet maintenance and overhaul costs** of Lire 444,197 million increased by Lire 61,861 million (+16.2%), mainly as a result of the negative impact of price and exchange rate variations and of the higher level of activities on behalf of third parties;

- **Losses on joint traffic activities,** amounting to Lire 72,584 million, decreased by Lire 13,931 million mainly due to lower costs under the agreements with KLM which were terminated at the end of April;

- **Other services** amounted to Lire 874,259 million and increased by Lire 147,094 million, mainly due to higher general and professional costs (+Lire 38,672 million), personnel expenses (+Lire 29,847 million), sundry maintenance (+ Lire 28,454 million), tourism services (+ Lire 18,663 million), insurance (9Lire 13,036 million), financial services (credit cards +Lire 9,890 million) and information, telecommunications and data transfers (+ Lire 8,532 million).

8. **Lease and rental costs**, amounting to Lire 951,256 million, increased by Lire 123,931 million (+15%) as follows:

- **Lease and hire costs** amounted to Lire 857,262 million and increased by Lire 120,334 million mainly as a result of a higher level of block space operations largely with Canadian, Japan Airlines Continental and Nippon Cargo, a higher level of hires from third parties (Minerva, Ansett and ILFC) in relation to the expansion of cargo activities and to higher finance and operating lease costs. The balance was also affected by a decrease in hires from KLM.

  It should be noted that if leased aircraft were accounted for using the finance lease methodology required by International Accounting Standard no 17 charges for the year 2000 would have been around Lire 8 billion lower; the combined effect on this and prior years would be to increase net equity by around Lire 25 billion;

- **Rent and instalments payable** totalled Lire 93,994 million. They increased by Lire 3,597 million mainly in relation to the new contracts agreed for state-owned property and agreements during the year in relation to plant and machinery for use in the handing activities;

9. **Personnel costs** amounted to Lire 2,289,758 million and increased by Lire 129,021 million (+6%), mainly as a result of an increase in the size of the workforce (+1,828 employees); this increase mainly regarded the handling sector, with the transfer of staff from Aeroporti di Roma, and the air transport sector due to the increased level of activity.
   The increase also included Lire 22,486 million relating to the holiday pay accrual*;*

10. **Amortisation, depreciation and write-downs** amounted to Lire 586,006 million and increased by Lire 74,107 million.
    They can be analysed as follows:

    a) **Amortisation of intangible fixed assets** (see appendix 1) amounted to Lire 81,696 million and increased by Lire 577 million. The increase was the net result of higher amortisation due to new software purchases net of the effect of assets reaching fully amortised status or having been written off;

    b) **Depreciation of tangible fixed assets** (see appendix 3) amounted to Lire 485,879 million and increased by Lire 59,213 million mainly as a result of the higher average number of owned aircraft (5 MD-80s, 3 A-320s, 2 B-767s and 6 Embraers). It should also be noted that in order to adhere to consolidated reporting requirements – in accordance with Article 54 of Presidential Decree no 597/73 – the depreciation charge is Lire 7,250 million higher than in the parent company's financial statements*;*

    c) **Other fixed asset writedowns** totalled Lire 277 million, Lire 416 million less than in 1999. They referred to the expenses capitalised in the past in relation to the premises, no longer used, for crew presentation purposes at the new Head Office;

    d) **Write-downs of current receivables and cash and cash equivalents***,* amounting to Lire 18,215 million, reflect prudent provisions made for bad debt risks and have increased by Lire 14,734 million compared to 1999 (which benefited from the collection of previously provided balances).

11. **Changes in technical materials, spares and consumables inventories** amounted to Lire 34,587 million as compared to Lire 78,765 million at 31 December 1999.

12. **Provisions for liabilities and charges** amounted to Lire 34,828 million and mainly referred to the up-dating of risks

referred to legal disputes and with suppliers and interest on the contribution paid by KLM which may have to be repaid. The decrease of Lire 180,587 million compared to 1999 mainly relates to the prudent provision made last year in relation to the possible repayment of the amount paid by KLM (Euro 100 million) towards the cost of launching the Malpensa hub.

13. **Other provisions** amounted to Lire 46,146 million and mainly related to the provision for prize competitions (Lire 37,698 million), the accrual to the provision for technical area upgrades (Lire 6,472 million) and a provision of Lire 1,976 million to cover the net book value of surplus hardware that has not yet been fully depreciated. This item has decreased by Lire 14,657 million compared to 1999 mainly as a result of the lower provision for prize competitions.

14. **Other operating expenses** amounted to Lire 160,543 million and increased by Lire 38,790 million. The increase was mainly due to costs in excess of previous year accruals (Lire 34,077 million), to higher other taxation and duties (+Lire 1,872 million), to higher Directors and Statutory Auditoirs0 fees (+Lire 1,297 million) and higher other charges (+Lire 1,732 million) mainly in connection with the commercial collaboration contracts with Azzurra and Minerva (these are linked with the recovery included in “other revenues and income”).

C) FINANCIAL INCOME AND EXPENSES

FINANCIAL INCOME AND EXPENSES amounted to net income of Lire 13,845 million compared to net income of Lire 35,195 million in 1999. The decrease of Lire 21,350 million is the result of the following:

15. **Investment income** amounted to Lire 2,274 million and included dividends paid by Sasco, Cofiri F&L. and E.A.S. and the profits distributed by Galileo. The balance has increased by Lire 228 million compared to 1999.

16. **Other financial income** amounted to Lire 155,853 million and has increased by Lire 61,201 million. The increase mainly relates to higher exchange gains (+Lire 63,684 million) including Lire 45,853 million on the partial repayment on advances paid on B-747 aircraft in US Dollars at exchange rates covered by forward contracts that have turned out favourably and Lire 12,087 million relating to a release from the provision for unrealised exchange losses to counter losses recorded in the profit and loss statement. The remainder mainly relates to a lower level of income from fuel price hedging transactions as offset by higher interest income.

17. **Interest, commissions and other financial expenses** (see appendix 35 for details of interest and commission to other companies and sundry charges as well as financial expenses allocated to assets), amounted to Lire 144,282 million and increased by Lire 82,778 million. The increase reflects, above all, the increase in charges relating to fuel

price hedges (+Lire 53,136 million including Lire 41,600 million relating to zero cost collar contracts expiring in 2001) and to increased bank interest payable (+Lire 39,196 million) as a result of a higher level of debt and higher interest rates (from 3.5% in 1999 to 4.7% in 2000) as partially offset by a reduction in foreign exchange charges (-Lire 7,713 million).

D) ADJUSTMENTS TO FINANCIAL ASSETS

ADJUSTMENTS TO FINANCIAL ASSETS represented a charge of Lire 7,337 million. They essentially related to a Lire 7,416 million writedown in the investments in SASA, Sisam (not consolidated as it was put into liquidation in 1999) and Labia as partly offset by an increase of Lire 79 million resulting from the net equity method valuation of the associated companies Sasco and Verona Cargo Centre.
See Appendix 4 for further details

E) EXTRAORDINARY INCOME AND EXPENSES

EXTRAORDINARY INCOME AND EXPENSES (appendix 37) show net income of Lire 66,427 million, representing a decrease of Lire 139,802 million compared to last year.

The balance may be analysed as follows:

20. **Extraordinary income** amounted to Lire 110,764 million and mainly consisted of gains arising on the following:

- the sale and leaseback (on average for five years) of 20 MD-80 aircraft. The total gain arising on this operation is Lire 317,034, including Lire 304,094 million which has, prudently, been deferred to future years in relation to future lease instalments;
- the sale of land in Magliana to three companies, Toyota, Russottfinance and (Lire 35,687 million);
- the sale of investments held in Cofiri F&L (Lire 2,202 million) and Emittenti Titoli (Lire 12 million);
- income not accrued in prior years (Lire 31,603 million) and other income of Lire 27,721 million. The other income relates to the recognition of deferred tax assets arising in prior years. These assets were recorded in the profit and loss statement this year following the rental of a business unit to Alitalia Team involving the transfer of liabilities (Lire 74,921 million) the cost related to which had already been disallowed for tax purposes in relation to the parent company.

Last year, extraordinary income amounted to Lire 250,641 million and essentially related to gains on the sale of investments in Equant and Galileo International.

21. **Extraordinary expenses** amounted to Lire 44,337 million compared to Lire 44,412 million in 1999. It includes expenses not accrued in prior years (Lire 19,735 million), additional costs incurred for leaving incentives which exceeded the amount included in the restructuring provision (Lire 8,588 million), the amount accrued in respect of expenses to be incurred in restructuring the long haul charter business (Lire 5,061 million), incidental costs regarding the sale of 20 MD-80 aircraft (Lire 4,660 million), prior year taxation (Lire 2,058 million), penalties for revised tax return (Lire 915 million) and costs incurred in decommissioning 2 DC9-51 aircraft in excess of the amount included in the specific provision for risks (Lire 776 million);

22. **Taxes on income for the year** amounted to Lire 78,362 million and represent the tax charge of each Group company for the year.
Current taxation includes Lire 80 billion of IRAP and Lire 63 billion of IRPEG – these amounts are partly offset by tax credits on dividends of Lire 53 billion. The balance also includes deferred tax assets of Lire 40 billion, deferred tax liabilities of Lire 9 billion and the utilisation of accumulated deferred tax assets of Lire 19 billion;

26. **The net loss for the year** amounted to Lire 494,977 million compared to a net profit of Lire 11,737 million in 1999. The loss is allocated as follows:

Parent company share	Lire (496,566) million
Minority interest share	Lire 1,589 million

APPENDIX 1

INTANGIBLE FIXED ASSETS

(in millions of lire)

Accounts Subaccounts	31.12.1999 Cost	31.12.1999 Amort.	31.12.1999 Net book value	Changes for the year Purch./ Int. costs	Changes for the year Reclass.	Changes for the year Disposals	Changes for the year (Write-down.) Reinstat.	Changes for the year Changes in consolid. area	Changes for the year Amort.	31.12.2000 Cost	31.12.2000 Amort.	31.12.2000 Net book value
1. START-UP AND CAPITAL INCREASE COSTS (*)	87,634	41,204	46,430	6,962	517	0	0	0	21,092	95,113	62,296	32,817
2. RESEARCH, DEVELOPMENTS AND ADVERTISING COSTS (*)	70.522	66.182	4.341	0	0	0	0		1.459	70.522	67,641	2,881
3. DESIGN RIGHTS, PATENTS AND COPYRIGHTS	73,647	36,038	37,609	25,535	3,252	0	0		18,493	102,434	54,530	47,903
4. TRADEMARKS AND LICENCES	6,826	3,884	2,941	205	0	0	0	0	896	7,032	4,780	2,252
5. CONSOLIDATION DIFFERENCES	16,176	11,173	5,003	0	0	0	0	0	2,374	16,176	13,547	2,629
6. INTANGIBLE ASSETS UNDER DEVELOPMENT AND ADVANCES	17,151	0	17,151	10,747	(13,715)	0	0	0	0	14,183	0	14,183
7. OTHER (1)	480,686	392,659	88,028	36,519	(1,631)	0	(273)	0	37,382	514,812	429,552	85,260
T O T A L	752,642	551,140	201,502	79,968	(11,577) (2)	0	(273)	0	81,696	820,273	632,346	187,925

(*) Reclassification from research, development and advertising costs to start-up and capital increases costs

(1) Reclassification from loan charges

(2) Transfer to tangible fixed assets - Lire 11,577 million

APPENDIX 2

BREAKDOWN OF START-UP AND CAPITAL INCREASE COST

(in millions of lire)

Accounts Subaccounts	31.12.2000	31.12.1999
STAMP DUTY ON SHARE CAPITAL INCREASE	10,154	15,105
COMMISSIONS AND FEES FOR SHARE CAPITAL INCREASE	9,508	14,263
STAMP DUTY ON PAYMENTS FOR FUTURE CAPITAL INCREASE	-	-
RETRAINING OF PERSONNEL	500	749
TRAINING OF PILOTS	12,327	11,046
COST OF INTRODUCING B767 and other aircraft	186	1,420
START-UP COSTS	74	101
CAPITAL INCREASE COSTS	68	3,746
T O T A L	32,817	46,430

BREAKDOWN OF RESEARCH, DEVELOPMENT AND ADVERTISING EXPENSES

(in millions of lire)

Accounts Subaccounts	31.12.2000	31.12.1999
STUDIES AND RESEARCH	100	170
MALPENSA ADVERTISING	2,781	4,171
ADVERTISING	-	-
ALLIANCE WITH KLM	-	-
MARKET RESEARCH	-	-
SOFTWARE DEVELOPMENT	-	-
T O T A L	2,881	4,341

APPENDIX 3

TANGIBLE FIXED ASSETS

(in millions of lire)

31.12.1999

Accounts / Subaccounts	Cost	Revaluat. (Write-d.) cost	Revaluat. (Write-d.) deprec.	Accumul. Deprec. (2)	Net Book value
1. LAND AND BUILDINGS					
- Non-industrial	100	0	0	81	19
- Industrial	338,753	45,393	0	115,237	268,908
2. PLANT AND MACHINERY					
- Fleet	7,593,809	(9,835)	(1,671)	3,844,051	3,741,594
- Other	184,240	0	0	147,687	36,553
3. INDUSTRIAL AND COMMERCIAL EQUIPMENT	164,091	0	0	116,842	47,249
3bis. ASSETS SUBJECT TO REVERSION FREE OF CHARGE					
- Land and buildings	196,524	0	0	113,008	83,516
- Plant and machinery	114,044	0	0	87,808	26,236
4. OTHER	193,524	0	0	120,354	73,170
5. ASSETS UNDER CONSTRUCTION AND ADVANCES					
- Assets under construction	36,783	0	0	0	36,783
- Fleet advances	383,196	0	0	0	383,196
T O T A L E	9,205,063	35,558	(1,671)	4,545,068	4,697,225

Changes for the year

Accounts / Subaccounts	Purch./ Int.costs	Reclas. cost	Reclas. deprec.	Dispos. write off of cost	Dispos. write off of deprec.(2)	Revaluat. (write-d.)	Consolid. adjustm.	Consolid. adjustm. deprec.	Deprec. (2)
1. LAND AND BUILDINGS									
- Non-industrial	0	0	0	0	0	0	0	0	3
- Industrial	80	754	0	9,113	0	0	0	0	10,957
2. PLANT AND MACHINERY									
- Fleet	928,150	134,818	3,385	1,142,014	941,380	0	(13,927)	(13,927)	413,597
- Other	44,700	33	0	5,227	4,688	0	0	0	12,644
3. INDUSTRIAL AND COMMERCIAL EQUIPMENT	18,501	61	0	19,853	17,335	0	0	0	10,696
3bis. ASSETS SUBJECT TO REVERSION FREE OF CHARGE									
- Land and buildings	118	210	210	0	0	0	0	0	8,488
- Plant and machinery	103	(18)	(210)	1,509	731	0	0	0	5,866
4. OTHER	23,762	896	34	49,228	49,267	(4)	157	58	23,628
5. ASSETS UNDER CONSTRUCTION AND ADVANCES									
- Assets under construction	60,671	(5,570)	0	0	0	0	0	0	0
- Fleet advances	784,571	(141,358)	0	475,311	0	0	0	0	0
T O T A L E	1,860,656	(10,174) (*)	3,419 (**)	1,702,255	1,013,401	(4)	(13,770)	(13,869)	485,879

Accounts / Subaccounts	Cost	Revaluat. (write-d.) cost	Revaluat. (write-d.) deprec.	Accumul. deprec. (2)	Book value
1. LAND AND BUILDINGS					
- Non-industrial	100	0	0	84	16
- Industrial	331,711	44,156	0	126,194	249,673
2. PLANT AND MACHINERY					
- Fleet	7,500,837	(9,835)	(1,671)	3,305,726	4,186,947
- Other	223,747	0	0	155,644	68,103
3. INDUSTRIAL AND COMMERCIAL EQUIPMENT	162,798	0	0	110,203	52,595
3bis. ASSETS SUBJECT TO REVERSION FREE OF CHARGE					
- Land and buildings	196,853	0	0	121,706	75,147
- Plant and machinery	112,619	0	0	92,733	19,886
4. OTHER	169,113	(17)	(13)	94,808	74,301
5. ASSETS UNDER CONSTRUCTION AND ADVANCES					
- Assets under construction	91,883	0	0	0	91,883
- Fleet advances	551,098	0	0	0	551,098
T O T A L E	9,340,759	34,304	(1,684)	4,007,098	5,369,649

(1)
Including:

	Revaluat. (Write-d.) cost, 31.12.1999	Dispos. write off of cost	Revaluat. (write-d.) cost, closing
Revaluations:			
Law 72/1983	28,233		28,233
Law 1413/1991	17,160	1,237	15,923

(2)
Including:

	Accumul. Deprec. (2), 31.12.1999	Dispos. write off of deprec.(2)	Deprec. (2)	Accumul. deprec. (2), closing
Accumulated industrial depreciation	147,767	731	10,146	157,182
Accumulated financial depreciation	53,049	0	4,208	57,257

including:

(*) reclass. to technical stocks 25,201

(*) (**) Reclass. from intangible fixed assets Lire 11,577 million

APPENDIX 4

(in millions of lire)

DETAIL OF FINANCIAL FIXED ASSETS AND PAYMENTS FOR INVESTMENTS

Accounts Subaccounts	31.12.1999 Cost	31.12.1999 (write-downs) Reinstatement	31.12.1999 Book value	Movements during the: Acquisitions Subscriptions	Reclassific	Disposals	Changes in consolidation area	(write- Reinstatement	Capital reconstitution	31.12.2000 Cost	31.12.2000 (write-downs) Rein statements	31.12.2000 Net book value
1.INVESTMENTS IN SUBSIDIARIES												
- ALIDATA	921	(136)	785		(314)	471				450	(450)	0
- ODINO VALPERGA	4,080	(4,080)	0							4,080	(4,080)	0
- SISAM	2,572	2,760	5,332					(749)		2,572	2,011	4,583
	7,573	(1,456)	6,117	0	(314)	471	0	(749)	0	7,102	(2,519)	4,583
2.INVESTMENTS IN ASSOCIATED COMPANIES												
- ALES				245						245	0	245
- ALIDATA				2,320	314			(11)		2,634	(11)	2,623
- NOVANTATOUR ITALIA IN PROC. FALLIM.	200	(200)	0							200	(200)	0
- SASCO	49	57	106					22		49	79	128
- VERONA CARGO C.	80	314	394					54		80	368	448
	329	171	500	2,565	314	0	0	65	0	3,208	236	3,445
3.INVESTMENTS IN OTHER COMPANIES												
- AERON. RADIO OF THAIL.	2	0	2							2	0	2
- BELAC LLC	468	0	468	1,045						1,513	0	1,513
- CARGO SWITCH AG.	1	0	1							1	0	1
- CIES (1)	200	0	200							200	0	200
- COFIRI FACTOR	1,500	0	1,500			1,500				0	0	0
- CONSAER (1)				101						101	0	101
- EAS	315	0	315							315	0	315
- EDINDUSTRIA	76	0	76	68						144	0	144
- EMITTENTI TITOLI S.P.A.	262	0	262			120				142	0	142
- E.T.L. (1)	20	0	20							20	0	20
- GALILEO UNLTD	411	0	411							411	0	411
- GALILEO INT.	1,136	0	1,136							1,136	0	1,136
- GALILEO JAPAN	555	0	555							555	0	555
- IRI MANAGEMENT	14	0	14							14	0	14
- LABIA SERVICE	1,200	0	1,200			600		(600)		600	(600)	0
- LYBIAN ITALIAN JOINT CO.	18	0	18							18	0	18
- OTOPENI				13,941						13,941	0	13,941
- SASA	5,216	(4,702)	514	7,032				(6,055)		12,248	(10,757)	1,491
- S.I.T.A	1	0	1							1	0	1
- S.I.T.A FOUNDATION	284	0	284							284	0	284
- S.I.T.A INC. FOUNDATION				2,278						2,278	0	2,278
- TURISTEL (1)	50	0	50							50	0	50
	11,730	(4,702)	7,028	24,465	0	2,220	0	(6,655)	0	33,975	(11,357)	22,617
TOTAL INVESTMENTS	19,632	(5,987)	13,645	27,030	0	2,691	0	(7,339)	0	44,285	(13,640)	30,645
1.bis - PAYMENTS FOR INVESTMENTS												
- EDINDUSTRIA	67	0	67							67	0	67
	67	0	67	0	0	0	0	0	0	67	0	67

(1) Consortium

APPENDIX 5

LIST OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES AT 31.12.2000

(in millions of lire)

NAME	HEAD OFFICE	NUMBER OF SHARES HELD	CAPITAL IN FOREIGN CURRENCY		EXCHANGE RATE	CAPITAL IN LIRE	SHAREHOLDERS' EQUITY	NET PROFIT (LOSS)	SHARE-HOLDING %	CORRESP. SHAREHOLDERS' EQUITY	BALANCE-SHEET VALUE	SURPLUS
										(A)	(B)	B - A (+)
1. SUBSIDIARIES:												
ODINO VALPERGA IT. G. in liquid. (2)- (3)	S. Fior.	76,500	Lit			1,500,000,000	(13,936)	(1,183)	51.00	(7,107)	0	7,107
SISAM in liquidation (1)	Roma	300,000				3,000,000,000	4,583	(749)	100.00	4,583	4,583	
TOTAL SUBSIDIARIES										(2,524)	4,583	7,107
2. ASSOCIATED COMPANIES:												
7 C ITALIA (formerly ALIDATA S.p.A.)	Palermo	272,000	Lire			6,800,000,000	6,558	(40)	40.00	2,623	2,623	
ALES S.p.A. (6)	Genoa	2,450	Lire			500,000,000	500	-	49.00	245	245	
SASCO - Sea Air Shipping company (4) (5)	Florence	50,000	Lire			200,000,000	2,213	1,789	25.00	553	128	
VERONA CARGO CENTER S.p.A. (4)	Verona	8,000	Lire			200,000,000	1,120	135	40.00	448	448	
NOVANTATOUR ITALIA under bankruptcy proceedings	Rome		Lire			400,000,000	323		50.00	162	0	
TOTAL ASSOCIATED COMPANIES										1,163	3,445	0

(1) Profit/Loss and Shareholders' Equity as at 31/12/2000

(2) Profit/Loss and Shareholders' Equity as at 31/12/1994

(3) The company was declared bankrupt in a judgement dated 13.3.1996.

(4) Profit/Loss and Shareholders' Equity as at 31/12/1999

(5) Corresponding shareholders' equity includes dividends received from subsidiary Aviofin in 2000

(6) The company was not yet operational as at 31.12.2000.

APPENDIX 5b

LIST OF INVESTMENTS IN OTHER COMPANIES AT 31.12.2000

(in millions of lire)

NAME	HEAD OFFICE	NUMBER OF SHARES HELD	CAPITAL		%	CARRYING VALUE
3. OTHER COMPANIES						
. **AERON. RADIO OF THAIL.**	Bangkok	870	Bht	660,000,000	0.01	2
. **BELAC LLC S.R.L.**	Wilmington		USD	16,000,000	5.00	1,513
. **CARGO SWITCH AG.**	Kloten	1	Sfr.	1,500,000	0.03	1
. **CIES (1)**	Rende (CS)		Lire	600,000,000	-	200
. **CONSAER (1)**	Pozzuoli (NA)		EUR	302,058,120		101
. **EAS**	Cairo	875	Egl	15,000,000	5.83	316
. **EDINDUSTRIA**	Rome	114,000	Lire	1,200,000,000	9.50	144
. **EMITTENTI TITOLI S.P.A.**	Milan	142,000	Lire	8,187,500,000	1.73	142
. **E.T.L. (1)**	Rome	0	Lire	100,000,000	-	20
. **GALILEO UNLTD**	London			0	18.60	411
. **GALILEO INT.**	USA	98,960		104,799,700	0.09	1,136
. **GALILEO JAPAN**	USA			0	5.99	555
. **IRI MANAGEMENT**	Rome	13,750	Lire	200,000,000	6.88	14
. **LABIA SERVICE**	Rome	120,000	Lire	120,000,000,000	1.00	0
. **LYBIAN ITALIAN JOINT CO.**	Tripoli	100	Lyd	1,350,000	0.33	18
. **OTOPENI**	London	7,200,000	EUR	78,750,000	9.16	13,941
. **SASA**	Trieste	7,392,790	Lire	73,578,260,000	10.05	1,491
. **SITA**	Brussels	80	Bfr	1,558,000	1.03	0.1
. **SITA FOUNDATION**	Amsterdam	672,875	Ngl	600,000	0.56	284
. **SITA INC. FOUNDATION**	Amsterdam	1,025,353	USD	98,902,352	1.50	2,278
. **TURISTEL (1)**	Rome	0	Lire	150,000,000	-	50
TOTAL						22,618

(1) Consortium

APPENDIX 6

RECEIVABLES (in financial fixed assets)

(in millions of lire)

Accounts Subaccounts	31.12.1999			Movements during the period								31.12.2000		
	Residual nominal value	Provision (1)	Book value	Loans made	Reclassif.		Repaym.	Rinego- zazioni	Value Reinstatem.(+)	Changes in consolidation area	Provision (-) Reinstat. (+)	Residual nominal amount	Provision (1)	Net book value
Subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Associated companies	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other:														
. Medium/long term financial receivables	14,639	(4,214)	10,425	7,545	0	0	1,051	0	0	0	302	21,133	(3,911)	17,222
. Guarantee Deposits	63,484	0	63,484	13,608	6	6	1,278	0	0	0	0	75,820	0	75,820
. Sundry	73,670	(551)	73,119	26,529	(6)	(6)	529	0	0	0	0	99,665	(551)	99,114
TOTALE	**151,793**	**(4,765)**	**147,028**	**47,682**	**0**	**0**	**2,858**	**0**	**0**	**0**	**302**	**196,618**	**(4,462)**	**192,155**
(1) For delayed payment interests		**(4,214)**									**302**		**(3,911)**	

APPENDIX 12

ACCRUED INCOME AND PREPAID EXPENSES

(in millions of lire)

Accounts Subaccounts	31.12.1999	Change (+/-)	31.12.2000
Unamortised discounts on issues and similar charges		0	
Other prepaid expenses	66,034	8,692	74,726
Accrued income	7,486	(4,089)	3,397
TOTAL	73,520	4,603	78,123

APPENDIX 13

SHAREHOLDERS' EQUITY

(in millions of lire)

Accounts	31.12.1999	Increase (Decrease)	Shareholders' subscription IRI	OTHER	EMPLOYEES	Reclassifications for conversion	Reclassifications for subscription	Profits distributed (losses covered)	Reserves used	Net Profit (Net Loss)	31.12.2000
SHARE CAPITAL											
Ordinary shares	1,548,444										1,548,444
.Preference shares	0										0
.Savings shares	0										0
SHARE PREMIUM RESERVE	1,242,753										1,242,753
SHARES SUBSCRIBED ON CAPITAL INCREASE IN PROGRESS (i.e.: SHAREHOLDERS' CAPITAL PAYMENTS)	0										0
1.- Revaluation reserve law No. 413/91	0										0
2.- Revaluation reserve law No. 72/83	0										0
LEGAL RESERVE	22,992							1,583			24,575
OTHER RESERVES:											
1.- Capital grants reserve law No. 181/89 - 64/86	28,272										28,272
2.- Reserve for share issue	2,289										2,289
3.- Consolidation reserve	57										57
PROFITS (LOSSES) CARRIED FORWARD	529,844	(1,208)						13,735			542,371
NET PROFIT (NET LOSS) FOR THE PERIOD	15,318							(15,318)		(496,566)	(496,566)
	3,389,968	**(1,208)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(496,566)**	**2,892,194**

APPENDIX 15

PROVISIONS FOR LIABILITIES AND CHARGES

(in millions of lire)

Accounts Subaccounts	31.12.1999	Provisions to profit and loss statement	Utilization of provision	Release to profit and loss statement	Changes to consolidation area	31.12.2000
Taxes	64,472	8,644	25,437	2,980	0	44,699
Other:						
. Exchange fluctuation	12,148	0	61	12,087	0	0
. Discount vouchers and prizes	83,481	37,698	6,016	32,759	0	82,404
. Forward sale/purchase commitments	0	41,600	0	0	0	41,600
. Restructuring	26,124	0	26,087	37	0	0
. Early retirements	172,080	2,231	0	0	0	174,312
. Technical area adjustments	33,631	6,472	12,000	2,731	0	25,372
. Litigation in process (only group companies)	8,416	0	7,446	0	0	971
. ATR72 commitments	697	0	0	697	0	0
. Sundry risks (only AZ SpA)	110,102	26,404	5,923	52,891	0	77,691
. Exchange rates adjustments ext. ent.	199	0	0	0	(199)	0
. Sundry risks	362	0	0	0	0	362
. Sundry expenses	13,000	5,061	13,000	0	0	5,061
. Social security contributions	263	0	0	0	0	263
. Risks for equipment not leased	4,567	1,976	0	0	0	6,543
. Expenses for leaving incentives	733	22	733	0	0	22
. For trade agreements	193,677	8,402	0	0	0	202,079
. For deferred exchange gains	676	5,984	0	0	0	6,660
	724,628	144,494	96,703	104,182	(199)	668,038

APPENDIX 18

ACCRUED LIABILITIES AND DEFERRED INCOME

(in millions of lire)

Accounts Subaccounts	31.12.1999	Change (+/-)	31.12.2000
Other deferred income			
- deferred capital gains		304,094	304,094
- other	36,533	53,097	89,630
Accrued liabilities	31,039	6,027	37,066
TOTALE	67,572	363,218	430,790

Appendix 19

RECEIVABLES AND ACCRUED INCOME ANALYSED BY DUE DATE AND CATEGORY

(in millions of lire)

	31.12.2000				31.12.1999			
AMOUNTS FALLING DUE	AFTER LESS THAN 1 YEAR	BETWEEN 2 AND 5 YEARS	AFTER MORE THAN 5 YEARS	TOTAL	AFTER LESS THAN 1 YEAR	BETWEEN 2 AND 5 YEARS	AFTER MORE THAN 5 YEARS	TOTAL
RECEIVABLES UNDER FIN. FIXED ASSETS								
Subsidiaries	0	0	0	0	0	0	0	0
Associated companies	0	0	0	0	0	0	0	0
Parent companies	0	0	0	0	0	0	0	0
Other:								
-Guarantee Deposits	577	118	75,125	75,820	577	113	62,794	63,484
-Receivables from personnel	0	0	0	0	0	0	0	0
-Sundry receivables	3,670	106,673	5,993	116,335	1,435	77,520	4,588	83,543
	4,247	106,791	81,118	192,155	2,012	77,633	67,383	147,028
CURRENT RECEIVABLES								
OTHER FINANCIAL RECEIVABLES								
Subsidiaries	0	0	0	0	0	0	0	0
Associated companies	0	0	0	0	0	0	0	0
Parent companies	0	0	0	0	0	0	0	0
Other	234,323	0	0	234,323	274,000	0	0	274,000
Bank deposits subject to restrictions	26,805	0	0	26,805	39,225	0	0	39,225
	261,128	0	0	261,128	313,225	0	0	313,225
TRADE RECEIVABLES								
Third party clients	355,605	0	0	355,605	234,934	0	0	234,934
Subsidiaries	1,838	0	0	1,838	2,048	0	0	2,048
Associated companies	3,405	0	0	3,405	4,208	0	0	4,208
Parent companies	0	0	0	0	0	0	0	0
Public Administrations	84,144	0	0	84,144	84,077	0	0	84,077
Group companies	1	0	0	1	0	0	0	0
	444,993	0	0	444,993	325,267	0	0	325,267
OTHER RECEIVABLES								
Other:								
-airline companies	178,832	0	0	178,832	233,716	0	0	233,716
-travel agents	597,299	0	0	597,299	522,756	0	0	522,756
-sundry receivables	897,681	0	2,726	900,407	303,096	0	2,093	305,189
-advances to suppliers	20,610	0	0	20,610	7,525	0	0	7,525
-tax authorities	191,954	387	0	192,341	193,899	318	0	194,217
	1,886,375	387	2,726	1,889,488	1,260,992	318	2,093	1,263,403
TOTAL	2,596,743	107,178	83,844	2,787,764	1,901,496	77,951	69,476	2,048,923
ACCRUED INCOME	3,397	0	0	3,397	7,486	0	0	7,486

Appendix 22

PAYABLES AND ACCRUED LIABILITIES ANALYSED BY DUE DATE AND CATEGORY

(in millions of Lire)

	31.12.2000				31.12.1999			
AMOUNTS FALLING DUE	AFTER LESS THAN 1 YEAR	BETWEEN 2 AND 5 YEARS	AFTER MORE THAN 5 YEARS	TOTAL	AFTER LESS THAN 1 YEAR	BETWEEN 2 AND 5 YEARS	AFTER MORE THAN 5 YEARS	TOTAL
MEDIUM / LONG TERM FINANCIAL LIABILITIES:								
Bonds	0	0	0	0	0	0	0	0
Banks	176,539	832,932	493,460	1,502,930	215,541	373,116	217,487	806,144
Other lenders	2,526	12,579	5,939	21,043	0	0	0	0
Suppliers	0	0	0	0	0	0	0	0
Parent companies	0	0	0	0	8,672	11,546	9,497	29,715
Social security agencies	0	0	0	0	0	0	0	0
	179,064	845,511	499,398	1,523,973	224,213	384,662	226,984	835,859
CURRENT LIABILITIES								
Other finanacil liabilities								
Banks	384,991	0	0	384,991	36	0	0	36
Subsidiaries	7,000	0	0	7,000	7,617	0	0	7,617
Associated companies	2,398	0	0	2,398	0	0	0	0
Parent companies	0	0	0	0	0	0	0	0
Other lenders	0	0	0	0	0	0	0	0
Share capital increase	0	0	0	0	13	0	0	13
Other	88	0	0	88	88	0	0	88
	394,476	0	0	394,476	7,753	0	0	7,753
TRADE PAYABLES								
Other lenders	13	0	0	13	0	0	0	0
Suppliers	998,969	0	0	998,969	868,018	0	0	868,018
Group companies	0	0	0	0	0	0	0	0
Subsidiaries	0	0	0	0	55	0	0	55
Associated companies	81	0	0	81	0	0	0	0
Parent companies	0	0	0	0	3,364	0	0	3,364
Clients advances	2,509	0	0	2,509	1,134	0	0	1,134
	1,001,573	0	0	1,001,573	872,571	0	0	872,571
SUNDRY PAYABLES								
Taxes	124,741	0	0	124,741	67,797	0	0	67,797
Social security Agencies	86,810	0	0	86,810	84,296	0	0	84,296
Other:								
-sundry	388,181	17,555	0	405,736	350,430	0	0	350,430
-prepaid tickets	334,003	0	0	334,003	327,936	0	0	327,936
-travel agents	137,728	0	0	137,728	102,073	0	0	102,073
-airline companies	324,383	0	0	324,383	261,836	0	0	261,836
-guarantee deposits	4,422	0	0	4,422	4,608	0	0	4,608
	1,400,269	17,555	0	1,417,824	1,198,976	0	0	1,198,976
TOTAL	2,975,382	863,065	499,398	4,337,846	2,303,514	384,662	226,984	2,915,160
ACCRUED LIABILITIES	29,946	7,120	0	37,066	26,485	4,555	0	31,039

APPENDIX 23

PAYABLES AND ACCRUED LIABILITIES ANALYSED BY DUE DATE AND CATEGORY
(in millions of lire)

Accounts Subaccounts	31.12.2000			31.12.1999		
	With real security on company assets	With no real security	Total	With real security on company assets	With no real security	Total
3. Bank	1,443,734	444,187	1,887,921	613,241	192,938	806,179
4. Other lenders		21,056	21,056		-	-
5. Advances		2,509	2,509		1,134	1,134
6. Trade		998,969	998,969		868,018	868,018
8. Subsidiaires		7,000	7,000		7,672	7,672
9. Associated companies		2,478	2,478		-	-
10. Parent companies		-	-		33,080	33,080
11. Taxes		124,741	124,741		67,797	67,797
12. Social security		86,810	86,810		84,296	84,296
13. Other payables:						
- Prepaid tickets		334,003	334,003		327,936	327,936
- Decimals to be paid		-	-		13	13
- Airline companies		324,383	324,383		261,836	261,836
- Travel agents		137,728	137,728		102,073	102,073
- Sundry		410,246	410,246		355,126	355,126
Accrued liabilities		37,066	37,066		31,039	31,039
TOTAL	1,443,734	2,931,178	4,374,912	613,241	2,332,958	2,946,199

APPENDIX 27
(in millions of lire)

	31.12.2000	31.12.1999
2. SECURED GUARANTEES GIVEN IN RESPECT OF		
a) third party obligations		
- pledged assets or assets given as surety		
- ...		
- mortgage on		
- ...		
b) own obligations other than debt		
- ...		
- mortgage on		
- ...		
c) debt carried in the balance sheet		
- Fleet	1,293,734	454,150
- Land and buildings	150,000	159,091
- Plant	0	0
TOTAL SECURED GUARANTEES GIVEN	**1,443,734**	**613,241**

APPENDIX 28
(in millions of lire)

3. PURCHASE AND SALES COMMITMENTS	31.12.2000	31.12.1999
purchase commitments:		
- Orders from suppliers	2,845,773	1,682,410
- ...		
- Investments	40,138	3,315
- ...		
- Forward contracts in foreign currency	7,461	16,382
- ...		
- Other	0	0
- ...		
	2,893,373	**1,702,107**
sales commitments:		
- Client orders	2,784,373	1,290,422
- ...		
- Investments	0	0
- ...		
- Forward contracts in foreign currency	493,239	0
- ...		
	3,277,612	**1,290,422**
TOTAL PURCHASE AND SALES COMMITMENTS	**6,170,984**	**2,992,529**

APPENDIX 29
(in millions of lire)

4. OTHER MEMORANDUM ACCOUNTS	With respect to: Receivables	With respect to: Other 3rd party obligations	31.12.2000	31.12.1999
- Secured guarantees received	0	0	0	0
- Personal guarantees received				
Sureties	59,534	10,590		
Endorsements	0	0		
Other	0	0	70,124	80,913
....				
- Assets leased with purchase option			1,536,820	1,481,000
....				
- Third party assets being worked on			0	0
....				
- Third party goods on a free-on-loan, guarantee deposit, leasing basis or similar			1,236,659	926,908
....				
- Assets in hands of third parties to be worked on			0	0
....				
- Assets consigned to third party on a free-on-loan, guarantee deposit, leasing basis or similar			57,315	29,499
....				
- Third party guarantees given in respect of group obligations				
- debt			388,744	455,698
- other obligations			152,674	88,201
- Derivative transactions			2,709,989	568,013
- Other			6,080	6,107
TOTAL OTHER MEMORANDUM ACCOUNTS			**6,158,405**	**3,636,338**

APPENDIX 30

in millions of lire

REVENUES

Accounts / Subaccounts	2000 Italy	2000 Europe	2000 Americas	2000 Far east	2000 Other	2000 Total	1999 Italy	1999 Europe	1999 Americas	1999 Far east	1999 Other	1999 Total
SERVICE REVENUES												
Traffic revenue												
- Passengers	2,228,009	2,315,841	1,512,704	635,453	709,338	7,401,345	2,109,653	2,186,226	1,227,775	552,740	544,217	6,620,611
- Goods	14,136	36,739	303,716	599,156	79,575	1,033,322	12,515	36,786	261,177	478,474	72,135	861,087
- Mail service	2,338	9,547	5,491	2,833	1,111	21,320	2,352	7,887	2,814	2,245	408	15,706
- Other						479,985						613,247
Total Traffic Revenues	2,244,483	2,362,127	1,821,911	1,237,442	790,024	8,935,972	2,124,520	2,230,899	1,491,766	1,033,459	616,760	8,110,651
Other Services						1,458,024						1,148,204
TOTAL SERVICES	2,244,483	2,362,127	1,821,911	1,237,442	790,024	10,393,996	2,124,520	2,230,899	1,491,766	1,033,459	616,760	9,258,855
REVENUES FROM SALES						44,262						49,494
TOTAL SALES						44,262						49,494
TOTAL	2,244,483	2,362,127	1,821,911	1,237,442	790,024	10,438,258	2,124,520	2,230,899	1,491,766	1,033,459	616,760	9,308,349

APPENDIX 35

INTEREST, COMMISSIONS AND OTHER FINANCIAL EXPENSES TO OTHER ENTERPRISES

in millions of lire

Accounts Subaccounts	31.12.2000	31.12.1999
.Interest and commissions to banks	75,546	36,351
.Interest and commissions to other lenders	0	0
.Interest and commissions to suppliers	13	8
.Other interest and commissions	509	5,709
.Capital losses on securities/investments sales	3,736	135
.Exchange expenses :		
-losses on exchange	5,281	907
-provision for exchange fluctuation	0	12,087
-provision for currency risks	0	0
.provision for credit depreciation for interest on delayed payment	0	0
-expenses on sale of forward contract in foreign currency	0	0
-provision for forward purchases/sales		
. fuel hedging	41,600	0
-expenses for derivative transactions		
. fuel hedging	12,531	1,382
. Other	376	1,187
-other expenses:	2,244	835
TOTAL	**141,836**	**58,601**

FINANCIAL EXPENSES ASCRIBED TO ASSETS

Accounts Subaccounts	31.12.2000	31.12.1999
Intangible assets		
Tangible assets :		
- fleet	14,898	2,629
TOTAL	**14,898**	**2,629**

APPENDIX 37

EXTRAORDINARY INCOME

in millions of lire

Accounts Subaccounts	31.12.2000	31.12.1999
Gains on disposals:		
- Fleet	13,539	-
- Land and buildings	35,687	-
- Other	2,214	194,587
Income resulting from prior year adjustments:		
-Amounts due to airline companies	5,196	3,758
-Amounts due to subsidiaries/associated compan	286	604
-Amounts due to agents	-	-
- Amounts due to suppliers	7,250	784
-Tax liabilities	2,947	-
-Sundry receivables:		
. Personnel costs recovery	92	840
. American Express Contribution	788	836
. Arbitration award	8,517	12,543
. Gulf War contribution	-	13,221
. MD-80 Insurance refund	-	16,051
. Other	6,527	7,417
-Other income	27,721	-
TOTAL	110,764	250,641

EXTRAORDINARY EXPENSES

in millions of lire

Accounts Subaccounts	31.12.2000	31.12.1999
Losses on disposals	10	3,290
Prior years taxes	2,058	770
Losses from prior year adjustments:	-	-
-Receivables froms airline companies	5,489	796
-Receivables from subsidiaries/associated compa	99	2,191
-Sundry		
. Change in rates for postal night flights	3,443	
. Ministry of Defence change in calculation metho	2,806	
. Cost of flying over Iranian airspace	2,790	
. Trade agreements	-	8,862
. Other	5,108	11,958
Other expenses :		
-Expenses for expected loss in 2000		14,740
-Social security amnesties	-	16
-Early retirements expenses	2,231	1,511
- higher costs related to shares	-	-
-Extraordinary expenses	8,588	
-Expenes re future years	-	
-Other expenses	11,715	278
TOTAL	44,337	44,412

PART E – OTHER INFORMATION

Average number of employees

The average number of persons employed by the Group during the year ended 31 December, 2000 was as follows:

	2000	1999	D
Executives	198.6	193.2	+5.4
Managers	964.2	889.0	+75.2
White collars	9,347.3	8,992.3	+355
Blue collars	4,052.2	3,209.7	+842.5
Pilots	2,279.8	2,201.5	+78.3
Flight engineers	137.8	153.5	-15.7
Flight attendants	5,203.7	4,857.8	+345.9
TOTAL	**22,183.6**	**20,497.0**	**+1,686.6**

Deferred tax assets and liabilities

The Group consolidated financial statements at 31 December 2000 include deferred tax liabilities of Lire 9 billion and deferred tax assets totalling Lire 49 billion including Lire 21 billion recorded under taxes for the year (Lire 40 billion arising during the year and Lire 19 billion released from accumulated deferred tax assets) and Lire 28 billion recorded under extraordinary income. The extraordinary income relates to deferred tax assets arising in prior years but only reflected in the profit and loss statement this year following the rental of the business unit to Alitalia Team involving the transfer of liabilities in respect of which Alitalia had already paid tax on the related costs.

At 31 December 2000, the parent company has accumulated tax losses of Lire 540 billion. The subsidiaries Eurofly and Italiatour have accumulated tax losses of Lire 57 billion and Lire 3 billion, respectively.

The Group companies also have taxed provisions and other items that produce deferred fiscal effects (gains, provision for liabilities and charges, etc.) for a total of around Lire 765 billion. In accordance with Legislative Decree No. 466 of 1997 (Dual Income Tax), the Parent company has taxable income of Lire 512 billion that may is subject to IRPEG at the reduced rate of 19%.

For these items, the residual deferred tax assets of around Lire 550 billion (net of deferred tax liabilities) were not recorded as future profits cannot be said to be reasonably certain.

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AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLE 156 OF LEGISLATIVE DECREE OF FEBRUARY 24, 1998, N. 58

To the Shareholders of
ALITALIA – Linee Aeree Italiane S.p.A.

We have audited the consolidated financial statements of the ALITALIA – Linee Aeree Italiane S.p.A. as of December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Stock Exchange Commission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The financial statements of several subsidiary companies, representing 2% of consolidated assets and 3% of consolidated revenues, were examined by other auditors who have submitted their reports to us. Our opinion expressed in this report, in relation to the amounts regarding the aforementioned consolidated companies, is based on the work done by other auditors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior year, presented for comparison in accordance with legal requirements, reference should be made to the auditor's report issued by us on May 29, 2000.

In our opinion, the consolidated financial statements present fairly the financial position of the Company as of December 31, 2000, and the results of its operations for the year then ended, and comply with the principles which regulate the preparation of financial statements in Italy.