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
Register of Enterprises of Rome No. 2029/46
R.E.A. Rome No. 135156
Fiscal Code 00476680582
VAT number 00903301000

Directors' report on the activities of the Alitalia Group in the first six months of 2001

BOARD OF DIRECTORS

Chairman	Fausto	CERETI
Managing Director	Francesco	MENGOZZI (since February 9, 2001)
	Domenico	CEMPELLA (until February 2, 2001)
Directors	Emilio	ACERNA
	Augusto	ANGIOLETTI (until September 7, 2001)
	Fabrizio	ANTONINI
	Silvano	BARBERINI
	Domenico	CEMPELLA (from February 3 to 14, 2001)
	Michele	CICIA (since September 12, 2001)
	Pietro	CIUCCI
	Giuseppe	CONSOLO
	Alberto	CORRIAS
	Vincenzo	DETTORI
	Mario	FRANCHI
	Serafino	GATTI
	Maurizio	MARESCA
	Tommaso Vincenzo	MILANESE
	Egidio Enrico	PEDRINI
	Maurizio	PRATO
	Carlo	TAMBURI (since March 9, 2001)
Secretary	Carlo	ANGELICI (Since May 14, 2001)
	Leopoldo	CONFORTI (until May 14, 2001)

==

General Manager Giovanni SEBASTIANI (until March 28, 2001)

EXECUTIVE COMMITTEE

Chairman	Fausto	CERETI
Managing Director	Francesco	MENGOZZI (since February 9, 2001)
	Domenico	CEMPELLA (until February 2, 2001)
	Augusto	ANGIOLETTI (from Apr 2, 2001 to Sept 7, 200
	Pietro	CIUCCI
	Vincenzo	DETTORI
	Tommaso Vincenzo	MILANESE (until March 28, 2001)
	Maurizio	PRATO
	Carlo	TAMBURI (since March 9, 2001)
Secretary	Carlo	ANGELICI (since April 24, 2001)
	Leopoldo	CONFORTI (until April 24, 2001)

BOARD OF STATUTORY AUDITORS

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

===

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

CONSULTATIVE COMMITTEES

(Appointed by the Board of Directors on April 2, 2001)

STRATEGY COMMITTEE

Chairman	Francesco	MENGOZZI
	Pietro	CIUCCI
	Mario	FRANCHI
	Maurizio	PRATO
	Carlo	TAMBURI

INTERNAL CONTROL AND CORPORATE GOVERNANCE COMMITTEE

Chairman	Serafino	GATTI
	Fabrizio	ANTONINI
	Silvano	BARBERINI
	Alberto	CORRIAS
	Maurizio	MARESCA

DIRECTORS' REMUNERATION AND LONG-TERM INCENTIVE PLAN COMMITTEE

Chairman	Vincenzo	DETTORI
	Mario	FRANCHI
	Carlo	TAMBURI

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 take all action necessary to manage and operate the Company, except for actions reserved to the Board of Directors or the Executive Committee.

Table of contents

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2001

Report on the result of operations

Consolidated financial statements for the six months ended 30 June 2001

Notes to the consolidated financial statements

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2001

The Alitalia Group

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

The main subsidiaries of the Alitalia Group are the following:

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

Eurofly S.p.A. - Milan
Operation of charter services transport in Italy, between Italy and foreign countries and in foreign countries.

Alitalia Airport S.p.A. - Rome
Ground assistance services for passengers, cargo and aircraft of the Alitalia Group and third parties.

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.

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 freight industries.

Alinsurance S.r.l. - Rome

Agent for a number of insurance companies. Operates as an insurance broker mainly on behalf of the Alitalia Group.

BUSINESS HIGHLIGHTS OF ALITALIA GROUP

(in millions of Lire)	***30 June 01***	***30 June 00***	***30 June 99***	***31 Dec 00***
Fixed assets:				
- intangible	192,286	198,560	191,845	187,924
- tangible	5,856,939	5,768,273	4,562,846	5,369,649
- financial	238,958	170,562	184,750	223,099
Total fixed assets	**6,288,182**	**6,137,395**	**4,939,441**	**5,780,673**
Working capital	(1,451,089)	(867,168)	(830,027)	(649,638)
Employee severance pay	(791,880)	(721,990)	(691,780)	(766,327)
Net capital employed	**4,045,213**	**4,548,236**	**3,417,635**	**4,364,707**
Own capital	2,391,465	3,041,173	3,423,216	2,897,305
Net indebtedness				
- m/l term	1,795,236	1,333,324	915,208	1,523,973
- short term (cash at bank and on hand)	(141,489)	173,739	(920,790)	(56,570)
Total indebtedness (cash at bank)	**1,653,748**	**1,507,063**	**(5,582)**	**1,467,402**
Revenues	5,178,097	4,849,248	4,242,066	10,444,608
Value of Production	5,254,292	4,917,432	4,305,082	10,581,090
Cost of raw materials and external services	(4,120,703)	(3,953,162)	(3,198,874)	(8,332,075)
Value Added	**1,133,589**	**964,270**	**1,106,208**	**2,249,015**
Personnel costs	(1,233,143)	(1,098,493)	(1,036,146)	(2,288,983)
Gross Operating Margin	**(99,554)**	**(134,223)**	**70,062**	**(39,968)**
Amortisation and depreciation	(277,444)	(266,023)	(235,059)	(567,574)
Other adjustments	(10,906)	(12,986)	(663)	(18,491)
Accruals to provisions for risks	(46,160)	(40,773)	(25,122)	(80,974)
Sundry income (charges)	90,499	106,054	69,424	199,385
Operating loss	**(343,564)**	**(347,952)**	**(121,358)**	**(507,622)**
Net financial income (charges) (*)	(5,820)	4,034	11,966	24,580
Extraordinary income (charges)	(81,274)	54,158	154,694	66,427
Taxes on income	(72,839)	(62,536)	(16,084)	(78,362)
Net (loss) profit	**(503,497)**	**(352,296)**	**29,218**	**(494,977)**
Investments	797,191	1,395,428	453,579	2,015,294
No of employees at period end	24,023	21,395	20,727	23,478

(*) Includes adjustments to value of financial assets

Introduction

The comments set out below and the Report on Operations in the first half of the year as a whole were prepared without the possibility of evaluating the extent of the effects of the recent terrorist attacks on the United States of America which took place only yesterday as we write. These events are so significant that they cannot fail to lead to higher costs and lower revenues and a significant degree of action by management will be needed in order to counter these effects.

The Alitalia Group is preparing for an overhaul of its operating structure as it attempts to face up to extremely difficult macroeconomic and market conditions.

During 2001 all of the most widely accredited forecasts for the performance of the sector have been adjusted downwards. These forecasts were only made at the end of 2000. The ATA (Air Transport Association which unites all of the US airlines) has announced losses for 2001 of between $1.5 billion and $2.5 billion (compared with a forecast of profits issued only a few months earlier. The bulk of the European airlines – in particular LH, BA and KLM – have also announced serious drops in expected profits (of around 60-70%).

Given the economic situation and the fact that it could lead to a long-lasting negative cycle, as mentioned in the following pages, Alitalia is finalising plans to increase profitability based on a major overhaul of its network and a strong focus on the exploitation of the potential offered by the alliance recently agreed with AF and the other airlines that belong to Skyteam. Strong action will also be taken to cut costs and raise finances with a view to modernising and expanding the fleet.

The positive impact of some of the measures already introduced during the first half of the year (fare increases, discontinuation of loss-making routes, etc.) were already there to be seen at 30 June 2001. The prospects are good for further improvement in the second half of the year although it will be easier to evaluate these prospects once the current plan of action has been finalised.

Considering the above, while the results for the first half of the year (a loss of Lire 503 billion, in line with 2000 at operating result level but badly hit by extraordinary items as described in the rest of this report) are not good and worrying , given the circumstances, they should be analysed in relation to the outlook for the second half of the year which seems to suggest that there is a good chance that the operating results for 2001 as a whole will be better than they were in 2000 despite the unexpected slump in the cargo market and the return of industrial relations problems.

In particular, operating margins are on the rise and are positive once more. This is reflected in the constant improvement of gross operating margin.

The imminent new business plan, the need to reposition Alitalia, the rethink of its future that the Group is currently conducting, the reorganisation that has been started and the decisions recently made in relation to strategic alliances mean that this six month report covers a period of evolution as well as a useful snapshot to be analysed in studying the Group's problems.

12 September, 2001

The economic environment

The first half of 2001 saw world economic growth slow down overall. This confirmed the rather unfavourable forecasts made based on performances realised in the second half of 2000. The GDP of the most advanced economies grew by 1.9%, much less than the 3.2% growth seen in the last quarter of 2000 which was already lower than growth for the earlier parts of the year.

The above trend was largely caused by high fuel prices and by the "deflation of the new economy". These factors led to a negative spiral which depressed margins, share prices, levels of consumption and capital expenditure leading to a rather stagnant situation of international trade.

Looking at the main geographical areas of the world, the US economy has come back down to earth more sharply than was expected. In the first half of the year, it grew by just 1.2% despite several interest rate cuts. Even more limited growth of just 0.5% is predicted for the second half of the year.

The economic crisis in the United States has had a knock-on effect in Asia, especially in Japan where the economy contracted in the first half of 2001 despite a package of measures introduced by the government in November 2000 to support public investment which grew by 5.2% in the first quarter of 2001.

As well as suffering the effects of the US economic problems, Euro area countries have had their own difficulties with all economies being affected to varying extents. GDP for the Euro area increased by less than had been forecast in the first quarter of 2001 and business confidence reduced significantly in the second quarter. Negative signs have also been seen in relation to domestic demand which has been affected by the gradual increase in inflation caused by rising food and petroleum product prices.

The situation in Italy largely mirrors that in other Euro area countries although the effects of higher inflation – especially as a result of higher fuel prices - have been more sharply felt and have led to a drop in internal demand in terms of consumption and investment.

In this macroeconomic context, the worldwide passenger air transport industry achieved average growth of just 3% at IATA level in the first half of 2001 (+8% in the first half of 2000).

The international traffic of European airlines belonging to AEA (Association of European Airlines) recorded an even more modest increase of just 1% compared to the first half of 2000. Alitalia actually recorded a decrease of 2.1% as a result of a major reduction in available capacity. In particular:

Percentage change in 2001 compared to 2000 (first half of year):

Available seats km

IATA	3.0
AEA	1.8
ALITALIA	-6.3

Revenue Pax km

IATA	3.0
AEA	0.9
ALITALIA	-2.2

Worldwide cargo traffic was even worse affected and was lower than it had been in the first half of 2000.

In addition to the slowdown of the economy and the effects of higher fuel prices, the airlines' performances have also been adversely affected by increase conflict with the trades unions. This has affected the image and the profits of the leading airlines.

This combination of unfavourable circumstances has led to a precarious economic situation for the entire sector. The leading US airlines all recorded losses while their European counterparts had more varied results but generally saw a significant deterioration in profitability compared to the first half of 2000.

This has forces almost all of the airlines to take measures to streamline their networks and to cut available capacity. They have also begun to adopt ever more competitive methods to win the business in the most profitable segments of the market thus making competition increasingly fierce.

The situation of the Alitalia Group

The unfavourable factors which have seen airline profits decline in the first half of 2001 combined, for Alitalia, with a period of greater stability in the Italian air transport system. This saw the end of problems regarding air traffic at the Milan airports and action to restore stand alone commercial and operating structures following the problems caused by the sudden termination of the alliance with KLM.

As well as improving its position on the market and the quality of service provided, positive results were also achieved as a result of measures taken to streamline the network. Less strategic and less profitable routes such as those for Oceania, South Africa and Thailand were suspended while the ticket price increases made by Alitalia and its main competitors in the second half of 2001 because of unsustainable fuel price increases and the strong US Dollar led to a significant improvement in terms of profitability of domestic and intercontinental services in particular.

Some sectors – including European routes and the entire cargo sector – suffered the effects of the unfavourable economic conditions. Meanwhile, others, especially Middle East and North African destinations, were affected by rising local political instability.

We also witnessed the return of a worrying level of trade union conflict involving repeated strike action and a certain loss of turnover (around Lire 50 billion over the period).

The overall situation included both positive and negative factors which only enabled the Group to avoid a further deterioration of its operating losses. However, these continued to be serious and affected by structural problems which will be confronted only when the new Business Plan, currently at an advanced stage of preparation, is implemented.

The Group is well aware of the delicate situation it currently finds itself in with its core air transport business greatly weakened by the ongoing saga of the Malpensa hub project and the termination of the KLM alliance. These problems must be added to a situation already made difficult by the operating restrictions imposed for 1997-2000 by the European Commission as a condition for the share capital increase. In the latter part of the first half of the year, the Group continued to pay close attention to operational matters but mainly concentrated on the following:

- the definition of a new organisational structure that will involve the creation of specific Divisions in order to take advantage of all the business opportunities available in each of the various sectors;
- the finalisation of a new alliance through agreements negotiated and concluded with Air France, entry into SKY Team and the identification of a leading US partner like Delta;

– a review of the whole operating structure in both commercial and operational terms. This has been done by means of a plan involving all areas of the business and is close to conclusion.

Looking more closely at results, the first half of 2001 ended with a loss before extraordinary items and taxation of Lire 349 billion. This was similar to the loss of Lire 344 billion for the first half of 2000.

The above loss was increased by extraordinary charges of Lire 81 billion mainly relating to accruals for the penalty of Lire 52 billion imposed on Alitalia by the Competition and Markets Authority (AGCM) and for other proceedings stated by the same authority as described in more detail in the section "Significant events subsequent to the six month period" plus taxation of Lire 73 billion.

The above led to a total consolidated loss of Lire 503 billion compared to Lire 352 billion in the first half of 2000. Last year's result benefited from extraordinary income of Lire 54 billion and taxation totalled Lire 63 billion.

The operating loss was caused by the performance in the first quarter which included the effects of the low season. A profit before extraordinary items and taxation was recorded in the second quarter. At Lire 37 billion, it was better than the result for the second quarter of 2000 (Lire 19 billion) but was still not enough to have a significant impact on the loss for the full six month period.

The individual business sectors are analysed in more detail below:

- The **scheduled air transport** sector – which includes Alitalia, Alitalia Team and Alitalia Express – represents around 95% of consolidated turnover and costs and essentially determines the results of the Group as a whole. Its performance reflected the positive and negative factors described above with a heavy operating loss being recorded as for the same period of 2000.

  In short, the loss was due to the fact that the commercial recovery was insufficient to offset the imbalance in terms of operating costs. Although compared with the first half of 2000, a period affected by problems regarding Malpensa and the sudden termination of the alliance with KLM, turnover growth in the first half of 2001 only just sufficed to cover cost increases and failed to signal the start of a trend of economic recovery.

  If we look perform a more detailed comparison of the performance for the first half of 2001 and the same period in 2000, we can see that the passenger load factor increased from 70.1% to 71.6%; this was due to the fact that the number of passengers carried (-4%) fell by less than available seats (-6%) while yield increased significantly (by around 11%).

These improvements were especially seen in relation to the sectors affected by network streamlining (the Far East, Africa) and fare increases (domestic routes, North-Central Atlantic). They could have been greater but for the aforementioned problems that arose in relation to increased competition on European routes, partly as a result of the expansion of “low cost” airlines, which led yield in the sector to fall by 4%. Other factors included the political crisis in the Middle East which affected the load factor (-8 points) and yield (-6%) of routes to that area and North Africa and trade union conflict which mainly affected domestic and international activity.

Overall, there was a decent increase in turnover from passenger traffic (+ Lire 269 billion). However, part of this increase came from factors which are directly compensated on the costs side such as foreign exchange differences (around Lire 30 billion) and, especially, the effect of transforming the relationship with Minerva and Azzurra from franchise agreement to wet lease (around Lire 100 billion)[1]. The result is that actual growth was still minimal especially bearing in mind the problems in the period used for comparison and the repricing performed in the industry to pass on higher fuel prices.

The increase in total air transport revenues (+Lire 248 billion or +6%) was even less favourable and reflected the points mentioned above in relation to passenger traffic plus a decline in turnover from cargo traffic (Lire 30 billion) caused by a decrease in volumes carried (-6%) albeit together with a reduction in available capacity (-4%). This was only partially offset by increases in mail and other activities (Lire 9 billion).

The overall increase in revenues was practically absorbed by total operating costs which increased by only slightly less (Lire 231 billion) net of other income.

The increase in terms of costs may appear excessive given the contraction of the business but was affected by several determining factors as described below:

- exchange rate fluctuations, essentially the strengthening of the Dollar, which had a total impact of around Lire 100 billion on operating costs and mainly affected fuel, selling costs and rental and lease costs;

- the effect of inflation which amounted to around Lire 80 billion and mainly regarded fuel (+ Lire 18 billion),

[1] The transformation of these agreements leads to a different disclosure of income and charges regarding activities already commercially and economically acquired by Alitalia.

selling costs (+ Lire 9 billion), airport taxes/duties (+ Lire 10 billion) and personnel costs (+ Lire 35 billion);

- further increases in personnel costs (around Lire 40 billion) due, in the case of flight staff, to a lower level of productivity following the unified contract for Alitalia and Alitalia Team flight assistants and the fact that staff numbers remained constant despite a lower volume of business. In the case of ground staff, the increase was due to increases in staff numbers in the sales and airport assistance sectors following the termination of the alliance with KLM;

- the effect of the change in the relationship with Minerva/Azzurra (around Lire 100 billion); this had an analogous effect on revenues.

The corresponding increases in revenues and costs meant that the operating result remained largely stable. The gross operating loss for the first half of the year was Lire 153 billion compared to Lire 170 billion in the first half of 2000.

The operating loss made by this sector includes a slightly higher level of amortisation and depreciation and lower non-recurring items (capital gains, absorption of provisions, etc) and amounts to Lire 373 billion compared to Lire 362 billion for the same period in 2000.

- The **charter** sector (Eurofly) recorded an operating loss of Lire 8 billion compared to an operating loss of Lire 19 billion in the first six months of 2000.

  The improvement reflects the initial impact of the business reorganisation which has involved:

  - The rental of two B767 aircraft to the parent company for use, at least temporarily, on long haul scheduled flights;
  - The use of a single B767 aircraft for long haul charter flights. This sector continues to perform poorly because of excess available flights;
  - The introduction of several scheduled connections leaving from Milan Linate airport.

  During the first half of the year, five new A320 aircraft were introduced into the fleet. The competitiveness of these aircraft for medium haul charter activities is already proven. They will replace five MD-83 aircraft (one of these planes has already left service at 30 June 2001)

- The **aircraft maintenance** sector (Atitech) recorded an operating profit of Lire 0.3 billion compared to an operating profit of Lire 8 billion in the first half of 2000.
  The decline in the operating profit is mainly due to increased personnel costs following the expiry of a total

exemption from social security contributions enjoyed by Atitech in respect of 500 employees until 31 December 2000.

With regard to the plans to expand maintenance activities especially for third parties, we note that the company is currently starting operations at the plant in Grottaglie which will include a three bay hangar with storerooms, workshops and support structures and will employ 227 persons by 2002. In April, construction work began, on a plot of land adjacent to the existing facilities in Naples, on a new 5 bay hangar with the related support structures. This facility is expected to be completed by the end of 2002 and will lead to a further increase in capacity and employment levels.

- The **data transmission** sector (Sigma and Sigma Travel System) recorded a very positive operating profit (Lire 28 billion). This was better than in the first half of 2000 (Lire 25 billion). This improvement was achieved in an increasingly competitive market and was possible thanks to an increase in commission revenues (Galileo) and the improved efficiency of the operating structure.

  It should also be noted that, in order to improve the sector's operating efficiency and growth prospects, on 2 August 2001 approval was given for the merger into Sigma S.p.A. of the affiliate Sigma Travel System S.p.A. the same day also saw the creation of Sigma On Line, a company that will promote the Internet tourism portal currently close to completion.

- The **tourism** sector (Italiatour Group) recorded an operating profit of Lire 2 billion compared to Lire 1 billion in the first half of 2000. This improvement was essentially due to an increase in the number of tourism packages sold in Italy and abroad.

- In the **airport handling** sector, Alitalia Airport recorded an operating profit of Lire 7 billion.

  It should be recalled that this company began operating on July 1, 2000 with runway services and then proceeded to introduce passenger assistance services with effect from 1 September 2000 (Rome Fiumicino airport) and 1 December 2000 (other airports in Italy).

- There were no significant changes for the **financial sub-holding companies** (Racom and Aviofin) or for the **insurance** sector (Alinsurance). They made operating profits in both periods considered here.

Further details about the Group's results in relation to the profit and loss statement, the balance sheet and the financial position are provided later on in this report.

ANALYSIS OF THE CONSOLIDATED PROFIT & LOSS STATEMENT
(in millions of Lire)

	30.06.2001	30.06.2000	CHANGE	31.12.2000
A. REVENUES	*5,178,097*	*4,849,248*	*328,849*	*10,444,608*
Change in work in progress, semi-finished and finished products inventory	*(6,322)*	*6,655*	*(12,977)*	*4,813*
Increase in fixed assets due to capitalisation of internal costs	*82,517*	*61,529*	*20,988*	*131,669*
B. VALUE OF "NORMAL" PRODUCTION	*5,254,292*	*4,917,432*	*336,860*	*10,581,090*
Cost of raw materials and external services	*(4,120,703)*	*(3,953,162)*	*(167,541)*	*(8,332,075)*
C. ADDED VALUE	*1,133,589*	*964,270*	*169,319*	*2,249,015*
Personnel cost	*(1,233,143)*	*(1,098,493)*	*(134,650)*	*(2,288,983)*
D. GROSS OPERATING LOSS	*(99,554)*	*(134,223)*	*34,669*	*(39,968)*
Amortisation, depreciation & writedowns	*(277,444)*	*(266,023)*	*(11,422)*	*(567,574)*
Other adjustments	*(10,906)*	*(12,986)*	*2,081*	*(18,491)*
Provisions for liabilities and charges	*(46,160)*	*(40,773)*	*(5,386)*	*(80,974)*
Net other income (expenses)	*90,499*	*106,054*	*(15,554)*	*199,385*
E. OPERATING LOSS	*(343,564)*	*(347,952)*	*4,387*	*(507,622)*
Financial income and charges	*(5,764)*	*4,124*	*(9,887)*	*31,917*
Adjustments to value of financial assets	*(56)*	*(90)*	*35*	*(7,337)*
F. LOSS BEFORE EXTRAORDINARY ITEMS AND TAXATION	*(349,384)*	*(343,918)*	*(5,465)*	*(483,042)*
Extraordinary income and charges	*(81,274)*	*54,158*	*(135,432)*	*66,427*
G. LOSS BEFORE TAXATION	*(430,658)*	*(289,760)*	*(140,898)*	*(416,615)*
Taxes on income	*(72,839)*	*(62,536)*	*(10,303)*	*(78,362)*
H.NET LOSS FOR THE PERIOD	*(503,497)*	*(352,296)*	*(151,201)*	*(494,977)*
including:				
- attributable to the parent company	*(503,539)*	*(352,845)*	*(150,695)*	*(496,566)*
- attributable to minority interests	*43*	*549*	*(507)*	*1,589*

Analysis of the Group's results

The main items included in the consolidated profit and loss statement are analysed below, as reported in the above table.
As stated above in under "the situation of the Alitalia Group", a loss before extraordinary items and taxation of Lire 349 billion was made in the first half of 2001. This hefty loss is broadly in line with that of Lire 344 billion made during the first half of 2000.

On top of the above loss, there were extraordinary charges of Lire 81 billion compared to extraordinary income of Lire 54 billion in the first half of 2000. Taxation amounted to Lire 73 billion compared to Lire 63 billion for the first half of 2000. All of this meant a significant deterioration of the net loss for the period from Lire 352 billion in 2000 to Lire 503 billion in 2001.

This loss arose against the background of a difficult situation for the entire industry as a result of the lasting situation of high fuel prices, only partly passed on in the form of fare increases, and the significant slowing down of the main world economies, especially in the United States.

The Group has taken action to combat this situation such as strengthening its presence on the market, increasing fares and optimising its network. However, these measures have only succeeded in avoiding a further deterioration of operating results.

The situation is analysed in more detail below:

Consolidated revenues for the first half of 2001 amounted to Lire 5,178 billion, an increase of Lire 329 billion (+6.8%) on the same period in 2000.

This increase mainly regarded revenues from air traffic which increased by Lire 238 billion (exchange rate gains contributed around Lire 40 billion of this amount). The increase was essentially due to scheduled passenger traffic (+ Lire 283 billion) as cargo revenues and revenues from other activities (charter flights, mail) fell by Lire 30 billion and Lire 15 billion, respectively.

The increase in revenues from passenger traffic also reflects the impact of the transformation of the relationship with Minerva and Azzurra (around Lire 100 billion). This essentially results from a different disclosure of revenues and costs and is not very significant.

The remaining Lire 91 billion increase in revenues (including Lire 10 billion due to exchange differences) is mainly due to services provided to third parties (maintenance, tourism services and data transmission) which increased by a total of Lire 52 billion and to sundry income which increased by Lire 34 billion (essentially boarding taxes to be paid over to the authorities).

Value of production amounts to Lire 5,254 billion and has increased by Lire 337 billion (+6.9%). This is slightly higher than the increase in revenues and reflects the capitalisation of work performed internally on aircraft and of financial charges paid on advances for the purchase of planes for the fleet. These were partly offset by a reduction in inventory of equipment in the course of being fitted out (relating to maintenance).
If the least representative items in operational terms are excluded (the relationship with Minerva/Azzurra and boarding taxes), the increase decreases to around Lire 180 billion (3.7%).

Cost of materials and external services amounts to Lire 4,121 billion and has increased by a total of Lire 168 billion (+4.2%). In the same way as revenues, this item is influenced by items with little operational significance[2] totalling around Lire 100 billion. The remaining increase of Lire 68 billion (1.5%) was mainly due to the effect of exchange rate fluctuations (+Lire 100 billion) and price increases (+ Lire 70 billion). This was partly offset by the savings made as a result of the downsizing of intercontinental activities.
The items that have undergone the most significant variations are as follows:

- selling expenses have increased by around Lire 18 billion in relation to the increased turnover;
- fuel costs have increased by Lire 24 billion, mainly as a result of the effect of exchange rates (+ Lire 55 billion) and prices (+ Lire 18 billion, taking account of the outcome of forward contracts); these increases are largely offset by savings as a result of lower fuel consumption due to the reduced level of activity;
- airport taxes which have been affected by a price effect (Lire 10 billion). The increase is mainly due to higher take off and landing taxes at Italian airports;
- maintenance materials and services increased by a total of Lire 33 billion. Lire 13 billion of this was due to exchange losses and the remainder to the higher level of maintenance activity for third parties;
- services provided to personnel increased by Lire 15 billion in relation to travel, subsistence and health assistance;
- despite price increases and exchange rate differences of around Lire 25 billion, rental and hire costs decreased by Lire 51 billion. This was mainly due to the termination of agreements with KLM, Continental, Eurowings and Lauda and to the restructuring of the network and related operating activities;
- other items led to a total increase of Lire 19 billion, mainly in respect of higher insurance costs and general charges.

[2] This refers to the transformation of the agreements with Minerva and Azzurra into wet leases and to boarding taxes to be recharged. This is partly countered by the replacement of services provided by Aeroporti di Roma with internal Group activities (Alitalia Airport). This latter change also led to increased personnel costs.

As a result of the above, **added value** amounts to Lire 1,133 billion and has improved by Lire 169 billion compared to the first half of 2000.

Personnel costs amount to Lire 1,233 billion and have increased by Lire 135 billion. Around Lire 53 billion of this is due to the activities taken over from Aeroporti di Roma in the first half of 2000 (including 1,531 employees).
The remainder of the increase was due to the following:

- an increase in the average salaried workforce. For flight staff (an additional 368 average employees) this was due to the lower level of productivity resulting from the unification contract for Alitalia and Alitalia Team flight assistants and to the fact that staff numbers remained the same while the level of activity decreased. For ground staff (an additional 591 employees on average), the increase was mainly due to the reorganisation of commercial and airport structures following the termination of the alliance with KLM and the expansion of maintenance activities for third parties;
- the additional effect of the renewal of collective labour agreements – salary increases were in line with inflation –, the fact that the Atitech's exemption from social security contributions ended on 31 December 2000 and several redundancy incentives;

As a result of the events described above a **gross operating loss** of Lire 100 billion was made, although it did represent an improvement of Lire 35 billion on the same period in 2000.

The **operating loss** of Lire 344 billion represents a Lire 4 billion improvement on last year.
In addition the fluctuations at gross operating margin level, the following should be noted:

- amortisation and depreciation charges increased by Lire 11 billion mainly as result of the excess of aircraft purchased – five A320, seven ERJ-145 and one B-747 (final lease payment) – over those sold and leased back (one A-321 and twenty MD-80);
- accruals to provisions for liabilities and charges increased by Lire 3 billion essentially in relation to provisions for prize competitions and scheduled maintenance work;
- net sundry income decreased by Lire 16 billion mainly because gains on disposal totalling Lire 12 billion were realised on the sale of several aircraft (1 ATR, 1 MD 80) and other fleet components in the first half of 2000 while the provision for prize competitions was absorbed to a lesser extent (Lire 4 billion) as a result of the extension of the period of validity for "Millemiglia" (Air Miles).

Net financial charges amounted to Lire 6 billion compared to net financial income of Lire 4 billion in the first half of 2000. The change may be analysed as follows:

- an increase of Lire 21 billion in interest and other financial charges as a result of the higher level of indebtedness;

- an increase of Lire 13 billion in exchange gains and financial income from derivative transactions.

The **loss before extraordinary items and taxation** amounts to Lire 349 billion, Lire 5 billion worse than the Lire 344 billion loss for the first half of 2000.

There were extraordinary charges (net) of Lire 81 billion compared to extraordinary income (net) of Lire 54 billion for the first half of 2000. In particular, last year's figure included the proceeds from the sale of land and equity investments (Lire 22 billion) and for the recovery of deferred tax assets (Lire 28 billion) following the let of a business to Alitalia Team. In 2001, the charges mainly relate to the prudent accruals made in respect of the Lire 52 billion fine imposed on Alitalia by the Competition and Market Authority and other proceedings underway before the Authority in question. Reference should be made to the section "Significant events subsequent to the six month period).
The company has already appealed against the aforementioned fine as it believes the Authority failed to grasp the real structure of the air transport market and, above all, the relationship between airlines and travel agents. With regard to the ongoing proceedings, the company believes in its case and the course of action it has adopted.

The **loss before taxes** of Lire 431 billion is Lire 141 billion more than for the same period in 2000.

Net tax charges amount to Lire 73 billion compared to Lire 63 billion for the first six months of 2000. The increase mainly relates to IRAP (Regional Tax on Productive Activity) as a result of increases in items not deductible for the purposes of the said tax (personnel costs, financial charges).

As a result of the above, the consolidated profit and loss statement of the Alitalia Group reports a **loss** of Lire 503 billion for the first half of 2001, all of which is attributable to the parent company.

ANALYSIS OF CONSOLIDATED BALANCE SHEET
(in millions of Lire)

	30.06.2001	31.12.2000	CHANGE	30.06.2000
A.- NET FIXED ASSETS				
Intangible	192,286	187,924	4,362	198,560
Tangible	5,856,939	5,369,649	487,290	5,768,273
Financial	238,958	223,099	15,858	170,562
	6,288,182	**5,780,673**	**507,510**	**6,137,395**
B.- WORKING CAPITAL				
Inventory	449,933	448,130	1,802	461,662
Trade receivables	452,041	444,993	7,047	508,001
Other assets	1,514,571	1,975,449	(460,878)	1,450,484
Trade payables	(1,103,308)	(1,005,212)	(98,096)	(1,026,590)
Provisions for risks and charges	(719,262)	(668,038)	(51,224)	(645,130)
Other liabilities	(2,045,063)	(1,844,961)	(200,102)	(1,615,596)
	(1,451,089)	**(649,638)**	**(801,451)**	**(867,168)**
C.- CAPITAL EMPLOYED, net of current liabilities (A+B)	**4,837,093**	**5,131,034**	**(293,941)**	**5,270,227**
D.- PROVISION FOR EMPLOYEE SEVERANCE PAY	**791,880**	**766,327**	**25,553**	**721,990**
E.- CAPITAL EMPLOYED, net of (C-D) current liabilities and employee severance pay	**4,045,213**	**4,364,707**	**(319,494)**	**4,548,236**
Covered by:				
F.- NET EQUITY				
Attributable to parent company	2,389,871	2,892,194	(502,323)	3,037,103
Attributable to minority interests	1,594	5,111	(3,516)	4,070
	2,391,465	**2,897,305**	**(505,839)**	**3,041,173**
G.- MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS	**1,795,236**	**1,523,973**	**271,263**	**1,333,324**
H.- NET SHORT-TERM FINANCIAL INDEBTEDNESS (CASH AT BANK AND ON HAND NET)				
-short-term financial liabilities	426,734	394,490	32,244	678,426
-cash at bank & on hand, s/t financial receivables	(568,223)	(451,060)	(117,163)	(504,687)
	(141,489)	(56,570)	(84,918)	173,739
(G+H)	**1,653,748**	**1,467,402**	**186,345**	**1,507,063**
I.- TOTAL (F+G+H)	**4,045,213**	**4,364,707**	**(319,494)**	**4,548,236**

Analysis of the consolidated balance sheet

Capital employed, less current liabilities and the provision for employee severance pay, amounts to Lire 4,045 billion and has decreased by Lire 319 billion compared to 31 December 2000.

The following comments regard the changes to the various components of capital employed.

Net fixed assets amount to Lire 6,288 billion and have increased by Lire 507 billion. They are analysed as follows:

- **investments** during the period amounted to Lire 797 billion and included Lire 38 billion of intangible assets, Lire 743 billion of tangible fixed assets and Lire 16 billion of financial fixed assets (for further information see the subsequent section containing an analysis of the financial structure);

- **amortisation and depreciation** for the period amounted to Lire 277 billion;

- **disposals**, net of gains thereon, amounted to Lire 8 billion. They mainly related to the sale of sundry aeronautics materials and to reclassifications from fixed assets to “technical inventory” and “other receivables”;

- **writedowns** totalling Lire 5 billion made in order to bring the book value of tangible fixed assets into line with realisable value.

Working capital sees liabilities exceed assets by Lire 1,451 billion. At 31 December 2000, there was a negative working capital balance of Lire 650 billion.

The following factors had an impact on the Lire 801 billion decrease:

- current assets forming part of working capital decreased by Lire 452 billion following the collection of a receivable due from Boeing in relation to the reimbursement of advances paid in respect of orders for 5 B-747 aircraft (Lire 496 billion) that were subsequently cancelled. This decrease was countered in part by an increase in amounts due from travel agents in relation to the seasonal nature of ticket sales;

- a Lire 98 billion increase in trade payables mainly as a result of higher balances due to suppliers of services and to the increased advances paid by tourism service customers;

- a Lire 51 billion increase in provisions for risks and charges mainly as a result of the prudent accrual made in respect of the penalty (Lire 52 billion) imposed by the Competition and Markets Authority. Other items include accruals of Lire 28 billion regarding further proceedings before the aforementioned Authority (see significant subsequent events) and other legal and tax disputes plus sundry provisions of Lire 17 billion regarding work on the technical area, prize competitions and commercial agreements and a

Lire 7 billion accrual to the provision for exchange differences. Reductions to provisions for risks and charges have regarded the positive outcome of matters with social security institutions (Lire 17 billion), the partial use of the provision for forward sale and purchase commitments (Lire 27 billion) and the use of part of the provision for taxation (Lire 11 billion) in relation to deferred taxes of Racom, Aviofin and Sigma;

- a Lire 200 billion increase in other liabilities essentially as a result of a rise in prepaid tickets in relation to seasonal factors, of increased liabilities towards tax and social security institutions and the lower exposure towards other airlines and travel agents.

The **provision for employee severance pay** amounts to Lire 792 billion. It has increased by Lire 26 billion as a result of the accrual for the period net of amounts paid out to leavers and advances paid to Group employees under applicable legislation.

Net equity has decreased by Lire 506 billion to Lire 2,391 billion as a result of the loss for the period.

The **net financial position** had a negative balance of Lire 1,654 billion, an increase of Lire 186 billion. It may be analysed as follows:

- **medium/long-term financial indebtedness** amounting to Lire 1,795 billion has increased by Lire 271 billion as a result of new loans of Lire 373 billion arranged by the parent company net of loan repayments of Lire 102 billion;

- **short-term net financial position** had a positive balance of Lire 142 billion and had improved by Lire 85 billion as follows:
  - ⇒ a Lire 32 billion increase in short-term indebtedness (from Lire 394 billion to Lire 426 billion);
  - ⇒ a Lire 117 billion increase in short-term financial receivables (from Lire 451 billion to Lire 568 billion).

CONSOLIDATED CASH FLOW ANALYSIS
(In millions of Lire)

	30.06.2001	31.12.2000	30.06.2000
A.- NET OPENING CASH AND CASH EQUIVALENTS - (NET OPENING SHORT - TERM INDEBTEDNESS)	56,570	656,549	656,549
B.- CASH FLOW FROM OPERATING ACTIVITIES			
Net loss for the period	(503,497)	(494,977)	(352,296)
Depreciation and amortisation	277,444	567,574	266,023
(Gains) Losses on disposal of fixed assets	(502)	(394,712)	(32,394)
(Revaluations) or writedowns of Fixed assets	4,582	7,615	367
Change in working capital	801,451	(143,188)	90,484
Net change in provision for employee severance pay	25,553	72,254	27,917
	0	0	
	605,031	(385,434)	101
C.- CASH FLOW FROM CAPITAL INVESTMENT ACTIVITIES			
Investments in fixed assets:			
.intangible	(38,135)	(79,967)	(33,930)
.tangible	(742,551)	(1,860,656)	(1,344,503)
.financial	(16,505)	(74,671)	(16,995)
Sales proceeds and reimbursements	8,584	1,112,644	67,582
(Increases) decreases in fixed assets caused by changes to consolidation area	(2,706)		
Other changes			
	(791,313)	(902,650)	(1,327,846)
D.- CASH FLOW FROM FINANCIAL ACTIVITIES			
.New loans	373,255	928,122	672,034
.Shareholders' contributions			
.Repayments from/to third parties		3	3
.Capital subsidies			
.Loan repayments	(101,992)	(169,131)	(103,691)
.Share capital repayments			
.Other changes to share capital			
.Other changes to loans	0	(70,877)	(70,877)
	271,263	688,117	497,469
E.- DISTRIBUTION OF PROFITS	(62)	(12)	(12)
F.- CASH FLOW FOR THE PERIOD	84,919	(599,979)	(830,288)
G.- NET CLOSING CASH AND CASH EQUIVALENTS - (NET CLOSING SHORT - TERM INDEBTEDNESS)	141,489	56,570	(173,739)

Analysis of Group's financial situation

During the first half of 2001, the Group, as in the first half of 2000, made significant capital investments totalling Lire 791 billion. These were covered by cash flow from operating activities (+ Lire 605 billion) and cash flow from financial activities (+ Lire 271 billion) for a total of Lire 876 billion.

As a result, the net cash generated by the Group amounted to Lire 85 billion with the result that the short-term net financial position improved from Lire 57 billion to Lire 142 billion.

More specifically:

- **cash flow from operating activities** of Lire 605 billion is the result of a Lire 801 billion decrease in working capital (for an analysis see the comments on the balance sheet structure) and the exclusion of non-operating items, essentially writedowns of fixed assets (Lire 5 billion) net of negative self-financing (loss for the period + amortisation/depreciation + change in provision for employee severance pay) of Lire 201 billion.

- **cash flow from capital investment activities** is negative to the extent of Lire 791 billion. This consists of investments of Lire 800 billion and proceeds of Lire 9 billion.

  The investments may be analysed as follows:

  ⇒ *investments in intangible fixed assets* of Lire 38 billion mainly in relation to the capitalisation of the cost of patents and intellectual property rights (Lire 6 billion essentially software related), improvements to aircraft leased from third parties (Lire 7 billion), improvements to agencies and offices and work on buildings and installations on government owned aircraft land (Lire 6 billion), the training of personnel (Lire 6 billion) and assets in progress (Lire 13 billion).

  ⇒ *Investments in tangible fixed assets* of Lire 743 billion which related to the fleet (Lire 491 billion), advance payments towards the fleet (Lire 204 billion), other systems and installations (Lire 9 billion), IT equipment, office furniture and equipment (Lire 16 billion), equipment and motor vehicles (Lire 7 billion), industrial buildings (Lire 1 billion) and fixed assets under construction (Lire 15 billion).
  The investments regarding the fleet included the purchase of five A-320 and two Embraer aircraft and the final lease instalment on a B-747 for a total of Lire 403 billion plus replacement stock and an engine for Lire 37 billion and modifications to/overhauls of aircraft owned by the company for Lire 51 billion.
  Advance payments towards the fleet were paid in respect of orders and options for B-777 and A-319 aircraft and include financial charges capitalised in relation to these advance payments.

⇒ Investments in financial fixed assets of Lire 16 billion mainly regarding the revaluation of foreign currency investments in accordance with Italian Accounting Standard no 26 (Lire 8 billion), guarantee deposits (Lire 5 billion) and the reclassification of the receivable generated by the sale of land in Magliana (Lire 3 billion);

⇒ Consolidation differences of Lire 3 billion arose in respect of changes in the percentage investments held by the sub-holding company Racom in Sigma (from 92% to 100%) and by Alitalia in Atitech (from 100% to 99%).

The disposal proceeds of Lire 9 billion mainly relate to the sale of sundry aeronautics materials (Lire 1 billion) and reclassifications from fixed assets to "technical inventory" and "other receivables" (Lire 6 billion).

- **Cash flow from financial activities** amounts to Lire 271 billion. It represents the difference between new medium/long-term loans of Lire 373 billion and loan repayments of Lire 102 billion made during the period.

At 30 June 2001, the Alitalia Group had net closing cash and cash equivalents of Lire 142 billion compared to Lire 57 billion at 31 December 2000.

Other significant events in the first half of the year

- Details of other significant events that have taken place in the first half of 2001 are set out below.

  - On 9 February 2001, following Domenico Cempella's resignation as Managing Director, the Board of Directors appointed Francesco Mengozzi as a Managing Director of the company and co-opted him onto the Board.
    The appointment of Francesco Mengozzi as a Director and Managing Director was confirmed by a Shareholders' General Meeting and a Board of Directors' Meeting on 23 May 2001.

  - On 28 March 2001 resigned the Alitalia's General Manager.

  - The Board of Directors recognised the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A. (hereafter "the Code") as a model to be referred to in implementing its own system of corporate governance. In fact, the company had already adopted many of the principles and created the organs mentioned in the Code. It has adopted its own Corporate Governance Code and some of the main provisions are listed below:
    - The composition of the Executive Committee was brought into line with the requirements for the Board of Directors with the presence of a member representing minority shareholders;
    - The creation of three consultative committees, reporting to the Board of Directors and including Directors representing the minority shareholders: Strategy Committee, Committee for Internal Control and Corporate Governance and a Committee for Directors' remuneration and for the Long-term Bonus Scheme.

    On 2 April 2000, the Board of Directors:
    - appointed the Director Augusto Angioletti to the Executive Committee;
    - created the three consultative committees mentioned above.

- With regard to the termination of its alliance with KLM, on 4 May 2000, Alitalia deposited its "Statement of Claim". The company reiterated its claim for damages, limited – at this stage – to the emerging damage, for an amount sufficient to lead to the application of the contractual penalty of Euro 250 million. For further information about the content of the "Statement of Claim" and of the "Statement of Defence and Counterclaim" deposited by KLM on 4 August 2001, reference should be made to the section "The termination of the Alitalia – KLM alliance".

- 18 June 2001 saw the ending of restrictions regarding the transfer between living persons of Alitalia shares offered to group employees in terms of the resolution of the Extraordinary Shareholders' Meeting of 15 January 1998.

- Alitalia took the following action place during the first half of 2001 with regard to its investment portfolio:

  - It subscribed its share of the USD 6 million rights issue performed by Belac LLC.

  - It sold 50,000 shares held in ATITECH S.p.A. (1 % of share capital) to Sviluppo Italia S.p.A. At the same time, it signed an agreement to buy back the same shares. This operation forms part of the initiative undertaken by the subsidiary in Grottaglie (TA) to make a series of investments in order to construct an aircraft maintenance and overhaul centre. This initiative will be undertaken temporarily by Sviluppo Italia;

  - It sold its 1% investment in CO.FI.RI. Compagnia Finanziamenti e Rifinanziamenti S.p.A. to Istituto per la Ricostruzione Industriale (IRI) S.p.A. (in liquidation). This investment had been acquired during 2000;

  - It sold 42,000 shares in Emittenti Titoli S.p.A. (a company set up to promote the development of the stock market on behalf of Italian companies with shares listed on regulated markets) to Finmeccanica S.p.A.. It continues to hold 100,000 shares in the company, representing a 1.22% interest;

  The following information regards changes to the investments held by subsidiary companies:

  - Racom Teledata S.p.A., a 100% subsidiary of Alitalia, acquired from Tirrenia di Navigazione S.p.A. an 8% interest in SIGMA Società Italiana Gestione Sistema Multi Accesso thus becoming the 100% owner of the latter company.

  - Sigma S.p.A. acquired a 5% stake in Hachette Rusconi Net Service S.p.A.. The objectives of this company include the preparation and supply of commercial communications and advertising services, digital publications, information in general and entertainment programmes for the public by means of data transmission, audio—visual materials and other data for telecommunications systems e.g. the management of information on communications networks such as the Internet.

Significant events subsequent to the six month period

- On 9 July 2001, Alitalia signed two separate Letters of Intent with Air France and Delta Airlines.
  Contractual agreements were later signed on 27 July 2001. Among other things, these approve Alitalia's entry into Skyteam.

  The agreement between Air France and Alitalia commits the parties to the development of a multi-hub system based on Paris Charles De Gaulle, Milan Malpensa and Rome Fiumicino airports.
  The agreement also provides for global code sharing, where permitted, the creation of an integrated frequent flyer, bringing products and services into line and the creation of a common policy towards partners.

  The objective with regard to operations between France and Italy is to operate a full joint venture (with effect from 1 April 2002) while guaranteeing an increase in capacity in order to reach gradually a well balanced level).
  From the first year of operations, both parties will share total Operating Profit on the basis of their respective contributions in 2000 (60% Air France and 40% Alitalia). This split will gradually become more balanced before reaching 50% each in year three.
  The other business areas (Cargo, IT, Maintenance, Handling etc.) will be revalued further in order to identify all possible opportunities.

  The agreement between Alitalia and Delta Air Lines is a commercial one based on routes between Italy and the United States and includes code sharing, the integration of each airline's frequent flyer program and joint promotional activities.

- On 11 July 2001, the Competition and Market Authority (AGCM) issued its findings in relation to proceedings regarding the relationship between Alitalia and travel agencies. It declared certain incentive schemes run by Alitalia to be illegal and imposed an administrative fine of around Lire 52 billion while ordering the company to cease such practices immediately. Alitalia believes that it has not operated improperly and has taken action via the proper legal avenues.

  Two further sets of proceedings commenced by the AGCM are still underway. The first relates to Alitalia's alleged abuse of its dominant position by applying fares deemed to be too high on flights between Milan and Lamezia Terme airports. The second relates to alleged restrictive practices on the domestic Italian passenger air transport market in relation to the introduction of a "fuel surcharge" to be added to ticket prices and considered to be the result of an unfair agreement between the various companies operating on the market.

Alitalia believes that it has acted properly but has, prudently, made an accrual to the provision for liabilities and charges in respect of a possible negative outcome to these proceedings.

- On 18 July 2001, the European Commission issued a new decision in relation to the recapitalisation operation foreseen in the Business Plan 1996-2000.

  It should be recalled that Alitalia had appealed against the European Commission's decision of 15 July 1997 which defined the recapitalisation operation as "State Assistance compatible with the rules of the common market ".

  On 12 December 2000, the Tribunal of First Instance of the European Commission upheld the most significant arguments put forward by Alitalia against the July 1997 decision. In particular, the Tribunal highlighted the mistaken application of the "private investor in a market economy principle". It overturned the earlier decision and the conditions that had been imposed.

  Through the new decision, the Commission corrected the inaccuracies present in the 1997 decision – considered "clear errors" by the Tribunal. However, it confirmed the "State Assistance" definition in respect of the recapitalisation operation.

- The following information relates to movements on the investment portfolio since the end of the six month period:

  - On 9 July 2001, the parent company Alitalia subscribed its portion (10.05%) of the increase in share capital from Lire 16 billion to Lire 75 billion by SASA Assicurazioni Riassicurazioni S.p.A. Agreements were reached with the majority shareholder (SAI) with regard to the conditions for put option to dispose of the shares subscribed.

  - On 2 August 2001, approval was given for the merger of Sigma Travel System S.p.A. into Sigma S.p.A.
    Sigma Travel System was founded in 1989 to meet the requirements of Galileo International to allow only companies controlled by the participating airlines to distribute Galileo products domestically. At the time, the shares in Sigma were owned by Alitalia together with Ferrovie dello Stato and Finmare (now Tirrenia) and it could not be party to a distribution agreement with Galileo. Now, of course, the Alitalia Group wholly owns Sigma S.p.A. and the reasons for which Sigma Travel System was founded are no longer valid.

  - On 2 August 2001, Sigma On Line Srl was founded with share capital of Euro/000 2,580. It is owned 95% by Sigma S.p.A. and 5% by Racom Teledata S.p.A. Sigma On Line has been created as part of the initiative which aims to develop a tourism Internet portal. The objectives include the creation and operation of Internet initiatives in the travel, tourism, e-commerce, transport and leisure time sectors as well as all related activities.

The new company has been created in order to exploit the possibilities offered by the new Internet sales channel and to counter the risks that this distribution method could involve for Sigma's existing business.

Business outlook

As stated in the previous sections, the first half of 2001 has shown some signs of a moderate recovery despite accentuating macroeconomic and market related problems. Within the Group itself, problems have included repeated episodes of trade union conflict which have had a noticeable impact on operations and turnover.

On the whole, the situation envisaged in our comments on operations in the first quarter of the year is confirmed. There is likely to be a slight improvement in the operating result for 2001 compared to 2000 although the aforementioned problems will tend to limit the extent of the improvement.

The second half of the year should see a significant improvement in gross operating margin which will become positive once more as a result of the benefits of the measures taken by the Group. These measures include, in particular, the fare increases that have been introduced and the restructuring of the intercontinental network which saw the discontinuation of flights to South Africa in April, a reduction in the number of flights for the North Atlantic and an increase in more profitable routes (Central-Atlantic, India). Cost savings are also expected with effect from April from the reacquisition of activities previously operated by our partner Continental (flights for Newark) and, above all, thanks to more favourable fuel prices. It should be recalled that fuel prices soared in the second half of 2000 and significant savings are expected in the second half of 2001 with many of them assured by specific hedging operations.

The operating result is also likely to improve although it will be somewhat affected by the smaller contribution from sundry income and charges (net) than in the same period in 2000. In the second half of 2000, there were significant gains on the disposal of aircraft and certain excess provisions were released to the profit and loss statement.
The operating improvement should largely be offset by the higher incidence of financial charges and taxation. In 2000, these were limited thanks to a lower level of debt and the presence of certain forms of income that are not foreseeable this year (exchange gains and tax credits regarding dividends paid from retained earnings).

It is likely that the operating result for the second half of the year will be better than that for 2000 as a whole. It should be noted that the more detailed analysis set out above shows that operating margins will be positive and on the rise. This is reflected in the aforementioned gross operating margin performance.
Quite different considerations must be made in relation to extraordinary activities which represent a significant factor in the air transport sector towards the overall profit target. This is because there is scope for action in terms of fixed assets – especially the fleet and real estate – which has a significant impact on the profit and loss statement and in terms of return on

capital employed. This is a tool which airline companies always pay great attention to.
No significant contribution is expected for 2001 (not even of an amount similar to that for 2000 (+ Lire 66 billion) – also because it would be hard to conclude some the operations being examined by the end of the year.
However, the extraordinary charges already included in the results for the first half of the year (-Lire 81 billion), mainly in relation to the proceedings before the Competition and Market authority, could be confirmed. The consequences will have to be considered and could lead to the restructuring measures identified in the new Business Plan.

The fleet

At 30 June 2001, the Alitalia Group had an operating fleet of 174 aircraft with an average age of 9.1 years.

Apart from the 3 all-cargo B-747 aircraft which are operated directly by Alitalia, all of the aircraft used for scheduled flights are operated by the subsidiaries Alitalia Team and Alitalia Express (in the transitional phase Eurofly operates two B-767). The aircraft are used on Alitalia flights under “wet” lease contracts (aircraft, crew, maintenance and insurance). The aircraft used for the charter sector are operated by the subsidiary Eurofly.

The fleet has increased by 8 aircraft since 31 December 2000. However, this is a temporary situation as it has been caused by the introduction of 5 A-320 aircraft, destined to replace the same number of MD-83s (one MD-83 had already been decommissioned at 30 June 2001) and by the temporary return to service of two ATR-42s. Setting these factors aside, the increase is limited to 2 ERJ-145 aircraft only.

The Group owns 68% of the aircraft in its fleet.

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

Allocation

Type	Alitalia	Alitalia Team	Alitalia Express	Eurofly	Total at 30.06.2001	Total at 31.12.2000	Diff
B-747	3	7	-	-	10	10	**-**
MD-11	-	8	-	-	8	8	**-**
B-767	-	9	-	3[3]	12	12	**-**
A-321	-	23	-	-	23	23	**-**
A-320	-	6	-	5	11	6	**+5**
MD-80	-	89	-	4	93	94	**-1**
ATR-42	-	-	2	-	2	-	**+2**
ATR-72	-	-	7	-	7	7	**-**
ERJ-145			8	-	8	6	**+2**
Total	**3**	**142**	**17**	**12**	**174**	**166**	**+8**

[3] Including two aircraft used, in the latter part of the first half of the year, by Alitalia on long-haul routes under wet lease agreements (aircraft, crew, maintenance and insurance)

Fleet	Ownership	30/06/2001	31/12/2000	Diff	30/06/2000	Note
B-747 All Pax	Owned Alitalia	7	6	+1	6	(**)
	Finance Lease Alitalia	0	1	-1	2	(**)
B-747 All Cargo	Owned Alitalia	1	1	-	1	
	Finance Lease Alitalia	1	1	-	1	
	Hired by Alitalia	1	1	-	1	
MD-11	Owned Alitalia	6	6	-	6	(**)
	Finance Lease Alitalia	2	2	-	2	(**)
B-767	Owned Alitalia	2	2	-	2	(**)
	Finance Lease Alitalia	9	9	-	9	(***)
	Owned Alitalia Team	1	1	-	1	
A-321	Owned Alitalia	15	15	-	16	(**)
	Finance Lease Alitalia	8	8	-	7	(**)
A-320	Owned Alitalia	9	4	+5	4	(****)
	Finance Lease Alitalia	1	1	-	1	(**)
	Finance Lease Alitalia Team	1	1	-	1	
MD-80	Owned Alitalia	65	65	-	85	(**)
	Finance Lease Alitalia	1	1	-	1	(**)
	Finance Lease Alitalia	22	22	-	2	(**)
	Owned Alitalia Team	1	1	-	1	
	Finance Lease Eurofly	4	5	-1	5	
ATR 42	Owned Alitalia Express	2	-	+2	5	
ATR 72	Owned Alitalia Express	1	1	-	1	
	Finance Lease Alitalia Express	6	6	-	6	
ERJ-145	Owned Alitalia	8	6	+2	1	(*****)
	OPERATING FLEET	**174**	**166**	**+8**	**167**	

(*) Lease with purchase option
(**) Aircraft include in business segment leased to Alitalia Team
(***) Six aircraft include in business segment and three sub-let to Eurofly
(****) Four aircraft included in business segment and five leased to Eurofly
(*****) Leased to Alitalia Express

At 30 June 2001 the operating fleet also included the following aircraft:

- 4 ATR-42 owned by Alitalia Express but not used in operations;
- 3 training aircraft owned by Alitalia.

Personnel

During the first six months of 2001 the average number of Group employees was 22,405, with an increase of 2,490 employees from the same period in 2000.

The change can be analysed by category as follows:

First six months of:	**2000**	**2000**	**Diff.**
Executives	203	195	8
Managers and clerks	10,199	9,463	736
Labourers	4,626	3,248	1,378
Pilots and flight engineers	2,468	2,368	100
Flight attendants	4,909	4,641	268
	22,405	**19,915**	**2,490**

The increase of 2,490 employees compared to the first half of 2000 includes 1,531 employees taken on following the absorption of activities provided by Aeroporti di Roma in the first half of 2000. The remainder of the increase relates to:

- ground staff (+ 591 employees) mainly as a need of reorganisation needed in the commercial and airport sectors following the termination of the alliance with KLM and to the expansion of maintenance activities for third parties;
- flight staff (+ 368 employees) – lower productivity resulting from the unification contract for Alitalia and Alitalia Team flight attendants and the fact that personnel levels remained constant despite a reduction in the volume of business.

The Group workforce at 30 June 2001 included 24,023 employees compared to 23,478 employees at 31 December 2000, an increase of 545 employees including 290 flight and cabin crew and 255 ground staff. The increase in flight staff is due to the seasonal nature of the air transport business and the use of temporary staff (+278 employees) to cope with the peak summer period. 50% of the increase in ground staff may be put down to airport activities in Italy and abroad while the remainder relates to other operational and corporate sectors.

Operation of air transport

In the first six months of 2001 the total routes flown were 99.1% of those that had been planned, with a 0.2 percentage point improvement in the regularity index by 0.7 points compared to 30 June 2000. This was in line with target (99.2%).

Departures on time (within 15 minutes of schedule) increased – across all sectors – by 4.4 percentage points compared to the first six months of 2000 to stand at 80.9% (76.5% in the prior period). In particular, the punctuality index recorded a 6.2 percentage point improvement at the Rome Fiumicino hub but a more contained improvement at Milan Malpensa (+0.7 percentage points).

It should also be noted that the average fleet available for use on scheduled services in 2001 was 155 aircraft. This is four aircraft more than in 2000. Information about the type of aircraft used and changes in the fleet can be found in the above section on the fleet.

AIR TRANSPORT ACTIVITIES OF THE ALITALIA GROUP

	1st half of year						
	1999	2000	2001	% chg 01/99		% chg 01/00	
PASSENGERS							
Passengers carried (000)	11,318	12,536	12,565	11.0		0.2	
Available seats- Km (000)	26,227,156	27,883,505	26,436,596	8.0		-5.2	
Revenue passenger-kilometres (000s)	16,805,201	19,558,232	18,952,869	12.8		-3.1	
Available tonnes -Km (000)	2,596,488	2,760,467	2,617,223	8.0		-5.2	
Revenue tonne-kilometres (000s)	1,663,715	1,936,265	1,876,334	12.8		-3.1	
Passenger load factor (%)	64.1	70.1	71.7	7.6	p.p.	1.5	p.p.
PASSENGER SERVICE (franchising included))							
Passengers carried (000)	11,854	13,104	12,750	7.6		-2.7	
Available seats- Km (000)	26,795,414	28,422,424	26,638,788	-5.8		-6.3	
Revenue passenger-kilometres (000s)	17,080,899	19,919,626	19,085,172	11.7		-4.2	
Available tonnes -Km (000)	2,652,746	2,813,820	2,637,240	-5.8		-6.3	
Revenue tonne-kilometres (000s)	1,691,009	1,972,043	1,889,432	11.7		-4.2	
Passenger load factor (%)	63.7	70.1	71.6	7.9	p.p.	1.6	p.p.
CARGO AND MAIL SERVICE							
Goods and mail carried (Kg 000s)	121,452	133,809	126,834	4.4		-5.2	
Available tonne-kilometres (000s)	1,152,801	1,241,081	1,196,053	3.7		-3.6	
Revenue tonne-kilometres (000s)	770,601	879,214	824,310	7.0		-6.2	
Cargo load factor (%)	66.8	70.8	68.9	2.1	p.p.	-1.9	p.p.
TOTAL SCHEDULED SERVICE S*(1)*							
Available tonne-kilometres (000s)	3,749,289	4,001,548	3,813,276	1.7		-4.7	
Revenue tonne-kilometres (000s)	2,434,316	2,815,479	2,700,644	3.7		-4.1	
Overall load factor (%)	64.9	70.4	70.8	7.0	p.p.	0.4	p.p.
TOTAL SCHEDULED SERVICE (franchising included) *(1)*							
Available tonne-kilometres (000s)	3,805,547	4,054,901	3,833,293	0.1		-5.5	
Revenue tonne-kilometres (000s)	2,461,610	2,851,257	2,713,742	10.2		-4.8	
Overall load factor (%)	64.7	70.3	70.8	6.1	p.p.	0.5	p.p.
Hours flown by owned aircraft (000s)	243	256	258	6.1		0.01	
Hours flown by leased aircraft (000s)	71	60	66	-7.0		0.1	
Hours flown overall (000s)	314	326	324	3.1		0.01	
CHARTER SERVICES							
Hours flown (000)	13	15	10	-23,1		-33,3	

(1) including combined scheduled flights and all cargo flights;

Passengers traffic The table below summarises the changes, from the first six months of 2000, in the passenger traffic figures by network sector. It should be noted that, during the first half of 2001, the commercial agreements with Azzurra Air and Minerva Airlines were transformed from franchise agreements to wet lease agreements[4]. This led to a different treatment of activities already commercially acquired by Alitalia. In order to make a comparison possible, the changes shown do not take account of the effects of the transformation of these agreements.

	Available (ATK)	***Carried (RTK)***	***Load factor***	***Income from Passengers***
Domestic	-0.8%	-5.6%	-3.3 points	+10.4%
International	+2.7%	+4.5%	+1.1 points	+0.6%
Intercontinental	-13%	-7.6 %	+4.6 points	+4.9%
Total network	**-6.3%**	**-4.2%**	**+1.6 points**	**+4.9%**

During the first half of the year, the total number of seats available on the entire Alitalia network decreased by 6.3%, falling back to 1999 levels. This was essentially due to the scaling down of the intercontinental network. There was a smaller decline in the number of passengers carried (-4.2%).

As a result, the load factor improved (+1.6 percentage points) to 71.7% compared to 70.1% in the first half of 2000.

The yield from domestic and intercontinental sectors was broadly in line with expectations of growth induced by the need to increase fares in order to recover the effects of fuel price increases and the strengthening of the Dollar. However, the yield of the international sector was not at all satisfactory. It not only failed to recover rising costs but actually fell slightly compared to the first half of 2000.

As a result of the above, overall revenues increased by 4.9% (7.4% if the effects of the transformation of franchise agreements into wet leases are considered).

The situation is analysed in more detail below:

Domestic flights The most significant phenomenon seen in the first half of 2001 was the increase in operations by airlines in and out of Milan Linate airport and the corresponding decrease in Milan Malpensa operations following the changes made to the Milan air transport system.

[4] 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%.

Over the period, the total seating capacity offered by the industry as a whole increased by 3.5% while there was a slight fall in passengers carried (-0.3%). The fall in passengers carried was due to the inevitable and constant rises in the cost of air transport services because of rising costs – an addition to fuel prices and the strong Dollar, these included landing and take-off rights – and the generally difficult economic conditions.

The Alitalia Group has adopted a policy that aims to increase income from each passenger by means of more careful selection in allocating spaces, less use of promotional campaigns and the final implementation of fuel surcharges which have been gradually introduced in order to counter the erosion of profit margins caused by fuel price increases. This has led to a significant rise in turnover (+10.4%) despite a fall in volumes of air traffic (-5.6%) and a drop in the load factor (from 67.7% in the first half of 2000 to 64.4% in the first half of 2001).

On the operational front, we highlight the introduction of extra flights between Rome Fiumicino and Milan Linate (4 extra flights per day in the first quarter of 2001 and another extra flight since April) as well as the introduction, with the aim of optimising service at peak periods, of Airbus A-321 aircraft which have a higher capacity and are very popular with business travellers thanks to their high level of comfort. The company has also improved its hub-to-hub service between Fiumicino and Milan Malpensa by increasing the daily number of flights to 12 in the first quarter and 11 since April. Since the introduction of the new air traffic regulations for Milan's airports, the Group has increased its services in and out of Linate, introducing more flights for central and Southern Italy. These flights were formerly operated from Malpensa but, together with its competitors, the company has transferred them to Linate.

The company has also improved its services between Rome and Southern Italy (and Genoa) particularly through the use of larger aircraft while there have been slight reductions involving Naples and Turin services.

Even following the transformation of agreements with Azzurra Air and Minerva Airlines from franchises to wet leases, these companies continue to concentrate on providing feeder services to Malpensa.

International flights

The increase in available capacity (+2.7%) was more than matched by the rise in the number of passengers transported (+4.5%) leading to a 1.1 percentage point increase in the load factor.

The increase in the volume of traffic helped counter the erosion of yield (-3.7%) which felt the effects of an increase in connecting flights from the Malpensa hub; these are run at lower fares than local flights and are subject to fierce price competition.

The following may be noted with regard to the various individual sectors:

Europe – European Union countries represent more than 90% of this sector. Seats available fell by 4% but their was a 2% increase in traffic leading to a 3.7 percentage point increase in load factor. Yield, however, fell by 3.5% because of a rise in connecting traffic and price pressure on some of the most competitive markets. As a result, income fell by 1.6% compared to the first half of 2000.
Looking at some individual routes we can see that:

- the increase in passengers carried exceeded the rise in available seats for France;
- the load factor was excellent on flights for the UK and Northern Europe despite the presence of a great deal of competition;
- there was a slight fall in volumes for Spain because of particularly aggressive competition.

In Eastern Europe, the 25.7% increase in seats available reflects the higher number of flights to Albania, Croatia and Bulgaria. This has led to an excellent rise in income (+ 31.8%) because of an increase in passengers carried (+22.1%) and a significant rise in yield (+8.0%) thanks to the expansion of the business market.

North Africa – Instability in this area affected traffic for Egypt and meant that the increase in passengers carried (+7.1%) was much lower than the rise in seats available (+13.3%). This, together with a significant slump in yield (-7.8%), mainly due to the devaluation of the Libyan currency, meant a drop in income (-1.2%) which was disappointing considering the investments that have been made.

Middle East – The return of political instability to this area meant that the level of traffic was very low in comparison with the significant investments that have been made. In fact, while seats available increased by 28.5%, the increase in traffic was only 9%, meaning an 11.7 percentage point fall in load factor. This meant a slight increase in turnover (+4.5%) which was also affected by a drop in yield.

Intercontinental flights

There has been a significant reduction in the number of seats available (-13%) following the termination of flights for Sydney (and the stopover destination of Singapore), Bangkok, Kuala Lumpur, Addis Abeba and Nairobi, routes that were making heavy losses. Meanwhile, seats available on flights to Central America and India have been increased.

The rationalisation of the network has led to a significant improvement in the load factor (+4.6 percentage points) which now stands at 79% compared to 74.4% in the first half of 2000 and, above all, to a marked increase in yield (+13.5%) which has benefited from the discontinuation of routes with a low

return per passenger as well as the positive exchange rate effects and general fare increases.
As a result, intercontinental turnover for the first half of the year increased by 4.9% notwithstanding a 7.6% in passengers traffic.

The individual sectors of the market are examined in more detail below:

North America – This sector has recorded significant increases in load factor (+3.1 percentage points) and yield (+11.6%) which have led to an increase in turnover of about 14% (5% of which due to exchange fluctuations). This has been possible despite a slight reduction in the number of seats available (-2%).

This result has been achieved on the back of a general requirement, felt throughout the industry, to improve profitability. This has resulted in fare increases and a reduction in the number of seats available on the part of US airlines. At the same time, Alitalia has revised its own timetable and services.

The changes made by Alitalia have included the replacement of B-747 aircraft with MD-11, the launch of a service for Newark operated by Alitalia directly instead of under an agreement with Continental, improved services for Miami – both daily and during the summer – and Los Angeles and an end to the MXP/FCO co-terminal arrangement.

There has been an encouraging increase in business traffic (+3%) while the cabin factor has increased by 5 percentage points (from 57% to 62%).

Central America – This sector has recorded positive results across the board. As stated, the number of seats available has increased by 5.7% following the introduction of a sixth weekly flight between Malpensa and Caracas and the replacement of a Eurofly B-767 with a larger Alitalia B-767.

These factors plus the exit from the market of Venezuelan airline Avensa have enabled Alitalia to improve its performance with passengers carried rising by 11.8%. This, together with a recovery of yield (+ 7.6%), has led to a significant 20.3% increase in turnover (5% of which due to exchange rate fluctuations).

South America – The number of seats available has remained broadly unchanged (-0.7%)but has been redistributed between Fiumicino and Malpensa. There has been a modest increase in the number of passengers carried (+1.3%) with a marginal impact on load factor (+1.6 percentage points) which stands at 80% compared to 78.3% in the first half of 2000.

Total income increased more significantly (+9.7%) especially as a result of the increase in yield (+8.3%), around two thirds of which is due to positive exchange rate fluctuations. All the same, this increase did not match cost increases.

Far East* – *Oceania – This sector has undergone a radical rationalisation program which has seen increased flights for Japan, following the coming into force of code sharing agreements with JAL, and India, with the number of flights for Bombay being doubled from 3 to 6. However, flights that have traditionally produced a low yield for Australia and Thailand have been discontinued as they were not economically sustainable. These destinations remain on the company's flight catalogue thanks to its code sharing agreement with Qantas. Services to Seoul are now offered once more thanks to a code sharing agreement with Korean Air.

The restructuring of this sector has led to a major improvement in yield and load factor. As a result, turnover has remained largely unchanged (-2.7%) while the number of passengers carried has been drastically reduced (-30.2%). This has had a positive impact on the sector's profitability.

Africa (long haul) – This sector saw a marked reduction in seats available (-53%) largely in relation to the cancellation of flights for Nairobi and Addis Abeba. Passengers carried have also decreased (-42.5%) as has turnover (-38.8%).

Cargo traffic

During the first half of 2001, the slowing down of world economic growth led to a decline in worldwide cargo traffic of 3.3% (source IATA).

However, the amount of cargo carried by European airlines belonging to AEA increased very slightly (+0.5%).

Against this rather unfavourable background, Alitalia concentrated its activities on the more strategic sectors, investing a lot on the Far East (+9%) and maintaining cargo capacity for the USA. This followed the termination of flights for Oceania, East and Southern Africa. In both the Far East and the USA, the results were poorer than expected with load factor decreasing and turnover remaining largely unchanged.

Overall, available cargo capacity was reduced by 3.6%, cargo carried fell by 6.6% and the load factor went down from 69.9% to 67.7%.

Turnover fell in line with the decrease in cargo carried, by 6.1%.

Mail traffic

Mail traffic continued the favourable trend seen last year and recorded positive increases. This trend was seen in relation to both overnight postal services which increased by 6.1% and on the smaller market regarding mail carried on scheduled flights where turnover increased by around 20%.

Night mail flights became more efficient with 97.5% of services arriving on time (86% in the first half of 2000) and the quality of service (delivery within 30 minutes) improving from 93.9% in the first half of 2000 to 97.5%.

With regard to mail carried on scheduled flights, there was a strengthening of commercial relations with the Italian Postal Service while new business was won from the Military Postal Service to and from the United States using the code sharing agreement with Northwest.

Charter traffic

In the first half of 2001, figures regarding charter traffic in Italy showed a decline of the number of long-haul flights on offer with a partial absorption of the excess capacity offered up until the previous year.

Capacity on medium range flights remained stable and, on the whole, in line with demand. However, it should be noted that there was a notable reduction in chartered flights for Israel and Egypt in particular as a result of the deterioration of the political situation in the Middle East.

While the Group saw its charter business contract slightly and its turnover fall, it felt the benefits of the operational reorganisation of Eurofly which involved the following:

- wet lease (formula ACMI) of 2 B767 aircraft to Alitalia for use, on a temporary basis, in operating long haul flights;
- the use of just one B767 for long haul charter flights;
- the launch of connecting flights out of Milan Linate. These were operated using aircraft under wet leases from Alitalia Team.

This led to a significant improvement in the company’s results.

Italian and EU regulatory framework

The main changes that took place during the first six months of 2001 with regard to the regulatory background are described below together with the latest developments regarding certain matters highlighted in previous reports.

- With regard to the allocation of traffic within the Milan airport system, it should be recalled that on 14 December 1999 the transfer of flights from Linate to Malpensa was blocked following a decision by the Minister for the Environment. On 3 March 2000, following the adoption of measures aiming to reduce environmental problems, the Minister of Transport issued a new order for the allocation of air traffic between Linate and Malpensa. This order aims to achieve two objectives, a greater use of Linate, on the one hand, and the appropriate development of the Malpensa hub, on the other.

  The new order established that EU airlines could operate point to point scheduled flights, using narrow body aircraft, between Linate and other EU airports identified based on passenger numbers in 1999. This would mean that Linate could continue to have flights to and from European capital cities and cities in Southern Italy while maintaining a high number of flights between Rome and Milan.

  Further to a new appeal by several European airlines against the Bersani Decree, the EU Commission appointed a consulting firm to check Malpensa airport's capacity to take on the new traffic coming from the transfer of flights. This was to be considered, especially, in connection with new take-off and landing procedures required by the Minister for the Environment to control the environmental impact on the are around the airport. The Minister of Transport, however, ordered that the transfer should take place as from 20 April 2000, also pending the report of the consulting firm. The consultants issued their report in September 2000 and stated that the future development of Malpensa would be limited if the following action was not taken:

  - 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 Report and the Commission's negative opinion regarding the decree's compliance with EU regulations, several changes were proposed to the Transport Ministry and approved by it, 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.

With the changes introduced in line with the decision of the European Commission of 21 December 2000, the new decree issued by the Transport Ministry on 5 January 2001 – fully operational from 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.

- 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 remembered 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 as considering 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 European Commission will appoint a consultancy firm to perform a study of the potential economic benefits that could arise as a result of the TCAA. The US Departments of State and Transport have already stated that they are fully willing to provide help and assistance in preparing the aforementioned study and report.

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 2000, 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. It should also be noted that Alitalia Airport was recently (30 July 2001) appointed as one of two airport services suppliers enabled to provide assistance to third party airlines with luggage, cargo and mail operations; this appointed came following a tender process started by Aeroporto di Fiumicino.

Inter-governmental agreements

Three new inter-governmental agreements were signed in the first half of 2001 with Oman, Qatar and Yemen. Talks with Japan, Israel, Libya and Malta are scheduled to be held before the end of the year.

Inter-company alliances and agreements

Alitalia understands the developments that have taken place internationally and is convinced of the importance of belonging to a worldwide group. It has concentrated on forming a long-term strategic alliance.

The aim of the analysis and evaluations performed in 2001 was to identify other airlines of the right size with compatible business strategies, managerial culture and industrial prospects who could guarantee significant growth opportunities and a stronger position on the international scene.

On July 2001, little more than a year after the termination of the alliance with Dutch airline KLM, Alitalia signed two Statements of Intent with Air France and Delta Airlines. These preliminary agreements were followed by contracts signed on 27 July 2001. One of the effects of these contracts is to approve Alitalia's entry into Skyteam.

Information about the contracts is provided under "Significant events subsequent to the six month period ".

In addition to the negotiations regarding the alliance, contact also continued with regard to partnerships for specific sectors.

In Europe, existing code-sharing agreements with several local airlines (Croatia, Cyprus Airways, Lot, Malev and Tarom) have been reviewed. The agreement with Air Europa for domestic routes in Spain has been renewed and the terms for the partnership's extension to flights between Italy and Spain are being finalised. A new agreement has been reached with Braathens in respect of flights between Malpensa and Oslo. The beginning of the summer season saw the end of the agreement with Eurowings and the agreement with Balkan Airlines was suspended.

In the domestic market, the co-operation agreements with Meridiana, Azzurra and Minerva have been revised. The relationship with the last two of these has been transformed from a franchise agreement into a wet-lease.

With regard to the Far East, full code-sharing with JAL is in place on all flights between Italy and Japan and agreements with Korean Air have been confirmed.

The summer season saw the start of a co-operation agreement with Qantas as regards services between Italy and Australia.

For South America, a code-sharing agreement with Varig for Italy-Brazil routes was introduced from winter 2001 while the code sharing agreement with Aerolineas Argentinas has been cancelled due to problems encountered by the Argentine airline.

Co-operation agreements with Northwest and Air Canada were renewed for the North Atlantic market.

The termination of the Alitalia – KLM Alliance

It should be recalled that, on 1 August 2000, Alitalia started arbitration proceedings against KLM with *Nederlands Arbitrage Instituut* in order to asset the illegal nature of KLM's decision to terminate the alliance between the two airlines by means of a letter dated 28 April 2000. It also sought to have this conduct deemed a serious breach of the *Master Co-operation Agreement* and to have KLM condemned to pay the contractual penalty – Euro 250 million – as compensation for damages subject to considering the legal basis for a further damages claim. On 8 September 2000, KLM lodged its summary response with *Nederlands Arbitrage Instituut*. It called for the rejection of Alitalia's requests and for the refund of a Euro 100 million contribution paid by KLM in December 1999 in respect of costs incurred by Alitalia in developing the Malpensa hub.

In accordance with the order issued by the Board of Arbitration – which had by now been formed - on 7 December 2000 (as amended on 8 January 2001), in February 2001 there was a period of investigation which led to the issue of an order by the Board of Arbitration that both parties followed by exchanging internal documents considered relevant for the purposes of the proceedings.

In line with the timetable laid down in the aforementioned order of 7 December 2000 (as amended on 8 January 2001), Alitalia proceeded to file its "Statement of Claim", with numerous attachments, by the 4 May 2001 deadline (extended by the Board of Arbitration from that fixed in the order of 7 December 2000).

In the Statement of Claim, Alitalia argued its position in much more detail in relation to the various matters disputed by the parties. In particular, it stated the following in relation to the reasons for the termination of the alliance cited by KLM:

a) with regard to Malpensa – in April 2000, the air traffic allocation introduced by the Bersani Decree of 3 March 2000 for Linate and Malpensa Airports was not in line with that foreseen in the Burlando Decree of 5 July 1996 but was not, and was unlikely to become, such as to significantly prejudice the development and competitiveness of the Malpensa hub;
b) with regard to the failure to arrive at the signature of an agreement between Alitalia, KLM and Northwest Airlines – this was mainly due to problems that arose during negotiations between KLM and Northwest Airlines and these problems could easily have been overcome if KLM had wanted to overcome them;
c) the parties had reached an agreement on the legal and tax status of the Alliance – in fact the opinion of the authorities in the respective countries had been sought as to the

procedures contained in the Double Taxation Treaty between Italy and the Netherlands;

d) Even assuming that one or more of the reasons for termination cited by KLM on 1 April 2000 had occurred, KLM had still acted illegally given that it had not adhered to the general requirement to act in good faith and, in particular, had failed to meet its obligation to renegotiate in good faith the *Master Co-operation Agreement* during the next thirty days with the aim of ensuring the continuation of the alliance (*Good Faith Effort Obligation*).

In its *Statement of Claim*, Alitalia reiterated its claim for damages, limited, at this stage, to those of a sufficient extent to trigger the contractual penalty of Euro 250 million. The full amount of the claim, currently being calculated, will be stated in the *Statement of Reply* that the company has to file by 19 October 2001. Alitalia also sought recognition of its claim to a receivable balance of Euro 43,369,000 regarding the sale of several aircraft belonging to the KLM fleet in November 1999.

On 4 August 2001, (the extended deadline set by the Board of Arbitration rather than the original one set in the order of 7 December 2000), KLM filed its "Statement of Defense and Counterclaim", accompanied by numerous attachments. In this document, KLM essentially confirmed the position it had taken at the time of the exchange between the parties during the initial phase of the arbitration proceedings. In particular, it contested all of Alitalia's claims which sought to asset that any of the reasons for the termination of the alliance had taken place. KLM also asserts that it has always acted in good faith and, in particular, in accordance with the Good Faith Effort Obligation.

In its Statement of Defense and Counterclaim, KLM also makes reference, as a further cause for terminating the alliance, to the failure to privatise Alitalia by 30 June 2000. This reason was not cited by KLM in its letter of 28 April 2000 by means of which it terminated the alliance.

KLM contested the amount and justification of the damages claimed by Alitalia with various arguments and reserved the right to evaluate the final damages claim once this has been filed by Alitalia.

In the assumption that it had acted properly, KLM persisted with its request to have the Euro 100 million (plus interest) contribution cited previously reimbursed. It also asked the Board of Arbitration to provide the indications necessary in order to complete the financial liquidation of the alliance and claimed the right to received Euro 16,859,000 from Alitalia.

Industrial relations

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. This involved a one-year extension (until 31 December 2000) of the agreement concerning the remuneration part of labour contracts for pilots and ground staff. By doing so, it avoided being involved in contractual renewal negotiations during the year which could have resulted in industrial action and inconvenience for passengers.

The situation regarding industrial relations changed in 2001 and saw a return to conflict with the trades unions together with repeated strike action for various reasons.

Against this background, negotiations are underway with regard to the renewal of collective labour agreements for Pilots and Flight Attendants.

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, an agreement was reached on 7 May 2001 with all of the main trade unions and labour organisations. It defines the rules to be applied and accepted in relation to commercial agreements (franchising, code sharing, block space, etc.) with a view to sustaining and making more flexible the operations of the parent company. While this agreement places some limits on the company's freedom to make commercial decisions, it provides a clear regulatory background to be referred to in avoiding disputes. Matters regarding the renewal of the collective labour agreement that expired on 31 December 2000 were also considered.
ANPAC has presented its position, a list of areas where action is required; a particularly delicate and complex negotiations process can be expected.

Previvolo. In the fourth quarter of 2000, the pension fund for pilots and flight engineers has obtained authorisation to operate and recognition of its legal status from the relevant authorities; the names of the Bank and Administration Service to be used were also stated.
In early 2001, preparations began for the tendering process for the appointment of a financial manager to handle the fund's resources.

Sanivolo. The provisional Board of Directors of the Healthcare Fund, SANIVOLO, approved membership of Alitalia Express pilots in February 2001.
The period also saw the start of new electoral procedures to General Meeting consisting of members' representatives.

FLIGHT ATTENDANTS. The reunification contract (dated 16 December 1999) which introduced a single contract system in place of the two systems previously operated by Alitalia and Alitalia Team expired on 31 December 2000. Certain changes will have to be included in the renewed contract in order to eliminate certain inflexibility regarding the application of employment regulations which affects productivity. The trade unions are, at the moment, set on applying the agreement of 16 December 1999 and all of the relevant trade unions and employment associations have adopted an aggressive stance. The largest union has already taken industrial action in relation to alleged misapplication of the existing contract by Alitalia Team.

Fondav. In April 2001, the Flight Attendant's Supplementary Pension Fund (Fondav) elected its Assembly of Representatives which met on 10 May 2001.
In June, the Board of Directors appointed a Chairman and Vice Chairman.

GROUND STAFF ALITALIA, ALITALIA TEAM, ATITECH. On 9 March, 2001, Alitalia, Alitalia Team, Atitech and all of the trade unions signed the renewal of the Collective Labour Agreement for ground staff which had expired on 31 December 1999.
The main features of the agreement include the introduction of "atypical contracts" (apprenticeships, temporary contracts, fixed term contracts, tele-contracts) which become part of the body of contracts of the companies entering into them and further increase the means of achieving flexible labour relationships.
Other significant points in the agreement include the financial matters – in line with the objectives of the protocol of 23 July 1993. These pints include a freeze on the former productivity bonus for staff hired after 31 December 2000. Accordingly, with effect from 1 January 2001, for newly hired staff with indefinite employment contracts or training contracts that subsequently become indefinite contracts, the productivity bonus will be calculated 42 months after the date the employee in question was hired indefinitely.
This contract will remain in force until 31 December 2003 (regulatory maters) and 31 December 2001 (financial matters).

Mercurio. The final details of the Ground Staff Supplementary Pension Fund - Mercurio – have been drawn up. A provision Board of Directors has been appointed and it has been asked to apply to the relevant authorities for authorisation to operate a pension fund.

Organisational structure

On 2 April 2001, the Board of Directors introduced the Group's new organisational structure in order to boost the core business and, at the same time, develop a series of activities and services which can improve overall profitability and, more generally, the Group's position on the air transport market.

A clear distinction has been made between corporate activities which involve responsibility for strategy and co-ordination and business management activities – split into five operating divisions – which are based on autonomy, initiative and managerial skills. The five divisions are: Air Transport, Engineering & Maintenance, Alitalia Airport, Cargo & Logistics and Leisure & Diversified.

Research and development activities

The Group did not engage in any research and development activities in 2001.

Alitalia Group and the EURO

During the transitional phase of the introduction of the EURO which ran from January 1999, Alitalia took the necessary action to adapt its applications regarding the outside world which operate directly on the market (issue of tickets, fares, bank movements, etc.).

The last few months of 2000 saw the introduction of the programme to complete the move over to the single currency.

The impact of the Euro on the Group's software has already been analysed and software modifications and developments identified.

Work is needed on almost all of the operating and management systems that deal with amounts that feed the general ledger and tax accounting system. It is expected that this work will be completed by the end of 2001 to permit a complete move over to the new currency in line with the timescale for the adoption of the Euro (January 2002).

For the SAP R/3 system used by Alitalia, Alitalia Team and Alitalia Airport, the plan for Euro conversion has been defined and the initial actions have already been performed in a test environment.
The production environment change-over will be completed by the end of the year and will enable the financial statements for 2001 to be prepared directly in Euro.

It is expected that work will continue in the first half of 2002 in order to complete the adaptation of non-operating software.

Consolidated financial statements
for the first six months of 2001

CONSOLIDATED BALANCE SHEET

In millions of Lire

	ASSETS	30.06.2001				31.12.2000				30.06.2000			
A)	**AMOUNTS DUE FROM SHAREHOLDERS FOR UNPAID SHARE CAPITAL**												
B)	**FIXED ASSETS**												
I	**INTANGIBLE ASSETS**												
1)	. Start-up and expansion costs			30,084				32,817				41,218	
2)	. Research, development & advertising costs			2,152				2,881				4,816	
3)	. Patents and intellectual property costs			48,844				47,903				45,759	
4)	. Concessions, licences and trademarks			1,907				2,252				2,635	
5)	. Goodwill												
6)	. Intangible assets under development and advances			20,846				14,183				12,428	
7)	. Other			86,580				85,260				88,319	
8)	. Consolidation differences			1,872	192,286			2,629	187,924			3,385	198,560
II	**TANGIBLE FIXED ASSETS**												
1)	. Land and buildings			242,075				249,689				262,084	
2)	. Plant and machinery												
	a) Fleet		4,621,465				4,186,947				4,342,266		
	b) Other		73,885	4,695,350			68,103	4,255,050			34,912	4,377,177	
3)	. Industrial and commercial equipment			56,773				52,595				47,265	
3bis	. Assets subject to reversion free of charge			88,260				95,033				103,316	
4)	. Other assets			78,751				74,301				75,821	
5)	. Assets under construction and advances			695,730	5,856,939			642,981	5,369,649			902,610	5,768,273
III	**FINANCIAL FIXED ASSETS**												
1)	. Investments in:												
	a) subsidiary companies		4,583				4,583				5,389		
	b) associated companies		3,389				3,445				1,001		
	d) other companies		23,208	31,180			22,618	30,646			20,188	26,578	
1bis)	. Payments for investments			67				67				67	
2)	. Receivables:	(*)				(*)				(*)			
	a) from subsidiaries										0		
	d) other	4,516	207,483	207,483		4,247	192,155	192,155		2,051	143,681	143,681	
3)	. Other securities			227	238,958			231	223,099			235	170,562
	Total fixed assets				**6,288,182**				**5,780,673**				**6,137,395**
C)	**CURRENT ASSETS**												
I	**INVENTORY**												
1)	. Materials and consumables			448,324				440,200				451,890	
2)	. Work in progress			1,608	449,933			7,930	448,130			9,772	461,662
II	**RECEIVABLES**	(**)				(**)				(**)			
1)	. Trade			444,594				439,750				503,626	
2)	. subsidiaries			1,675				1,838				1,950	
3)	. associated companies			5,771				3,405				2,425	
4)	. parent companies											0	
5)	. other												
	a) Airline companies		161,707				178,832				239,617		
	b) Travel agents		708,558				597,299				595,090		
	c) Sundry	2,379	809,013	1,679,279	2,131,320	3,113	1,374,485	2,150,616	2,595,609	2,600	779,874	1,614,581	2,122,582
III	**CURRENT FINANCIAL ASSETS**												
4)	. other equity investments							7,838				0	
6)	. securities			6	6			11,963	19,802			28,640	28,640
IV	**CASH AT BANK AND ON HAND**												
1)	. Bank and post office accounts			269,108				144,434				202,158	
2)	. Cheques			45				60				41	
3)	. Cash on hand			31,519	300,672			33,476	177,969			21,636	223,835
	Total current assets				**2,881,931**				**3,241,510**				**2,836,718**
D)	**ACCRUED INCOME AND PREPAID EXPENSES**			102,837	**102,837**			78,123	**78,123**			88,116	**88,116**
	Total assets				**9,272,950**				**9,100,306**				**9,062,229**

(*) due after less than one year
(**) due after more than one year

CONSOLIDATED BALANCE SHEET

In millions of Lire

	LIABILITIES AND SHAREHOLDERS' EQUITY				**30.06.2001**				**31.12.2000**				**30.06.2000**
A)	**SHAREHOLDERS' EQUITY**												
I	. SHARE CAPITAL				1,548,444				1,548,444				1,548,444
II	. SHARE PREMIUM RESERVE				1,102,994				1,242,753				1,242,753
II bis	. SHARES SUBSCRIBED ON SHARE CAPITAL INCREASES IN PROGRESS (i.e.: PAYMENTS BY SHAREHOLDERS TO CAPITAL A/C)												
III	. REVALUATION RESERVES												
IV	. LEGAL RESERVE				24,575				24,575				24,575
VII	. OTHER RESERVES												
1)	. Translation difference reserve			919				493				283	
2)	. Capital grants reserve Laws 64/86 and181/89			27,990				28,272				28,272	
3)	. Reserve for share issue Art. 2349			2,289				2,289				2,289	
	. Extraordinary reserve											0	
	. Other reserves											0	
4)	. Consolidation reserves			57	31,254			57	31,111			57	30,901
VIII	. RETAINED EARNINGS				186,144				541,878				543,275
IX	. (LOSS) FOR THE PERIOD				(503,539)				(496,566)				(352,845)
	Consolidated shareholders' equity – Group				2,389,871				2,892,194				3,037,103
X	. Capital and reserves – minority interests				1,552				3,521				3,521
XI	. Profit for period attributable to minority interests				43				1,589				549
	Shareholders' equity – min. interests				1,594				5,111				4,070
					2,391,465				**2,897,305**				**3,041,174**
B)	**PROVISIONS FOR LIABILITIES AND CHARGES**												
2)	. taxes			33,419				44,699				50,187	
3)	. other:												
	a) Provision for deferred exchange gains		13,431				6,660						
	b)Provision for prizes and promotions		87,857				82,404				85,996		
	c) Provision for forward sale and purchase commitments		14,728				41,600						
	e) Restructuring provision										0		
	d) Provision for early retirements		175,865				174,312				173,137		
	e) Provision for commercial agreements		206,770				202,079				197,407		
	f) Restructuring provision										8,231		
	g) sundry		187,193	685,843	**719,262**		116,285	623,339	**668,038**		130,172	594,943	**645,130**
C)	**PROVISION FOR EMPLOYEE SEVERANCE PAY**				**791,880**				**766,327**				**721,990**
D)	**PAYABLES**	**(**)**				**(**)**				(**)			
3)	. Banks	1,566,460		2,080,712		1,326,391		1,887,921		1,157,538		1,980,601	
4)	. Other lenders	17,170		19,822		18,517		21,056					
5)	. Advances			18,877				6,162				2,885	
6)	. Trade accounts			1,081,510				998,969				1,009,469	
7)	. Credit instruments			112,725									
8)	. Subsidiaries			7,000				7,000				7,000	
9)	. Associated companies			4,546				2,478					
10)	. Parent companies									19,808		24,218	
11)	. Tax authorities			135,580				124,741				97,798	
12)	. Social security institutions			91,263				86,810				92,709	
13)	. Other payables:												
	a) Prepaid tickets		596,312				334,003				491,605		
	b) Share capital increase												
	c) Airline companies		234,151				324,383				321,362		
	d) Travel agents		123,238				137,728				138,721		
	e) Sundry	11,961	451,462	1,405,163	**4,957,197**	17,555	406,593	1,202,708	**4,337,846**	15,419	399,624	1,351,312	**4,565,991**
E)	**ACCRUED LIABILITIES AND DEFERRED INCOME**			413,145	**413,145**			430,790	**430,790**			87,945	**87,945**
	Total liabilities and shareholders' equity				**9,272,950**				**9,100,306**				**9,062,229**

(*) due after less than one year
(**) due after more than one year

CONSOLIDATED MEMORANDUM ACCOUNTS

In millions of Lire

	30.06.2001			31.12.2000			30.06.2000		
1. PERSONAL GUARANTEES GIVEN									
a) Sureties									
- on behalf of subsidiaries	271			271			271		
- on behalf of associated companies	0			0			0		
- on behalf of parent companies	0			0			0		
- on behalf of subsidiaries				0					
of parent companies	0			0			0		
- on behalf of others	2,936	3,207		2,914	3,185		2,695	2,966	
b) Endorsements									
- on behalf of subsidiaries	0			0			0		
- on behalf of associated companies	0			0			0		
- on behalf of parent companies	0			0			0		
- on behalf of subsidiaries									
of parent companies	0			0			0		
- on behalf of others	0	0		0	0		0	0	
c) Other									
- on behalf of subsidiaries	0			0			0		
- on behalf of associated companies	0			0			0		
- on behalf of parent companies	0			0			0		
- on behalf of subsidiaries				0					
of parent companies	0			0			0		
- on behalf of others	449	449	**3,656**	449	449	**3,634**	449	449	**3,415**
2. SECURED GUARANTEES GIVEN IN RESPECT OF									
a) third party obligations									
- on behalf of subsidiaries	0			0			0		
- on behalf of associated companies	0			0			0		
- on behalf of parent companies	0			0			0		
- on behalf of subsidiaries									
of parent companies	0			0			0		
- on behalf of others	0	0		0	0		0	0	
b) own obligations other than debt		0			0			0	
c) debt reported in the balance sheet									
- Fleet		1,576,719			1,293,734			1,089,813	
- Land and buildings		145,455			150,000			154,545	
- Plant		0	**1,722,173**		0	**1,443,734**		0	**1,244,358**
3. PURCHASE AND SALE COMMITMENTS			**5,501,160**			**6,170,984**			**5,272,641**
4. OTHER			**5,088,524**			**6,158,405**			**4,516,349**
			12,315,513			**13,776,757**			**11,036,763**

CONSOLIDATED PROFIT & LOSS STATEMENT

In millions of Lire

A) VALUE OF PRODUCTION		30.06.2001		30.06.2000		31.12.2000
1.- Revenues from sales and services		5,178,097		4,849,248		10,444,608
2.- Change in work in progress inventory		(6,322)		6,655		4,813
3.- Change in work in progress to order						
4.- Capitalisation of internal costs		82,517		61,529		131,669
5.- Other revenues and income						
a) operating grants					0	
b) gains on disposals of fixed assets	697		12,194		44,530	
c) other	137,298	137,995	151,540	163,734	334,749	379,279
Total		5,392,287		5,081,166		10,960,369
B) COST OF PRODUCTION						
6.- technical materials, fuel and other consumables		(976,679)		(991,485)		(2,172,017)
7.- service expenses		(2,626,792)		(2,547,593)		(5,240,678)
8.- lease and rental costs		(505,309)		(463,735)		(951,256)
9.- personnel costs						
a) wages and salaries	(904,716)		(818,707)		(1,709,034)	
b) social contributions	(215,468)		(193,144)		(402,871)	
c) employee severance pay	(62,603)		(50,350)		(102,894)	
d) retirement benefits and similar	(4,649)				(2,735)	
e) other costs	(46,709)	(1,234,145)	(36,463)	(1,098,663)	(72,225)	(2,289,758)
10.- Amortisation, depreciation & writedowns						
a) amortisation of intangible assets	(34,800)		(36,589)		(81,696)	
b) depreciation of tangible fixed assets	(242,645)		(229,434)		(485,879)	
c) other fixed asset writedowns	(746)		(273)		(277)	
d) writedowns of current receivables and cash and cash equivalents	(10,160)	(288,350)	(12,713)	(279,009)	(18,215)	(586,066)
11.- Change in inventory of technical materials, spares and consumables		8,124		46,276		34,587
12.- provisions for liabilities and charges		(12,204)		(17,850)		(34,828)
13.- Other provisions		(33,955)		(22,924)		(46,146)
14.- Sundry operating charges		(45,361)		(43,366)		(163,758)
Total		(5,714,672)		(5,418,349)		(11,449,919)
Difference between value and cost of production		(322,385)		(337,183)		(489,550)

CONSOLIDATED PROFIT AND LOSS STATEMENT

In millions of Lire

	30.06.2001		30.06.2000		31.12.2000	
C) FINANCIAL INCOME AND CHARGES						
15.- Income from equity investments						
a) dividends from subsidiary companies					0	
b) dividends from associated companies					425	
c) dividends from other companies	508		125		533	
d) other income from equity investments		508		125	1,316	2,274
16.- Other financial income						
a) from long-term receivables	690		318		5,628	
b) from securities in fixed assets other than equity investments	6		408		419	
c) from securities in current assets other than equity investments			303		1,725	
d) other	62,246	62,943	41,248	42,277	148,081	155,853
17.- Interest and other financial charges						
. interest and fees to subsidiaries	(163)		(130)		(326)	
. interest and fees to associated companies						
. interest and fees to parent companies			(1,067)		(2,120)	
. interest and fees to others plus sundry charges	(119,094)	(119,257)	(47,850)	(49,047)	(141,836)	(144,282)
Total financial income and charges		(55,807)		(6,645)		13,845
D) ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS						
18.- Revaluations		657		558		79
19.- Writedowns		(713)		(648)		(7,416)
Total adjustments		(56)		(90)		(7,337)
E) EXTRAORDINARY INCOME AND CHARGES						
20.- Income						
a) income resulting from prior year adjustments	8,113		14,444		59,324	
b) gains on fixed asset disposals	28,897		21,600		51,440	
c) other income		37,010	27,789	63,833		110,764
21.- Charges						
a) charges resulting from prior year adjustments	(11,577)		(4,273)		(19,735)	
b) losses on fixed asset disposals					(10)	
c) prior year taxation	(313)		(1,787)		(2,058)	
d) other charges	(77,530)	(89,420)	(3,615)	(9,675)	(22,534)	(44,337)
Total extraordinary income (charges)		(52,410)		54,158		66,427
Loss before taxation		(430,658)		(289,760)		(416,615)
22.- Taxation		(72,839)		(62,536)		(78,362)
23.- Loss for the period		**(503,497)**		**(352,296)**		(494,977)
Of which:						
25.- attributable to parent company		(503,539)		(352,845)		(496,566)
26.- attributable to minority interests		43		549		1,589
		(503,497)		**(352,296)**		(494,977)

CONSOLIDATED BALANCE SHEET

(in thousands of Euro)

	ASSETS				**30.06.2001**				**31.12.2000**				**30.06.2000**
A)	**AMOUNTS DUE FROM SHAREHOLDERS FOR UNPAID SHARE CAPITAL**												
B)	**FIXED ASSETS**												
I	**INTANGIBLE ASSETS**												
1)	. Start-up and expansion costs			15,537				16,949				21,287	
2)	. Research, development & advertising costs			1,112				1,488				2,487	
3)	. Patents and intellectual property costs			25,226				24,740				23,633	
4)	. Concessions, licences and trademarks			985				1,163				1,361	
5)	. Goodwill												
6)	. Intangible assets under development and advances			10,766				7,325				6,419	
7)	. Other			44,715				44,033				45,613	
8)	. Consolidation differences			967	99,307			1,358	97,055			1,748	102,548
II	**TANGIBLE FIXED ASSETS**												
1)	. Land and buildings			125,021				128,954				135,355	
2)	. Plant and machinery												
	a) Fleet		2,386,788				2,162,378				2,242,593		
	b) Other		38,158	2,424,946			35,172	2,197,550			18,031	2,260,623	
3)	. Industrial and commercial equipment			29,321				27,163				24,410	
3bis	. Assets subject to reversion free of charge			45,583				49,080				53,358	
4)	. Other assets			40,671				38,373				39,158	
5)	. Assets under construction and advances			359,315	3,024,856			332,072	2,773,192			466,159	2,979,064
III	**FINANCIAL FIXED ASSETS**												
1)	. Investments in:												
	a) subsidiary companies		2,367				2,367				2,783		
	b) associated companies		1,750				1,779				517		
	d) other companies		11,986	16,103			11,681	15,827			10,426	13,726	
1bis)	. Payments for investments			35				35				35	
2)	. Receivables:	(*)				(*)				(*)			
	a) from subsidiaries										0		
	d) other	2,332	107,156	107,156		2,193	99,240	99,240		1,059	74,205	74,205	
3)	. Other securities			117	123,411			119	115,221			121	88,088
	Total fixed assets				**3,247,575**				**2,985,468**				**3,169,700**
C)	**CURRENT ASSETS**												
I	**INVENTORY**												
1)	. Materials and consumables			231,540				227,345				233,382	
2)	. Work in progress			831	232,371			4,096	231,440			5,047	238,429
II	**RECEIVABLES**	(**)				(**)				(**)			
1)	. Trade			229,614				227,112				260,101	
2)	. subsidiaries			865				949				1,007	
3)	. associated companies			2,981				1,759				1,252	
4)	. parent companies											0	
5)	. other												
	a)Airline companies		83,515				92,359				123,752		
	b) Travel agents		365,940				308,479				307,338		
	c) Sundry	1,229	417,821	867,275	1,100,735	1,608	709,862	1,110,700	1,340,520	1,343	402,771	833,861	1,096,222
III	**CURRENT FINANCIAL ASSETS**												
4)	. other equity investments							4,048				0	
6)	. securities			3	3			6,179	10,227			14,791	14,791
IV	**CASH AT BANK AND ON HAND**												
1)	. Bank and post office accounts			138,983				74,594				104,406	
2)	. Cheques			23				31				21	
3)	. Cash on hand			16,278	155,284			17,289	91,913			11,174	115,601
	Total current assets				**1,488,393**				**1,674,100**				**1,465,043**
D)	**ACCRUED INCOME AND PREPAID EXPENSES**			53,111	**53,111**			40,347	**40,347**			45,508	**45,508**
	Total assets				**4,789,079**				**4,699,916**				**4,680,251**

(*) due after less than one year
(**) due after more than one year

CONSOLIDATED BALANCE SHEET

(in thousands of Euro)

	LIABILITIES AND SHAREHOLDERS' EQUITY				30.06.2001				31.12.2000				30.06.2000
A)	**SHAREHOLDERS' EQUITY**												
I	. SHARE CAPITAL				799,705				799,705				799,705
II	. SHARE PREMIUM RESERVE				569,649				641,828				641,828
II bis	. SHARES SUBSCRIBED ON SHARE CAPITAL INCREASES IN PROGRESS (i.e.: PAYMENTS BY SHAREHOLDERS TO CAPITAL A/C)												
III	. REVALUATION RESERVES												
IV	. LEGAL RESERVE				12,692				12,692				12,692
VII	. OTHER RESERVES												
1)	. Translation difference reserve			475				255				146	
2)	. Capital grants reserve Laws 64/86 and181/89			14,455				14,601				14,601	
3)	. Reserve for share issue Art. 2349			1,182				1,182				1,182	
4)	. Consolidation reserves			29	16,141			29	16,067			29	15,959
VIII	. RETAINED EARNINGS				96,135				279,856				280,578
IX	. (LOSS) FOR THE PERIOD				(260,056)				(256,455)				(182,229)
	Consolidated shareholders' equity – Group				1,234,266				1,493,694				1,568,533
X	. Capital and reserves – minority interests				801				1,819				1,818
XI	. Profit for period attributable to minority interests				22				821				284
	Shareholders' equity – min. interests				823				2,639				2,102
					1,235,089				**1,496,333**				**1,570,635**
B)	**PROVISIONS FOR LIABILITIES AND CHARGES**												
2)	. taxes			17,260				23,085				25,919	
3)	. other:												
	a) Provision for deferred exchange gains		6,937				3,440						
	b)Provision for prizes and promotions		45,374				42,558				44,413		
	c) Provision for forward sale and purchase commitments		7,606				21,485						
	d) Provision for early retirements		90,827				90,024				89,418		
	e) Provision for commercial agreements		106,788				104,365				101,952		
	f) Restructuring provision										4,251		
	g) sundry		96,677	354,208	**371,468**		60,056	321,928	**345,013**		67,228	307,262	**333,182**
C)	**PROVISION FOR EMPLOYEE SEVERANCE PAY**				**408,972**				**395,775**				**372,877**
D)	**PAYABLES**	**(**)**				**(**)**				(**)			
3)	. Banks	809,009		1,074,598		685,024		975,030		597,818		1,022,895	
4)	. Other lenders	8,868		10,237		9,563		10,875					
5)	. Advances			9,749				3,182				1,490	
6)	. Trade accounts			558,553				515,925				521,347	
7)	. Credit instruments			58,218									
8)	. Subsidiaries			3,615				3,615				3,615	
9)	. Associated companies			2,348				1,280					
10)	. Parent companies									10,230		12,508	
11)	. Tax authorities			70,021				64,423				50,508	
12)	. Social security institutions			47,133				44,833				47,880	
13)	. Other payables:												
	a) Prepaid tickets		307,969				172,498				253,893		
	b) Share capital increase												
	c) Airline companies		120,929				167,530				165,970		
	d) Travel agents		63,647				71,131				71,643		
	e) Sundry	6,177	233,161	725,706	**2,560,179**	9,066	209,988	621,147	**2,240,310**	7,963	206,389	697,894	**2,358,138**
E)	**ACCRUED LIABILITIES AND DEFERRED INCOME**			213,371	**213,371**			222,484	**222,484**			45,420	**45,420**
	Total liabilities and shareholders' equity				**4,789,079**				**4,699,916**				**4,680,251**

(*) due after less than one year
(**) due after more than one year

CONSOLIDATED MEMORANDUM ACCOUNTS
(in thousands of Euro)

	30.06.2001			31.12.2000			30.06.2000		
1. PERSONAL GUARANTEES GIVEN									
a) Sureties									
- on behalf of subsidiaries	140			140			140		
- on behalf of associated companies	0			0			0		
- on behalf of parent companies	0			0			0		
- on behalf of subsidiaries of parent companies	0			0			0 0		
- on behalf of others	1,516	1,656		1,505	1,645		1,392	1,532	
b) Endorsements									
- on behalf of subsidiaries	0			0			0		
- on behalf of associated companies	0			0			0		
- on behalf of parent companies	0			0			0		
- on behalf of subsidiaries of parent companies	0			0			0		
- on behalf of others	0	0		0	0		0	0	
c) Other									
- on behalf of subsidiaries	0			0			0		
- on behalf of associated companies	0			0			0		
- on behalf of parent companies	0			0			0		
- on behalf of subsidiaries of parent companies	0			0			0		
- on behalf of others	232	232	**1,888**	232	232	**1,877**	232	232	**1,764**
2. SECURED GUARANTEES GIVEN IN RESPECT OF									
a) third party obligations									
- on behalf of subsidiaries	0			0			0		
- on behalf of associated companies	0			0			0		
- on behalf of parent companies	0			0			0		
- on behalf of subsidiaries of parent companies	0			0			0		
- on behalf of others	0	0		0	0		0	0	
b) own obligations other than debt		0			0			0	
c) debt reported in the balance sheet									
- Fleet		814,307			668,158			562,841	
- Land and buildings		75,121			77,469			79,816	
- Plant		0	**889,427**		0	**745,625**		0	**642,657**
3. PURCHASE AND SALE COMMITMENTS			**2,841,112**			**3,187,047**			**2,723,092**
4. OTHER			**2,628,003**			**3,180,551**			**2,332,500**
			6,360,431			**7,115,100**			**5,700,012**

CONSOLIDATED PROFIT AND LOSS STATEMENT

(in thousands of Euro)

A) VALUE OF PRODUCTION		30.06.2001		30.06.2000		31.12.2000
1.- Revenues from sales and services		2,674,264		2,504,428		5,394,190
2.- Change in work in progress inventory		(3,265)		3,437		2,486
3.- Change in work in progress to order						
4.- Capitalisation of internal costs		42,616		31,777		68,001
5.- Other revenues and income						
a) operating grants					0	
b) gains on disposals of fixed assets	360		6,297		22,998	
c) other	70,909	71,269	78,264	84,561	172,884	195,881
Total		2,784,884		2,624,203		5,660,558
B) COST OF PRODUCTION						
6.- technical materials, fuel and other consumables		(504,412)		(512,059)		(1,121,753)
7.- service expenses		(1,356,625)		(1,315,722)		(2,706,584)
8.- lease and rental costs		(260,971)		(239,499)		(491,283)
9.- personnel costs						
a) wages and salaries	(467,247)		(422,827)		(882,642)	
b) social contributions	(111,280)		(99,750)		(208,065)	
c) employee severance pay	(32,332)		(26,004)		(53,140)	
d) retirement benefits and similar	(2,401)				(1,412)	
e) other costs	(24,123)	(637,383)	(18,831)	(567,412)	(37,301)	(1,182,561)
10.- Amortisation, depreciation & writedowns						
a) amortisation of intangible assets	(17,973)		(18,897)		(42,192)	
b) depreciation of tangible fixed assets	(125,315)		(118,493)		(250,935)	
c) other fixed asset writedowns	(385)		(141)		(143)	
d) writedowns of current receivables and cash and cash equivalents	(5,247)	(148,920)	(6,566)	(144,096)	(9,407)	(302,678)
11.- Change in inventory of technical materials, spares and consumables		4,196		23,900		17,863
12.- Provisions for liabilities and charges		(6,303)		(9,219)		(17,987)
13.- Other provisions		(17,536)		(11,839)		(23,832)
14.- Sundry operating charges		(23,427)		(22,397)		(84,574)
Total		(2,951,382)		(2,798,344)		(5,913,390)
Difference between value and cost of production		(166,498)		(174,140)		(252,831)

CONSOLIDATED PROFIT AND LOSS STATEMENT

(in thousands of Euro)

		30.06.2001		30.06.2000		31.12.2000
C) FINANCIAL INCOME AND CHARGES						
15.- Income from equity investments						
a) dividends from subsidiary companies					0	
b) dividends from associated companies					219	
c) dividends from other companies	262		64		275	
d) other income from equity investments		262		64	680	1,175
16.- Other financial income						
a) from long-term receivables	357		164		2,906	
b) from securities in fixed assets other than equity investments	3		211		216	
c) from securities in current assets other than equity investments			157		891	
d) other	32,147	32,507	21,303	21,834	76,477	80,491
17.- Interest and other financial charges						
. interest and fees to subsidiaries	(84)		(67)		(168)	
. interest and fees to associated companies						
. interest and fees to parent companies			(551)		(1,095)	
. interest and fees to others plus sundry charges	(61,507)	(61,591)	(24,712)	(25,331)	(73,252)	(74,516)
Total financial income and charges		(28,822)		(3,432)		7,150
D) ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS						
18.- Revaluations		339		288		41
19.- Writedowns		(368)		(335)		(3,830)
Total adjustments		(29)		(47)		(3,789)
E) EXTRAORDINARY INCOME AND CHARGES						
20.- Income						
a) income resulting from prior year adjustments	4,190		7,460		30,638	
b) gains on fixed asset disposals	14,924		11,156		26,567	
c) other income		19,114	14,352	32,967		57,205
21.- Charges						
a) charges resulting from prior year adjustments	(5,979)		(2,207)		(10,192)	
b) losses on fixed asset disposals					(5)	
c) prior year taxation	(162)		(923)		(1,063)	
d) other charges	(40,041)	(46,182)	(1,867)	(4,997)	(11,638)	(22,898)
Total extraordinary income (charges)		(27,068)		27,970		34,307
Loss before taxation		(222,416)		(149,649)		(215,164)
22.- Taxation		(37,618)		(32,297)		(40,470)
23.- Loss for the period		**(260,034)**		**(181,946)**		**(255,634)**
Of which:						
25.- attributable to parent company		(260,056)		(182,229)		(256,455)
26.- attributable to minority interests		22		284		821
		(260,034)		**(181,946)**		**(255,634)**

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**				
	30.06.2001	**2000**	**1999**	**1998**	**1997**	**30.06.2001**	**2000**	**1999**	**1998**	**1997**
hareholders' equity and net profit(loss) of the parent company	2,149,798	2,678,301	3,158,444	3,250,616	1,473,423	(528,503)	(480,143)	31,671	459,831	268,490
A) Elimination of fiscal adjustments and provisions										
in compliance with tax laws:										
- Reclassification as per art. 54 of Presid. Decree No. 597 of 1973	37,559	41,183	48,932	56,349	63,766	(3,625)	(7,250)	(7,417)	(7,417)	(7,417)
- Gains/Losses on disposal							(499)			
- Recl. for deferred taxes as per art. 54 Pres. Dec. No. 597 of 1973	(15,118)	(16,989)	(20,186)			1,871	3,197	3,059		
- Effect of accelerated depreciation recorded in the										
financial statements	(0)	(0)	(0)	2,242	973	0	0	(2,242)	1,179	340
B) Elimination of book vale of consolidated										
Investments:										
- Excess of net equities and net profits	214,912	245,824	253,242	255,078	242,173	21,514	44,348	111,461	72,095	213,536
- Revaluations/ write-downs of subsidiaries						5,929	36,208	25,116	757	(106)
- Consolidation difference	1,872	2,629	5,003	8,238	7,322	(1,351)	(2,374)	(3,235)	(3,235)	(2,120)
- Evaluation of subsidiaries on the equity method	2,011	2,011	2,760			0	(749)	2,760		
- Evaluation of associated companies on the equity method	(17)	272	235	314	340	(290)	43	(79)	59	(36,425)
- Adaptation of accounting policies to group										
Accounting policies						0	0	0	0	
C) Elimination of consolidated inter-company transactions										
- Elimination of intercompany profits/losses included:										
. in intangible fixed assets	(1,577)	(1,721)	(827)	(750)	(1,069)	144	(894)	(76)	385	320
. in tangible fixed assets:										
- fleet	(223)	(641)	(1,869)	(1,961)	(2,667)	417	1,228	93	706	110
- other	(66)	(163)	5	14	0	97	(168)	(9)	14	
. in financial fixed assets	0	0	(102)	0	(132)	0	0	(102)	0	(132)
- Elimination of accruals to provisions for liabilities and charges	721					721				
- Elimination of differences due to transfer of business segment								(13)		
- Elimination of dividends:										
. distributed						(464)	(30,999)	(90,000)	(57,357)	
. accrued		(58,513)	(55,671)	(60,444)	(995)		(58,513)	(55,671)	(60,444)	(995)
Consolidated shareholders' equity and net profit/loss	2,389,871	2,892,194	3,389,968	3,509,695	1,783,135	(503,539)	(496,566)	15,318	406,573	435,602

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

The parent company Alitalia SpA has reported a loss for the period of Lire 529 billion compared to a consolidated loss of Lire 503 billion.

The difference of Lire 26 billion is mainly due to the profits reported by companies included in the consolidation area.
Good performances were recorded by the data transmission sector (Lire 17 billion), the air transport sector (Lire 7 billion), the tourism sector (Lire 1 billion) and the maintenance sector (Lire 1 billion).

Partial offsetting occurred as a result of consolidation adjustments and eliminations (Lire 2 billion), in particular the adjustment under art. 54 of Presidential Decree No. 597 of 1973 (Lire 2 billion), which is commented on in detail in the notes.

The *net equity* of the Parent Company is Lire 2,150 billion against a consolidated net equity of Lire 2,390 billion.

The difference of Lire 240 billion relates to the surplus of the net equities of consolidated companies (Lire 215 billion); to the aforementioned adjustment made under art. 54 of Presidential Decree No. 597 of 1973 (Lire 22 billion net of deferred taxes), and to the valuation of associated companies and non-consolidated subsidiaries on the equity method (Lire 4 billion) as countered in part by other consolidation adjustments and eliminations (Lire 1 billion).

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

Consolidation area The group financial statements include the financial statements of the parent company Alitalia – Linee Aeree Italiane S.p.A. and of all the companies in which Alitalia holds more than 50% of the shares, whether directly or indirectly.

The following changes to the consolidation area have occurred since 31 December 2000:

- Racom Teledata S.p.A. has acquired the 8% interest in SIGMA Società Italiana Gestione Sistema Multi Accesso per Azioni formerly held by Tirrenia di Navigazione S.p.A. thus becoming the sole shareholder in the subsidiary;
- The parent company Alitalia has sold 50,000 shares in ATITECH S.p.A. – 1% of share capital - to Sviluppo Italia S.p.A.

Companies that have gone into liquidation (Sisam) or are undergoing insolvency proceedings have not been included in the consolidation area (Odino Valperga Italeuropa General Cargo).

The consolidated companies, in addition to Alitalia, are as follows:

Company	Shareholders	
Alinsurance S.r.l. – Rome Quota capital Lire 200 million wholly paid	Aviofin S.p.A. Alitalia Linee Aeree Italiane S.p.A.	88% 6%
Alitalia Team S.p.A. – Rome Share capital Lire 107,500 million wholly paid	Alitalia Linee Aeree Italiane S.p.A.	100%
Alitalia Express S.p.A. – Rome Share capital: Lire 45,000 million wholly paid	Alitalia Linee Aeree Italiane S.p.A.	100%
Atitech S.p.A. – Naples Share capital Lire 50,000 million wholly paid	Alitalia Linee Aeree Italiane S.p.A.	99%
Alitalia Airport S.p.A. – Rome Share capital: Lire 15,000 wholly paid	Alitalia Linee Aeree Italiane S.p.A.	100%
Aviofin S.p.A. – Rome Share capital Lire 1,000 million wholly paid	Alitalia Linee Aeree Italiane S.p.A. Racom Teledata S.p.A.	95% 5%
Eurofly S.p.A. – Turin Share capital Lire 7,200 million wholly paid	Alitalia Linee Aeree Italiane S.p.A.	100%
Italiatour G.m.b.h. – Munich Share capital DM 300,000 wholly paid	Italiatour S.p.A.	60%

Italiatour Limited – London Share capital GBP 366,000 wholly paid	Italiatour S.p.A.	100%
Italiatour S.A.- Madrid Share capital PTS 20,000,000 wholly 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 – wholly paid	Alitalia Linee Aeree Italiane S.p.A.	100%
Racom Teledata S.p.A. – Rome Share capital Lire 65,000 million wholly paid	Alitalia Linee Aeree Italiane S.p.A.	100%
SIGMA - Società Italiana Gestione Sistema Multi Accesso per Azioni – Rome Share capital Lire 15,000 million wholly paid	Racom Teledata S.p.A.	100%
Sigma Travel System S.p.A. – Rome Share capital Lire 3,000 million wholly paid	Racom Teledata S.p.A. Sigma S.p.A.	55% 45%

All of the consolidated companies have 31 December accounting year end.

Consolidation method

The consolidation principles adopted are in accordance with Article 31 of Legislative Decree no 127/91.

In particular:

- The line by line consolidation method has been adopted. This involves including the full amount of all assets and liabilities, income and charges of the consolidated companies irrespective of the percentage interest held;

The following amounts were eliminated:

- The book value of investments in consolidated companies and the corresponding portions of their shareholders' equity;

- all intra-group transactions affecting the profit and loss statement and the balance sheet, together with gains and losses on disposals of goods 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. 127/91, highlighting minority interests in net equity and net profit/loss.

In accordance with the practice indicated in Italian Accounting Standard no 17, the amounts shown in the financial statements and in the explanatory notes are expressed in millions of Lire.

In accordance with CONSOB recommendations, 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 as well as 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 30 June 2001 have been prepared using accounting principles consistent with those applied by the Parent company.

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

No changes in the accounting principles have been made since the prior year except, as was the case for the financial statements for the year ended 31 December 2000, for the more precise application of Italian Accounting Standard no 26 on receivables and payables denominated in foreign currency. There have been no exceptional circumstances leading to the application of Article 2423 (4) of the Italian Civil Code.

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

Intangible fixed assets

Intangible assets consist of costs and charges which are expected to benefit future financial periods. They are recorded at cost and are amortised each year on a straight line basis over their estimated useful life.
Start-up and capital increase costs, research, development and advertising expenses and the goodwill arising on acquisitions are registered as assets and are amortised over a period not exceeding five years.

Tangible fixed assets

Tangible fixed assets are recorded at purchase or production cost, 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 relating to loans 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 turbo prop aircraft are depreciated over 14 years;
   - aircraft which have been acquired upon payment of the final instalment of a finance lease are depreciated based on their total useful life, calculated starting from their initial registration, in the same way as newly built aircraft.

   Finally, we note that the net book value of aircraft that have been decommissioned from service is reduced, if necessary, to bring it into line with estimated realisable value.

   Tangible fixed assets with a significant value (fleet and flight simulators) that came into service during the year are depreciated on a pro-quota basis taking the tax benefit into account. Other tangible fixed assets purchased during the year are depreciated using half of normal depreciation rates;

2. Financial depreciation:

   financial depreciation is based on the book value of assets located on State owned land and is calculated over the period of the concession of the land.
   It is calculated as an alternative to ordinary depreciation as defined by Legislative Decree no 669 of 31 December 1996

where the application of ordinary depreciation would not enable the asset to be depreciated in full before the end of the concession period.

Financial fixed assets

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

These items are represented in the financial statements using the following criteria:

1. investments:
   - in accordance with article 36, Legislative Decree No. 127 of 1991, investments in associated companies are stated using the net equity method indicated in article 2426 No. 4 of the Italian Civil Code;
   - Investments in other companies in liquidation, as well as 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: stated at estimated realisable value;

securities: stated at nominal value which equals cost.

Inventories

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

Current financial assets

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

Receivables and payables

Receivables are stated at estimated realisable value which corresponds to their nominal value as adjusted by the provision for doubtful accounts receivable.
Payables are stated at nominal value.
Prepaid tickets represent payables from the Group to third parties for air-transport services to be provided.

Accrued income/liabilities and deferred income/expenses

Accrued and deferred income and expenses 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.

At 30 June 2001, deferred income included the remaining amount of the gain realised last year on the sale and lease back of 20 MD80 aircraft which has been deferred over the period of the leaseback agreement. The balance remains unchanged in these six month financial statements.

Cash and bank

Cash and bank are stated at nominal value. It includes "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 currencies 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 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 payments are reflected in the profit and loss statement.
Receivables and payables and bank balances denominated in foreign currency are restated at period end exchange rates or at agreed exchange rates where hedging contracts are in place. Related translation gains or losses are credited or debited to the profit and loss statement. If a net gain arises on the translation of medium/long-term receivables and payables, excluding the short-term portion, it is deferred by means of an accrual to the "Provision for deferred exchange gains".

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

Equity investments acquired in foreign currency are valued at the historical exchange rate in place at the transaction date and the period end exchange rate at period end.

Memorandum accounts such as personal or secured guarantees, commitments expressed in foreign currency or subject to exchange rate risk are converted at the period-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 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 is disclosed in the Memorandum Accounts.

Provisions for liabilities and charges

Provisions for liabilities and charges are created for determinate losses or liabilities that are certain or probable at the year-end but whose amount or timing is uncertain.
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 all employees as at 30 June 2001. It is adjusted annually in accordance with existing labour legislation and work contracts.

Revenues and costs

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

Taxes

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 may be analysed 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 disclosed in the financial statements are recorded at their residual amount as at the date of the financial statements;

Purchase and sale commitments	Commitments are recorded on the basis of actual contracts as at the financial statements date that is for the residual amount 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 market value or at the recorded value; Assets held under finance lease agreements are recorded at the nominal amount of the outstanding 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 amount actually committed.

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

The analysis of the detail and changes in the balance sheet and memorandum accounts refers to the financial statements at 30 June 2001 prepared in accordance with Legislative Decree No. 127 of 1991.
Comparisons are made with figures contained in the balance sheet and memorandum accounts at 31 December 2000.
This document should be read together with the detailed schedules provided in part D of the notes to the consolidated financial statements.
Possible significant reclassifications will be commented upon with reference to the specific items.

A) AMOUNTS DUE FROM SHAREHOLDERS FOR UNPAID SHARE CAPITAL

There were no such amounts at 30 June 2001.

B) FIXED ASSETS

Fixed assets amounted to Lire 6,288,182 million and recorded a net increase of Lire 507,509 million.
The balance may be analysed as follows:

I. INTANGIBLE FIXED ASSETS (appendices 1 and 2) amounted to Lire 192,286 million compared to Lire 187,924 million at 31 December 2000, an increase of Lire 4,362 million. They may be analysed as follows:

1. **Start-up and capital increase costs** amounted to Lire 30,084 million. There was a net decrease of Lire 2,733 million as a result of the amortisation charged for the period (Lire 8,583 million) and increases relating to training flight engineers to be pilots (Lire 2,819 million) and training of staff for maintenance and overhaul work on new types of aircraft (total Lire 3,021 million);

2. **Research, development and advertising costs** mainly consist of the advertising costs regarding Malpensa airport capitalised in 1998. The balance is Lire 2,152 million and has decreased by Lire 729 million as a result of the amortisation charge for the period;

3. **Patents and intellectual property rights** mainly consist of the cost of purchasing software. The balance amounts to Lire 48,844 million and has increased by Lire 941 million essentially in relation to software additions (Lire 10,635 million) net of the amortisation charge for the period (Lire 9,694 million). The main additions included Saturn GOT (Lire 3,737 million), Airmax (Lire 877 million), Electronic Ticketing (Lire 840 million) and CHS (Lire 277

million) plus maintenance and implementation work on software in use (Lire 2,204 million).

4. **Concessions, trademarks and licences** represent the capitalisation of costs incurred to purchase the rights to use software produced by third parties. They amount to Lire 1,907 million and have decreased by Lire 345 million since 31 December 2000. This decrease is the result of the Lire 445 million depreciation charge for the period net of additions of Lire 100 million.

6. **Intangible assets under development and advances** amount to Lire 20,846 million. The increase of Lire 6,663 million relates to Lire 12,674 million of additions during the period (sundry software, Internet web portal for tourism expenses, work on offices, agencies and VIP lounges plus work on buildings and systems in airports) net of Lire 5,984 million reclassified to other asset categories following the completion of related works.

7. **Other** amounted to Lire 86,580 million and recorded a net increase of Lire 1,320 million.

   The most significant fluctuations are detailed below, including the reclassifications from "**intangible assets under development and advances"** as set out in detail in schedule 1:

   - increases of Lire 7,435 million relating to the capitalisation of costs for the improvement and transformation of leased aircraft;

   - increases of Lire 4,764 million for fitting out and renovation of agencies and offices;

   - increases of Lire 1,244 million relating to work on bringing airport buildings and systems into line with legal requirements (Rome Fiumicino airport);

   - decreases of Lire 13,998 million as a result of the amortisation charge for the period;

8. **Consolidation differences** relate to the premium paid on the acquisition of equity investments. The balance amounts to Lire 1,872 million and has decreased by Lire 757 million as a result of the amortisation charge for the period.

II. **TANGIBLE FIXED ASSETS** (appendix no 3): amounted to Lire 5,856,939 million and have increased by Lire 487,290 million (net). They may be analysed as follows:

1. **Land and buildings,** amounting to Lire 242,075 million, have decreased by Lire 7,614 million as a result of the depreciation charge for the period of Lire 5,484 million

and a Lire 2,614 million adjustment to the book value of a plot of land in Magliana after it was transferred free of charge to Rome City Council on 27 July 2001; the total decrease is net of additions of Lire 485 million in relation to work on assets owned by the Group.

2. **Plant and machinery** amounted to Lire 4,695,350 million. The balance has increased by Lire 440,300 and may be analysed as follows:

   Fleet: amounts to Lire 4,621,465 million, showing a net increase of Lire 434,518 million.

   The main changes during the period were as follows:

   - an increase of Lire 425,329 million regarding the purchase of five A-320 and two Embraer aircraft as well as one B-747 following the payment of the final lease instalment plus other changes and fleet related costs;

   - an increase of Lire 65,179 million regarding:

     - the purchase of replacement stock and engines (Lire 36,819 million);

     - the capitalisation of 10 "Class D" overhauls of MD-80 aircraft and the overhaul of one B-747 and one MD-11 aircraft (Lire 28,360 million);

   - reclassifications of Lire 151,450 million relating to:

     - reclassification from advances paid on purchases for fleet of Lire 157,505 million following the delivery of aircraft;

     - reclassification from fleet to current receivables of Lire 1,459 million consisting of the cost (Lire 76,045 million) and accumulated depreciation (Lire 74,586 million) of 6 A-300 aircraft sold and scrapped in July;

     - reclassifications from replacement stock to technical stocks totalling Lire 4,595 million;

   - adjustments of Lire 1,164 million to the net book value of the six A-300 aircraft mentioned above plus a decrease of Lire 663 million relating to the sale of materials;

   - decrease of Lire 205,613 million, the depreciation charge for the period.

Gains 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 first six months of 2001 in higher depreciation for the Group of Lire 3,071 million and higher net equity in the amount of the above residual amount of the reinvested gains (Lire 26,151 million).

Other: consists of general machinery and aeronautic equipment (flight simulators) amounting to Lire 73,885 million, with an increase of Lire 5,782 million mainly relating to equipment for handling activities (Lire 6,512 million), to the amount reclassified from advances paid to suppliers in relation to the upgrading of the MD-80 flight simulator (Lire 5,153 million) and to internal communications systems (Lire 1,015 million). These increases are partially offset with the depreciation charge of Lire 7,893 million).

3. **Industrial and commercial equipment**, including motor vehicles, amount to Lire 56,773 million and have increased by Lire 4,178 million compared to 31 December 2000.

This increase is mainly due to the following:

- an increase of Lire 7,085 million regarding the purchase of new equipment (Lire 6,395 million) and motor vehicles (Lire 690 million);
- reclassifications from advances paid to suppliers (Lire 2,208 million);
- a decrease of Lire 6,085 million as a result of the depreciation charge for the period;
- reduction of Lire 38 million as a result of disposals.

3. bis Assets subject to reversion free of charge amount to Lire 88,260 million. They have decreased by Lire 6,773 million mainly as a result of the depreciation charge for the period (Lire 6,902 million).

The gains on the sale of assets realised 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 first six months of 2001 in higher depreciation for the Group of Lire 554 million and higher net equity in the amount of the above noted residual amount of the reinvested gain (Lire 11,408 million).

4. **Other assets**, made up of electronic installations, furniture, fixtures and office equipment amounted to Lire 78,751 million, an increase of Lire 4,450 million mainly in relation to the purchase of IT equipment, office furniture and equipment (Lire 16,357 million) net of the depreciation charge for the period (Lire 10,663 million);

5. **Assets under construction and advances** totalled Lire 695,730 million. They increased by Lire 52,749 billion as a result of the following:

   - **Fixed assets under construction**: amounted to Lire 97,803 million. They increased by Lire 5,920 million as follows:

     - Increases of Lire 15,220 million mainly regarding investments on the as yet incomplete sites at Grottaglie and Naples, advances to suppliers for work on progress on facilities on airport land, technical materials, IT restructuring work and an overhaul of a B-767 aircraft;

     - Decreases of Lire 8,555 million relating to the reclassification of work now complete;

   - **Advances for the fleet**: amounted to Lire 597,927 million, an increase of Lire 46,829 million.
     The main changes are analysed below:

     – An increase of Lire 190,774 million regarding the payment of advances on six B-777 and twelve A-319 aircraft;

     – An increase of Lire 13,560 million due to the capitalisation of financial charges on advance payments;

     – A decrease of Lire 157,505 million mainly relating to the reclassification to fleet of aircraft that came into service during the first half of the year.

III. **FINANCIAL FIXED ASSETS:** amounted to Lire 238,958 million, net of provisions. This represents an increase of Lire 15,859 million.

In detail:

1. **Investments** (appendices 4, 5 and 5 bis) amounted to Lire 31,180 million, a net increase of Lire 534 million. They are analysed as follows:

   - **in subsidiaries:** amount to Lire 4,583 million and have remained unchanged since 31 December 2000. They relate to the subsidiary Sisam which is not consolidated as it has been put into liquidation;

   - **in associated companies:** amount to Lire 3,389 million and have decreased by Lire 56 million as a result of the valuation of 7C, Verona Cargo Centre, Sasco and Ales using the net equity method;

   - **in other companies:** amount to Lire 23,208 million and have increased by Lire 590 million as follows:

     – subscription of additional shares in Belac LCC (Lire 617 million) following a rights issue. The percentage interest held of 5% remains unchanged;

     – subscription of a 5% stake in the share capital of Hachette Rusconi Net S. S.p.A. (Lire 15 million);

     – the sale of part of an investment held in "Emittenti Titoli" (Lire 42 million);

1.bis **Payments for investments** (appendix 4) amounted to Lire 67 million. They relate entirely to the company Edindustria and have not changed since 31 December 2000.

2 **Financial receivables** (appendix 6) amounted to Lire 207,483 million, a net increase of Lire 15,328 million mainly due to the revaluation of foreign currency balances under Italian Accounting Standard no 26 (Lire 7,929 million), an increase in guarantee deposits (Lire 4,233 million) and the reclassification of the receivable generated by the sale of land in Magliana (Lire 3,200 million);

3 **Other securities** amounted to Lire 227 million. They recorded a net decrease of Lire 4 million due to the refund of SACF bonds during the period. These bonds relate to loans issued by the autonomous land loans department of Banca Nazionale del Lavoro for the construction and purchase of economy housing on behalf of Alitalia employees.

C) CURRENT ASSETS

CURRENT ASSETS amount to Lire 2,881,931 million. They have decreased by Lire 359,579 million and may be analysed as follows:

I. **INVENTORIES** totalled Lire 449,933 million with an increase of Lire 1,803 million mainly in relation to the expanded maintenance activities.

   In detail:

   1. **Materials and consumables,** amounting to Lire 448,324 million, have increased by Lire 8,124 million net.

   2. **Work in progress** decreased by Lire 6,322 million to Lire 1,608 million.

II. **RECEIVABLES** amounted to Lire 2,131,320 million and have decreased by Lire 464,289 million.
   They may be analysed as follows:

   1. **Trade receivables** totalled Lire 444,594 million, net of the provision for doubtful debts. This represents an increase of Lire 4,844 million compared to 31 December 2000 mainly in relation to the higher level of activity in the data transmission services sector as a result of increased marketing contributions from Galileo. This was countered in part by the lower level of receivables from public authorities;

   2. **Receivables from subsidiaries** amounted to Lire 1,675 million. They have decreased by Lire 163 million at 31 December 2000 and mainly relate to Sisam which has been put into liquidation.

   3. **Receivables from associated companies** amounted to Lire 5,771 million and related to Sasco. At 31 December 2000, the balance totalled Lire 3,405 million;

   5. **other receivables** amounted to Lire 1,679,279, net of provisions. This represented a decrease of Lire 471,337 million.
   They may be analysed as follows:

      a) **Receivables from airline companies** amounted to Lire 161,707 million, a decrease of Lire 17,125 million mainly due to the lower number of tickets issued by other airlines used on Alitalia Group flights as countered in part by an increase in maintenance activities for third parties;

      b) **Receivables from travel agencies** amounted to Lire 708,558 million, an increase of Lire 111,259 million compared to prior year. This is essentially due to an increase of around Lire 146 billion in sales in the passenger sector net of a Lire 44 billion decrease in cargo related receivables;

c) **Other receivables** amounted to Lire 809,013 million, a net decrease of Lire 565,472 million mainly as a result of the refund of advance payments made in respect of B-747 aircraft (USD 225,800)
In more detail:

- **Sundry debtors and advances paid to suppliers**, amounting to Lire 371,783 million, decreased by Lire 549,234 million. This was mainly due to the refund of advance payments described above, to deferred tax assets and to the collection of a receivable recognised by the United Nations Claims Commission in relation to damage resulting from the Gulf War;

- **Amounts due from tax authorities** totalled Lire 169,686 million, a net decrease of Lire 22,655 million. This essentially relates to the lower level of tax credits and the lower level of IRAP payments on account;

- **Bank deposits subject to restrictions**, made up of cash whose transferability is conditional on approval and control by local government authorities, amounted to Lire 30,345 million. This balance essentially relates to bank balances in Libya, Iran, Nigeria, the Seychelles and Morocco. The increase of Lire 3,540 million mainly relates to Libya and Iran;

- **Short term financial receivables** amounted to Lire 237,200 million, with an increase of Lire 2,877 million. Cash outflows as at 30 June 2001 mainly refer to a deposit of Euro 100 million with the Banca Nazionale del Lavoro in case of a possible repayment of the amount deposited by KLM for the Malpensa hub start-up.

III. CURRENT FINANCIAL ASSETS amounted to Lire 6 million with a net decrease of Lire 19,796 million essentially as a result of the disposal of commercial credit policies by Eurofly (Lire 11,948 million) and the parent company's 1% shareholding in Co.Fi.Ri. S.p.A. (Lire 7,838 million) following IRI's decision to exercise a purchase option thereon.

IV. CASH AND BANK amounted to Lire 300,672 million. This represented a Lire 122,703 million increase over the 31 December 2000 balance.

D) ACCRUED INCOME AND PREPAID EXPENSES

ACCRUED INCOME AND PREPAID EXPENSES (detailed in appendix 12) totalling Lire 102,837 million have increased by Lire 24,714 million mainly as a result of additional aircraft lease and hire costs.

The balance includes Lire 97,960 million of prepaid expenses and Lire 4,876 million of accrued income. The prepaid expenses mainly relate to prepaid lease and rental costs (Lire 62,109 million), sundry services (Lire 28,439 million) and personnel costs (Lire 2,935 million).

LIABILITIES AND SHAREHOLDERS' EQUITY

A) SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY amounted to Lire 2,391,465 million and was made up of the balance of the parent company (Lire 2,389,871 million, detailed in appendix 13) and that of minority interests (Lire 1,594 million) as follows:

Parent company:

I. **SHARE CAPITAL** of Lire 1,548,444 includes 1,548,444,168 shares with a nominal value of Lire 1,000 each. It has not changed since 31 December 2000. 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 Economy and Finance.

II. The **SHARE PREMIUM RESERVE** of Lire 1,102,994 million decreased by Lire 139,759 million following the allocation of that amount, as per a Shareholders' Meeting resolution of 23 May 2001, to cover the parent company's losses for the year ended 31 December 2000;

IV. The **LEGAL RESERVE** of Lire 24,575 million has remained unchanged since 31 December 2000;

VII. **OTHER RESERVES** amounting to Lire 31,254 million increased by Lire 143 million compared to 31 December 2000.
They may be analysed as follows:

1. **Reserve for translation differences** – included in retained earnings at 30 June 2000 and relating to Italiatour – amounted to Lire 919 million, an increase of Lire 426 million. This reserve arises upon the translation into Lire of financial statements prepared in foreign currency. It includes the exchange differences resulting from the translation of net equity at current exchange rates and at prior year end exchange rates. It also includes the difference between the result for the year as translated using the average exchange for the year and as translated using period end exchange rates;

2. **Capital grants reserve – law 64/86 and 181/89**, regarding the company Atitech which operates in Southern Italy, amounted to Lire 27,990 million, a decrease of Lire 282 million compared to 31 December 2000 following the sale of 1% of the share capital of the subsidiary to third parties;

3. **Reserve for share issue – article 2349 of the Italian Civil Code** amounted to Lire 2,289 million and did not vary in comparison with 31 December 2000;

4. **Consolidation reserves** amounted to Lire 57 million and did not vary compared to 31 December 2000;

VIII. RETAINED EARNINGS amounted to Lire 186,144 million and decreased by Lire 355,734 million. The decrease was mainly due to the coverage of parent company losses by using in full the retained earnings reported in that company's balance sheet together with part of the Share Premium Reserve for the excess.

It should also be noted that in order to eliminate value adjustments and accruals made solely in application of fiscal legislation, Lire 24,195 million representing the gains realised on fixed assets and accrued in 1987 and previous 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 503,539 million.

As previously noted in the section dealing with tangible fixed assets, the elimination of the adjustments and accruals performed exclusively in the application of the fiscal law derived from the application of statutory regulations for consolidation and negatively impacted the profit and less statement for the period by Lire 1,754 million. This occurred as a result of higher depreciation due to reinvested gains on sale being recorded in net equity by the parent company in accordance with article 54 of presidential Decree No. 597 of 1973 (for Lire 3,625 million), partially offset by the release of the provision for taxes (for Lire 1,871 million).

Minority interests:

X. MINORITY INTEREST IN SHARE CAPITAL AND RESERVES amounted to Lire 1,552 million, with a decrease of Lire 1,969 million mainly due to the aforementioned acquisition from Tirrenia di Navigazione of an 8% interest in Sigma. This was partly compensated by the share of net profit for 2000 pertaining to minority interests.

XI. NET PROFIT FOR THE PERIOD PERTAINING TO MINORITY INTERESTS amounted to Lire 43 million compared to the Lire 1,589 million at 31 December 2000.

B) PROVISIONS FOR LIABILITIES AND CHARGES

PROVISIONS FOR LIABILITIES AND CHARGES (detailed in appendix 15) totalled Lire 719,262 million and increased by Lire 51,224 million from 31 December 2000;

They may be analysed as follows:

2. The **provision for taxes** to cover expected liabilities in respect of as yet undefined results and deferred taxes

amounted to Lire 33,419 million and decreased by Lire 11,280 million as a result of the utilisation of Lire 10,085 million of the deferred tax provision of the companies Racom, Aviofin and Sigma;

3. **Other provisions,** amounting to Lire 685,843 million, have increased by Lire 62,504 million and can be detailed as follows:

   a) **Provision for deferred exchange gains** amounted to Lire 13,431 million and has increased by Lire 6,771 million. Pursuant to Italian Accounting Standard 27, it reflects the excess of exchange gains on medium/long-term receivables and payables (net of the portion falling due after less than one year) over exchange losses thereon.

   b) the **provision for prizes and promotion** which amounts to Lire 87,857 million increased by Lire 5,453 million over 31 December 2000 due to the further development of such initiatives;

   c) the **provision for forward sale and purchase commitments** relates to fuel price hedging transactions. It amounts to Lire 14,728 million and has recorded a net decrease of Lire 26,872 million following its use in respect of costs incurred during the period (Lire 32,230 million) and additional accruals for additional exposure (Lire 5,358 million);

   d) the **provision for early retirement costs** which was created in 1997, amounted to Lire 175,865 million at 30 June 2001. In accordance with the European Commission's request following its review of the Alitalia Business Plan 1996-2000, the provision reflects costs incurred and to be incurred by the parent company in respect of 700 early retirement packages offered to employees who left the company between 1995 and 1997. The increase of Lire 1,553 million compared to 31 December 2000 corresponds to the interest accrued during the period on the "escrow account" which holds the first part of costs paid into the account in 1997 (Lire 56,600 million);

   e) the **provision for commercial agreements** amounted to Lire 206,770 million. It relates to the risks connected with the reimbursement Euro 100 million paid by KLM towards the cost of launching the new hub of Malpensa, together with accrued interest thereon. The increase of Lire 4,691 million from 31 December 2000 is due to interest payable accrued during the first six months of 2001;

   g) **Sundry provisions** amounted to Lire 187,193 million and have increased by Lire 70,908 million. They mainly relate to:

- **Provision for sundry expenses** includes amounts provided by the parent company. It amounted to Lire 140,374 million and has recorded a net increase of Lire 62,683 million. This is mainly due to the prudent accrual made in respect of the penalty (Lire 51,992 million) imposed by the Competition and Market Authority (AGCM) in relation to incentive schemes operated by Alitalia towards travel agencies which were considered an unfair competitive practice. The company believes that it has acted properly and has taken the necessary action to appeal against the decision.
  The additional accruals (Lire 27,513 million) take account of prudent evaluations of the risks regarding further proceedings underway before the AGCM (see page 42). They also include smaller amounts regarding the risks relating to cash balances in foreign countries that are subject to transfer restrictions and to other ongoing disputes in Italy and foreign countries .
  Lire 16,800 million was released from the provision as a result of positive developments regarding relations with the social security institutions.

- **Provision for work on technical areas** amounts to Lire 32,285 million and represents costs that might have to be incurred in order to be able to ensure that aircraft are in full operational order with particular reference to scheduled maintenance.
  The increase for the period was Lire 6,913 million;

- the **provision for the failure to lease equipment** amounts to Lire 6,543 million and relates to Sigma S.p.A. It has remained unchanged since 31 December 2000. The provision was made in respect of possible costs that could arise in 2002 and 2003 in the event of a failure to negotiate a new lease of equipment that has not yet been fully depreciated and acquired to provide a hardware platform for 1999-2001;

- **provision for sundry risks** amounts to Lire 5,061 million and relates to Eurofly. It has not changed since 31 December 2000. It includes an accrual made in 2000 in respect of possible costs in relation to the restructuring of the long-haul charter business;

- **provision for the phasing out of MD-83 -** this provision relates to Eurofly. Lire 1,200 million was accrued during the first half of the year in respect of costs to be incurred by the end of the year in relation to the phasing out of four MD-83 aircraft;

- **provision for ongoing litigation** amounts to Lire 971 million and has not changed compared to 31 December 2000. It mainly relates to a dispute between Atitech and the social security institution INAIL in relation to the redetermination of the parameters used by the institute in prior years (Lire 757 million).

- **Sundry other provisions** totalling Lire 759 million (Lire 646 million at 31 December 2000) relate to specific risks and charges regarding certain subsidiaries.

C) PROVISION FOR EMPLOYEE SEVERANCE PAY

The **PROVISION FOR EMPLOYEE SEVERANCE PAY**, amounts to Lire 791,880 million and has increased by Lire 25,553 million, essentially due to the following:

- employee severance pay accrued for the period (Lire 62,603 million);
- use of the provision, mainly relating to terminations and to advances given to employees in accordance with applicable law in place, amounting to Lire 37,050 million.

D) PAYABLES

PAYABLES (appendices 22 and 23) total Lire 4,957,197 million, an increase of Lire 619,351 million from the prior year. Specifically:

3. **Amounts due to banks** totalled Lire 2,080,712 million (of which Lire 1,775,428 million related to medium/long-term loans including the current portion and Lire 305,284 to short-term borrowings). They had increased by Lire 192,791 million as the cash required for investments (Lire 791 billion) exceeded cash flow from operations (Lire 605 billion including the refund of advances paid on B-747 aircraft (Lire 496 billion).
   In more detail:

   - Medium /long-term liabilities amounted to Lire 1,775,428 million, an increase of Lire 272,498 million due to:

     - the receipt of new loans totalling Lire 373,255 million, entirely secured on the fleet assets;
     - repayments of Lire 100,757 million made during the year.

   - Short-term borrowings decreased by Lire 79,707 million to stand at Lire 305,284 million.

4. **Amounts due to other lenders** amounting to Lire 19,822 million entirely relate to IRI S.p.A. They decreased by Lire 1,234 million as a result of repayments made as due;

5. **Advances** amounted to Lire 18,877 million. This constitutes an increase of Lire 12,715 million compared to prior year. The balance mainly relates to Italiatour and regards sums paid in advance by customers at the time of booking tourism packages (Lire 14,873 million). These amounts used to be classified under D-13 "Other Payables – Sundry Payables".

For comparative purposes, we reclassified the balance at 31 December 2000 (Lire 3,652 million).

6. **Trade payables** amounted to Lire 1,081,510 million with an increase of Lire 82,541 million mainly as a result of exchange rate and inflation related factors;

7. **Credit instruments** amounted to Lire 112,725 million. This balance related to a short-term finance programme involving the issue of credit instruments / promissory notes. The operation was organised by Mediocredito Centrale and gives the company access to an extra, flexible line of credit. There was no such balance at the date of the balance sheet used for comparative purposes;

8. **Amounts due to subsidiary companies** amounted to Lire 7,000 million. The balance has not changed compared to 31 December 2000 and entirely relates to Sisam (in liquidation).

9. **Amounts due to associated companies,** including share capital subscribed but not yet paid, amounted to Lire 4,546 million and has increased by Lire 2,068 million mainly in relation to the greater exposure towards Ales S.p.A.(Lire 2,841 million).

11. **Amounts due to tax authorities** includes taxes payable to the authorities. The balance amounted to Lire 135,580 million and has increased by Lire 10,839 million. It mainly consists of VAT, IRPEG and IRAP payable;

12. **Amounts due to social security institutions** amounted to Lire 91,263 million. The balance has increased by Lire 4,453 million.;

13. **Other payables** amounted to a total of Lire 1,405,163 million, an increase of Lire 202,455 million.
    They may be analysed as follows:

    a) **Prepaid tickets,** including pre-invoiced charter flights, amounted to Lire 596,312 million, an increase of Lire 262,309 million compared to 31 December 2000 mainly due to seasonal factors and an increase in the time taken to use tickets;

    b) **Payables to airlines** totalled Lire 234,151 million, a decrease of Lire 90,232 million compared to 31 December 2000. The decrease is due to the fact that fewer of the company's tickets were used on other airlines' flights and to a fall in the amount due to Azzurra;

    c) **Payables to travel agents**, including commission payable, amounted to Lire 123,238 million, a decrease of Lire 14,490 million;

    d) **Sundry payables** amounted to Lire 451,462 million, an increase of Lire 44,869 million mainly in relation to accruals for retirement initiatives (+ Lire 24,886 million) and to an increase in amounts due to employees (+ Lire 22,756 million) as offset in part by lower payables for services from third parties.

E) ACCRUED LIABILITIES AND DEFERRED INCOME

ACCRUED LIABILITIES AND DEFERRED INCOME (appendix 18) amounted to Lire 413,145 million. This represents a decrease of Lire 17,645 million, mainly due to the release to the profit and loss statement of part (Lire 28,864 million) of the gain made in 2000 on the sale and leaseback of 20 MD-80 aircraft; the gain had been deferred to future years over the period of the leaseback agreement. Meanwhile, there was an increase regarding the net change in the grant awarded by the Brazilian Government and the manufacturer on the purchase of Embraer aircraft (Lire 7,535 million). During the first half of the year, the company acquired two Embraer aircraft.
The balance includes the remainder of the aforementioned gain on the sale and leaseback operation (Lire 275,230 million) and other revenues collected but regarding future periods (Lire 98,528 million), accrued financial charges (Lire 13,312 million) and accrued lease instalments (Lire 26,075 million).

MEMORANDUM ACCOUNTS

MEMORANDUM ACCOUNTS amounted to Lire 12,315,513 million at 30 June 2001, a net decrease of Lire 1,461,244 million compared to 31 December 2000.
In more detail:

1. **Personal guarantees given** for liabilities and other third party obligations amounted to Lire 3,656 million and have increased by Lire 22 million net.
   They were as follows:

   a. **Sureties**: amounted to Lire 3,207 million. The balance relates to patronage letters issued in favour of Sisam (in liquidation) (Lire 271 million) and sureties in favour of others (Lire 2,936 million). The balance increased by Lire 22 million.;

   c. **Others: On behalf of others** amounted to Lire 449 million, unchanged over the period. It relates to a joint obligation 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 1,722,173 million and consist of mortgages taken out on the following assets:

   - Aircraft - Lire 1,576,719 million, a net increase of Lire 282,985 million mainly as a result of new loans arranged;

   - The new head offices of the parent company - Lire 145,455, a decrease of Lire 4,545 million.

3. **Purchase and sale commitments** (appendix 28), amounting to Lire 5,501,160 million, a decrease of Lire 669,824 million compared to 31 December 2000.

   In more detail:

   - **Purchase commitments** amounted to Lire 2,662,466 million, a net decrease of Lire 230,907 million as a result of the lower level of commitments towards new purchases for the fleet. The balance at 30 June 2001 may be analysed as follows:

   – new aircraft (12 A319s, 6 B777/200Ers and two spare B777 engines) – Lire 2,378,552 million;

   – replacement parts for new aircraft - Lire 106,384 million;

   – supplies for modifications to aeronautic materials – Lire 1,084 million;

- services relating to restructuring of hangars and buildings, maintenance and modification according to legal requirements of equipment – Lire 47,012 million;

- services regarding the use of data transmission networks - Lire 13,711 million;

- forward exchange contracts for Lire 70,099 million in Dollars to cover exchange risks regarding major commitments (fuel and Clearing House);

- subscriptions by the parent company of shares in O.T.P. Ltd (Lire 37,641 million), SASA S.p.A. (Lire 5,928 million) and Belac (Lire 2,055 million).

- **sale commitments** amounted to Lire 2,838,694 million, a decrease of Lire 438,918 million.
  They relate to:

  - forward contracts to sell currency for Lire 138,996 million regarding exchange risk on cash flows expected in the six month period (Lire 493,239 million in the comparative period).

  - commitments for Lire 2,699,698 million related to the supply of services to third parties by Alitalia, Sigma and Sigma Travel System. These mainly related to long-term contracts for maintenance services by Alitalia.

4. **Other memorandum accounts** (appendix 29) totalled Lire 5,088,524 million, Lire 1,069,881 down on the 31 December 2000 balance.
   In more detail:

- **Personal guarantees received**, amounting to Lire 76,237 million, consist of bank and insurance company guarantees issued by travel agents and third parties. They increased by Lire 6,112 million;

- **Assets held under finance lease agreements** amounted to Lire 1,487,878 million. This represents a decrease of Lire 48,942 million mainly as a result of instalments paid during the period less the inherent exchange increase in the final instalments payable.
  In particular, these amounts relate to:

  - aircraft, spare engines and spare parts – Lire 1,465,152 million;

  - buildings – Lire 22,726 million.

  It should be noted that for aircraft leased from Paynsfield (Lire 757,847 million) and Tarquin (Lire 111,151 million), the amount of regular instalments and the final purchase option instalments are linked domestic currency swaps and to forward contracts for the purchase of currency;

- **Third party assets on deposit and on operating leases** amounted to Lire 1,155,667 million and decreased by Lire 80,992 million, mainly attributable to a decrease in aircraft lease instalments partially countered by exchange rate related increases in instalments;

- **Group assets with third parties** amounted to Lire 28,574 million. They included electronic systems (Lire 737 million) and aeronautic materials (Lire 27,837 million). There was a decrease of Lire 28,741 million compared to last year, mainly in respect of assets materials held by Gemini Air Cargo;

- **Third party guarantees in respect of Group obligations** – these essentially consist of sureties issued by third parties in respect of Group liabilities. They amounted to Lire 487,488 million with a decrease of Lire 53,930 million mainly because the value of sureties was brought into line with the level of outstanding liabilities. The balance includes guarantees issued by:

  – Eximbank (Lire 345,035 million) in respect of Group liabilities;

  – Other third parties (Lire 129,102 million) including Banca Nazionale del Lavoro (Lire 42,921 million), Banca Popolare di Milano (Lire 38,427 million), Banca di Roma (Lire 29,320 million), Banca Popolare di Sondrio (Lire 12,089 million) and Banca Commerciale Italiana (Lire 3,239) in respect of several of the Group's obligations;

- **Derivative transactions,** amounting to Lire 1,846,625 million, relate to the notional capital regarding operations involving interest rate swaps and hedging transactions regarding fuel prices and exchange rates. There has been a decrease of Lire 863,364 million as a result of the lower level of loan and lease transactions and a drop in the level of hedging transactions for fuel prices and exchange rates.

Other memorandum accounts amounted to Lire 6,055 million. They mainly relate to penalties applied by Atitech to Grassetto Costruzioni S.p.A. during work under a contract to build a complex including hangars, workshops and offices (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 relates to a comparison between the results reported for the six months ended 30 June 2001 – prepared in accordance with Legislative Decree No.127 of 1991 – and the results for the period ended 30 June 2000.
This document should be read together with the appendices in Part D of the Notes.
Any reclassifications of a significant character have been commented on in the relevant section.

A) VALUE OF PRODUCTION

VALUE OF PRODUCTION amounted to Lire 5,392,287 million and increased by Lire 311,121 million (+6.1%). It may be analysed as follows:

1. **Revenues from sales and services** (see appendix 30 for an analysis by geographical area) amounted to Lire 5,178,097 million and increased by Lire 328,849 million (+6.8%) on the same period last year.
   In particular:

   - **Traffic revenues** amounted to Lire 4,394,893 million, with an increase of Lire 238,243 million (+5.7%). They may be analysed as follows by sector:

     – **Passengers** – revenues from this sector increased by Lire 283,000 million (+8.3%) including around Lire 100 billion relating to the transformation of the agreement with Azzurra and Minerva from a franchise agreement to a wet lease. The rest of the increase essentially relates to an improvement in yield (+10.5%) subject to the lower volume of traffic (TKT –4.2%). In terms of destination, the increase mainly relates to domestic flights and flights for North Atlantic and European destinations;

     – **cargo** – revenues fell by Lire 30,119 (-6.1%) mainly as a result of the lower volume of cargo carried (TKT –6.6%). The decrease related to the Far East, South Africa and Oceania sectors in particular;

     – **mail** – revenues increased by Lire 1,849 million (+19.4%) mainly thanks to the higher volume of mail carried;

     – **other traffic revenues** decreased by Lire 16,488 million due to a fall in charter revenues (-Lire 26,079 million) and lower revenues from joint activities with other airlines (-Lire 1,773 million). This was partially countered by increases regarding block-space agreements and night mail flights (total Lire 11,364 million);

- **Other services**, amounting to Lire 760,808 million, increased by Lire 88,839 million (+13.2%) as follows:

  - **Additional income from traffic** increased by Lire 34,461 million, due to "boarding taxes" (+Lire 48,223 million), following fare increases. This increase is counterbalanced by the corresponding cost included in "Traffic and airport expenses ";

  - **Rental income,** amounting to Lire 3,197 million, increased by Lire 2,363 million essentially as a result of ACMI hires on charter flights operated for other airlines*;*

  - **Services to third parties** amounted to Lire 410,984 million, increasing by Lire 52,015 million, mainly as a result of an increase in maintenance activities performed for other airlines (+Lire 28,044 million), miscellaneous services (Lire 17,639 million) connected mainly with advertising, tourism revenues (Lire 8,059 million, Italiatour) as countered in part by a decrease in income from instalments payable by travel agents for the rental of systems (-Lire 1,793 million);

- **Revenues from sales** amounted to Lire 22,395 million. They increased by Lire 1,768 million, mainly in relation to the sale of technical materials.

2. **Change in work in progress inventory –** there was a decrease of Lire 6,322 million, Lire 12,977 million than that recorded for the same period in 2000. The decrease relates to the completion of work on landing gear for MD-11 aircraft.

4. The **capitalisation of internal construction costs** amounted to Lire 82,517 million, with an increase of Lire 20,988 million compared to the six months ended 30 June 2000.
In particular, the costs capitalised relate to:

- Financial charges (Lire 13,560 million) relating to advances paid to suppliers for the purchase of aircraft; these increased by Lire 3,049 million as a result of the higher level of advances of this nature;

- Costs regarding modifications to / overhaul of aircraft (Lire 58,390 million) and other deferred charges (Lire 10,567 million). There was an increase of Lire 17,939 million compared to the first half of 2000. This was mainly due to the higher level of work on the Group's own fleet;

5. **Other revenues and income** amounted to Lire 137,995 million, a decrease of Lire 25,739 million;
They included:

b) **Gains on disposal of fixed assets** amounting to Lire 697 million compared to Lire 12,194 million in the first half of 2000. It should be recalled that the gains in the first half of 2000 related to the sale of an ATR-42 and a MD-80 plus an engine and other aeronautics materials;

c) **other** revenues amounted to Lire 137,298 million and decreased by Lire 14,242 million. They mainly regarded:

   – the release of provisions for Lire 31,819 million (Lire 66,717 million in the six months ended 30 June 2000), related to expenses for prize competitions (Lire 14,434 million) and the surplus in the provision for sundry risks (Lire 16,800 million). The latter item arises following the positive settlement of disputes with social security institutions;

   – positive differences arising in relation to provisions made in prior years- Lire 36,694 million (Lire 37,056 million in the first half of 2000);

   – positive differences of Lire 30,600 million arising during the period in respect of air services that need no longer be performed especially in relation to the expansion of incentive return fares that were used on just one route last year (Lire 7,360 million);

   – income regarding the recovery of costs incurred in relation to the commercial co-operation agreements with Azzurra and Minerva (Lire 12,880 million). This has decreased by Lire 12,352 million following the transformation of these agreements from franchise agreements to wet leases (the related costs are included under "sundry operating charges");

   – commercial allowances paid by suppliers (Lire 12,287 million), contributions received from third parties (Lire 3,365 million), insurance refunds (Lire 2,167 million), fees recovered by Directors and Statutory Auditors (Lire 950 million), income from real estate investments (Lire 902 million) and other income (Lire 5,634 million). These items increased by a total of Lire 10,130 million.

B)
COST OF PRODUCTION

COST OF PRODUCTION amounted to Lire 5,714,672 million and increased by Lire 296,323 million (+5.5%) compared to the same period in 2000.

In more detail*:*

6. The **cost of technical materials, fuel and consumables** amounted to Lire 976,679 million and decreased by Lire 14,806 million (- 1.5%).
This item includes the following:

- **Spare parts and technical material inventories,** purchases of which fell by Lire 9,966 million. It should be noted that consumption of such items, including the change in inventory, increased by Lire 25,768 million mainly as a result of the higher level of maintenance work done for third parties and of exchange rate and price related factors;

- **Sundry materials** – including the change in inventory there was an increase of Lire 11,080 million for a total of Lire 105,851 million. The cost of certain consumables previously included under this heading has now been reclassified to B7 " cost of services – other services" and B14 "sundry operating charges - other". The appropriate reclassifications have also been made to the figures for the first half of 2000 for comparative purposes (Lire 12.5 billion);

- **Fuel and oil costs** amounted to Lire 670,144 million. Although there was an increase of Lire 12 billion in relation to the transformation of the relationships with Minerva and Azzurra into wet leases, there was an overall decrease of Lire 13,503 million (-2%), mainly as a result of a fall in the price of fuel (from $0.9064 per US gallon in the first half of 2000 to $0.852 in the first half of 2001), the lower level of activity and exchange rate fluctuations. The effect of price variations was essentially offset by costs regarding fuel price hedges recorded under financial income and charges;

7. **Service expenses** amounted to Lire 2,626,792 million, an increase of Lire 79,199 million (+3.1%).
   The following should be noted*:*

- **Selling costs**, totalling Lire 825,786 million, increased by Lire 24,772 million (+3.1%) mainly as a result of higher advertising and promotional expenses as countered by a fall in automatic reservation expenses*;*

- **Traffic and airport expenses,** amounting to Lire 1,082,653 million, increased by Lire 18,372 million (+1.8%). This includes the effects of the handling services performed since July 2000 by Alitalia Airport which took over from Aeroporti di Roma. This change has led to a decrease of around Lire 70 billion in airport assistance costs and an increase in other profit and loss items (mainly personnel costs and other services). If we exclude this change in operating practices, the increase amounts to around Lire 88 billion and relates to:

  - Boarding taxes and other airport duties (Lire 75 billion). These are largely offset (Lire 48 billion) by the item including in sundry traffic income;

  - The transformation of contracts with Azzurra and Minerva from franchise agreements to wet leases;

- **Air fleet maintenance and overhaul costs** totalling Lire 220,073 million increased by Lire 4,304 million (+2%), mainly as a result of negative price and exchange rate variations;

- **Losses on joint traffic activities,** amounting to Lire 22,276 million, decreased by Lire 11,248 million, primarily due to the transformation of the agreements with Minerva and Azzurra as mentioned above;

- **Other services** totalling Lire 476,004 million increased by Lire 42,998 million. This was due to incidental personnel costs (+Lire 21,233 million), insurance (+Lire 9,255 million), general and professional services (+Lire 6,247 million), sundry maintenance (+Lire 3,227 million) and tourism services (+Lire 1,777 million). It should be noted that the increase included the effects of the activities that were performed by Aeroporti di Roma in the first half of 2000 – around Lire 13 billion (mainly incidental personnel costs, general and maintenance services).

8. **Lease and rental costs**, amounting to Lire 505,309 million, increased by Lire 41,574 million (+9%) as follows:

    - **Rent payable**, amounting to Lire 211,275 million, increased by Lire 40,317 million, mainly as a result of the new wet lease agreements with Minerva and Azzurra (+Lire 63,777 million) and to "all cargo" hires (+Lire 14,053 million). These increases were offset by decreases in relation to hires from KLM (-Lire 26,983 million) and Lauda Air (-Lire 11,402 million);

    - **Leasing costs payable**, amounting to Lire 80,573 million, decreased by Lire 4,086 million, mainly following payment of the final purchase option in respect of five MD-80 and two B-747 aircraft, as countered by new finance lease agreements for an A-321 and an A-320.
    If aircraft held under finance lease agreements were accounted for in accordance with the finance lease methodology required by International Accounting Standard (IAS) 17, costs for the first half of 2001 would be around Lire 4 billion lower. The effect of this method on prior years would lead to an increase of around Lire 11 billion in shareholders' equity;

    - **Operating lease costs,** amounted to Lire 48,072 million, an increase of Lire 38,470 million. This followed the sale and leaseback of 20 MD-80 aircraft in the second half of 2000 (compensated for Lire 28,864 million by the gain on disposal relating to the period as specified under extraordinary income);

    - **Block space charges**, amounting to Lire 112,203 million, decreased by Lire 40,096 million. This was mainly due to the termination of an agreement with Continental (Winter 2000/2001 season) and to changes to the agreement with JAL regarding Milan Malpensa –Tokyo flights;

- **Rent and instalments payable,** amounting to Lire 53,185 million, increased by Lire 6,969 million mainly in relation to instalments for plant and equipment needed for handling activities;

9. **Personnel costs** amounted to Lire 1,234,145 million and increased by Lire 135,482 million (+12.1%), mainly as a result of the Group's taking over the activities previously performed by Aeroporti di Roma (around Lire 53 billion) and, for a similar amount, increases in the average workforce (+959 employees) in the handling, maintenance/overhauls and commercial sectors, pay increases following the renewal of collective labour agreements, the ending of Aititech's exemption from social contributions and several redundancy incentives.
   The increase was also affected by a Lire 2,231 million rise in the provision for accrued holiday pay*;*

10. **Amortisation, depreciation and writedowns** amounted to Lire 288,350 million and increased by Lire 9,341 million.
   They are analysed as follows:

   a) **Amortisation of intangible fixed assets** (appendix 1) totalled Lire 34,800 million, a decrease of Lire 1,789 million. The decrease mainly relates to the lower amortisation charge in respect of third party aircraft;

   b) **Depreciation of tangible fixed assets** (appendix 3) totalled Lire 242,645 million. It increased by Lire 13,211 million mainly as a result of the acquisition of new aircraft (7 Embraer, 5 A-320 and one B-747) as offset in part by the decrease following the disposal of several aircraft in the second half of 2000.
   It should be noted that depreciation of tangible fixed assets is Lire 3,625 million higher than that charged by the parent company due to adjustments made during the consolidation process regarding the treatment of the aforementioned article 54 of Presidential Decree No. 597 of 1973 reserve*;*

   c) **Other fixed asset writedowns,** amounting to Lire 746 million, increased by Lire 473 million compared to the first half of 2000;

   d) **Write-downs of current receivables and cash and cash equivalents*,*** amounting to Lire 10,160 million, reflects prudent provisions for doubtful debts and decreased by Lire 2,553 compared to the first six months of 2000.

11. **Changes in technical materials, spares and consumable inventories** amounted to Lire 8,124 million compared to Lire 46,276 million at 30 June 2000.

12. The **provisions for liabilities and charges** amounted to Lire 12,204 million. This item mainly referred to the up-

dating of the risks referred to legal disputes and disputes with suppliers and interest connected to the risk of returning the amount paid by KLM (Euro 100 million). In the first half of 2000, this balance amounted to Lire 17,850 million and also included a provision for future charges regarding charter contracts agreed (Eurofly) as a result of rising fuel prices (Lire 6,000 million).

13. **Other provisions** amounted to Lire 33,955 million and essentially related to the provision for prize competitions (lire 25,729 million) and to provisions for work on technical areas (Lire 6,913 million). This item increased by Lire 11,031 million compared to the first half of 2000 mainly as a result of the higher accruals for prize competitions and work on technical areas.

14. **Sundry operating charges** amounted to Lire 45,361 million and increased by Lire 1,995 million. The increase was mainly due to under provisions made in prior years (+Lire 9,474 million) and to the accumulative effects of agreements with plots and flight attendants' trade unions (+Lire 3,757 million) as countered in part by the review of contracts with Azzurra and Minerva (-Lire 11,864 million). These last items are recovered and recorded under "other revenues and income".

C) FINANCIAL INCOME AND EXPENSES

FINANCIAL INCOME AND EXPENSES resulted in net charges of Lire 55,807 million compared to net charges of Lire 6,645 million in the first half of 2000. The increase of Lire 49,162 million may be analysed as follows:

15. **Income from investments** totalled Lire 508 million and included dividends from E.A.S and Emittenti Titoli. This item increased by Lire 383 million compared to the first half of 2000.

16. **Other financial income** totalled Lire 62,943 million, an increase of Lire 20,666 million due to the higher level of exchange gains, income from derivative transactions and higher bank interest income.

17. **Interest and other financial expenses** (see appendix 35 for details of interest and charges and other financial charges capitalised) amounted to Lire 119,257 million and increased by Lire 70,210 million. The increase essentially relates to the higher charges regarding fuel price hedging transactions (+Lire 50,043 million) which were not present last year but were offset by lower fuel prices. It also regarded accruals made in respect of forward contracts maturing in the second half of the year (Lire 5,358 million) and higher bank interest (Lire 24,813 million) due to an increase in borrowings and in interest rates (from 4.7% in 2000 to 5.4% in 2001) as offset in part by lower exchange losses (-Lire 11,445 million).

D) ADJUSTMENTS TO FINANCIAL ASSETS

ADJUSTMENTS TO FINANCIAL ASSETS consisted of a net charge of Lire 56 million following the net equity valuation of associated companies 7C, Sasco, Verona Cargo Center and Ales.
Further information is contained in appendix 4.

E) EXTRAORDINARY INCOME AND EXPENSES

EXTRAORDINARY INCOME AND EXPENSES (appendix 37) consisted of net charges of Lire 52,410 million, Lire 106,568 million worse than in the first half of 2000.

In more detail:

20. **Extraordinary income** amounted to Lire 37,010 million and essentially related to:

- The portion relating to the period (Lire 28,864 million) of the capital gain made on the sale and leaseback (for five years on average) of 20 MD-80 aircraft in 2000. Detailed information about this transaction was provided in the 2000 financial statements. We note at this point that the capital gain arising was almost entirely deferred to future periods in proportion to the lease instalments payable;

- Prior year income (Lire 8,113 million).

Last year, extraordinary income totalled Lire 63,833 million and included deferred tax assets relating to prior years (Lire 27,721 million). These were recorded in the profit and loss statement in the first half of 2000 following the lease of a business segment to Alitalia Team together with the transfer of liabilities (Lire 74,921 million) in respect of which Alitalia had already added back the related costs in computing taxable income.

21. **Extraordinary expenses** totalled Lire 89,420 million compared to Lire 9,675 million for the same period in 2000. They mainly relate to the Lire 51,992 million provided in respect of the penalty imposed by the Competition and Market Authority (AGCM) in relation to incentive schemes operated with travel agents that were deemed to constitute improper competitive practices. Alitalia believes that it has acted properly and has appealed through the proper channels. The remaining amount consists of an accrual prudently made in respect of further proceedings before the AGCM as referred to under “Significant events subsequent to the six-month period” plus prior year charges and a writedown following the transfer of a plot of land free of charge to Rome City Council in July 2001 to complete a project that led to a change in the approved use of land around Magliana.

22. **Income taxes for the period** totalled lire 72,839 million and reflect the Group companies’ tax burden for the period.
Current taxation includes IRAP (Regional Tax on productive Activity) of Lire 47 billion and IRPEG (National

Corporation Tax) of Lire 45 billion. The balance includes deferred tax assets recognised of Lire 22 billion and a net charge of Lire 3 billion regarding the use of deferred taxes and prior year deferred tax assets.

26. The **net loss for the period** of Lire 503,496 million compares with a loss of Lire 352,296 million for the first half of 2000 as follows:

Attributable to parent company	Lire(503,539) million
Attributable to minority interests	Lire 43 million

APPENDIX 1

INTANGIBLE FIXED ASSETS

In millions of Lire

Accounts Sub-account	31.12.2000			Changes for the period						30.06.2001		
	Cost	Amort'n	Net book value	Purchas./ Int costs	Reclass.	Disp-osals	(W/D.) Adjust.. to value	Changes to consolid area	Amort.	Cost	Amort'n	Net book value
1. START-UP AND EXPANSION COSTS	95,113	62,296	32,817	5,851	0	0	0	0	8,583	100,964	70,880	30,084
2. RESEARCH, DEVELOPMENT & ADVERTISING COSTS	70,522	67,641	2,881	0	0	0	0		729	70,522	68,370	2,152
3. PATENTS AND INTELLECTUAL PROPERTY RIGHTS	102,435	54,532	47,903	5,780	4,855	0	0		9,694	113,069	64,225	48,844
4. CONCESSIONS, LICENCES AND TRADEMARKS	7,032	4,780	2,252	103	0	0	0	0	445	7,133	5,226	1,907
5. GOODWILL	0	0	0	0	0	0	0	0	0	0	0	0
6. ASSETS UNDER DEVELOPMENT AND ADVANCES	14,183	0	14,183	12,674	(5,984)	26	0	0	0	20,846	0	20,846
7. OTHER	514,271	429,011	85,260	13,133	2,181	0	0	0	13,998	529,588	443,008	86,580
8. CONSOLIDATION DIFFERENCES	7,568	4,939	2,629	594	0	0	0	0	1,351	8,162	6,290	1,872
TOTAL	811,123	623,199	187,924	38,135	1,052	26	0	0	34,800	850,285	657,999	192,286

APPENDIX 2

BREAKDOWN OF START-UP AND CAPITAL INCREASE COST

In millions of Lire

Accounts Sub-account	30.06.2001	31.12.2000
REGISTRATION DUTY ON SHARE CAPITAL INCREASE	7,680	10,154
PROFESSIONAL FEES AND CHARGES FOR SHARE CAPITAL INCREASE	7,131	9,508
RETRAINING OF PERSONNEL	375	500
TRAINING OF PILOTS	14,684	12,327
COSTS REGARDING INTRODUCTION OF B767 and other aircraft	94	186
START-UP COSTS	60	74
EXPANSION COSTS	60	68
TOTAL	30,084	32,817

BREAKDOWN OF RESEARCH, DEVELOPMENT AND ADVERTISING EXPENSES

In millions of Lire

Accounts Sub-accounts	30.06.2001	31.12.2000
STUDIES AND RESEARCH	67	101
MALPENSA ADVERTISING	2,085	2,780
TOTAL	2,152	2,881

A P P E N D I X   3

TANGIBLE FIXED ASSETS

In millions of Lire

Account Sub-account	31.12.2000 Cost	31.12.2000 Reval. (W/d.) cost	31.12.2000 Reval. (W/d.) Dep'n	31.12.2000 Accum. Deprec'n. (2)	31.12.2000 Net book value	Changes during year Purchas. Int costs	Changes during year Reclas. cost	Changes during year Reclas. Dep'n	Changes during year Disp. Cost	Changes during year Disp. Dep'n (2)	Changes during year Reval. (W/d.) cost	Changes during year Reval. (W/d.) Dep'n	Changes during year Consolid. Adjust-ments	Changes during year Consol Adj.. Dep'n	Changes during year Deprec'n (2)	30.06.2001 Cost	30.06.2001 Reval. (W/d.) cost	30.06.2001 Reval. (W/d.) Dep'n	30.06.2001 Accum. Dep'n (2)	30.06.2001 Net book value
1. LAND AND BUILDINGS																				
- Civil	100	0	0	84	16	0	0	0	0	0	0	0	0	0	1	100	0	0	85	15
- Industrial	331,711	44,156	0	126,194	249,673	485	0	0	0	0	(2,614)	0	0	0	5,484	332,196	41,542	0	131,678	242,060
2. PLANT AND MACHINERY																				
- Fleet	7,500,837	(9,835)	(1,671)	3,305,726	4,186,947	490,508	76,667	74,785	7,372	6,709	(1,166)	0	0	0	205,615	8,060,640	(11,001)	(1,671)	3,429,845	4,621,465
- Other	223,747	0	0	155,644	68,103	8,572	5,153	0	157	107	0	0	0	0	7,893	237,315	0	0	163,430	73,885
3. INDUSTRIAL AND COMMERCIAL EQUIPMENT	162,798	0	0	110,203	52,595	7,085	2,208	0	1,289	1,251	0	0	3,105	2,099	6,085	173,908	0	0	117,136	56,773
3bis. ASSETS SUBJECT TO REVERSION FREE OF CHARGE																				
- Land and buildings	196,853	0	0	121,706	75,147	0	0	0	0	0	0	0	0	0	4,230	196,852	0	0	125,936	70,916
- Plant and machinery	112,619	0	0	92,733	19,886	131	0	0	38	38	0	0	0	0	2,672	112,712	0	0	95,366	17,346
4. OTHER FIXED ASSETS	169,113	(17)	(13)	94,808	74,301	16,216	141	0	4,223	3,957	0	0	(2,796)	(1,818)	10,663	178,451	(17)	(13)	99,696	78,751
5. ASSETS UNDER CONSTRUCTION AND ADVANCES																				
- Assets under construction	91,883	0	0	0	91,883	15,220	(8,555)	0	0	0	(746)	0	0	0	0	98,549	(746)	0	0	97,803
- Fleet advances	551,098	0	0	0	551,098	204,334	(157,505)	0	0	0	0	0	0	0	0	597,927	0	0	0	597,927
T O T A L	9,340,759	34,304	(1,684)	4,007,098	5,369,649	742,551	(81,891) (*)	74,785 (**)	13,079	12,062	(4,526)	0	309	281	242,643	9,988,650	29,778	(1,684)	4,163,172	5,856,939

(1)
Of which:
Revaluations under:

	31.12.2000 Reval. (W/d.) cost	30.06.2001 Reval. (W/d.) cost
Law 72/1983	28,233	28,233
Law 1413/1991	15,923	15,923

(2)
Of which:

	31.12.2000 Accum. Deprec'n.	Disp. Dep'n	Deprec'n	30.06.2001 Accum. Dep'n
Accumulated industrial depreciation	157,182	38	4,842	161,985
Accumulated financial depreciation	57,257	0	2,060	59,317

Of which:
(*) reclass to technical inventory Lire 4,595 mln
(*) reclass to receivables Lire 1,459 mln

APPENDIX 4

DETAIL OF FINANCIAL FIXED ASSETS AND PAYMENTS FOR INVESTMENTS

In millions of Lire

Account / Sub-account	31.12.2000 Cost	31.12.2000 (Writedowns) Reinstatement of value	31.12.2000 Book value	Movements during period: Acquisitions/ Subscriptions	Reclass	Disposals	Chg in Consolid. area	(Writedowns) Reinstatement of value	Capital Reconstitution	30.06.2001 Cost	30.06.2001 (Writedowns) Reinstatement of value	30.06.2001 Book value
1. INVESTMENTS IN SUBSIDIARY COMPANIES												
- ODINO VALPERGA	4,080	(4,080)	0							4,080	(4,080)	0
- SISAM	2,572	2,011	4,583							2,572	2,011	4,583
	6,652	(2,069)	4,583	0	0	0	0	0	0	6,652	(2,069)	4,583
2.INVESTMENTS IN ASSOCIATED COMPANIES												
- ALES	245	0	245					1		245	1	246
- 7C	2,634	(11)	2,623					(713)		2,634	(724)	1,910
- NOVANTATOUR ITALIA (IN INSOLVENCY PROCEEDINGS).	200	(200)	0							200	(200)	0
- SASCO	49	79	128					614		49	693	742
- VERONA CARGO C.	80	368	448					42		80	410	490
	3,208	236	3,445	0	0	0	0	(56)	0	3,208	180	3,389
3.INVESTMENTS IN OTHER COMPANIES												
- AERON. RADIO OF THAIL.	2	0	2							2	0	2
- BELAC LLC	1,513	0	1,513	617						2,130	0	2,130
- CARGO SWITCH AG.	1	0	1							1	0	1
- CIES (1)	200	0	200							200	0	200
- CONSAER (1)	101	0	101							101	0	101
- EAS	315	0	315							315	0	315
- EDINDUSTRIA	144	0	144							144	0	144
- EMITTENTI TITOLI S.P.A.	142	0	142			42				100	0	100
- 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
- HACHETTE RUSCONI NET S. S.P.A.				15						15	0	15
- IRI MANAGEMENT	14	0	14							14	0	14
- LABIA SERVICE	600	(600)	0							600	(600)	0
- LYBIAN ITALIAN JOINT CO.	18	0	18							18	0	18
- OTOPENI Ltd	13,941	0	13,941							13,941	0	13,941
- SASA	12,248	(10,757)	1,491							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	0	2,278							2,278	0	2,278
- TURISTEL (1)	50	0	50							50	0	50
	33,975	(11,357)	22,618	632	0	42	0	0	0	34,565	(11,357)	23,208
TOTAL INVESTMENTS	44,285	(13,640)	30,646	632	0	42	0	(56)	0	44,425	(13,246)	31,180
1.bis – PAYMENTS FOR INVESTMENTS												
- EDINDUSTRIA	67	0	67							67	0	67
	67	0	67	0	0	0	0	0	0	67	0	67

A P P E N D I X 5

LIST OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES AT 30.06.2001

In millions of Lire

		NUMBER OF	SHARE CAPITAL IN LOCAL CURRENCY		ECHANGE RATE	SHARE CAPITAL IN LIRE			SHARE-HOLDING	CORRESP.	BOOK	
										(A)	(B)	B - A (+)
1. SUBSIDIARY COMPANIES :												
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)	**Rome**	**300,000**	**Lit**			**3,000,000,000**	**4,583**	**(749)**	**100,00**	**4,583**	**4,583**	
TOTAL SUBSIDIARY COMPANIES										**(2,524)**	**4,583**	**7,107**
2. ASSOCIATED COMPANIES :												
7 C ITALIA (ex ALIDATA S.p.A.)	**Palermo**	**272,000**	**Lit.**			**6,800,000,000**	**4,776**	**(1,782)**	**40,00**	**1,910**	**1,910**	
ALES S.p.A.	**Genoa**	**2,450**	**Lit.**			**500,000,000**	**503**	**12**	**49,00**	**246**	**246**	
SASCO - Sea Air Shipping company (4)	**Floren-ce**	**50,000**	**Lit.**			**200,000,000**	**2,968**	**2,455**	**25,00**	**742**	**742**	
VERONA CARGO CENTER S.p.A. (4)	**Verona**	**8,000**	**Lit.**			**200,000,000**	**1,226**	**105**	**40,00**	**490**	**490**	
NOVANTATOUR ITALIA (in insolvency proceedings)	**Rome**		**Lit.**			**400,000,000**			**50,00**	**0**	**0**	
TOTAL ASSOCIATED COMPANIES										**1,232**	**3,389**	**0**

(1) Result and net equity as per financial statements at 31 December 2000
(2) Result and net equity as per financial statements at 31 December 1994
(3) The company was declared insolvent on 13 March 1996.
(4) Result and net equity as per financial statements at 31 December 2000

APPENDIX 5b

LIST OF INVESTMENTS IN OTHER COMPANIES AT 30.06.2001

In millions of Lire

NAME	HEAD OFFICE	NUMBER OF SHARES HELD	SHARE CAPITAL		%	BOOK VALUE
3. OTHER COMPANIES						
. AERON. RADIO OF THAIL.	Bangkok	870	Baht	660,000,000	0.01	2
. BELAC LLC S.R.L.	Wilmington	1,100,000	USD.	22,000,000	5.00	2,130
. CARGO SWITCH AG.	Kloten	1	Sfr.	1,500,000	0.03	1
. CIES (1)	Rende (CS)		Lit.	630,000,000	-	200
. CONSAER (1)	Pozzuoli (NA)		EUR	302,058,120	-	101
. EAS	Cairo	875	Egl	15,000,000	5.83	315
. EDINDUSTRIA	Rome	114,000	Lit.	1,200,000,000	9.50	144
. EMITTENTI TITOLI S.P.A.	Milan	100,000	Lit.	8,187,500,000	1.22	100
. E.T.L. (1)	Rome	0	Lit.	120,000,000	-	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
. HACHETTE RUSCONI NET SERVICE S.p.A.	Milan	50,000	Lit.	1,000,000,000	5.00	15
. IRI MANAGEMENT	Rome	13,750	Lit.	200,000,000	6.88	14
. LABIA SERVICE	Rome	120,000	Lit.	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	9.14	13,941
. SASA	Trieste	7,392,790	Lit.	65,415,012,000	10.05	1,491
. SITA	Brussels	80	BFR	1,558,000	1.03	1
. SITA FOUNDATION	Amsterdam	674,066	Ngl	600,000	0.56	284
. SITA INC. FOUNDATION		1,025,496	USD	98,902,352	1.05	2,278
. TURISTEL (1)	Rome	0	Lit.	150,000,000	-	50
TOTAL						23,208

(*) in place at 30 June 2001, in process of completing approved share capital increase (from Lire 16 billion to Lire 75 billion)

(1) Consortium

APPENDIX 6

RECEIVABLES (in financial fixed assets)

In millions of Lire

Account Sub-account	31.12.2000 Residual Nominal Value	31.12.2000 Provision (1)	31.12.2000 Book value	Movements during period: Loans made	Reclass.	Repay-ments	Reinstatement of value (+)	Changes to consolidation Area	Provision(-) Reinstate-ment(+)	30.06.2001 Residual Nominal Value	30.06.2001 Provision (1)	30.06.2001 Book value
Subsidiaries	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
Other:												
. M/L term financial receivables	42,132	(3,911)	38,221	4,503	0	551	0	0	158	46,084	(3,753)	42,331
. Guarantee deposits	75,820	0	75,820	10,860	0	5	0	0	0	86,675	0	86,675
. Advance on employee severance pay	77,848	0	77,848	503	0	145	0	0	0	78,205	0	78,205
. Other	817	(551)	266	7	0	0	0	0	0	823	(551)	272
TOTAL	196,617	(4,462)	192,155	15,873	0	701	0	0	158	211,787	(4,304)	207,483
(1) of which relating to late payment interest		(3,911)							158		(3,753)	

APPENDIX 12

ACCRUED INCOME AND PREPAID EXPENSES

In millions of Lire

Account Sub-account	31.12.2000	Increase (Decrease) (+/-)	30.06.2001
Unamortised discounts on issues and similar charges		0	
Prepaid expenses:			
- personnel	875	2,060	2,935
- leases and rentals	53,850	8,259	62,109
- services	6,279	22,160	28,439
- other	13,722	(9,245)	4,477
Accrued income	3,397	1,480	4,877
TOTAL	78,123	24,714	102,837

APPENDIX 13

SHAREHOLDERS' EQUITY

In millions of Lire

Account	31.12.2000	Increases (Decreases)	Subscription by shareholders IRI	OTHER	EMPLOYEES	Reclass. from Conversion	Reclass. from subscription	Profits distributed Losses covered	Reserves Used	Profit (Loss)	30.06.2001
SHARE CAPITAL											
.Ordinary shares	1,548,444										1,548,444
.Preference shares	0										0
.Savings shares	0										0
SHARE PREMIUM RESERVE	1,242,753							(139,759)			1,102,994
SHARES SUBSCRIBED ON ONGOING CAPITAL INCREASES (i.e. : SHAREHOLDERS' CAPITAL PAYMENTS)	0										0
1.- Revaluation reserves under Law 413/91	0										0
2.- Revaluation reserves under Law 72/83	0										0
LEGAL RESERVE	24,575										24,575
OTHER RESERVES :											
1.- Translation difference reserve (*)	493					426					919
2.- Reserve for share issue – Art 2349 of Civil Code	2,289										2,289
3.- Reserve for capital subsidies – Law . 181/89 - 64/86	28,272	(282)									27,990
4.- Consolidation reserve	57										57
RETAINED EARNINGS (ACCUMULATED LOSSES) (*)	541,878	1,073						(356,807)			186,144
PROFIT (LOSS) FOR THE PERIOD	(496,566)							496,566		(503,539)	(503,539)
	2,892,194	**791**	**0**	**0**	**0**	**426**	**0**	**0**	**0**	**(503,539)**	**2,389,871**

(*) . From Retained earnings (Accumulate losses) to Reserve for translation differences

APPENDIX 15

PROVISIONS FOR LIABILITIES AND CHARGES

In millions of Lire

Account Sub-account	31.12.2000	Accruals to profit & loss statement	Utilisation of provision	Release to profit & loss statement	Change in consolidation area	30.06.2001
Taxes	44,699	26	7,597	3,709		33,419
Other:						
a) deferred exchange gains	6,660	12,074		5,303		13,431
b) discount vouchers and prize competitions	82,404	25,729	5,843	14,433		87,857
c) forward sale and purchase commitments	41,600	5,358	32,230			14,728
d) early retirements	174,312	1,553				175,865
e) commercial agreements	202,079	4,691				206,770
g) sundry						
. sundry risks (only AZ S.p.A.)	77,691	79,505	22	16,800		140,374
. work on technical area	25,372	6,913				32,285
. risks regarding failure to hire equipment	6,543					6,543
. sundry charges	5,061					5,061
. charges re phase out of MD-83	0	1,200				1,200
. ongoing litigation (only Group companies)	971					971
. Sundry other provisions	646	112				758
	668,038	137,161	45,692	40,245	0	719,262

APPENDIX 18

ACCRUED LIABILITIES AND DEFERRED INCOME

In millions of Lire

Account Sub-account	31.12.2000	Increases (Decreases) (+/-)	30.06.2001
Unamortised premium on share-issues and similar charges			
Deferred income	393,723	(19,965)	373,758
Accrued liabilities	37,066	2,321	39,387
TOTAL	430,790	(17,644)	413,145

Appendix 19

RECEIVABLES AND ACCRUED INCOME ANALYSED BY DUE DATE AND CATEGORY

(in millions of Lire)

AMOUNTS FALLING DUE	30.06.2001 AFTER < 1 YEAR	30.06.2001 AFTER 2 TO 5 YEARS	30.06.2001 AFTER > 5 YEARS	30.06.2001 TOTAL	31.12.2000 AFTER < 1 YEAR	31.12.2000 AFTER 2 TO 5 YEARS	31.12.2000 AFTER > 5 YEARS	31.12.2000 TOTAL
RECEIVABLES UNDER FINANCIAL FIXED ASSETS								
Subsidiaries				0	0	0	0	0
Associated companies				0	0	0	0	0
Parent companies				0	0	0	0	0
Other:								
-guarantee deposits	577	151	85,947	86,675	577	118	75,125	75,820
-due from employees				0	0	0	0	0
-sundry	3,939	111,483	5,386	120,808	3,670	106,672	5,993	116,335
	4,516	111,634	91,333	207,483	4,247	106,790	81,118	192,155
CURRENT RECEIVABLES								
Other financial receivables:								
-subsidiaries				0	0	0	0	0
-associated companies				0	0	0	0	0
-parent companies				0	0	0	0	0
-other	237,200			237,200	234,323	0	0	234,323
-bank deposits subject to restrictions	30,345			30,345	26,805	0	0	26,805
	267,545	0	0	267,545	261,128	0	0	261,128
TRADE RECEIVABLES								
Customers	369,372			369,372	355,606	0	0	355,606
Subsidiary companies	1,675			1,675	1,838	0	0	1,838
Associated companies	5,771			5,771	3,405	0	0	3,405
Parent companies				0	0	0	0	0
Public authorities	75,222			75,222	84,144	0	0	84,144
Group companies				0		0	0	0
	452,040	0	0	452,040	444,993	0	0	444,993
SUNDRY RECEIVABLES								
Other:								
-airline companies	161,707			161,707	178,832	0	0	178,832
-travel agents	708,558			708,558	597,299	0	0	597,299
-sundry	361,369			361,369	897,680	0	2,726	900,406
-advances to suppliers	10,414			10,414	20,610	0	0	20,610
-tax authorities	167,307	2,379		169,686	191,954	387	0	192,341
	1,409,355	2,379	0	1,411,734	1,886,375	387	2,726	1,889,488
TOTAL	2,133,456	114,013	91,333	2,338,803	2,596,743	107,177	83,844	2,787,764
ACCRUED INCOME	4,877	0	0	4,877	3,397	0	0	3,397

Appendix 22 PAYABLES AND ACCRUED LIABILITIES ANALYSED BY DUE DATE AND CATEGORY

(in millions of Lire)	30.06.2001				31.12.2000			
AMOUNTS FALLING DUE	AFTER < 1 YEAR	AFTER 2 TO 5 YEARS	AFTER > 5 YEARS	TOTAL	AFTER < 1 YEAR	AFTER 2 TO 5 YEARS	AFTER > 5 YEARS	TOTAL
M/L TERM FINANCIAL PAYABLES								
Bonds				0	0	0	0	0
Banks	208,968	1,018,088	548,372	1,775,428	176,539	832,932	493,460	1,502,930
Other lenders	2,638	13,128	4,042	19,808	2,526	12,579	5,939	21,043
Suppliers				0	0	0	0	0
Parent companies				0	0	0	0	0
Social security institutions				0	0	0	0	0
	211,606	1,031,216	552,414	1,795,236	179,064	845,511	499,398	1,523,973
CURRENT PAYABLES								
Other financial payables:								
Banks	305,284			305,284	384,991	0	0	384,991
Bonds/credit instruments	112,725			112,725	0	0	0	0
Subsidiaries	7,000			7,000	7,000	0	0	7,000
Associated companies	1,624			1,624	2,397	0	0	2,397
Parent companies				0	0	0	0	0
Other lenders	14			14	13	0	0	13
Share capital increase				0	0	0	0	0
Sundry	88			88	88	0	0	88
	426,735	0	0	426,735	394,489	0	0	394,489
TRADE PAYABLES								
Other lenders				0	0	0	0	0
Suppliers	1,081,510			1,081,510	998,969	0	0	998,969
Group companies				0	0	0	0	0
Subsidiaries				0	0	0	0	0
Associated companies	2,922			2,922	81	0	0	81
Parent companies				0	0	0	0	0
Advances	18,877			18,877	6,162	0	0	6,162
	1,103,309	0	0	1,103,309	1,005,212	0	0	1,005,212
SUNDRY PAYABLES								
Due to tax authorities	135,580			135,580	124,741	0	0	124,741
Due to social security institutions	91,263			91,263	86,810	0	0	86,810
Other payables:								
-sundry creditors	432,520	11,961		444,481	384,528	17,555	0	402,083
-prepaid tickets	596,312			596,312	334,003	0	0	334,003
-travel agents	123,238			123,238	137,728	0	0	137,728
-airline companies	234,151			234,151	324,383	0	0	324,383
-guarantee deposits	6,893			6,893	4,422	0	0	4,422
	1,619,957	11,961	0	1,631,918	1,396,615	17,555	0	1,414,170
TOTAL	3,361,607	1,043,177	552,414	4,957,197	2,975,380	863,065	499,398	4,337,846
ACCRUED LIABILITIES	32,806	6,581		39,387	29,946	7,120	0	37,066

Appendix 23

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

Account Sub-account	30.06.2001			31.12.2000		
	Secured on company assets	Unsecured	Total	Secured on company assets	Unsecured	Total
3. Banks	1,722,173	358,539	2,080,712	1,443,734	444,187	1,887,921
4. Other lenders		19,822	19,822		21,056	21,056
5. Advances		18,877	18,877		6,162	6,162
6. Trade payables		1,081,510	1,081,510		998,969	998,969
7. Bonds/credit instruments		112,725	112,725		-	-
8. Subsidiary companies		7,000	7,000		7,000	7,000
9. Associated companies		4,546	4,546		2,478	2,478
10. Parent companies						
11. Tax authorities		135,580	135,580		124,741	124,741
12. Social security institutions		91,263	91,263		86,810	86,810
13. Other payables:						
- prepaid tickets		596,312	596,312		334,003	334,003
- Share capital increase						
- Airline companies		234,151	234,151		324,383	324,383
- Travel agents		123,238	123,238		137,728	137,728
- Sundry		451,462	451,462		406,593	406,593
Accrued liabilities		39,387	39,387		37,066	37,066
TOTAL	**1,722,173**	**3,274,412**	**4,996,584**	**1,443,734**	**2,931,176**	**4,374,912**

APPENDIX 27
(in millions of Lire)

	30.06.2001	31.12.2000
2. SECURED GUARANTEES GIVEN IN RESPECT OF		
a) third party obligations		
- assets pledged or given as security		
- ...		
- mortgages on		
- ...		
b) obligations other than liabilities		
- ...		
- mortgages on		
- ...		
c) for liabilities recorded in the balance sheet		
- Fleet	1,576,719	1,293,734
- Land and buildings	145,455	150,000
- Plant and equipment	0	0
TOTAL SECURED GUARANTEES GIVEN	**1,722,173**	**1,443,734**

APPENDIX 28
(in millions of Lire)

3. PURCHASE AND SALE COMMITMENTS

	30.06.2001	31.12.2000
Purchase commitments:		
- Orders placed with suppliers	2,546,743	2,845,773
- ...		
- Investments	45,624	40,138
- ...		
- Forward exchange contracts	70,099	7,462
- ...		
- Other	0	0
- ...		
	2,662,466	**2,893,373**
Sale commitments:		
- Orders from customers	2,699,698	2,784,373
- ...		
- Investments	0	0
- ...		
- Forward exchange contracts	138,996	493,239
- ...		
	2,838,694	**3,277,612**
TOTAL PURCHASE AND SALE COMMITMENTS	**5,501,160**	**6,170,984**

APPENDIX 29
(in millions of Lire)

4. OTHER MEMORANDUM ACCOUNTS	**In respect of: Receivables**	**In respect of: Other 3rd party obligations**	**30.06.2001**	**31.12.2000**
- Secured guarantees received	0	0	0	0
- Personal guarantees received				
Sureties	44,961	31,277		
Endorsements	0	0		
Other	0	0	76,237	70,125
. . . .				
- Assets held under leases with purchase option			1,487,878	1,536,820
. . . .				
- Third party assets being worked on			0	0
. . . .				
- Third party assets on free loan, deposit hire or similar			1,155,667	1,236,659
. . . .				
- Assets held by 3rd parties to be worked on			0	0
. . . .				
- Assets with 3rd parties on free loan, deposit hire or similar			28,574	57,315
. . . .				
- 3rd party guarantees issued in respect of Group obligations				
- liabilities			348,485	388,744
- other obligations			139,003	152,674
- Derivative financial transactions			1,846,625	2,709,989
- Other memorandum accounts			6,055	6,080
TOTAL OTHER MEMORANDUM ACCOUNTS			**5,088,524**	**6,158,405**

In millions of Lire

REVENUES

Appendix 30

Account Sub-account	30.06.2001						30.06.2000					
	Italy	Europe	Americas	Far East	Other	Total	Italy	Europe	Americas	Far East	Other	Total
REVENUES FROM SERVICES												
Traffic revenues												
- Passengers	1,234,999	1,156,893	719,862	265,906	325,399	3,703,059	1,071,496	1,112,951	644,722	275,007	315,882	3,420,058
- Cargo	6,506	18,208	148,095	265,132	28,986	466,927	6,890	18,319	147,750	287,752	36,335	497,046
- Mail	1,365	4,743	2,478	1,200	1,571	11,357	1,244	4,534	1,333	1,183	1,216	9,510
- Other						213,550						230,038
Total traffic revenues	1,242,870	1,179,844	870,435	532,238	355,956	4,394,893	1,079,630	1,135,804	793,805	563,942	353,433	4,156,652
Other services						760,808						671,969
TOTAL REVENUES FROM SERVICES	1,242,870	1,179,844	870,435	532,238	355,956	5,155,701	1,079,630	1,135,804	793,805	563,942	353,433	4,828,621
REVENUES FROM SALES						22,395						20,627
TOTAL SALES						22,395						20,627
TOTAL	1,242,870	1,179,844	870,435	532,238	355,956	5,178,097	1,079,630	1,135,804	793,805	563,942	353,433	4,849,248

APPENDIX 35

INTEREST, COMMISSIONS AND OTHER FINANCIAL EXPENSES TO OTHER ENTERPRISES

In millions of Lire

Account Sub-account	30.06.2001	30.06.2000
.Interest and commission to 3rd parties:		
-Banks	53,909	29,096
-Suppliers	101	25
-Other	952	3,872
-Other lenders	875	
. –Losses on disposal of securities/investments	0	0
.Exchange losses :		
-exchange losses	1,740	13,185
.Discounts and other financial charges:		
-charges on foreign currency forward sale/purchase commitments	1,968	595
-provision for foreign currency forward sale/purchase commitments	5,358	0
-charges on fuel price hedging	50,043	0
-charges on derivative financial transactions	3,571	117
-other charges	577	960
TOTAL	**119,094**	**47,850**

FINANCIAL EXPENSES ASCRIBED TO ASSETS

Account Sub-account	30.06.2001	30.06.2000
Intangible assets		
Tangible fixed assets :		
- fleet	13,560	10,511
TOTAL	**13,560**	**10,511**

APPENDIX 37

EXTRAORDINARY INCOME

In millions of Lire

Account Sub-account	30.06.2001	30.06.2000
.Gains on disposals:		
- Other	28,897	21,600
.Income from prior year adjustments:		
- Amounts due to airline companies	664	936
- Amounts due to subsidiaries/associates		
- Amounts due to agents	2	
- Amounts due to suppliers	615	1,642
- Amounts due to tax authorities	736	2,619
- Sundry payables:		
Personnel costs recovery	1,081	24
American Express contribution		787
Credit notes wrongly accounted for		3,864
Adjustment to cost of technical materials		2,695
Other	5,015	1,877
.Other income		27,789
TOTAL	**37,010**	**63,833**

EXTRAORDINARY EXPENSES

Account Sub-account	30.06.2001	30.06.2000
.Losses on disposals		
.Prior year taxation	313	1,788
.Charges from prior year adjustments:		
- Due from airline companies	1,857	2,849
- Due from subsidiaries/associated companies		
- Sundry creditors:		
Sundry personnel	2,023	55
Other	7,697	1,369
.Other charges :		
- Social security amnesties	204	20
- Early retirement costs	1,554	1,056
- Provision for ongoing disputes	71,992	
- Other	3,780	2,538
TOTAL	**89,420**	**9,675**

PART E – OTHER INFORMATION

Average number of employees

The Group's average number of employees in the first half of 2001 may be analysed as follows:

1st half of	2001	2000	D
Executives	203.8	196.8	+7.0
Managers	1,038.7	941.7	+97.0
White collars	9,849.7	9,083.8	+765.9
Blue collars	4,790.5	3,303.2	+1,487.3
Pilots	2,355.0	2,235.8	+119.2
Flight engineers	129.7	139.7	-10.0
Flight attendants	5,231.0	5,043.7	+187.3
TOTAL	**23,598.4**	**20,944.7**	**2,653.7**

Deferred tax assets and liabilities

At 30 June 2001, the consolidated accounts include deferred tax assets and liabilities totalling Lire 19 billion. Deferred tax assets totalling Lire 22 billion were recognised during the period while Lire 6 billion of deferred tax assets were used as were Lire 3 billion of provisions for deferred tax liabilities.

At 30 June 2001, the parent company had accumulated tax losses of around Lire 470 billion available for carry forward. Eurofly had accumulated tax losses of Lire 60 billion and Italiatour Lire 1 billion.

Moreover, the Group companies have taxed provisions and other items (gains on disposal, provision for liabilities and charges, etc.) that lead to deferred tax assets totalling around Lire 400 billion. In accordance with Legislative Decree No. 466 of 1997 (Dual Income Tax), the Parent company has taxable income of Lire 658 billion that are subject to a reduced IRPEG rate of 19%.

The companies in question will take advantage of the related tax benefits when it is reasonably certain that there will be future taxable income.

[1] The transformation of these agreements leads to a different disclosure of income and charges regarding activities already commercially and economically acquired by Alitalia.

[1] This refers to the transformation of the agreements with Minerva and Azzurra into wet leases and to boarding taxes to be recharged. This is partly countered by the replacement of services provided by Aeroporti di Roma with internal Group activities (Alitalia Airport). This latter change also led to increased personnel costs.

[1] Including two aircraft used, in the latter part of the first half of the year, by Alitalia on long-haul routes under wet lease agreements (aircraft, crew, maintenance and insurance)

[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%.