Alitalia

Linee Aeree Italiane S.p.A.

Consolidated report of Alitalia Group on the 3rd quarter of 2001

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Directors’ report on operations for the third quarter of 2001

Introduction

This quarterly report has been prepared, pursuant to Consob resolution no 11971, in order to provide information about the economic and financial position of the Group.

As required by the aforementioned Consob resolution, the report includes the following three sections:

a) Accounting schedules include profit and loss statement with turnover, profit or loss from ordinary activities and details of the revenue and cost items that led to the aforementioned profit or loss. They also include a statement showing the net financial position.

   Profit or loss from ordinary activities represents the result before taxation and extraordinary items.

b) Comments on the accounting schedules.

c) Director’s remarks.

The notes are provided after the accounting schedules while the Directors’ observations and comments are set out in the introductory section in order to give an idea of the main operating events that affected the accounts for the period.

The quarterly report has been prepared using the accounting policies and valuation methods adopted in preparing the annual financial statements, specifically those used for the year 2000 financial statement as described in Part

A of the explanatory notes thereto which should be referred to for further information.

Accounting estimates were made using the procedures normally applied. In order to issue the results more quickly, the estimates related to a wider period than usual, especially in relation to the accrual for invoices to be received.

The Group's internal procedures and the availability of management reports ensure that the information is reliable.

In the Report, the profit and loss statement figures for the third quarter of 2001 are compared with figures for the same period in 2000. Cumulative figures through September 30, 2001 are compared with cumulative figures for the first nine months of 2000 as prepared using the same methods.

Alitalia Group Performance

At consolidated level, a profit before extraordinary items and taxation of Lire 60 billion was made in the third quarter of 2001. This is broadly in line with the result achieved in the same period in 2000 (Lire 59 billion).

This result once again represents a small profit for a high season period. However, it must be interpreted in the light of the situation in the air transport sector which was already difficult prior to the tragic events of September 11 and then entered a new dramatic phase, perhaps unprecedented in Civil Aviation history.

All of the main airline companies who have announced their third quarter results have reported a sharp fall in profits. Some of them, including the largest US airlines, have reported significant losses even though the figures relate to a high season period.

Alitalia's third quarter results were badly affected by the events of September 11 with a loss of turnover amounting to around Lire 90 billion. However, this did not affect the trend of results already seen in the first half of the year.

If we examine results up until September 11 (see the sections on passenger and cargo traffic), we can see that the months of July and August were periods of recovery with very positive operating margins achieved as predicted in the Business Outlook section of the report on the first half of the year.

The events of September 11 not only brought the recovery to a sharp halt, they also changed the short to medium term outlook and while they make our comments on operations for the period somewhat out of date, we cannot fail to provide any comments.

Getting back to the result for the quarter, it is clear that it was due to the slight recovery resulting from the action taken by the Group, especially in relation to fare increases and to the completion of the restructuring of the intercontinental network. Following on from the changes to the intercontinental network made with the launch of the 2000/2001 winter timetable (principally, the termination of flights for Oceania, Thailand and East Africa), additional changes made last April included the termination of flights for South Africa and a reduction in available capacity for North Atlantic routes. At the same time, more remunerative routes (including Centre Atlantic and India) were expanded. Further cost savings were made with effect from April when the Company began operating once more flights formerly operated by its partner Continental (flights for Newark).

The above factors meant that the turnover of the air transport sector (Alitalia, Alitalia Team, Alitalia Express) was broadly stable while operating cost savings were achieved, especially as a result of the streamlining of the intercontinental business.

Cost savings were also made thanks to the reduction in fuel prices (around Lire 30 billion) but this was more than offset by the negative impact of exchange rate differences (around Lire 40 billion).

As a result, operating result improved by around Lire 35 billion for the air transport sector while it deteriorated by Lire 5 billion for other Group companies. The overall improvement was matched by the increase in financial charges.

For the period as a whole, a loss before extraordinary items and taxation of Lire 289 billion was made. This is broadly in line with the loss for the same period in 2000 (Lire 283 billion).

Further information about the air transport business and Group activities is provided in the remainder of this Report.

Passengers handled

This section contains details of changes, compared to the same period in 2000, in passenger traffic figures by network sector. It should be noted that, during 2001, commercial agreements with Azzurra Air and Minerva Airlines were transformed from franchising agreements to wet leases, leading to a different accounting treatment of the related activities. In order to make a comparison with last year possible, the effects of the transformation of these agreements were not considered in showing changes in passenger traffic.

We have decided to show separately the figures for the month of September cause they are particularly significant as a result of the events of September 11.

PERCENTAGE CHANGE 2001 VS. 2000	JULY-SEPTEMBER				JANUARY-SEPTEMBER			
	ATK	RTK	L.F.	REV.	ATK	RTK	L.F.	REV.
DOMESTIC	-5.9	-1.6	3.2p	3.1	-2.6	-4.2	-1.1p.	7.8
INTERNATIONAL	1.8	2.6	0.6p	1.1	2.4	3.7	0.9p.	0.8
INTERCONTINENTAL	-17.5	-19.1	-1.7p	-6.3	-14.6	-12.0	2.4p.	0.1
TOTAL NETWORK	-9.8	-10.4	-0.5p	-0.9	-7.5	-6.5	0.8p.	2.7

PERCENTAGE CHANGE 2001 VS. 2000	JULY-AUGUST				SEPTEMBER			
	ATK	RTK	L.F.	REV.	ATK	RTK	L.F.	REV.
DOMESTIC	-7.1	-1.4	4.2p	4.4	-3.6	-1.8	1.3p	0.8
INTERNATIONAL	1.3	4.8	2.5p	4.5	2.7	-2.1	-3.5p	-5.1
INTERCONTINENTAL	-15.5	-14.6	0.9p	0.6	-21.7	-28.4	-7.3p	-20
TOTAL NETWORK	-9.1	-7.2	1.7p	3.1	-11.3	-17.0	-5.1p	-8.4

Turnover from the whole network remained largely stable for the quarter from July to September (-0.9%) despite a significant reduction in the number of seats (-9.8%).

Breaking down the period, the effects of the events of September 11 are clear to see. Turnover growth of 3.1% in July and August (9.1% fall in available seats) compares with a fall of 8.4% in September (11.3% fall in available seats).

In more detail, a look at the individual sectors of the network shows that, the recovery of the **domestic sector** was very clear in July and august. This was thanks to the fare increases that were gradually increased starting in June 2000 to cope with the sharp increase in fuel prices together with the improvement in load factor, for the first time during the year, from 68.9% in July/August 2000 to 73.1% in 2001. The load factor improvement was due to the many changes made to improve the network, especially in August in order to counter the seasonal decline in business traffic. As a result, available seats on the most business-orientated routes (Milan, Turin, Genoa, Venice, Trieste) were cut and redirected in part to destinations with more appeal for tourists (Cagliari, Alghero, Lamezia).

This led to a 4.4% increase in turnover despite the significant reduction in total available seats (-7.1%).

In September, the domestic sector, too, felt the initial effects of the international crisis caused by the terrorist action. This mean that turnover growth was much smaller (+0.8%) than it had been in the previous two months even though the reduction in available seats was halved (-3.6%).

On the whole, the results for the quarter (turnover +3.1%; available seats –5.9%) and for the first nine months of the year (turnover +7.8%; available seats –2.6%)

appear satisfactory, especially bearing in mind the fact that competition has become tougher still with our leading competitors investing in available capacity and Alitalia's share of the market being eroded by 2 percentage points (from 61% to 59%).

The positive customer response to the improvements to the Fiumicino-Linate route and to flights between Milan (Linate and Malpensa) and Southern Italy have made things tougher for our direct competitors (Air One, Volare, British Airways). Indeed, some of them have recently downsized (or announced that they intend to) certain routes while the position of Meridiana remains more stable; it has the largest share of the market among our competitors (around 14%) and operates mainly on routes not served by Alitalia.

More tentative signs of recovery in July and August were also seen in the **international sector** (Europe, North Africa, Middle East). Turnover increased by 4.5% (+0.6% from January to June) as the number of available seats went up by 1.3% (+2.7% in the first six months of the year).

However, the post September 11 performance meant that the month of September recorded a 5.1% fall in turnover with a 2.7% increase in available seats.

Overall, turnover for the quarter remained largely unchanged (+ 1.1% compared to a 1.8% increase in the number of seats). This should be considered in relation to the whole period and the performance was similar to that for the period from January to September as a whole.

An analysis by geographical area is provided below:

Europe – Until September 11, flights for other EU countries (which represent more than 90% of European flights) showed strong expansion. This, together with the Company's action to optimise capacity on the most critical routes (Germany, Northern Europe) and not to follow the general increases in the industry as a whole, led to a significant improvement in load capacity.

This was achieving a gradual economic recovery despite the fact that strong competition, further accentuated by the expansion of low-cost airlines, meant that fare increases could not be imposed to cover the cost increases (especially fuel) seen in recent years.

While the number of available seats decreased almost constantly (around 4%), turnover increased by 1.7% in July and August after a slight fall (-1.6%) in the first six months of the year. This appeared to indicate the possibility of a significant improvement but this was brought to an abrupt halt in September (turnover -7.6%).

At the same time, Eastern European routes performed very well with strong growth (turnover in July and August: +31.6%; available seats +26.3%) as had been the case the first half of the year. This sector also performed well in September (turnover +26.8%) and felt the effects of the international crisis to a more limited extent than other geographical areas.

North Africa, Middle East – The policy of expansion (especially in terms of the number of flights) which had seen available seats increase by around 22% in the first half of the year, as part of an attempt to improve the flow of passengers to the intercontinental network, was hampered by the persisting political crisis in the area with the result that turnover remained largely stable.

The situation improved significantly in July and August with a more limited increase in available seats (+14%) and a better response from the market (turnover +9%). This, together with the significant improvement in market share, meant that the outlook for Alitalia in this area seemed fairly bright.

The events that took place September (turnover –3%) threw the area back into crisis as it is one of the areas most greatly exposed to the international crisis.

The most significant effects of the September 11 events were felt by the **intercontinental network** with the most immediate and most drastic effects felt by North Atlantic routes. However, the repercussions were felt in other sectors too. The initial action taken by Alitalia managed to limit the slump in turnover for the month (-20%) to a level in line with the reduction in available seats (-21.7%). However, there was no way to avoid the abrupt interruption of the trend of significant improvement first seen in the first half of the year (turnover +5%; available seats –13%) and which continued into July and August (turnover +1%; available seats –16%). This recovery had been achieved thanks to the overhaul of the network (termination of flights for Oceania, East and Southern Africa; lesser use of the large B-747 aircraft) and to the fare increases introduced by the industry as a whole to combat escalating fuel prices.

As a result, a 6.3% fall in turnover was recorded for the quarter as a whole compared to a 17.5% decrease in available seats.

The situation regarding the most important geographical areas is analysed below:

North America – During the first half of the year, Alitalia took steps to optimise both product and capacity (-2%). This action was intensified in July and August (available seats -7%) in the light of the unfavourable economic situation in the USA. The action taken mainly regarded the use of smaller aircraft for flights to Newark and Miami and the cancellation of some flights for Montreal.

Thanks to a strong increase in yield, turnover continued to record relevant growth until August (1st half of year +14%; July-August +10%).

In September, turnover fell by 23% compared to a 20% decrease in available seats. This ruined the performance of the quarter as a whole (turnover –1%; available seats –11%).

The joint effects of the economic recession and the terrorist acts led to major changes to the competitive situation in the sector. The US airlines announced that they were reducing their investments. After cutting their flights to Italy from 105 to 77 in the summer, they announced further cuts for next winter.

Far East / Oceania – It should be recalled that, since last winter, this sector has been the subject of an extensive rationalisation programme that has seen flights to Japan and India increased and flights for Australia and Thailand terminated. These last two destinations remain in Alitalia's brochure thanks to a code sharing agreement with Qantas.

These measures had led to significant improvements in yield and load factor. In the first half of the year, turnover remained substantially unchanged while the number of seats available was cut drastically (-30%).

This trend continued in July and August, albeit to a more limited extent as a result of the limited room for additional increases in yield and load factor in the high season. Turnover actually fell by 11%. This was, however, positive considering the fact that available seats decreased by 33%.

The impact of the events of September 11 was significant but not to such an extent that it totally transformed the picture for the quarter as a whole (turnover: -14%; available seats –33%), also because clients in this sector are less prone to changing their travelling habits.

There were no very significant changes in the third quarter in relation to the remaining long-haul sectors (**Central and South America, West Africa**) which account for around 25% of intercontinental turnover. The performance was similar to the first half of the year.

Central American routes, in particular, are in a period of strong expansion, partly thanks to the suspension of operations by Venezuela's national airline, Avensa. West African routes also performed well while South American routes are largely seasonal as a result of the recession in the main markets in that area (Argentina, Brazil).

Turnover declined in these sectors, too, following the events of September 11 although the decrease was smaller than in other geographical areas.

Looking at the first nine months of the year, the overall results of the network (considering the performance of each geographical area as considered above) show a 2.7% increase in turnover despite the significant reduction in available seats (-7.5%). There has been a general increase in load factor (except in the domestic sector) and in yield (except in the international sector).

Cargo traffic

Even before September 11, the air cargo transport market was showing signs of difficulty as a result of the slowdown in world economic growth. According to IATA figures, demand fell by 5% between January and August compared to the same period the previous year. The trend was of a worsening situation and the decline in August alone was around 11%.

After September 11, IATA expects to see the market slump further still with a fall of around 25% expected for the last four months of the year.

During the year, Alitalia has acted to decrease available capacity, first of all, by reducing the number of mixed flights (passenger + cargo) as a result of the termination of flights for Oceania, East and South Africa and, then, by reducing all-cargo flights, especially in the North Atlantic sector. As a result, it has managed to limit the decrease in load factor to just 2 percentage points.

The changes that have taken place during the year are reflected in the following tables. The tables show separately the figures for the month of September given that they are so significant.

PERCENTAGE CHANGE 2001 VS. 2000	JULY-SEPTEMBER				JANUARY-SEPTEMBER			
	ATK	RTK	L.F.	NET REV.	ATK	RTK	L.F.	NET REV.
NORTH ATLANTIC	-16.8	-19.4	-2.0p.	-16.1	-6.1	-8.5	-1,7p.	-4,6
FAR EAST	-0.9	-4.9	-2.9p.	-10.3	+5.6	+0.7	-3,5p.	-2,8
TOTAL I/C NETWORK	-17.3	-18.9	-1.3p.	-19.3	-8.6	-10.8	-1,7p.	-9,8
TOTAL NETWORK	-14.8	-17.6	-2.1p.	-16.7	-7.3	-10.0	-2,0p.	-8,4

PERCENTAGE CHANGE 2001 VS. 2000	JULY-SEPTEMBER				JANUARY-SEPTEMBER			
	ATK	RTK	L.F.	NET REV.	ATK	RTK	L.F.	NET REV.
NORTH ATLANTIC	-7.9	-12.0	-3,9	-8,7	-34,9	-33,1	1,9	-30,1
FAR EAST	5.7	-0.5	-3,6	-7,3	-14,3	-13,6	0,6	-16,3
TOTAL I/C NETWORK	-10.8	-13.7	-3,2	-15,2	-30,7	-28,8	1,9	-27,3
TOTAL NETWORK	-8.8	-12.6	-2,2	-13,2	-27,2	-27,1	0,1	-23,6

The results for the network as a whole (in relation to intercontinental flights given that other sectors are of marginal importance) show the extent of the problems in the cargo sector. However, they demonstrate that the measures taken to concentrate activities in the more strategic sectors, North Atlantic and Far East, together with the reduction in capacity because of falling demand meant that the fall in net turnover for the quarter from July to September (-16.7%) was broadly in line with the decrease in capacity (-14.8%). In this sense, the performance in September was better still, even though the relative decreases were greater (turnover –23.6%; capacity –27.2%).

A similar trend may be seen for the entire period from January to September with an 8.4% fall in net turnover and a 7.3% reduction in capacity.

The fleet

At September 30, 2001, the operating fleet consisted of 175 aircraft including 119 owned by the Group, 19 are under capital lease, 36 held under operating lease and 1 hired aircraft.

There has been a nine aircraft increase since December 31, 2000. The increase is, however, a temporary one as it follows the introduction by Eurofly of 5 A-320 aircraft, destined to replace the same number of MD-83 aircraft (one of which had already been decommissioned at June 30, 2001) and the temporary use of 3 ATR-42 aircraft. If these factors are set aside, the increase is limited to the introduction of 2 ERJ-145 aircraft.

There were no increases to the fleet in the three months from July to September 2001 apart from the temporary return to operations of the third ATR-42.

Operating performance

In the third quarter of 2001, total routes flown amounted to 99.3% of those scheduled. This represented a 0.2 percentage point increase in the regularity index compared to the same period the prior year.

Departures on time (within 15 minutes of scheduled time) improved by 4 percentage points to 75.2% compared to 71.2% in the third quarter of 2000.

For the entire period from January to September 2001, the regularity index stood at 99.2%, a 0.2 percentage point improvement compared to the same period in 2000. The punctuality index stood at 79%, a 4.3 percentage point improvement (74.7% in the same period in 2000).

Personnel

In the third quarter of 2001, the average number of Group employees increased by 816 employees (+4% approx.) compared to the same period in 2000. More specifically, the increase which mainly regarded ground staff affected the following sectors: fleet maintenance (+290 employees), commercial (+222 employees), airport handling (+85 employees), information systems (+74 employees), tourism services (+29 employees); the rest of the increase related to other sectors. The increase is mainly due to the development of maintenance activities for third parties and the reintroduction of commercial and airport services on a gradual basis following the termination of the alliance with KLM.

There was a larger increase in the average number of employees over the full period from January to September compared to the prior year (+1,979 employees). In addition to the factors mentioned above, this reflected the effect of the absorption of staff from Aeroporti di Roma (1,531 persons) who were transferred with effect from July 1, 2000 and were thus present for only one third of the period last year; they accounted for an increase of around 1,000 employees in the average number of employees. Flight staff (+ 239 employees) also made their contribution towards the overall increase. This was mainly due to the lower level of productivity resulting from the unifying contract for Alitalia and Alitalia Team flight attendants and the rigid approach of staff towards the reduced level of activities.

At September 30, 2001, the Group had 24,303 employees compared to 24,023 employees at June 30, 2001, an increase of 280 employees, almost entirely in relation to ground staff (especially maintenance, airport and information systems staff).

Following the ending of the contracts of seasonal staff (this was accelerated as a result of the events of September 11), the workforce decreased by 762 employees at October 31.

Other significant events during the quarter

On September 25, 2001, following an appeal by Alitalia, the Italian Government issued an order suspending the application of the fine of around Lire 52 billion imposed by the Competition and Market Authority at the end of an investigation into the incentive schemes offered to travel agencies. A hearing before the Lazio Regional Tribunal has been set for November 21, 2001.

On September 28, the Board of Directors approved the Contingency Plan drawn up in order to deal with the crisis situation that has developed in the air transport sector following the tragic events of September 11. Given the fact that it is hard to estimate the economic impact and duration of the crisis, the measures contained in the Contingency Plan have been planned in the light of similar measures taken by the other leading airline companies.

The most significant action taken and the consequences on the period is described in the Business Outlook section.

Significant events subsequent to the quarter

On October 4, 2001, the Board of Directors decided to prepare a new forecast for the first two years covered by the Business Plan 2002-2006 (as the original plan did not take account of the events of September 11). The new forecast will take account of the estimated effects of the crisis as considered for the purposes of the Contingency Plan while updating them to take account of the most recent state of the market.

On October 8, 2001, following the drastic reduction in demand as a result of the terrorist action in the USA, Alitalia began applying a "crisis surcharge" of Euro 6 (Lire 11,618) per flight to each ticket issued and of Euro 0.15 (Lire 290.4) for each kilogram of cargo carried.
All of the main airlines have taken similar action. It is necessary in order to cope with the serious economic crisis facing the entire air transport sector.

On October 29, 2001, the Board of Directors approved the conversion into Euro of the Company's share capital, using the so-called "*simplified procedure*", which has been transformed from Lire 1,548,444,168,000 to Euro 805,190,967.36 (nominal value of each share has changed from Lire 1,000 to Euro 0.52).

The same day, plans to merge Sigma Travel System S.p.A. with Sigma S.p.A. were finalised and registered with the Register of Companies. Sigma Travel System was founded in 1989 in order to meet the requirement laid down by Galileo International whereby it only distributed Galileo products in Italy to subsidiaries of participating airlines. At that time, Sigma was owned by Alitalia together with Ferrovie dello Stato (Italian State Railways) and Finmare (now Tirrenia, a ferry company) and could not be party to a distribution agreement with Galileo. As the Alitalia Group now owns 100% of Sigma, there is no longer a need for Sigma Travel System to be the signatory to the distribution agreement.

On November 1, 2001, once it had been certified that all requirements had been satisfied, Alitalia became a full member of the SkyTeam Global Alliance which also includes Aeromexico, Air France, CSA Czech Airlines, Delta Airlines and Korean Air.

Business outlook

As stated in the section on the “performance of the Alitalia Group”, the events of September 11 heralded the start of an extremely difficult period for the entire air transport sector.

Against this background, while Alitalia had, in the earlier part of the year and, especially, in July and August, been closing the gap on its main competitors, it still remains the most vulnerable of the major European airlines because of the severe economic problems of the last quarter. It is now faced with an emergency the effects and duration of which are hard to measure.

The Group has prepared a contingency plan for the very short term (six months). This plan contains a series of action taken by the time of the launch of the winter season (October 28, 2001). Faced with a fall of around 15% in total demand, with even sharper falls in relation to the long-haul network, the Company has suspended its long-haul flights for Hong Kong, Beijing, San Francisco (from Malpensa) and Rio de Janeiro (Fiumicino). It has also taken additional, more limited measures in relation to its international network (especially in relation to the Middle East, Germany, Spain and Switzerland) as well as its domestic flights (in respect of feeder flights to Malpensa). All Cargo capacity has also been reduced significantly.

The measures taken have involved a reduction of around six short/medium haul aircraft, a reduction, for the same sector, of the activities acquired under wet leases with Minerva and Azzurra and a reduction of around seven long-haul aircraft (4 B-747 pax which are to be strike off, 2 MD-11 and 1 All cargo B-747).

These measures have led to a situation whereby the Company has an excess number of employees. It is currently examining the possible ways of resolving this situation. At the same time, many initiatives have been undertaken in order to achieve significant cost savings in many areas.

The initiatives taken – including the introduction of a crisis surcharge added to ticket prices since October 8 – aim to contain the decline of turnover from passenger and cargo traffic to a level in line with the reduced capacity on offer (around 20%). However, the turnover decrease will be very significant (more than Lire 100 billion a month, net of selling costs)).

However, the action described above, especially the expected cost savings (including those resulting from a fall of around 15% in fuel prices) will only be able to mitigate the effects if the crisis. At the moment, it seems likely that there will be a significant deterioration at operating loss level (before tax and extraordinary items) compared to the loss reported for the period from October to December 2000 (Lire 200 billion). The worsening of results will be reflected across the whole year given that the result from operations for the first nine months was, as already stated, in line with that for the same period in 2000.

As stated in the report on the first six months of the year, extraordinary operations have not had a significant effect. These include the sale of the property used as the Management Headquarters. Extraordinary transactions that are in progress are not expected to be completed by the end of the year.

At the time being we are unable to forecast the outcome in respect of extraordinary costs already reflected in the accounts for the first half of the year (Lire 81 billion) mainly in relation to proceedings underway before the Competition and Market Authority. It would be premature to take account of the signs – albeit positive – resulting from the Government order to suspend the proceedings.

The effects of the restructuring measures contained in the Business Plan 2002-2006 and in the Contingency Plan (which as stated will replace the forecast for the first two years 2002-2003) remain to be seen.

It should be borne in mind that, as a result of the events of September 11, the restructuring measures needed might be much greater than had been planned before that date. This could relate to both personnel (a greater amount of redundancy incentives) and the possible writedown of the value of some fleet components (as a result of the likely loss of market value compared to book value and the planned use of the aircraft).

However, it will only be possible to evaluate the above elements when the concrete effects of the crisis become clearer together with the correct course of action to be taken.

TABLE OF THE OPERATING RESULTS (Lire millions)	***3rd quarter***			***September 30***		
	2001	***2000***	**Change**	***2001***	***2000***	**Change**
A. REVENUES	***2,950,726***	***2,908,129***	***42,597***	***8,128,823***	***7,757,377***	***371.446***
Change in inventory of work in progress, semi-finished and finished goods	***22***	***(1,755)***	***1,777***	***(6,300)***	***4,900***	***(11.200)***
Increase in fixed assets following capitalisation of internal costs	***34,565***	***23,716***	***10,849***	***117,082***	***85,245***	***31.837***
B. VALUE OF "ORDINARY" PRODUCTION	***2,985,313***	***2,930,090***	***55,223***	***8,239,605***	***7,847,522***	***392.083***
Raw materials and external services	***(2,115,147)***	***(2,121,429)***	***6,282***	***(6,235,850)***	***(6,074,591)***	***(161.259)***
C. ADDED VALUE	***870,166***	***808,661***	***61,505***	***2,003,755***	***1,772,931***	***230.824***
Personnel costs	***(619,939)***	***(598,689)***	***(21,250)***	***(1,853,082)***	***(1,695,755)***	***(157.327)***
D. GROSS OPERATING MARGIN	***250,227***	***209,972***	***40,255***	***150,673***	***77,176***	***73.497***
Amortisation, depreciation & writedowns	***(155,720)***	***(139,837)***	***(15,883)***	***(433,164)***	***(405,860)***	***(27.304)***
Other adjustments	***(3,834)***	***(128)***	***(3,706)***	***(14,740)***	***(13,114)***	***(1.626)***
Provisions for liabilities and charges	***(17,223)***	***(9,923)***	***(7,300)***	***(63,383)***	***(50,696)***	***(12.687)***
Net other income and charges	***33,423***	***16,370***	***17,053***	***123,922***	***122,424***	***1.498***
E. OPERATING PROFIT (LOSS)	***106,872***	***76,454***	***30,418***	***(236,692)***	***(270,070)***	***33.378***
Net financial income and charges	***(46,800)***	***(17,406)***	***(29,394)***	***(52,564)***	***(13,282)***	***(39.282)***
Adjustments to financial assets	***(0)***	***(50)***	***50***	***(56)***	***(140)***	***84***
F. PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS AND TAXES	***60,072***	***58,998***	***1,074***	***(289,312)***	***(283,492)***	***(5.820)***

Comments on operating results

This section contains an analysis of the main items included in the above consolidated profit and loss statement.

The results and the changes compared to the same period last year have been significantly affected by the events of September 11. As a result of those events, turnover amounting to around Lire 90 billion was lost between September 11 and September 30. This meant that the final part of the quarter was very negative in contrast to the trend seen in July and August when there were clear signs of significant improvements compared to 2000.

Further analysis is set out below:

Consolidated revenues amount to Lire 2,951 billion, an increase of Lire 43 billion compared to the corresponding period last year.

The increase includes around Lire 50 billion relating to the transformation of the relationship with companies Minerva and Azzurra from a franchise agreement to a wet lease[1] . This increase essentially results from the different disclosure of revenues and costs and is not very significant.

Setting this change aside, revenues have fallen by around Lire 7 billion. This is due to the decrease in revenues from traffic (-Lire 25 billion) as countered in part

[1] Franchising agreements involve aircraft with Alitalia livery and service standards but use flight numbers of the airlines that operate them (Minerva, Azzurra). Under this system, income and operating costs were allocated to the operating airline and the agreements provided for a split of margins. The wet lease agreements use Alitalia flight numbers, income and costs are transferred to Alitalia and there has been an increase in passenger revenues (and related costs) of around 2.5%.

by an increase in revenues from various services provided to third parties (+Lire 18 billion).

In more detail, revenues from passenger traffic remained fairly stable despite a significant fall in available seating capacity (-8%). Revenues from cargo and mail traffic decreased by Lire 45 billion (-17%) while there was also a reduction in available capacity (-15%). Revenues from other sectors, especially charter flights, increased by around Lire 22 billion.

Value of production amounts to Lire 2,985 billion. It has increased by Lire 55 billion – slightly more than revenues – reflecting the increase in the value of fixed asset additions following the capitalisation of work on aircraft performed internally.

Raw materials and external services have decreased by Lire 6 billion. If we exclude the change relating to Minerva/Azzurra, the decrease is actually Lire 56 billion (-3%) despite the fact that foreign exchange factors had a negative impact of around Lire 35 billion.

The decrease included a reduction of around Lire 35 billion due to lower fuel prices while the remainder is the result of the lower level of activity (especially in relation to the overhaul of the intercontinental network).

As a result of the above variations in respect of revenues and costs, **added value** has increased by Lire 62 billion (+8%).

Personnel costs have increased by Lire 21 billion (+3.5%), largely as a result of the increase in the average number of employees (+816 employees or 4%). The effect of salary increases resulting from the renewed collective labour agreements has been offset as a result of lower variable costs.

As a result of the above factors, **gross operating margin** for the period amounts to around Lire 250 billion, an improvement of around Lire 40 billion over the prior year figure despite the fact that it was affected by the events of September 11.

Operating profit (which also takes account of amortisation and depreciation, provisions and sundry income/charges) amounted to Lire 107 billion. This was Lire 30 billion more than for the third period of 2000.

Financial charges amounted to Lire 47 billion, an increase of Lire 29 billion. This included Lire 10 billion accrued in relation to future charges under fuel price hedging contracts while the remainder was the result of exchange losses on foreign currency receivables and payables.

As a result, the quarter ended with a **profit before extraordinary items and taxation** of Lire 60 billion, an improvement of Lire 1 billion compared to last year.

The loss before extraordinary items and taxation for first nine months of the year amounts to Lire 289 billion. This is broadly in line with the loss for the same period in 2000 (Lire 283 billion) notwithstanding the impact of the events of September 11, as commented upon previously.

More specifically:

Consolidated revenues amounted to Lire 8,129 billion and have increased by Lire 371 billion (+5%) compared to the same last year period.

The increase mainly relates to revenues from traffic which have increased by Lire 263 billion net – including positive exchange differences of around Lire 50 billion. The increase is thanks to passenger traffic revenues (+ Lire 331 billion) while cargo and other (charter, mail) revenues decreased by a total of Lire 68 billion.

Passenger traffic revenues include the increase relating from the transformation of the relationship with Minerva and Azzurra (around Lire 150 billion) which, as stated previously is not significant as mainly due to the method of disclosure.

If this increase is set aside, the remaining increase in traffic revenues is Lire 113 billion (2%). This increase was achieved despite the fact that the volume of passenger and cargo traffic decreased by around 6.7%.

The remaining increase in revenues – Lire 108 billion – includes Lire 53 billion relating to boarding taxes (to be paid over) and the rest regarding various services (maintenance, tourism and data transmission services, other services).

Value of production amounted to Lire 8,240 billion, an increase of Lire 392 billion (+ 5%). If we set aside certain components that do not indicate genuine change (e.g. the relationship with Minerva/Azzurra and the boarding taxes), the increase becomes around Lire 190 billion (+2%).

Raw materials and external services amounted to Lire 6,236 billion, an increase of Lire 161 billion (+3%); a much smaller increase than in revenues. Again in this case, items with less of an operational impact[2] totalling around Lire 150 billion must be set aside. This leaves an increase of Lire 11 billion which includes the negative impact of exchange differences (Lire 140 billion). The decrease that emerges if these items are set aside is due, as stated in relation to the third quarter, to the reduced level of intercontinental activity.

As a result, **added value** amounted to Lire 2,004 billion, an increase of Lire 231 billion.

Personnel costs increased by Lire 157 billion (+9%) including Lire 53 billion resulting from the staff taken on by the subsidiary Alitalia Airport in relation to handling services at Fiumicino airport. Net of this change, personnel costs increased by Lire 104 billion (+6%) mainly as a result of the increase in average number of employees and, to a lesser extent, to salary increases, largely as a result of the renewal of collective agreements and the termination of exemptions from social contributions that Atitech benefited from until December 31, 2000.

Gross operating margin for the period amounted to Lire 151 billion, Lire 73 billion more than for the same period in 2000.

An operating loss of Lire 237 billion was made compared to the higher loss of Lire 270 billion at September 30, 2000. This year's figure takes account of

[2] This relates to the transformation of the relationship with Minerva and Azzurra and boarding taxes to be paid over to the authorities. This is partly countered by the effect of the replacement

amortisation and depreciation, accruals to provisions and sundry income and charges which increased by a total of Lire 40 billion.

Net financial charges include the aforementioned Lire 15 billion accrual for future charges under fuel price hedging contracts. Overall, they increased by Lire 39 billion thus offsetting the improvement seen at operating profit level.

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of the activities of Aeroporti di Roma with internal Group services (Alitalia Airport). This last item is reflected in personnel costs.

Consolidated net financial position

(Lire billions)

	December 31, 2000	June 30, 2001	September 30, 2001	Change	
				3rd quarter of 2001	At September 30, 2001
Cash and bank and short-term financial assets	(451)	(568)	(497)	71	(46)
Short-term indebtedness	394	427	471	44	77
Net short-term indebtedness	***(57)***	***(141)***	***(26)***	***115***	***31***
Medium/long-term indebtedness	1,524	1,795	1,860*****	65	336
Net financial indebtedness	***1,467***	***1,654***	***1,834***	***180***	***367***

*: including Lire 218 billion due after less than one year

Comments on consolidated net financial position

At September 30, 2001, net financial indebtedness amounted to Lire 1,834 billion, an increase of Lire 180 billion compared to June 30, 2001.

In more detail:

- Cash and bank and short-term financial assets amounted to Lire 497 billion, a decrease of Lire 71 billion;
- Short-term indebtedness relates to the parent company's bank borrowings and amounts to Lire 471 billion, an increase of Lire 44 billion;
- Medium/long-term indebtedness amounts to Lire 1,860 billion and has increased by Lire 65 billion following the arrangement of a new loan (Lire 100 billion) as countered in part by the repayment of instalments as due (Lire 35 billion).

The increase in net financial indebtedness is due to capital expenditure during the period totalling around Lire 250 billion. This included around Lire 200 billion regarding the fleet (mainly deposits for B-777 and A319 aircraft and aircraft modifications and overhauls) and other investments totalling around Lire 50 billion (Atitech premises in Grottaglie and Naples, Sigma web portal, etc).

Over the period from January to September, net financial indebtedness increased by Lire 367 billion (medium/long-term: +Lire 336 billion; short-term: + Lire 31 billion) while capital expenditure amounted to around Lire 1,040 billion.

Investments in the fleet included the balances paid in respect of the purchase of five A-320 aircraft, two ERJ-145 aircraft and the final lease instalment regarding a B-747 aircraft (a total of lire 403 billion), advance payments made in respect of orders and options for B-777 and A-319 aircraft (a total of Lire 355 billion) as well as purchases of an engine and spare parts and overhauls/modifications to aircraft owned by the Company (total around Lire 140 billion).

Non-fleet capital expenditure amounted to around Lire 140 billion. It mainly related to software, IT equipment, work in agencies and offices and work in progress at the Atitech sites in Grottaglie and Naples.

It should be noted that around 50% of the investments was covered by the cash generated by the repayment by Boeing of downpayments made in respect of orders for five B-747 aircraft that were later cancelled.

Appendix

TABLE OF THE OPERATING RESULTS (in thousands of Euro)	***3rd quarter***			***September 30***		
	2001	***2000***	**Change**	***2001***	***2000***	**Change**
A. REVENUES	***1,523,923***	***1,501,923***	***22.000***	***4.198.187***	***4.006.351***	***191.836***
Change in inventory of work in progress, semi-finished and finished goods	***11***	***(906)***	***918***	***(3.254)***	***2.531***	***(5.784)***
Increase in fixed assets following capitalisation of internal costs	***17,851***	***12,248***	***5.603***	***60.468***	***44.025***	***16.442***
B. VALUE OF "ORDINARY" PRODUCTION	***1,541,785***	***1,513,265***	***28.520***	***4.255.401***	***4.052.907***	***202.494***
Raw materials and external services	***(1,092,382)***	***(1,095,627)***	***3.245***	***(3.220.548)***	***(3.137.264)***	***(83.283)***
C. ADDED VALUE	***449,403***	***417,639***	***31.765***	***1.034.853***	***915.642***	***119.211***
Personnel costs	***(320,172)***	***(309,197)***	***(10.975)***	***(957.037)***	***(875.784)***	***(81.253)***
D. GROSS OPERATING MARGIN	***129,231***	***108,441***	***20.790***	***77.816***	***39.858***	***37.958***
Amortisation, depreciation & writedowns	***(80,422)***	***(72,220)***	***(8.203)***	***(223.711)***	***(209.609)***	***(14.101)***
Other adjustments	***(1,980)***	***(66)***	***(1.914)***	***(7.613)***	***(6.773)***	***(840)***
Provisions for liabilities and charges	***(8,895)***	***(5,125)***	***(3.770)***	***(32.735)***	***(26.182)***	***(6.552)***
Net other income and charges	***17,261***	***8,454***	***8.807***	***64.000***	***63.227***	***774***
E. OPERATING PROFIT (LOSS)	***55,195***	***39,485***	***15.710***	***(122.241)***	***(139.480)***	***17.238***
Net financial income and charges	***(24,170)***	***(8,989)***	***(15.181)***	***(27.147)***	***(6.860)***	***(20.287)***
Adjustments to financial assets	***(0)***	***(26)***	***26***	***(29)***	***(72)***	***43***
F. PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS AND TAXES	***31,024***	***30,470***	***555***	***(149.417)***	***(146.411)***	***(3.006)***

Consolidated net financial position

(millions of Euro)

	December 31, 2000	June 30, 2001	September 30, 2001	Change	
				3rd quarter of 2001	At September 30, 2001
Cash and bank and short-term financial assets	(232)	(293)	(256)	37	(24)
Short-term indebtedness	203	220	243	23	40
Net short-term indebtedness	***(29)***	***(73)***	***(13)***	***60***	***16***
Medium/long-term indebtedness	787	927	961*****	34	174
Net financial indebtedness	***758***	***854***	***948***	***94***	***190***

*: including Euro 113 million due after less than one year