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AUDITORS' REPORT
PURSUANT TO ART. 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
COMPAGNIA AEREA ITALIANA S.p.A.
(formerly ALITALIA – COMPAGNIA AEREA ITALIANA S.p.A.)

1. We have audited the consolidated financial statements of Compagnia Aerea Italiana S.p.A. ("Company") and subsidiaries (formerly "Alitalia Group", hereinafter also "Compagnia Aerea Italiana Group") as of December 31, 2014. These consolidated financial statements, prepared in accordance with the Italian law governing financial statements, are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with Auditing Standards issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's consolidated financial statements, the balances of which are presented for comparative purposes as required by law, reference should be made to our auditors' report issued on June 14, 2014.

3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Compagnia Aerea Italiana Group as of December 31, 2014, and of the results of its operations for the year then ended in accordance with the Italian law governing financial statements.

4. The consolidated financial statements as of December 31, 2014 report a loss of Euro 578.3 million and negative equity of Euro 93.1 million.

As more fully explained in the report on operations, to which reference should be made for further information, the closing of the strategic transaction with Etihad Airways P.J.S.C. ("Etihad") took place on December 23, 2014, as did the contribution, effective from January 1, 2015, of the airline business in subscription and as full in-kind payment for the new shares issued in accordance with the capital increase approved by the Extraordinary Shareholders' Meeting of the newly incorporated Alitalia – Società Aerea Italiana S.p.A.. As a result of the above contribution, as of the same date, the Company acquired, through its subsidiary MidCo S.p.A., a 51% equity interest in Alitalia - Società Aerea Italiana S.p.A., whilst Etihad acquired the remaining 49% via a cash contribution of Euro 387.5 million in subscription for a corresponding number of new shares.

5. The Directors of Compagnia Aerea Italiana S.p.A. are responsible for the preparation of the report on operations in accordance with the applicable law. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard no. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the report on operations is consistent with the consolidated financial statements of Compagnia Aerea Italiana S.p.A. (Compagnia Aerea Italiana Group) as of December 31, 2014.

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Falcone
Partner

Rome, Italy
April 14, 2015

This report has been translated into the English language solely for the convenience of international readers.

Compagnia Aerea Italiana Group

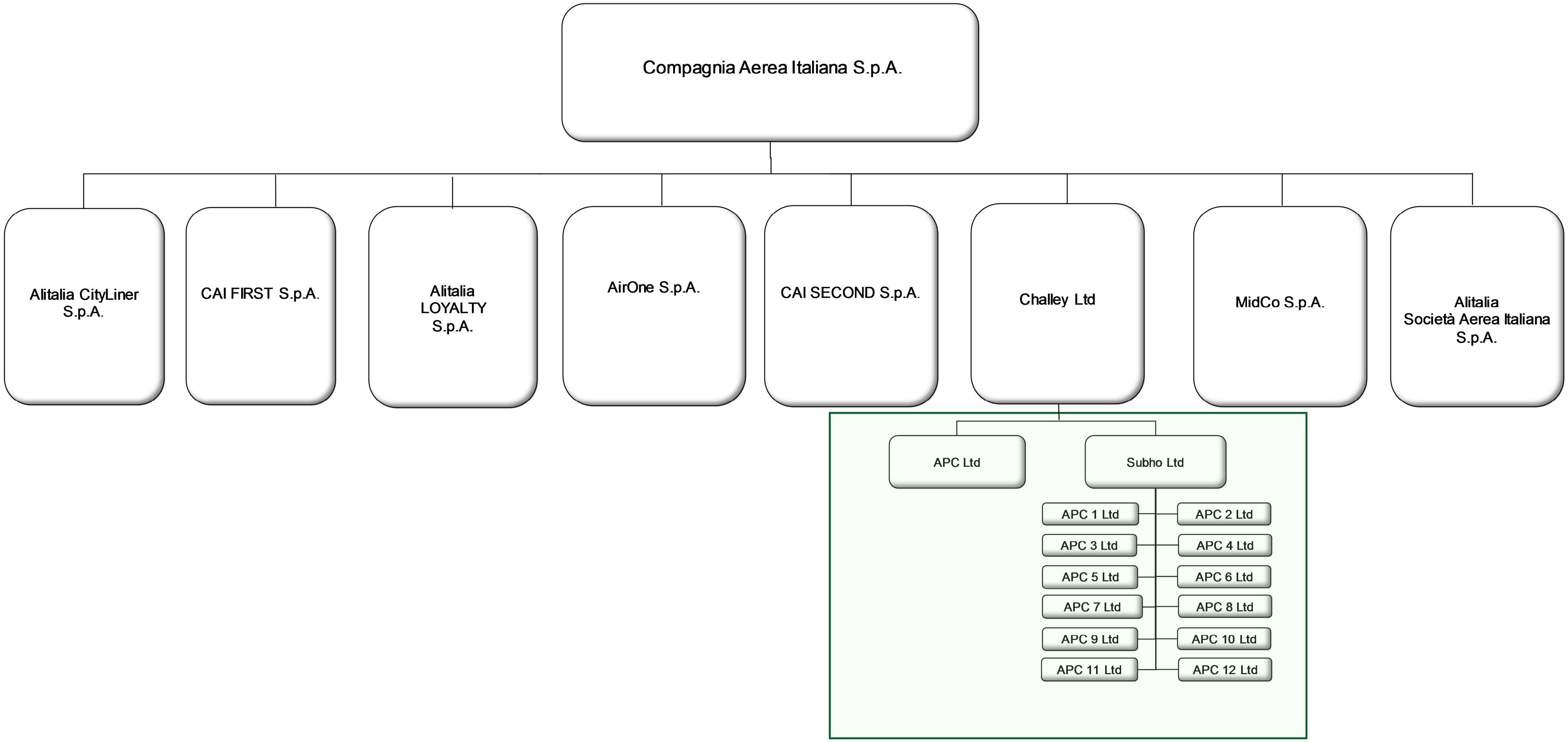
Consolidated Annual Report for the year ended 31 December 2014

Table of Contents

REPORT ON OPERATIONS

Introduction

The Compagnia Aerea Italiana Group



The Group in numbers

The C.A.I. Group in numbers	Year ended 31 December					
	2014		2013		*Increase/ (Decrease)*	
Aircraft fleet in operation (no. of aircraft)		125		129	*(4)*	
No. Of flights during period		214.187		217.309	*(3.122)*	*-1,4%*
Departure punctuality (within 15 minutes) period average		84,5%		85,6%	*(1,1)*	*p.p.*
Arrival punctuality (within 15 minutes) period average		84,0%		86,0%	*(2,0)*	*p.p.*
Regularity period average		99,8%		99,7%	*0,1*	*p.p.*
Block hours for period		420.813		432.483	*(11.670)*	*-2,7%*
Passengers carried in period (fare-paying scheduled)		22.445.095		22.688.472	*(243.377)*	*-1,1%*
Load factor period average		75,9%		74,8%	*1,1*	*p.p.*
Workforce at end of period		11.839		13.720	*(1.881)*	
Average workforce on the payroll		10.088		11.241	*(1.153)*	
€000	as % of revenue		as % of revenue			
Revenue		3.180.595		3.405.888	*(225.293)*	*-6,6%*
EBITDA	-5,6%	(178.609)	-4,1%	(137.974)	*(40.635)*	
EBIT	-10,9%	(347.180)	-9,4%	(321.693)	*(25.487)*	
Net profit/(loss)	-18,2%	(578.280)	-16,7%	(568.609)	*(9.671)*	
€000	as at 31 December		as at 31 December			
Equity		(93.056)		(27.170)	*(65.886)*	
Net debt		235.409		935.625	*(700.216)*	
Net invested capital		142.353		908.456	*(766.103)*	
Intangible and tangible assets		105.570		121.520	*(15.950)*	

Group operating review

The Compagnia Aerea Italiana Group ("the Group"), of which Compagnia Aerea Italiana (until 31 December 2014 "Alitalia – Compagnia Aerea Italiana", and thereafter also "Alitalia – CAI" or "Alitalia" or "CAI") is the Parent Company, reports an operating loss of €347 million and a loss for the year of €578 million, compared with losses of €322 million and €569 million, respectively, for the previous year.

As noted above, the Compagnia Aerea Italiana Group recorded a consolidated loss of approximately €569 million for 2013, following on from the losses reported for previous years. This resulted in a significant reduction in consolidated equity, putting the Group under a high degree of financial pressure, already requiring a number of corporate finance initiatives in 2013.

The situation thus called for a complete review of the strategic assumptions made by Alitalia and the Group, reflected in the Business Plan for the period 2013-2016, approved by the Board of Directors on 3 July 2013.

The results for 2013, together with the decision of a number of banks to reduce a part of the Group's credit facilities, resulted in the need for Alitalia's management to review the Business Plan. To support achievement of the business development targets set out in the Plan and subsequently ensure adequate financial strength throughout the Plan's duration, the Board of Directors decided to approve a financial restructuring, amounting to approximately €500 million, on 11 October 2013.

Having implemented the financial restructuring, and in order to complete it as part of overall measures - in line with what was envisaged at the time of planning and approval of the operation – the Group identified and committed to a series of business development initiatives. The aim of this was to ensure that the Group maintained a sound financial structure, including through a strategically important transaction involving Etihad. As a result, on 8 August 2014, Etihad and Alitalia executed a Transaction Implementation Agreement ("TIA"), governing implementation of the strategic partnership between the two. This was subsequently amended by an Addendum to the Transaction Implementation Agreement.

Very briefly, the above transaction calls, among other things, for:

1) Alitalia – Compagnia Aerea Italiana S.p.A. to contribute to a NewCo ("Alitalia – Società Aerea Italiana S.p.A." or "Alitalia – S.A.I.") all the airline business, with the exception of the following, which will thus remain the responsibility of and under the ownership of Alitalia – CAI:
    a) financial debt outstanding at the contribution date, consisting of bank borrowings in the process of being restructured, totalling €586 million, in addition to interest expense of approximately €7 million, and the remaining convertible bonds in issue, amounting to approximately €32 million;
    b) net cash held by Alitalia in Venezuela not generated by the sale of tickets in 2014 and for flights to be operated in 2015;
    c) disputes and liabilities not closely related to ordinary airline operations, including: (i) liabilities, including those of a contingent nature, deriving from outstanding legal disputes between Alitalia, on the one hand, and Toto Holding S.r.l., Aircraft Purchase Fleet Ltd. and subsidiaries and/or associates of these companies (the "Toto group"); (ii) disputes between Alitalia and Wind Jet

S.p.A., or between Alitalia and G&C Holding S.r.l.; (iii) a number of tax liabilities under investigation or disputed and regarding fiscal years prior to the contribution date; (iv) any liabilities due to employees, other than those transferred;

d) the equity interest in Air One S.p.A.:

2) Alitalia to contribute to a new wholly owned company ("MidCo") its equity interest in NewCo;

3) Etihad to invest €560 million in different forms, as follows:

- by injecting equity of €378.5 million into NewCo in exchange for 49% of NewCo;
- by acquiring from NewCo 75% of Alitalia Loyalty S.p.A. (at 31 December 2014, wholly owned by Alitalia S.p.A.) for a total amount of €112.5 million;

4) Atlantia S.p.A., IntesaSanPaolo e Unicredit S.p.A., IMMSI S.p.A., Finanziaria di Partecipazioni e Investimenti S.p.A. and Pirelli S.p.A. (the "core stakeholders") to commit to acquiring further equity in Alitalia amounting to up to €225 million (the "Equity Commitment");

5) Poste Italiane S.p.A. to inject €75 million by subscribing for contingent convertible notes to be issued by MidCo;

6) The development of NewCo's 2015-2018 business and financial plan and for Alitalia and Etihad to enter into long-term partnership arrangements, as well as various commercial collaboration agreements.

The complex strategic transaction thus took the form of a series of structural initiatives, involving recapitalisation, debt restructuring and a re-evaluation of human capital.

In line with the above and in view of the closing of the transaction with Etihad, on 24 September 2014 Alitalia - Compagnia Aerea Italiana S.p.A (from 1 January 2015, Compagnia Aerea Italiana S.p.A.) proceeded to incorporate Newco (now "Alitalia – Società Aerea Italiana S.p.A." or "Alitalia – S.A.I." or "Nuova Alitalia") and MidCo (now "MidCo S.p.A.").

With regard to human capital, during the year, a number of meetings were held with the labour unions in order to reach agreement on the proposed new organisation and related initiatives in terms of headcount and the relevant cost.
The talks resulted in signature of a framework agreement covering previously announced job cuts, totalling 2,251, which are to be implemented via redeployment within the organisation, layoffs and redundancies. An agreement was also signed regarding the adoption of extraordinary measures designed to cut staff costs during the period July-December 2014, in order to help in overcoming the current crisis affecting the Company and the workforce.

The financial restructuring envisaged by the transaction substantially consists of, on the one hand, overall restructuring of the financial debt not transferred to NewCo, with the aim of ensuring CAI's ongoing financial stability and strength in close connection with execution of the transaction with Etihad and, on the other, the recapitalisation of CAI through capital injections by a number of CAI's shareholders.

In more detail, the financial restructuring involved consolidation of amounts receivable under factoring transactions with a number of banks – in addition to a portion of the credit facilities extended to Alitalia – CAI by a pool of banks ("ex factoring and pool" debt, totalling €177.4 million) – in the form of a long-term loan paying interest at a rate of 4%. The Extraordinary General Meeting of Alitalia – CAI's shareholders, held on 8 August 2014, decided that the nominal value of the long-term loan, increased by the maximum amount of interest payable on the loan through to maturity, should make up a portion, subject to certain conditions more specifically described in the notes to the financial statements, of the capital increase of up to €695 million approved by the Meeting.

A further two tranches, totalling €354 million, deriving from a series of both pre-existing and new credit facilities granted to Alitalia – CAI by financial institutions, were also earmarked for conversion into equity.

With regard to this last point, with the aim of providing the Company and the Group with financial support, on 19 and 20 September 2014, a number of the core stakeholders assumed specific obligations in relation to a bridge to equity (or "bridge to closing") loan. Under these obligations, the shareholders committed to provide the Group with liquidity of up to a total of €200 million in the form of quasi-equity financing, linked to the capital increase approved by the Extraordinary General Meeting of Alitalia – CAI's shareholders of 8 August, or in the form of the notes to be issued by MidCo.
In particular, Poste Italiane undertook to provide financial support not directly to Alitalia – CAI, but through the subscription for convertible notes to be issued by MidCo, which was to transfer the funds to Alitalia – CAI under an intra-group loan agreement.
In accordance with the commitment given, between October and December, the shareholders provided Alitalia – CAI with a total of €120 million in quasi-equity financing and MidCo with the sum of €75 million in the form of debt instruments. These sums were topped up in October following a shareholder's subscription for Alitalia – CAI shares, totalling €5 million.

Under the above TIA entered into by Alitalia – CAI and Etihad, Alitalia – CAI is to transfer to NewCo certain air transport-related assets and liabilities received from Air One. In addition, the Directors of Air One, in response to the new strategic arrangement, decided, on 26 August 2014, to halt the sale of flights by Air One with effect from October 2014. In this context, in December 2014 Alitalia – CAI and Air One signed a recognition agreement, under which Alitalia – CAI (i) acquired the receivables and assets of Air One and, at the same time, (ii) assumed the debts, liabilities and obligations relating to air transport. As a result of this acknowledgement agreement, Alitalia – CAI undertook to pay Air One an amount of €118 thousand, representing the difference between the assets and liabilities transferred.

All the activities related to closing of the strategic transaction with Etihad took place on 22 and 23 December 2014.

In particular, on 22 December Etihad made an irrevocable cash contribution to Alitalia - Società Aerea Italiana S.p.A. of €387.5 million in respect of the subscription for shares to be issued as a result of the capital increase, effective 1 January 2015, approved by the shareholders at the Extraordinary General Meeting held on 19 December 2014.

On 22 December 2014, Alitalia – CAI contributed its airline business to Alitalia - Società Aerea Italiana, amounting to a total of €403.3 million, to subscribe and as full in-kind payment for the capital increase approved by the shareholders at the Extraordinary General Meeting held on 19 December 2014. The contribution was effective 1 January 2015.
Following the above cash contribution of €387.5 million, Etihad has thus acquired, from 1 January 2015, a 49% equity interest in Alitalia S.A.I., with the remaining 51% held by CAI (through MidCo), after the above in-kind contribution, totalling €403.3 million.
In particular, the value of the business transferred, calculated on the basis of the financial position as at 30 September 2014, was measured – as part of the appraisal conducted by Prof. Villa and Prof. Corbella in accordance with art. 2343-Ter, paragraph 2.b) of the Italian Civil Code – determined to be at least equal to the value of the capital increase and the related share premium approved and carried out by the Transferee, amounting to €403.3 million.
The valuation also took into account the workforce, contractual obligations, goods, liabilities and assets identified as part of the IT unit, subsequently transferred to IBM Italia S.p.A. with effect from 1 January 2015, amounting to €2.6 million. The business transferred to Alitalia - SAI does not include the equity interests in Air One and in MidCo, as well as certain assets and liabilities shown in the Alitalia – CAI's pro forma balance sheet and Air One's pro forma balance sheet at 30 September 2014, approved by Alitalia – CAI's Board of Directors on 17 December 2014 and by Air One's Board of Directors on 19 December 2014.

In addition, on 22 December, a debt restructuring agreement was executed by Alitalia – CAI, MidCo and the banks, in accordance with which the above Alitalia – CAI's "ex factoring and pool" debt, totalling €177.4 million, was converted into long-term debt and rescheduled over a term of ten years, with the option (subject to certain conditions) of conversion into equity. Interest is payable on the debt at a rate of 4%.

On 23 December 2014, the agreement was signed whereby Alitalia - CAI would contribute Alitalia - CAI's equity interest in Alitalia - SAI to MidCo, with effect from 1 January 2015.

The activities involved in transaction closing therefore took place and were completed, as envisaged in the restructuring agreement of 22 December 2014, with:

- the conversion into equity (specifically, into category 3 shares "*azioni 3*" and category 4 shares "*azioni 4*"), effective 23 December 2014, of loans and receivables totalling €353.8 million repayable to Monte dei Paschi di Siena, Banca Popolare di Sondrio, Intesa Sanpaolo, UniCredit and UniCredit Factoring by CAI;

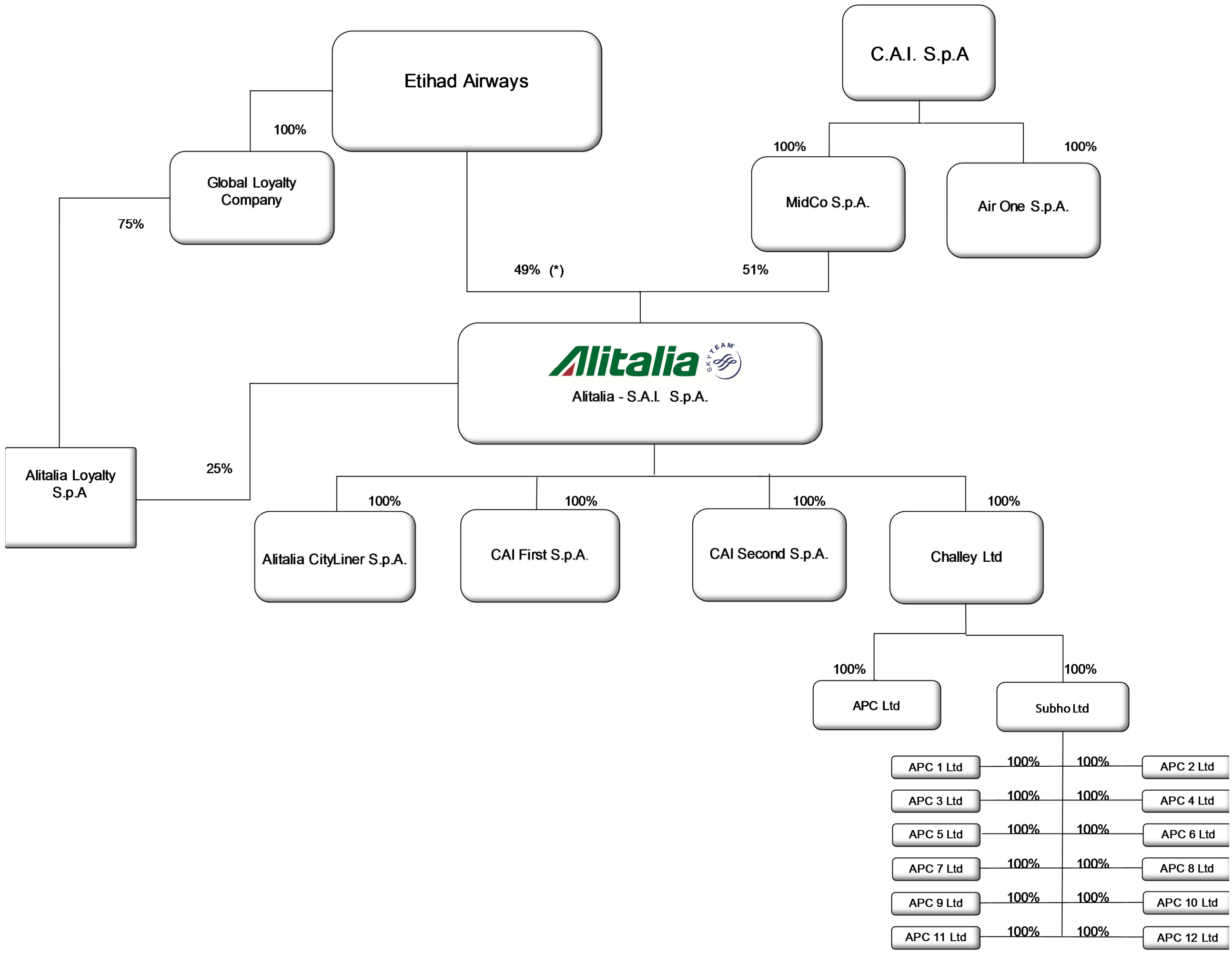
- the conversion into equity (specifically, into category 2 shares "*azioni 2*"), of the quasi-equity financing of €120 million, to be added, as previously mentioned, to the shares subscribed by a shareholder in October, totalling €5 million;
- subscription by Poste Italiane (effective 1 January 2015) for all the contingent convertible notes, totalling €75 million, issued by MidCo.

Again on 23 December 2014, ENAC, the Italian Civil Aviation Authority, formally announced the issuance of an air carrier operating licence and certificate of airworthiness to Nuova Alitalia, effective as of 00:01am on 1 January 2015.

Lastly, on 21 January 2015, Alitalia – Società Aerea Italiana S.p.A. (sole shareholder of Alitalia Loyalty as of 1 January 2015) completed the sale of 75% of its equity interest in Alitalia Loyalty S.p.A. to Global Loyalty Company LLC[1].

Following the above transactions, the resulting Group structure is as follows:

[1] Global Loyalty Company (GLC) is an Etihad company specializing in loyalty-building and lifestyle programs. GLC helps Etihad and its partners to act more effectively in the global market of loyalty-building schemes, through the development of significant technological and management synergies. GLC also manages such programs as "Etihad Guest" for Etihad Airways, "topbonus" for Air Berlin and "JetPrivilege" for Jet Airways. Together, Etihad Guest, topbonus, JetPrivilege and MilleMiglia have a total of 14 million members worldwide.



Finally, the subsidiary, Alitalia – SAI, has announced that it intends to merge CAI First S.p.A. and CAI Second S.p.A. with and into Alitalia SAI in 2015.

The merger is part of a wider process, initiated by Alitalia – SAI, designed to simplify and reorganise the structure of the Group, with the aim of streamlining internal processes and reducing overheads.

The proposed reorganisation will, in fact, result in a simplified ownership structure and the optimised management of resources and the financial flows generated by the activities currently split between the two companies.

The above operational improvements will be accompanied by a number of not insignificant synergies, resulting in cost savings due to the fact that the various businesses will be managed by one company, as opposed to the current three.

From an operational viewpoint, the Compagnia Aerea Italiana Group carried a total of 22.4 million passengers in 2014, 1.1% down on 2013.

In terms of RPKs (Revenue Passenger Kilometres), the reduction is only 0.2%, resulting in a 1.1 percentage point improvement in the load factor to 75.9%, reflecting a decline in capacity (ASKs) of 1.7%.

The Compagnia Aerea Italiana Group's market share fell 1.5 percentage points in 2014, compared with 2013, declining from 21.4% to 20% (44.2% of the Domestic market; 12% of the International market).

Passenger revenue is down 6%, essentially reflecting the decline in average revenue (down 5%), resulting from the above reduction in traffic.

Regularity of 99.8% is substantially in line with the previous year (99.7%)
84.5% of flights in the period under review departed within 15 minutes of schedule (85.6% in 2013) and punctuality on arrival is 84% (86% in the comparative period).

The Group's aircraft fleet in operation at 31 December 2014 consists of 125 aircraft, including 22 long-haul, 83 medium-haul and 20 short-haul.
During the year, the Group sold 4 A321s and 10 CRJs owned by the Group's Irish-registered companies, and 2 MD80s owned by Alitalia. The 10 CRJ900 aircraft, none of which was in operation at 31 December 2013, were sold to Mesa Airlines Inc. for a price of US$92 million, under an agreement signed on 14 April 2014. Delivery of the aircraft to the buyer began in April itself and was completed in July 2014.
With regard to the aircraft operated by the Group, it should be noted that, on 6 November 2014, the Irish-registered Group company, APC12, and GA TELESIS LLC entered into an aircraft sale agreement for 6 A321 aircraft owned by APC12. At the date of preparation of this report, 5 of the aircraft being sold have been delivered to the buyer.
In addition, on 1 October 2014, a binding framework aircraft sale agreement was signed with Air Berlin for the sale of 14 Airbus A320-216s owned by the Irish-registered companies. As at 31 December 2014, 7 of the 14 aircraft to be sold no longer form part of the Group's fleet.
In order to align the carrying amounts of the assets in question with their realisable values estimated on the basis of the agreement, as reported below, the Group has partially written down the residual value, represented by leasehold improvements to the fleet, and established provisions for risks and charges to cover the phase-out costs.

Macroeconomic environment

Global economic growth was supported by the fall in oil prices, which was ongoing from the second half of the year and accelerated in the fourth quarter. This reflects both an increase in supply and weak demand. The average price for a barrel of Brent reached US$99 during the year[2], marking a reduction of approximately 9% compared with 2013.

The fall in oil prices has, however, put the financial stability of exporting nations at risk and the short- to medium-term prospects for the global economy remain uncertain, given ongoing weakness in the euro area and Japan, the prolonged slowdown in China and the sharp downturn in Russia.

There has, on the other hand, been a significant acceleration in US growth, beating expectations after the slowdown witnessed in the first quarter of the year. The upturn was driven by internal demand and continuing support from monetary policy, although the dollar's recent strength is expected to lead to a reduction in net exports. US GDP rose 2.4% in 2014 and is forecast to grow by 3.6% in 2015.

Japan's economy hit the buffers hard in the third quarter of 2014, reflecting a downturn in investment and internal demand growth that was below expectations. The economic policies implemented are predicted to result in a gradual pickup in activity, which should also benefit from the falling oil price and a weakening of the yen. GDP was up 0.1% in 2014, with growth of 0.6% is expected in 2015.

China's economic growth slowed, above all towards the end of the year. Despite this, GDP growth was 7.4% in 2014. Growth is expected to fall to 6.8% in 2015. Growth remained strong in India, appearing to accelerate in the closing months of 2014 (GDP growth of 5.8% in 2014, compared with 5% in 2013).

Political tensions in Russia have led to a slowdown in growth, which was affected by the sanctions imposed by Western countries at the end of July, the falling oil price and the decline in the value of the rouble, which led to a further decline in consumer and business confidence. Economic activity resulted in GDP growth of 0.6% in 2014 (GDP is expected to decline 3% in 2015).

Brazil continues to stagnate, with GDP growth of 0.1% in 2014, held back by weak investment, which continued into the latter part of the year. GDP is expected to register growth of 0.3% in 2015.

Economic growth in the euro area remains modest, with an increase in consumer and government spending in the third quarter offset by a fall in investment. The French and, to a lesser extent, the German economies contributed to growth, whilst there was continued political uncertainty in Greece, reflected in economic instability, and further weakness in Italy.

Consumption began to see a modest recovery in the second half of the year, in line with the trend in disposable income, linked to an increase in employment during the summer months. Despite this, the unemployment rate rose and the labour market recovery remains fragile, due to low business confidence.

This was accompanied by a downturn in investment, held back by the high level of spare capacity and great uncertainty over the outlook for demand. Recent economic surveys indicate that the weakening of the euro[3] may result in a gradual pickup in international trade.

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[2] Energy Information Administration – Europe Brent Spot Price FOB (Dollars per Barrel): annual average

[3] The single European currency fell against the US dollar (from 1.36 in January to 1.23 in December 2014 and 1.16 in January 2015) – source: Bank of Italy – Foreign Exchange.

Overall, GDP fell 0.4% in 2014, with growth of 0.4% expected in 2015, driven by expansionary monetary policy and measures designed to reduce the tax wedge contained in the Stability Law, which has committed the government to proceeding with its reform of the public finances.

Traffic

Background

World

According to IATA, air traffic growth, in volume terms, accelerated during the second quarter, after a slowdown towards the beginning of the year.

Later in the year, growth was substantially driven by Domestic markets, above all in China.[4]

In terms of RPKs, the period saw an increase of 5.9% compared with 2013, compared with an increase in capacity of 5.6%.

As a result, IATA member airlines registered an average load factor for the period of 79.7%.

The number of premium passengers carried rose 3.5% in the period January - November[5], compared with the same period of 2013. The overall outlook remains positive, although the recent slowdown in the world's leading economies, such as China and the euro area, could put pressure on demand.

IATA expects[6] an overall increase of 7% in passenger traffic in 2015, in terms of RPKs, partly as a result of the potential decline in the average fares on offer, due to the fall in the price of fuel.

The price of fuel has fallen from US$116.6 a barrel in 2014 to US$99.9 a barrel in 2015, marking a fall of 14.3%. Fuel costs accounted for 28.6% of the total operating costs of IATA member airlines, with this figure due to fall to 26.1% in 2015.

Combined net profit reported by IATA member airlines amounts to US$19.9 billion for 2014, with the figure expected to rise to US$25 billion in 2015.

The breakeven load factor, calculated in terms of ATKs[7], of 63.7% was easily achieved, with the figure for 2014 totalling 67.1%. The load factor for 2015 is expected to be 66.8%, compared with a breakeven load factor of 62.8%.

The EBIT margin was 5.1% for 2014 and is expected to rise to 6% in 2015. The net profit margin was 2.7%, with estimates for 2015 indicating an improvement to 3.2%.

Europe

IATA figures show that traffic (RPKs) rose 5.8%, compared with a 5.2% increase in capacity (ASKs).

Net profit was US$2.7 billion in 2014[8] and is expected to rise to US$4 billion in 2015, representing a net profit margin of 1.3% (an estimated 1.8% for 2015).

The breakeven load factor for 2014, in terms of ATKs, of 65.6% was achieved and exceeded (ATKs of 66.8%); the load factor for 2015 is expected to be 64.7%, compared with a breakeven figure of 64.7%

The European breakeven is the highest in the industry, reflecting low yields due to strong competition among carriers and high regulatory costs.

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[4] IATA – Air Passenger market analysis – December 2014.
[5] IATA – Premium Traffic Monitor – November 2014.
[6] IATA – Economic Performance of the Airline Industry – 2014 end-of-year report – 10th Dec 2014.
[7] Available Tonne Kilometres.
[8] IATA – Economic Performance of the Airline Industry – 2014 mid-year report – June 2014.

Italy

Passenger traffic rose 5% in Italy[9] in 2014, compared with the comparative period. In particular, Domestic traffic is up 2.4%, whilst the International component is up 5.8%.

Among the leading airports, Fiumicino registered overall growth of 6.5% (Domestic traffic up 5.3% and International up 7.1%). Malpensa saw overall growth of 4.9%, reflecting a 4.5% decline in Domestic traffic and an increase of 6.9% in International traffic.

With regard to the country's other airports, Linate (International up 0.8% and Domestic down 0.6%) and Venice (up 0.9%, with International traffic up 6.1% and Domestic down 19.6%) saw stable traffic, whilst Naples saw growth of 8.9% (International traffic up 18.4% and Domestic down 0.4%) and Catania growth of 13.5% (International traffic up 33.6% and Domestic up 8.2%).

Network

The difficult economic situation and increased competition from other airlines and rail operators forced the Group to review its Domestic offering. In addition to adjustments to the frequency of flights on all routes from the hub airports of Rome Fiumicino and Milan Linate, a number of the less profitable bypass flights were cancelled: Catania-Genoa at the end of March 2014 and Bari-Turin at the end of September 2014. On the other hand, the Domestic offering was expanded with a number of routes providing territorial continuity: from June, flights from Fiumicino to Alghero (originally assigned to New Livingston[10]) and, from July, flights linking the airports of Trapani, Palermo and Catania with the islands of Lampedusa and Pantelleria. New seasonal flights were also introduced: Alghero-Turin (April 2014), Fiumicino-Comiso (Ragusa) and Linate-Trapani (June 2014), Catania-Trieste and Naples-Olbia (July 2014). The Rome-Ancona route was reintroduced in May 2014 and flights from Catania to Pisa were launched in October 2014. Overall capacity offered by the Group was down 11.1% compared with 2013.

In terms of the International network, the Balkans and eastern Europe are playing an increasingly important and strategic role: new flights from Bari to Tirana were introduced from January, joining the previously launched routes linking Rome with Tirana and Turin and Tirana. The Rome-Ekaterinburg (Russia) service was, however, cancelled from 19 January.

On 1 May, Alitalia launched daily flights from Rome Fiumicino to Skopje, the capital of Macedonia. The flights have been scheduled to suit Macedonians who live in Italy and business travellers, but also to provide access to connections linking Macedonia with the rest of the intercontinental and international network.

From April, services to Poland and the Czech Republic were expanded, with new flights from Milan Linate to Warsaw and Prague (seasonal routes).

Seasonal flights from Rome to Greece were reintroduced from June, with services to Salonica and Rhodes, as were flights to the Spanish islands (services to Ibiza and Palma di Maiorca).

Following the political upheaval in Libya, flights from Rome to Tripoli were suspended from 15 July.

[9] Assaeroporti / Enac.

[10] Further details are provided in the section "Litigation".

9 new routes were inaugurated in August: from Milan Linate to Copenaghen, Athens, Salonica and Heraklion and from Rome Fiumicino to Minorca, Mykonos and Heraklion.
On 3 September, Alitalia launched new direct flights linking Rome Fiumicino with Marrakesh. From 26 October, Alitalia began flying from Rome to Marseille.

In addition, from October, the Parent Company, as part of its planned rationalisation of the medium-haul fleet and review of the Group's business strategy, decided to replace flights operated by Air One Smart Carrier with services operated by Alitalia.
As a result, from 1 October 2014, a number of the flights operated by Air One (Pisa, Prague and services from Bologna, Genoa, Milan Malpensa, Pisa, Venice and Verona for Tirana) were transferred to Alitalia. The Air One brand only continued to be used until 25 October on 24 seasonal flights to and from Russia, operating mainly on behalf of Russian tour operators.
In order to ensure sustainability, at the same time, as the winter season began, flights from Rome to Saint Petersburg, Amman and Tblisi were suspended and flights from Rome to Kiev and Erevan and from Milan Malpensa to Cairo were cancelled.
Overall, the Group boosted capacity on its International flights by 3.4%, with increases in capacity for the Middle East up 10.7% and Europe (EU up 2.8%; Non-EU up 4.1%) and a reduction for North Africa (down 5%).

In the intercontinental segment, capacity was significantly reduced on routes to Central America (down 44.4%), resulting from the suspension, from June, of flights (7 a week) from Rome to Caracas, only partially reinstated from September with 2 flights a week and then in November and December with 3 a week.
The suspension was due to the fact, although the route was performing extremely well, it was very difficult to repatriate funds held in Venezuela.
The capacity to and from Venezuela was only partially switched to increase the frequency of flights on other routes: Rome–Rio de Janeiro (up from 5 to 7 in June, to 6 from July to October and to 7 in November and December); Rome–Sao Paulo (up from 7 to 9 from August to October and to 10 in December); Rome-New York (up from 19 a week to 21 from mid-July to September).
The change in the frequency of flights to Brazil generated a 1.4% increase in capacity to South America. Capacity to North America, on the other hand, rose 6.4%, reflecting the above increase in the frequency of flights to New York, but also the fact that the seasonal addition of a daily Rome–New York flight, usually added in May, was brought forward to April, and the increased frequency of flights from Rome to Los Angeles (from 3/7 in May 2013 to 5/7 in 2014).
Capacity on Far East routes decreased by 2.2%, following the cancellation of flights between Rome and Beijing (operated until March 2013) and the reduced frequencies and different aircraft capacities offered on the Rome-Osaka route from November (from 5/7 with A330s in 2013 to 3/7 with B777s in late 2014). Finally, from summer on, the product offering for Tokyo was modified by adding a Venice-Tokyo service (2/7), increasing flights between Milan and Tokyo by one (up from 4 to 5/7) and, at the same time, reducing the frequency of flights between Rome and Tokyo (from 10 to 7/7).

Finally, the new configuration of the A330 aircraft had an impact on the entire intercontinental network from June, with the number of seats rising from 224 to 250 and a different offering mix (an increase in Economy seats and reductions in Business and Premium Economy).
This new configuration resulted in a significant increase in capacity on routes to West Africa (ASKs up 9.2%), whilst the number of flights remained substantially unchanged.
Overall, capacity on intercontinental routes was unchanged with respect to the comparative period.

Focus on Air One

In the first three months of 2014, Air One consolidated the network strategy launched in December 2013, with a significant presence on routes linking Tirana with the major Italian airports from which it operated. The Palermo base was inaugurated from the 2014 summer season, operating alongside the existing Catania base, and new international routes serving the principal tourist destinations in Sicily and Europe, were launched, including London, Paris, Berlin, Amsterdam, Düsseldorf, Stuttgart, Munich, Vienna, Lyons, Prague and, in Russia, Moscow, Saint Petersburg, Rostov and Krasnodar. With a view to replacing the Venice base, which had performed poorly from June, a new operating base at Verona was launched in September, with flights to Barcelona and Paris.
As mentioned above, from October, the Parent Company decided to use Alitalia's services on the routes formerly operated by Air One Smart Carrier. From 1 October 2014, a number of the flights operated by Air One were transferred to Alitalia. Air One continued to operate until 25 October.

Passenger business

Passenger traffic - Alitalia Group

Changes 2014 vs 2013

		Domestic	International	Intercontinental	**Total NETWORK**
Passengers	% change	-5,4%	6%	0,8%	-1,1%
Capacity (ASKs)	% change	-11,1%	3,4%	0%	-1,7%
Traffic (RPKs)	% change	-8,5%	5,4%	0,3%	-0,2%
Load factor	p.p.	2	1,39	0,26	1,1
Average revenue	% change	-5,1%	-6,7%	-7%	-5,0%
TOTAL REVENUE	% change	-10,3%	-1,1%	-6,2%	-6,0%
RASK	% change	0,9%	-4%	-6,2%	-4,4%
YIELD	% change	-1,9%	-6%	-6,5%	-5,8%

The Group carried a total of 22.4 million passengers in 2014, 1.1% down on 2013.
In terms of RPKs, the reduction is only 0.2%, resulting in a 1.1 percentage point improvement in the load factor to 75.9%, reflecting a decline in capacity (ASKs) of 1.7%.

Alitalia's market share fell 1.5 percentage points in 2014, compared with 2013, declining from 21.4% to 20% (44.2% of the Domestic market; 12% of the International market).

Passenger revenue is down 6%, essentially reflecting the decline in average revenue (down 5%), resulting from the above reduction in traffic.

Focus on Air One

Air One carried 1.7 million fare-paying passengers in 2014, down 12.4% on 2013. The comparison between the two periods is, however, heavily influenced by the cessation of operations towards the end of 2014 (flights were operated until 25 October). In terms of RPKs, the reduction is 2.6%, compared with a reduction in capacity of 1.4%. As a result, the load factor was 69.4%, marking a reduction of 0.8%.
The 8.4% reduction in average revenue resulted in a 5% decline in revenue.
Air One continued to operate until 25 October.

Domestic network

The number of passengers carried on the Domestic network totalled 12.4 million, down 5.4% on 2013.
The load factor of 71% is up 2 percentage points compared with 2013, reflecting the fact that the reduction in capacity (ASKs down 11.1%) was greater in proportion to the downturn in traffic (RPKs down 8.5%).

A series of promotions were launched in 2014 in order to boost demand and respond to growing competition, supported by ATL campaigns[11] and advertising posters.
In addition to these initiatives, the Group implemented a series of targeted promotions, with the aim of winning customers back from competitors, with particular emphasis on products where low-cost carriers have invested most in increased capacity.

Passenger revenue in the Domestic segment is down 10.3% on 2013, reflecting the combined impact of the above reduction in traffic and a 5.1% decline in average revenue.

Low-cost carriers continued to pay growing attention to the Corporate segment in 2014, making increasing use of traditional sales channels, with the aim of driving penetration of the business segments where Alitalia has a strong presence.

Growing competition at the Fiumicino hub from new competitors, such as Ryanair and Vueling (which have launched new services to Lamezia, Palermo, Catania, Brindisi, Bari, Turin and Genoa), and the different mix of routes served (compared with the previous year, the number of bypass flights was reduced and the number of routes providing territorial continuity increased) put pressure on average revenue.
In addition, from June, Vueling launched specific fares for connecting traffic, with the aim of acquiring traffic feeding into the Fiumicino hub. This marks a significant break with the typical strategy of low-cost carriers.

The reduction in revenue, lower in proportion to the downturn in capacity, resulted in a 0.9% improvement in RASK.

The revenue performance continues to be hit by serious ongoing difficulties in the economy, which has had a negative impact on both leisure and business traffic. This is accompanied by growing competition from low-cost carriers (Ryanair began operating out of Fiumicino from December 2013, whilst Vueling has based 8 aircraft at the Rome hub since June 2014) and high-speed rail (the expansion of NTV's offering at national level has exacerbated competition with Trenitalia, especially in the Corporate segment, pushing down fares even further).

Focus on Rome–Milan

Capacity on the Rome–Milan route has been cut by 16.6%, reflecting growing competition from rail services and the Antitrust ruling[12] of March 2013, which resulted in the transfer of 4 pairs of slots to EasyJet.

[11] **Above The Line** (ATL) campaigns use traditional media, such as TV, radio, daily newspapers and periodicals, posters, and, more recently, web advertising and temporary websites, etc. **Below The Line** (BTL) campaigns do not make use of traditional media, focusing on sponsorship, public relations, direct marketing, promotions, etc..

[12] Briefly: Italy's National Competition Authority found that Alitalia had a monopoly on the Linate–Rome route; on 25 October 2012, it announced its decision to assign 4 pairs of slots to EasyJet (further details are provided in the Alitalia Group's Annual Report for the year ended 31 December 2012).

Further changes were made necessary in the following months, with two return flights cancelled in October 2013, and a further two in June 2014, in order to make way for the start-up of the Fiumicino-Alghero service providing territorial continuity[13].

The significant reduction in capacity, which also reflects the suspension of operations during the winter season, was accompanied by a 4.5% fall in traffic, resulting in a load factor of 65.2%, 8.2 percentage points up on 2013.

The 2.8% reduction in average revenue, combined with the above reduction in traffic, resulted in a 7.2% decline in revenue. This reduction which is, in any event, lower than the cut in capacity, has resulted in a significant improvement in RASK (up 11.3%).

International network

Passenger traffic : Alitalia Group - International segment

Changes 2014 vs 2013

		Europe EU	Europe Non-EU	North Africa	Middle East	**International**
Passengers	% change	1%	23,2%	-2,8%	10,5%	6%
Capacity (ASKs)	% change	2,8%	4,1%	-5%	10,7%	3,4%
Traffic (RPKs)	% change	2,2%	9,5%	0,5%	13,7%	5,4%
Load factor	p.p.	-0,4	3,7	3,6	1,8	1,4
Average revenue	% change	-5,6%	-12,2%	-5,4%	-2,7%	-6,7%
Total revenue	% change	-4,6%	8,2%	-8,1%	7,6%	-1,1%
RASK	% change	-7,2%	3,9%	-3,2%	-2,8%	-4,4%
Yield	% change	-6,7%	-1,2%	-8,5%	-5,3%	-6,2%

The number of passengers carried on the International network totalled approximately 8 million, up 6% on 2013.

Compared with a 3.4% increase in capacity (ASKs), traffic (RPKs) saw more than proportionate 5.4% growth. This results in a load factor of 73.3%, a 1.4 percentage point improvement on the same period of 2013.

A series of segmented promotions, aimed at the Italian mass market, were launched in 2014 in order to boost demand. These were backed up by a number of advertising campaigns.

The positive performance of traffic was not sufficient to offset the decline in average revenue (down 6.7%), resulting in a deterioration in total revenue (down 1.1%)

There was a significant increase in competition from low-cost carriers, with Ryanair offering direct flights from Fiumicino to European destinations from mid-February and Vueling doing likewise from the end of March.

[13] Further details are provided in the section “Litigation” in the Notes.

Easyjet also increased its offering of daily flights from Fiumcino to various European capitals and launched new routes.

From mid-December, six new routes to Germany were launched, connecting Rome, Milan and Venice with Berlin and Dusseldorf.

Intercontinental network

Passenger traffic: Alitalia Group - Intercontinental segment

Changes 2014 vs 2013

	North America	Central America	South America	West Africa	Far East	**Intercontinental**
Passengers	7,4%	-46,3%	0,6%	7,1%	-1%	0,8%
Capacity (ASKs)	6,4%	-44,4%	1,4%	9,2%	-2,2%	0%
Traffic (RPKs)	7,1%	-46,3%	0,9%	7,1%	-0,9%	0,3%
Load factor	0,5	-2,7	-0,4	-1,3	1	0,3
Average revenue	-6,4%	44,6%	-9,4%	-7,3%	-7,7%	-7%
Total revenue	0,4%	-22,3%	-8,9%	-0,7%	-8,6%	-6%
RASK	-5,6%	39,8%	-10,2%	-9,1%	-6,5%	-6%
Yield	-6,2%	44,6%	-9,7%	-7,3%	-7,8%	-7%

The number of passengers carried on the Intercontinental network totalled approximately 2.1 million, a slight increase on the same period of 2013 (RPKs up 0.3%). Capacity remained substantially unchanged, despite the different distribution across the various areas of the network compared with 2013.

In terms of load factor for the three classes, Magnifica and Classica Plus saw improved performances, whilst Classica registered a reduction.

The increase, albeit slight, in traffic resulted in 0.3 percentage point improvement in the load factor to 79.7%.

Adverse foreign currency movements (the yen and US dollar), concentrated in the Far East and the Americas, in addition to the reduction in average revenue (down 7.0%), led to a reduction of 6.2% in total revenue from scheduled traffic in this segment.

Cargo business

The overall Cargo business, consisting of bellyhold cargo (freight and mail transported in the hold of passenger aircraft operating scheduled services), night mail flights and charter flights, recorded a 2% decline in revenue in 2014, compared with the comparative period.

In terms of bellyhold, Alitalia transported a total of 66,601 tonnes of freight and mail during the year, up 3.9% on 2013. In terms of TKT, the indicator linked to the distance flown, the increase was 4.6%, compared with a 2.1% increase in capacity. This was despite the impact of the above cancellation of the Fiumicino-Caracas route, whose capacity was partially reallocated.
The load factor is, as a result, up 1 percentage point to 51%.
The load factor for North America is 50.6%, down 1.1 percentage points, whilst the figure for Japan is 78.2%, up 1.2 percentage points. Middle Eastern routes report a 10 percentage point increase.

The economic crisis in Europe and the related political uncertainty, with the resulting impact on the single currency, the current recession affecting South American countries such as Venezuela and Argentina, and slowing output in emerging countries have combined to weigh on the cargo transport sector. Excess capacity in the sector has generated a widespread fall in yields, with Alitalia registering a 7% decline in 2014.

Alitalia reports a 3.2% reduction in revenue from the transport of freight and mail in 2014, compared with 2013. The reduction was for the most part concentrated in long-haul intercontinental markets, such as Central and South America, Italy outbound (tonnes transported up 2.1%, revenue down 4.4%). In contrast, there was growth in revenue from domestic cargo (up 9.1%) and in revenue from the short- and medium-haul international market (up 7.8%).

The latest IATA figures for Italy outbound show Alitalia with a market share, in value terms, of 6.7% of the total network in 2014, substantially in line with the same period of 2013. Based solely on the routes served by Alitalia, the figure is 23.1%.

Night mail flights (a service operated by Alitalia on behalf of Mistral Air, a wholly owned subsidiary of the Poste Italiane group) are up 69%, with 351 more flights operated with respect to 2013, in keeping with the relevant growth target. As a result, revenue is up 51% on 2013, despite a reduction in unit revenue.

Alitalia also operated a total of 20 charter flights, compared with 23 in 2013, primarily for the Bank of Italy and other European banks (Spain's central bank from Madrid and Austria's central bank from Vienna) to European destinations. The 33% decrease in charter revenue reflects the combined effect of the reductions in volumes and unit revenue.

Financial review

Reclassified Consolidated Income Statement

(€000)

	2014	*2013*	*Increase/ (Decrease)*
A. REVENUE	*3.180.595*	*3.405.888*	*(225.293)*
of which, from passengers	**2.748.673**	**2.924.650**	**(175.978)**
Seld-constructed assets	*24.129*	*18.676*	*5.453*
Grants related to income	*31.158*	*3.752*	*27.406*
B. VALUE OF PRODUCTION FROM ORDINARY ACTIVITIES	***3.235.882***	***3.428.316***	***(192.433)***
Cost of external material and services	*(2.747.919)*	*(2.836.764)*	*88.845*
C. ADDED VALUE	***487.963***	***591.552***	***(103.589)***
Staff costs	*(557.676)*	*(681.721)*	*124.045*
D. GROSS OPERATING MARGIN	***(69.713)***	***(90.169)***	***20.456***
Other allowances	*(129.854)*	*(77.305)*	*(52.549)*
Provisions for risks and charges	*(55.790)*	*(10.900)*	*(44.889)*
Sundry income (expenses)	*76.748*	*40.400*	*36.348*
E. EBITDA	***(178.609)***	***(137.974)***	***(40.635)***
Amortization and depreciation	*(168.571)*	*(183.719)*	*15.148*
F. EBIT	***(347.180)***	***(321.693)***	***(25.487)***
Financial income/(expenses)	*6.267*	*(73.864)*	*80.132*
(Impairment losses)/Reversal of impairment losses on financial assets	*(61)*	*(2.174)*	*2.113*
G. PROFIT/(LOSS) BEFORE EXTRAORDINARY ITEMS AND TAXES	***(340.974)***	***(397.731)***	***56.757***
Extraordinary income/(expenses)	*(229.999)*	*(158.920)*	*(71.079)*
H. PROFIT/(LOSS) BEFORE TAXES	***(570.973)***	***(556.651)***	***(14.322)***
Income tax expense for the period	*(7.307)*	*(11.958)*	*4.650*
I. NET PROFIT/(LOSS) FOR THE PERIOD	***(578.280)***	***(568.609)***	***(9.671)***
of which:			
- Attributable to owners of the parent	*(578.280)*	*(568.609)*	
- Attributable to non-controlling interests			

The Group reports an operating loss of €347 million for the year ended 31 December 2014, compared with a loss of €322 million for 2013.

The deterioration of €25 million in the **operating result** is due to a €225 million reduction in revenue, increases in value adjustments of €52 million and provisions for risks and charges of €45 million. In contrast, the cost of purchasing external materials and services is down €89 million, staff costs are down €124 million, net sundry income is up €36 million, grants related to income have increased €27.5 million, the increase in self-constructed assets is up €5.5 million and amortization and depreciation is down €15 million.

The **net loss for the year**, after net financial income of €6 million (expenses of €74 million in 2013), net extraordinary expenses of €230 million and income tax expense of €7 million, amounts to €578 million, which is €10 million higher than the loss reported for 2013.

The main income statement items are as follows:

Revenue amounts to €3,181 million, with approximately 95% generated by traffic, marking a reduction of €225 million (7%) compared with the previous year:

- ✓ passenger revenue of €2,749 million is down €176 million (6%), reflecting a reduction in average revenue (down 5%) across all three segments (Domestic down 5.1%, International down 6.7% and Intercontinental down 7%), partly due to adverse foreign currency movements; the number of passengers carried was substantially in line with the previous year (22,445,095, compared with 22,688,472);

- ✓ other revenue of €432 is down €49 million, reflecting:
  - a reduction in other passenger revenue of €21 million, primarily due to a reduction in change fees and distribution charges (down €15 million), a reduction in tickets that are no longer usable as their validity has expired or because they are subject to fare restrictions that mean they are no longer valid (down €10 million) and a decrease in fare adjustments (down €7 million), partially offset by the amount linked to MilleMiglia bonus mile entitlements (up €6 million) and by greater ancillary revenue (such as excess baggage charges, up €5 million);
  - a reduction in passenger and freight charter revenue of €19 million, reflecting a reduction in operations compared with the previous year (down 33%, due to the combined effect of lower volumes and reduced unit revenue);
  - a decrease of €3 million in income from joint operations with other carriers;
  - a reduction in block space revenue of €2 million;
  - lower revenue from freight services, totalling €4 million;
  - a €6 million reduction in income from maintenance carried out for third parties;
  - a €2 million increase in income from night mail flights operated on behalf of Mistral Air, a wholly owned subsidiary of the Poste Italiane group, with the aim of maximizing synergies between the two groups;

- and a €4 million increase in revenue from commercial and airline partnerships linked to MilleMiglia bonus miles.

The **increase in self-constructed assets,** amounting to €24 million (€19 million in 2013) refers to the capitalisation of costs incurred for leasehold improvements to owned or leased aircraft, such as work on engines, overhauls and landing gear (€20 million), the cost of employees employed to develop software and fleet maintenance (totalling €4 million).

Grants related to income (territorial continuity), amounting to €31 million, reflect payments received for air transport services provided on routes subject to public subsidies in relation to flights operated between Fiumicino and Linate, on the one hand, and Sardinia, on the other.

The **value of production from ordinary activities** thus amounts to €3,236 million, down €192 million (6%) on 2013.

The **cost of purchasing materials and external services** amounts to €2,748 million, down €89 million (3%) on the figure for the previous year. This reflects:

- ✓ a decrease in fuel costs of €75 million (after the effects of price and foreign currency hedges), due to a reduction in flights (down €28 million), the appreciation of the dollar (down €34 million) and the positive change in the relevant prices (down €13 million);

- ✓ a reduction of €20 million in traffic expenses and airport fees, due mostly to the lower level of activity and to exchange rate effects; attention is called to lower handling expenses (down €5 million), radio and weather services (down €9 million), onboard catering and sundries (down €6 million) and flyover fees (down €3 million), partly offset by an increase in airport fees (up €3 million, in connection with an increase in the fees charged);

- ✓ a reduction of €17 million in selling expenses, due to lower advertising and promotional expenses (down €12 million), call centre services (down €3 million) and promotional campaigns (down €2 million);

- ✓ a reduction of €16 million in lease expense, reflecting a decrease in aircraft operating leases (down €13 million), lower rental expenses (down €5 million) and lower concession fees and utilities (down €4 million), partially offset by higher fleet and engine lease expense (up €6 million);

- ✓ a reduction of €12 million in the cost of other services, linked to reductions in general expenses for internal transport equipment, miscellaneous administrative expenses, legal expenses and software (down €12 million), data and telecommunications costs (down €1 million), and insurance expenses (down €1 million), partially offset by increases in the cost of maintenance and overhauls of sundry plant and equipment (up €1 million) and in the cost of other services for personnel (including catering, transport and hotel accommodation, medical assistance, parking and training (up €1 million);

- ✓ a decrease in purchases of sundry materials of €3 million, mainly for in-flight services;
- ✓ an increase of €52 million in the cost of maintenance materials and fleet maintenance, linked to an increase in fleet maintenance expenses and technical assistance (up €41 million), due to lower calibration services compared with those for 2013, with the ensuing release from the maintenance reserve, mainly thanks to the efficiencies achieved in certain contracts with primary maintenance companies such as Bedek and AMS, in relation to work performed on A320 engines, the adjustment of €34 million to the reserve for the overhaul of the low pressure turbine used by the 8 leased B777 engines (costs of approximately $16 million), and maintenance expenses incurred to repair an engine and the effect of the contractual upward price adjustments (up €7 million for both items); there was also an increase in the use and purchase of maintenance materials of €11 million;
- ✓ an increase of €2 million in the cost of joint operations with other air carriers.

As a result of the above, the **Group's added value** amounts to €488 million, down €104 million on the previous year.

Staff costs of €558 million are down €124 million (18%), primarily due to:

- a lower average headcount, accounting for a reduction of €54 million (down 1,153 from 11,241 employees at 31 December 2013 to 10,088 at 31 December 2014), mainly in relation to the introduction of job security agreements for ground staff from June 2013, to the launch of a rotating special redundancy fund for ground staff from March 2014 and "defensive" job security agreements for aircrew (agreement signed in February 2014, superseding all previous job security and redundancy agreements), and the collective layoffs and spinoffs of business units, both provided for in the union agreement signed in July 2014;
- the reduction of pay for all employees, totalling €19 million, following the agreement signed with the trade unions on 16 July 2014;
- the reduction in variable costs related to flight operations, totalling €29 million;
- the benefits deriving from the contribution holiday on compensation paid to aircrew, totalling €20 million.

The **gross operating loss** thus amounts to €70 million, down €20 million on 2013, when the loss was €90 million.

Other allowances of €130 million (€77 million in 2013) include impairment losses of €104 million in relation to aircraft and capitalised maintenance expenses incurred for owned and leased aircraft, recognised by the Group on 30 September 2014 following a valuation performed with support from an independent expert, to align the carrying amount (as of that date) of the fleet to its fair market value, €6 million in impairment losses on the costs incurred to develop the software related to the Linkage project, €17 million for impairments on certain trade receivables and €3 million in losses recognized by Air One in relation to the hangars in Pescara and the "Navitaire" ticket sale system.

Provisions for risks and charges, totalling €56 million (€11 million in 2013), are up €45 million and regard the risks relating to sundry disputes with suppliers (€36 million), litigation in civil courts (€4 million), labour disputes (€12 million), regulatory/transportation issues (€2 million) and overseas transportation (€2 million).

Net sundry income of €77 million compares with income of €40 million for the previous year, which included €27 million in ancillary income, resulting from agreements with major industrial and commercial partners.
The balance for 2014 regards:

- ✓ €53 million in excess provisions made in previous years;
- ✓ extraordinary income from passenger traffic of €21 million;
- ✓ €19 million linked to the one-time payment of $60 million (€48 million) from Etihad to Alitalia to (i) pay the penalty charged by Amadeus to Alitalia (€29 million) for early termination of the contract for the Linkage reservation system, and (ii) to provide Alitalia with a return on the necessary investments made over the years in order to implement the Linkage system;
- ✓ €19 million in sundry income, including ancillary income and signing bonuses (€6 million), commercial allowances (€3 million), compensation received from third parties for breaches of contract (€2 million), and refunds from Telecom Italia (€4 million);
- ✓ €4 million released from provisions for risks, following the settlement with Sogaer and Freccia Alata;
- ✓ €13 million in taxes and levies, primarily regarding provisions for the regional tax on aircraft noise (IRESA), totalling €8 million, overseas taxes of €2.6 million, taxes on competition prizes and bonuses, amounting to €1.3 million, and other taxes of €1.1 million;
- ✓ €10 million in costs relating to the MilleMiglia partnership;
- ✓ €8 million in losses on a number of receivables and the write-down of the surety previously enforced by Aeroporti di Roma;
- ✓ €8 million in sundry costs, essentially relating to association membership dues and aircraft manuals (€5 million) and provisions to cover the cost of excess CO2 emissions with respect to the allowance under the ETS – Emissions Trading Scheme (€3 million).

As a result, **negative EBITDA** for 2014 amounts to €179 million, compared with negative EBITDA of €138 million for the previous year.

Amortisation and depreciation of €169 million is down €15 million, reflecting lower goodwill amortisation relating to CAI First and CAI Second and a reduction in the amortisation of certain start-up costs, which have been fully amortised (down €6 million and €8 million, respectively), and reduced amortisation of goodwill attributable to Alitalia CAI, following the impairment recognised at 31 December 2013 (down €5 million), partially offset by increased depreciation of the fleet as a result of investment during the year (up €4 million).

Negative EBIT of €347 million compares with negative EBIT of €322 million for 2013.

Net financial income of €6 million marks an improvement of €80 million, reflecting

- ✓ the positive effect of exchange rates, amounting to €96 million, with foreign exchange gains of €56 million reflecting the translation of cash held in Venezuela at the exchange rate posted by the ECB and the remainder due to movements in the exchange rate with the dollar;

- ✓ a €4 million reduction in interest expense accrued on convertible bonds, following partial conversion of the issue in January 2014;

- ✓ the increase in interest and commission expenses paid to banks, totalling €7 million, in relation to higher interest expense on short-term borrowings (up €9 million), due to greater use of lines of credit and the increase in interest rates (average increase of 0.7 percentage points, from 3.9% in 2013 to 4.6% in 2014, following the rise in market rates and the need to use lines of credit which are definitely costlier than others). On the other hand, interest expense was lower on medium/long-term borrowings (down €3 million), due to the lower amount of borrowings as a result of repayments and the early repayment of loans obtained to finance the aircraft sold during the year. This effect, however, was partly offset by higher interest rates (an average increase of approximately 0.4 percentage points, from 3.5% in 2013 to 3.77%, in 2014, due to an increase in market rates);

- ✓ the costs associated with a derivative contract entered into by the Irish companies and related to certain loans linked to aircraft due to be sold; these derivatives expired in February 2015 prior to repayment of the loans to which the contract was linked, generating costs of €4 million;

- ✓ the absence of premiums on fuel options, which in 2013 amounted instead to €9 million.

Net extraordinary expenses of €230 million compare with net extraordinary expenses of €159 million in 2013. The figure for 2013 primarily consisted of the following: the cost, estimated by the Group's Irish companies (€38 million), resulting from a tax assessment by the Italian tax authorities, following a tax audit completed in July 2013, in relation to the tax residence of the Irish companies for fiscal years 2002-2008, responsibility for which is attributable to the previous owner of Air One (Toto); the write-down of the cash held in Venezuela (€62 million); write-downs and net realised losses resulting from the phase-out of the fleet (€33 million); and provisions established by Air One (€18 million) in relation to tax audits by the tax authorities for fiscal years 2006-2009.

Net extraordinary expenses of €230 million in 2014 primarily regard:

- ✓ €54 million relating to the Group's restructuring process, with impairments, phase-out costs and penalties for the early repayment of loans for 24 A320 and A321 aircraft sold, after they had been grounded (€34 million) and expenses for redundancies, both in Italy and overseas (€20 million);

- ✓ €49 million in provisions for losses in relation to the cash trapped in Venezuela, reflecting the exchange rate and repatriation risks associated with them. This amount reflects the difference between €64 million, i.e. the amount of sales for 2014, and €15 million, i.e. the sum repatriated from Venezuela representing cash accrued in 2013; it is also worthy of note that net financial income includes a foreign exchange gain in relation to these cash balances, based on the exchange rate posted by the ECB;
- ✓ €56 million for the write-off of goodwill arising from the consolidation of Air One (€30 million) and Alitalia Cityliner (€26 million), in view of the previously described strategic transaction with Etihad, and as more fully described in the paragraph, "Impairment of goodwill arising from consolidation", in the section on accounting policies;
- ✓ €44 million in provisions for the overall inability to collect from the former owner of Air One, Carlo Toto, all the amounts involved in tax disputes, including potential disputes, rooted in events preceding the purchase of Air One by Alitalia, with any positive or negative effects, including potential effects, to be attributed to the seller (Toto), as provided for by the Framework Agreement signed at the time of the acquisition (articles on Identified Disputes and Significant Ongoing Litigation);
- ✓ €13 million for further provisions made by the Irish companies, in connection with the remarks made on their "tax residence" by the Italian tax authorities, which on 16 October 2016 notified commencement of an audit of fiscal year 2009. The Group made provisions for the amount in question, based on the opinion of a tax attorney retained to represent the companies, in accordance with the obligations assumed under the agreements with Etihad, with particular reference to tax disputes dating back to fiscal years prior to 2015;
- ✓ €6 million in provisions in relation to the risk that Air One might be required to pay back this amount to the redundancy fund set up by INPS;
- ✓ €18 million for consulting expenses of various types, in relation to conduct of the complex and far-reaching negotiations involved in creating the strategic partnership with Etihad and in the disputes with Toto and WindJet;
- ✓ €6 million in costs for the settlement of the issue related to termination of the agreement on loyalty schemes with Payback, thus meeting one of the conditions precedent set out in the pre-agreement with Etihad;
- ✓ €4 million in costs for the removal of the LIVE TV equipment installed on the A321 aircraft, including the sum agreed with the supplier, following termination of the agreement and cessation of the relevant capitalisations;
- ✓ extraordinary income of €6 million related to the phase-out of the CRJ aircraft (resulting from the release of excess provisions made in the previous year and gains on the disposal of aircraft and rotable material), and to completion of the phase-out of the MD80 and B767 aircraft;

- ✓ the release of €8 million – based on the opinion of the Group's counsel – in provisions established in 2013 by Air One (€18 million) in relation to tax audits by the tax authorities for fiscal years 2006-2009, among others;
- ✓ net contingent assets of €9 million related to the reversal of handling, fuel and maintenance costs for previous years.

Income tax expense for the period amounts to €7 million, essentially relating to IRAP for the period payable in Italy (€12 million) and deferred tax expense (€1 million), partly offset by deferred tax income, again in the form of IRAP (€6 million).

As a result of the above, the Group reports a **loss for the year** ended 31 December 2014 of €578 million, compared with a loss of €569 million for the year ended 31 December 2013.

Reclassified Balance Sheet

(€000)

	31 December 2014	31 December 2013	INCREASE/ (DECREASE)
A.- NET NON-CURRENT ASSETS			
Intangible assets	305.560	366.238	(60.678)
Tangible assets	734.839	1.073.092	(338.252)
Financial assets	488.004	352.930	135.074
	1.528.404	**1.792.260**	**(263.856)**
B.- WORKING CAPITAL			
Inventories	192.734	142.348	50.386
Trade receivables	237.360	275.265	(37.905)
Other assets	158.433	162.307	(3.874)
Trade payables	(639.427)	(656.988)	17.561
Provisions for risks and charges	(1.003.023)	(348.620)	(654.403)
Other liabilities	(322.863)	(447.565)	124.702
	(1.376.786)	**(873.253)**	**(503.533)**
C.- INVESTED CAPITAL, less current liabilities	**151.618**	**919.007**	**(767.389)**
D.- PROVISIONS FOR POST-EMPLOYMENT BENEFITS	(9.265)	(10.551)	1.286
E.- INVESTED CAPITAL, less liabilities and provisions for post-employment benefits	**142.353**	**908.456**	**(766.103)**
covered by:			
F.- EQUITY			
Paid-in share capital	357.545	270.677	86.867
Reserves and retained earnings	127.679	98.812	28.866
Net profit/(loss) for the period	(578.280)	(396.660)	(181.620)
EQUITY (Attributable to owners of the parent)	**(93.056)**	**(27.170)**	**(65.886)**
G.- MEDIUM/LONG-TERM BORROWINGS	397.724	491.582	(93.858)
H.- NET SHORT-TERM BORROWINGS (NET CASH AND CASH EQUIVALENTS)			
- short-term borrowings	315.991	543.174	(227.183)
- cash and cash equivalents and short-term financial receivables	(478.307)	(99.131)	(379.175)
	(162.316)	444.043	(606.359)
NET DEBT/(CASH) (G+H)	**235.409**	**935.625**	**(700.217)**
I.- TOTAL (F+G+H)	**142.353**	**908.456**	**(766.103)**

The Group's **invested capital**, less negative working capital and provisions for post-employment benefits, amounts to €142 million at 31 December 2014, compared with €908 million at 31 December 2013.
The reduction of €766 million is due to the increased cash generated from working capital (€503 million), a reduction in net non-current assets (€264 million) and a reduction in provisions for post-employment benefits (€1 million).
The main components of the balance sheet are analysed below.

Net non-current assets are, as noted above, down €264 million, declining from €1,792 million at 31 December 2013 to €1,528 million at 31 December 2014.
In greater detail, the above performance reflects the following movements.

Intangible assets, totalling €305 million, show a net reduction of €61 million, due to:
- ✓ amortisation for the year of €43 million;
- ✓ write-downs of €64 million, largely relating to goodwill arising from consolidation (€56 million), in view of the previously described strategic transaction with Etihad, and as more fully described in the paragraph, "Impairment of goodwill arising from consolidation", in the section on accounting policies. The remaining amount of €8 million is connected to the write-down of the cost of developing software for the Linkage reservation system (€6 million), as a consequence of early termination of the contract with Amadeus, and the financial charges on financing related to A320 aircraft owned by the Irish companies, which will be sold shortly to AirBerlin (€2 million);
- ✓ investment during the period of €43 million and additions of €3 million resulting from transfers between accounts.

Investment during the periods regards:
- ✓ the fleet, in the form of maintenance of leased aircraft (€26 million), including capitalisation of the cost of C-1, 5C and 2C maintenance checks (€9 million), the reconfiguration of A330 aircraft, called "densification", (€8.5 million), shop visits for engines (€3.5 million), maintenance of thrust reversers and jet intakes (€1 million), and other works (€2 million), in addition to new investment and work in progress at 31 December 2014 (€2 million);
- ✓ software, totalling €17 million, regarding the purchase of licences for Microsoft 2014-2015 (€2 million), other development projects (€1.5 million) relating to the first implementation fee instalment for the Sabre project for reservations and ticketing (€8 million), the Linkage programme (€1 million, then written down), WEB2014 (€1.5 million), the labour costs incurred for internal employees devoted to development of the latter software (€2 million) and other projects, such as E-motion 2014 (€1 million).

Tangible assets of €735 million show a net reduction of €338 million on 31 December 2013, due to:
- ✓ depreciation of €125 million for the period;
- ✓ €105 million relating to a net write-down of aircraft in the fleet and improvements carried out by the Group at 30 September 2014. The write-down resulted from estimates conducted by the Company, with the support of an independent expert who determine the fair market value of the aircraft. In the cases where the carrying amount of the aircraft was higher than its fair market value the carrying amount was written down to align it to such lower value;

- ✓ €25 million regarding the write-off of capitalised improvement, overhaul and fitting expenses incurred for the owned fleet, following the phase out of the A320 and A321 aircraft from the fleet, after they had been grounded;
- ✓ €8 million in disposals and retirements of rotable materials and the removal di aircraft fittings, such the Live TV equipment (€5.5 million), and of ground equipment and other assets (€2.5 million);
- ✓ €137 million in net reclassifications, consisting of the transfer of assets to current assets under "Assets held for sale" and regarding the residual value of the aircraft included in the sale agreements with Air Berlin (€128 million) and GA Telesis (€6 million), and assets included in the IT unit being sold to IBM (€2 million), as well as maintenance work on leased aircraft reclassified to "Intangible assets" (€4 million), partly offset by maintenance material transferred from the "Cost of purchasing materials" (€3 million);
- ✓ €62 million in investment, regarding:
  - the fleet, amounting to €57 million, including €18 million relating to cyclical airframe checks (such as C checks, amounting to €7 million, and ILO/RED checks, totalling €11 million), €15 million for shop visits for engines, €5 million for the cyclical overhaul of APUs and landing gear, €8 million for the purchase of spare parts, €2 million for the overhaul of thrust reversers, jet intakes and other parts, and, finally, €9 million in advances paid for engine overhauls and shop visits and cyclical ILO, RED and C checks on airframes, APUs and landing gear still in progress at 31 December 2014;
  - other assets, totalling €5 million, represented by purchases and work in progress, such as the modification and overhaul of ground equipment and the upgrade of fire alarm and security systems.

Financial assets of €488 million are up €135 million on 31 December 2013. The change is due to:

- ✓ investment of €113 million during the period, relating to medium/long-term receivables arising from payments into the maintenance reserve (€107 million), cash collateral of €4 million provided by APC12 to PK Airfinance in relation to the loan for the A321 MSN495 aircraft, which was sold in February 2014, and the posting of security deposits of €2 million;
- ✓ the recalculation of foreign currency items at closing exchange rates (€56 million);
- ✓ reimbursements received of €28 million, due to maintenance reserve receivables collected (€22 million), related to maintenance activities performed during the year, and the release of security deposits (€1 million) on expired lease agreements, and collection of the above cash collateral;
- ✓ reclassification, amounting to €2 million, of the security posted in 2009 with Freccia Alata 2, regarding the lease of the property located in viale Alessandro Marchetti, 11, Rome, following the settlement reached in July 2014 on several issues involving the Parent Company, CAI;
- ✓ a change of €4 million in the current portion, reclassified to short-term financial receivables.

Working capital is a negative €1,377 million, compared with a negative €873 million at 31 December 2013, marking an increase of €503 million. The main components are as follows.

Inventories, totalling €193 million, are up €50 million. This reflects an increase of €57 million in assets held for sale, following the reclassification from the item "Fleet" in "Tangible assets" of the residual value of seven

A320 aircraft owned by the Irish companies, and which have been phased out and included in the sale agreement with Air Berlin, which will complete in 2015 (€128 million), the reclassification of a further A320 to be sold to GA Telesis and of an A320 being phased out (together totalling €6 million), revision of the selling value of two more A320 aircraft that had been classified in this item in the previous year, about to be sold to GA Telesis (€2 million), and reclassification of the IT unit, whose sale to IBM was effective 1 January 2015 (€2 million). In contrast, reductions relate to sales during the year of 10 CRJ900 owned by APC, APC2 and APC3 and Alitalia's spare parts (totalling €68 million), the sale of 4 A321 aircraft owned by APC12 (€13 million), and of 2 MD82 aircraft and spare engines owned by the Parent Company, CAI (€1 million). In addition, there was a reduction of €7 million in fleet spare parts and other maintenance material.
As at 31 December 2014, "Assets held for sale", amounting to €145 million, represent the residual value of 5 A321 aircraft, 7 A320 aircraft and the assets and liabilities included in the IT unit.

Trade receivables of €237 million are down €38 million on the previous year, reflecting decreases in receivables from travel agents due to lower sales volumes (€40 million), in receivables from airlines (€11 million), due to lower settlement amounts with other carriers, related mainly to the collection of signing bonuses from Air France; in contrast, there was an increase in receivables from customers if €4 million, due mainly to higher credit card sales, and an increase of €9 million in prepayments, primarily for maintenance services.
To take account of the portion of the above receivables deemed not to be recoverable, an allowance for bad debt has been established which, at 31 December 2014, amount €18 million (€6 million at 31 December 2013).

Other assets of €158 million are down €4 million, reflecting reductions in accrued income (€11 million), in amounts due to various debtors (€8 million) as a result of amounts collected during the year, in amounts receivable from personnel (€1 million) and in tax assets and deferred tax assets (€1 million). These reductions were in part offset by an increase in other receivables for €18 million, essentially sums due from INPS due to higher reimbursable amounts (€10 million).

Trade payables of €639 million are down €17 million, essentially reflecting a reduction in amounts due to suppliers (€53 million), partially offset by an increase in amounts payable to foreign airlines (€35 million) and to travel agents (€1 million).

Provisions for risks and charges of €1,003 million are up by a total of €654 million compared with 31 December 2013. This reflects:

- ✓ a €1 million increase in provisions for taxes, including deferred tax liabilities, due to new provisions during the year;
- ✓ an increase of €152 million in the maintenance reserve, representing the balance of provisions for the year of €148 million and the negative effect of the alignment with closing exchange rates, totalling €44 million, direct uses during the year of €29 million and releases of €11 million;

- ✓ a €5 million increase in provisions for prize competitions and loyalty programmes relating to the frequent flyer programme known as “Millemiglia”. The increase is the result of provisions for the period of €18 million and uses and releases of €13 million;
- ✓ establishment of provisions for restructuring, amounting to €35 million, which did not exist at 31 December 2013. These provisions reflect the Group’s restructuring process, including €19 million to cover the cost of staff leaving the Group, both overseas (€4 million) and in Italy (€15 million, relating to redundancy payments, including voluntary redundancy payments, contributions for unemployment schemes payable to INPS, pay in lieu of notice and other charges of this nature), and €16 million in provisions for costs in relation to phase-outs and penalties for the early repayment of debt related to the replacement 24 A320 and A321 aircraft, after they had been grounded. As at 31 December 2014, these provisions amount to €19 million, following uses during the year of €16 million;
- ✓ an increase in sundry provision of €477 million, with these provisions now totalling €523 million. And consisting of:
  - provisions for irrevocable cash contribution, amounting to €387.5 million, representing the irrevocable cash contribution made by Etihad to Alitalia S.A.I. on 22 December 2014 in respect of its subscription, effective 1 January 2015, for shares to be issued by Alitalia S.A.I. as a result of the capital increase approved on 19 December 2014;
  - provisions for sundry risks, amounting to €136 million, having increased by €90 million, essentially as a result of:

    - ▪ provisions of €122 million related to the assessment of risk for different legal disputes with suppliers (€38 million), the overall risk associated with the inability of Air One to recover from its former owner (Carlo Toto) sums related to known tax disputes (€44 million), the amount necessary to address claims from INPS in connection with the redundancy fund (€6 million), a tax assessment by the Italian tax authorities, following a tax audit completed in July 2013, in relation to the tax residence of the Irish companies for fiscal years 2002-2008 (€13 million), labour disputes (€12 million), litigation in civil courts (€4 million), air transport (€1.5 million), regulatory/transportation issues in Italy (€2.5 million), and consulting and other expenses related to the early repayment of debt financing the fleet (€1 million);

    - ▪ releases for the period of €16 million, relating to sums set aside in previous years, including €4 million for charges to phase out the CRJ aircraft, €8 million for the excess provisions – based on the opinion of the Group’s counsel upon specific request – made in 2013 by Air One (€18 million) in connection with tax audits by the Italian tax authorities, focusing on matters that had already been investigated and extended to fiscal years 2006-2009, €3 million for risks relating to suppliers, and €1 million for litigation in civil courts;

    - ▪ uses of €17 million of provisions made for litigation in civil courts (€6 million) – among which attention is called to the settlement between the Parent Company and Freccia Alata 2 for the lease of the buildings in via Alessandro Marchetti 111, Rome -, for disputes with airport suppliers (€4 million), for work-related risks (€1 million), overseas transportation (€1 million), regulatory/transportation issues in Italy (€2 million) and the costs connected with the phase-out of MD80 and CRJ900 aircraft (€2 million);

- reclassifications from trade payables, totalling €1 million, to cover risks related to the phase-out of the fleet.

Other liabilities, amounting to €323 million, are down €125 million on 31 December 2013. This reflects reductions in the following:

- ✓ prepaid tickets (€58 million), reflecting lower ticket sales;
- ✓ social security contributions payable (€37.5 million), primarily due to lower amounts payable to INPS, following the contribution holiday on compensation paid to aircrew obtained by the Group for 2014 and the payment of contributions in instalments for all employees (total amount: €30 million), lower payments to supplementary pension funds (down €2 million), lower labour insurance (INAIL) payments (down €2 million), and lower social security contributions payable on salaries as of 31 December 2014 (€3 million);
- ✓ amounts payable to sundry creditors (€21 million), essentially due to a reduction in taxes payable, largely in the form of the regional tax on aircraft noise (IRESA), and increased efficiency in terms of the appropriate allocation of amounts to overseas accounts, in addition to settlements with Air France and Messier Bugatti, which had given rise to fines and penalties in the previous year;
- ✓ amounts due to employees (€8 million), linked a lower accrued but unpaid wages and salaries at 31 December 2014 (€9 million), offset by an increase in outstanding holiday pay (€1 million);
- ✓ amounts payable to insurance companies (€2 million);
- ✓ and accrued expenses (€1 million).

In contrast, tax liabilities are up €3 million.

Provisions for post-employment benefits amount to €9 million and are down €1 million compared with 31 December 2013.

Equity is a negative €93 million, compared with a negative €27 million at 31 December 2013. The deterioration of €66 million reflects:

- ✓ the loss for the year of €578 million;
- ✓ a reduction of €37 million in reserves, following partial conversion into ordinary shares of the convertible bonds issued, which at 31 December 2013 had been accounted for in a specific capital reserve, given that the terms and conditions of the permitted conversion until 10 January 2014;
- ✓ an increase in share capital of €87 million, linked to exercise of the right to convert the convertible bonds issued pursuant to the resolution adopted by the shareholders at the Extraordinary General Meeting held on 22 February 2013 (€70.5 million) and capital increase approved by the shareholders at the Extraordinary General Meetings held on 25 July and 8 August 2014 (€16.5 million);
- ✓ an increase of €462 million in the share premium reserve, following the above resolution approved by at the Extraordinary General Meetings held on 25 July and 8 August 2014.

Net debt amounts to €235 million and consists of:

Medium/long-term debt of €398 million, with 34% financing the fleet (€136 million, including €2 million regarding aircraft held under finance leases, recognised in the consolidated financial statements in accordance with finance lease accounting, in line with the requirements of Italian Accounting Standard OIC 17). This debt has decreased by €94 million compared with 31 December 2013, reflecting repayments of €188 during the year and the reclassification of current portions of €158 million to short-term debt, substantially relating to loans linked to the A320 aircraft withdrawn early from service (€127 million) and the residual portion of the convertible bonds issued (€31 million). These reductions were partially offset by the financing provided by Poste Italiane S.p.A. through MidCo to the Parent Company, CAI (€75 million) and the debt restructuring, in preparation for the strategic transaction with Etihad Airways, approved by shareholders at the General Meeting of 8 August 2014, under which debt classified as "ex factoring and pool" with Unicredit, Monte dei Paschi di Siena and Banca Popolare di Sondrio was consolidated into a 10-year loan carrying a 4% interest rate (€177 million).

Short-term debt (falling due within 12 months) amounts to €316 million (including €236 million financing the fleet), marking a reduction of €227 million on 31 December 2013. The reduction is primarily due to the debt restructuring, whereby the loans provided by Monte dei Paschi, Banca Popolare di Sondrio, Intesa Sanpaolo and Unicredit were converted into new shares (€354 million) and medium/long-term loans (€49 million), and repayment of the current portions of finance leases (€6 million). These reductions were partially offset by an increase in the current portion of borrowings (€158 million), as described above, and by alignment of the year-end value of the derivative hedging the dollar-denominated loans obtained by the Irish companies, APC10 and APC12, with closing exchange rates (€28 million, with an equal and offsetting amount being entered among short-term financial receivables), with the remaining increase regarding an increase in the use of lines of credit.

Cash and short-term financial receivables of €478 million are up €379 million on the previous year. This reflects an increase of €353 million in bank and post office deposits and in cash, following Etihad's cash contribution to Alitalia S.A.I. in December 2014 (€387.5 million), in relation to the complex and comprehensive strategic transaction entered into by the companies, and increase in short-term financial receivables, reflecting alignment of the year-end value of the derivative hedging the dollar-denominated loans obtained by the Irish companies, APC10 and APC12, with closing exchange rates (up €28 million, with an equal and offsetting amount being entered among short-term bank borrowings, relating to the offsetting adverse effect of the exchange rate on the borrowing itself) and a reduction in the current portions of non-current receivables and security deposits (€2 million).

In line with the previous year, this item includes deposits with restrictions on when they may be transferred, totalling €75 million (after the allowance for bad debts of €104 million). This compares with €48 million at 31 December 2013 (after the allowance for bad debts of €64 million).

As at 31 December 2014, bank deposits subject to restrictions, after the allowance for bad debts, regard Venezuela (€69 million), Iran (€1 million), Algeria (€3 million) and Libya (€2 million).

Our customers

Customer Centre

The Customer Centre, including the Call Centre and Customer Relations department, provides a one-stop travel planning and customer assistance service.

SALES PERFORMANCE

The Call Centre – Total sales revenue fell 12.3% in 2014. Sales channel revenue, amounting to 4.1% of the total, was down 0.2% compared with 2013. A conversion rate (number of tickets issued compared with the number of eligible calls received) of 22.9% was registered in 2014, up 3.7% on the 19.2% of 2013.

Ticketing – Total sales revenue decreased by 18.8% during the year; sales channel revenue fell 0.4% to stand at 3.2% of the total.

OPERATING PERFORMANCE

- <u>The Call Centre service</u>

  An overall decrease of 15% in the number of calls received was registered compared with 2013.

  In detail:

  - calls handled in-house: down 40%;
  - outsourced calls:
    - ✓ Italy down 18%; Italy Millemiglia down 45% (decreased due to closure, in 2013, of campaigns promoting the use of bonus miles); Italy Services down 6%;
    - ✓ Overseas down 0.5%.

- <u>Customer Relations – complaints management</u>

  The number of complaints registered a substantial 37% rise compared with 2013 (104,086 compared with 76,014), primarily due to disruption at Fiumicino airport in August. The percentage of complaints filed by passengers carried during the period was also affected by these events, rising from 0.34% in the previous year to 0.46% in 2014.

- <u>Customer satisfaction – perceived quality</u>

  Regarding the Customer Centre, the percentage of customers expressing overall satisfaction was up 0.9 points on 2013. In detail, the in-house Call Centre for Freccia Alata Club and Freccia Alata Plus Club customers registered a slight 0.3% fall in customer satisfaction to stand at 84.8%, while the outsourced service for handling mass market and Ulisse customer calls marked an improvement of 1.8%, with satisfied customers amounting to 75.8%.

- <u>Quality provided</u>

Calls handled: In 2014, 94.7% of the calls received by the Call Centre were handled, down slightly on the previous year (95.4%), but substantially in line with the target (95%). (This figure breaks down as follows. In-house: 93.4%; Info&Sales provider in Italy: 93.9%; Millemiglia provider in Italy: 95.9%; overseas provider: 96.9%)

Service level: 76.4% of calls received by the Call Centre in 2014 were answered within 20 seconds. Performance is down on 2013 (77.6%), and below target (78%). (This figure breaks down as follows – In-house: 75.4%; Info&Sales provider in Italy: 74.9%; Millemiglia provider in Italy: 73.9%; overseas provider: 82.6%).

Baggage

In 2014 mislaid baggage items amounted to 9.7 (6.8 in 2013) per 1,000 passengers (up 42.6%).
At Fiumicino airport, the figure stood at 20.8/1,000, compared with 12.3/1,000 in 2013 (up 69.1%). The deterioration in performance is attributable, among other things, to problems relating to Aeroporti di Roma's infrastructure at the Rome hub, adverse weather conditions, and failure to handle transit baggage arriving on flights served by other handlers, a factor that was also affected by industrial action. In the latter part of the year, the performance deteriorated further as a result of discontent among freight handling and baggage handling staff following the launch of corporate restructuring procedures.

Regularity

Overall, 362 cancellations out of a total of more than 214,000 flights were registered in 2014, compared with 507 in the previous year, which was particularly affected by bad weather events.
In 2014, 150 flights were cancelled due to weather (294 in 2013), 96 for technical reasons (against 72), 64 due to airport closures (107 in the previous year), and 23 due to damage to aircraft (16 in 2013).

Overall, 99.8% of flights operated normally, a figure that is substantially in line with the 99.7% registered in the previous year.

Punctuality

84.5% of the flights operated during the period under review departed within 15 minutes of the scheduled time (85.6% in 2013) and the arrival punctuality index stood at 84% (86% in the previous year).
Adverse weather conditions, which were localised and for limited periods of time, did not penalise first-quarter results and the second quarter witnessed a substantial consolidation of performance, with high punctuality results until the end of the first 10 days of June. However, this was followed by a sudden reversal of the uptrend due to handling service malfunctions at Rome's Fiumicino airport (refuelling, crew buses, push-backs, PRM assistance), at the same time as traffic volumes were steadily rising.
Some days in June were also affected by adverse weather conditions, together with IT system malfunctions at Fiumicino airport, resulting in delays.
Disruption increased in the third quarter, while traffic volumes were also still growing.
Operations at Rome's Fiumicino airport were particularly difficult from a staff point of view, due to the expected restructuring of the business and the related impact on employment. Disruptions to the baggage handling service required the setting up of task forces, which nevertheless were unable to prevent

malfunctioning of the main operating procedures (loading/unloading, baggage handling, transport services, ground handling), entailing substantial negative impacts on network punctuality.

These problems were compounded by unfavourable weather, which was extremely unusual and unexpected in Italy and at the Fiumicino airport hub at that time of year.

During the last quarter of the year, the improvement in punctuality registered in the last 10 days of September was consolidated in the early part of October. Underlying the result was a steady improvement in hub performance, with disruptions affecting airport procedures, including adverse weather conditions, cases of damage and handling malfunctions, occurring only within single days and during periods with the highest concentration of activity. Finally, it should be noted that construction work was carried out at the Rome hub during the last two months of the year, which severely penalised flight punctuality.

Focus on Fiumicino-Linate

The results for 2014 registered a positive trend and competitiveness was maintained when compared with overall network performance. Regularity stood at 99.9% (99.5% in 2013); departure punctuality (within 15 minutes of scheduled departure) registered 92% (94% in the previous year), while the same figure for arrival punctuality (within 15 minutes of scheduled arrival) was 90% (91.6% in 2013).

Focus on Air One

99.9% of Air One smart carrier flights operated normally. Departure punctuality (within 15 minutes of scheduled departure) stood at 86.3%, while arrival punctuality (within 15 minutes of scheduled arrival) registered 88.3%.

The fleet

The Group's aircraft

FLEET - Alitalia Group			
type of aircraft	*as at 31 December 2014*	*as at 31 December 2013*	Increase/ (Decrease)
B777	10	10	0
A330	12	12	0
LONG-HAUL	***22***	***22***	**0**
A319	22	22	0
A320	49	56	-7
A321	12	9	3
MEDIUM-HAUL	***83***	***87***	**-4**
ERJ175	15	15	0
ERJ190	5	5	0
REGIONAL	***20***	***20***	**0**
TOTAL aircraft fleet in operation	***125***	***129***	**-4**

Other aircraft in the fleet	*as at 31 December 2014*	*as at 31 December 2013*	Increase/ (Decrease)
A320	8	1	7
A321	6	13	-7
MD80	0	2	-2
CRJ 900	0	10	-10
TOTAL other aircraft in the fleet	***14***	***26***	**-12**
TOTAL FLEET	*139*	*155*	**-16**
of which owned by the Group	*51*	*67*	-16

The Group's aircraft fleet in operation at 31 December 2014 consists of 125 aircraft, including 22 long-haul, 83 medium-haul and 20 short-haul.

During the year, the Group sold 4 A321s and 10 CRJs owned by the Group's Irish-registered companies, and 2 MD80s owned by Alitalia. The 10 CRJ900 aircraft, none of which was in operation at 31 December 2013, were sold to Mesa Airlines Inc. for a price of US$92 million, under an agreement signed on 14 April 2014. Delivery of the aircraft to the buyer began in April itself and was completed in July 2014.

With regard to the aircraft operated by the Group, it should be noted that, on 6 November 2014, the Irish-registered Group company, APC12, and GA TELESIS LLC entered into an aircraft sale agreement for 6

A321 aircraft owned by APC12. At the date of preparation of this report, 5 of the aircraft being sold have been delivered to the buyer (of which three were delivered before 31 December 2014).
In addition, on 1 October 2014, a binding framework aircraft sale agreement was signed with Air Berlin for the sale of 14 Airbus A320-216s owned by the Irish-registered companies. As at 31 December 2014, 7 of the 14 aircraft to be sold no longer form part of the Group's fleet. At the date of preparation of this report, 3 of the aircraft have been delivered to the buyer, Air Berlin, during 2015.
In order to align the carrying amounts of the assets in question with their realisable values estimated on the basis of the agreement, as reported below, the Group has partially written down the residual value, represented by leasehold improvements to the fleet, and established provisions for risks and charges to cover the phase-out costs and penalties relating to early repayment of the related financing.
Fourteen aircraft were not in operation as at 31 December 2014.

Safety

Flight safety management in 2014

The Alitalia Group companies' accident prevention and flight safety programme is in full compliance with legal requirements and IATA standards.

In 2014 the programme to upgrade the Group companies' Safety Management System to comply with EC Regulation no. 2012/965 was completed. This Regulation, in force since 28 October 2014, has revised the technical requirements and administrative procedures applicable to civil aviation.

In September and October, Italy's Civil Aviation Authority (ENAC) completed its audit relating to the issue of aircraft operator certificates in accordance with the above Regulation, which reported the full regulatory compliance of all Group companies' safety management systems. Alitalia's training organisation obtained similar certification in April (in compliance with EC Aircrew Regulation nos. 1178/2011 and 290/2012).
Also in June, all the Group's aircraft operators were audited by an external firm approved by the IATA regarding their IOSA certification (IATA Operational Safety Audit). The audits were successfully completed and the operators found to be in full compliance with IATA safety standards (no observations were made).
As part of the Safety Management System, a programme to adopt a Fatigue Risk Management System (FRMS) has been launched recently. FRMS is a quantitative method for management of aircrew operational fatigue, which will enable the monitoring of fatigue-related risks based on modern methodologies and scientific knowledge, complemented by long-term operating experience.
Prompt information was provided to the airport authorities, confirming Alitalia's reputation as a transparent, reliable and competent partner.
Finally, the Group actively participated in the main international working groups on safety.

Safety performance indicators

No safety event entailing the launch of an enquiry by Italian or overseas investigators was reported in 2014.

The flight data monitoring programme recorded a decrease of around 23% in deviations from operating standards compared with the previous year, and especially a fall in the occurrence of unstabilised approaches[14] (down 17.5% on 2013).

Alitalia is the leading member of the SkyTeam alliance in terms of the percentage of flights analysed (97.5%), thanks to adoption of a highly reliable wireless data transfer system, for all aircraft categories, which has enabled radical improvements in the quantity and quality of data.

76% of Safety Key Performance Indicators registered performances better than or similar to those recorded in 2013.

In particular, the downtrend in notifications of safety incidents when inflight or during maintenance and ground handling activities, which are mandatorily reported to the aviation authorities (MOR – Mandatory Occurrence Report), continued. The number of notifications per 1,000 flights fell to 1.86 compared with 1.98 in 2013 (down 6%).

On the other hand, cases of inadvertent slide deployment, namely the unintentional opening of emergency slides while opening doors during parking, increased. An aircrew awareness-raising campaign and investigation of currently used procedures were launched to check the feasibility of possible improvements, including in the light of other aircraft operators' experience.

The SAFA rate, which is particularly challenging, was kept within the target (0.90) throughout the year, closing at 0.84.

SAFA is the acronym for Safety Audit of Foreign Aircraft, a programme launched a few years ago by the European Union to carry out ramp checks on aircraft arriving from foreign countries; the SAFA rate is calculated for each carrier in terms of the outcome of the checks carried out.

Safety management regulations applied in 2014

On 24 April 2014 Regulation (EU) No. 376/2014 on the reporting, analysis and follow-up of safety incidents in civil aviation was issued. This Regulation, which replaces Directive 2003/42/EC, imposes new and more stringent obligations for operators regarding the investigation of safety events and the implementation of corrective action.

The new Regulation will come into effect from November 2015; steps are being taken to update the reporting procedures and software.

In October, ENAC issued Implementation Circular GEN-05 “Civil Aviation Authority national plan for managing aviation emergencies”. The document provides details regarding measures to be prepared at national level by operators in compliance with the relevant international regulations (especially Regulation (EU) No. 996/2010), with particular reference to obligations regarding assistance for accident victims and their family members. The Family Assistance Plan (FAP) was prepared and is currently awaiting approval by ENAC.

[14] Unstabilised approach: approach during which an aircraft fails to maintain stable variables such as speed, descent rate, vertical/lateral trajectory and landing configuration.

Human resources

Alitalia Group 31 December Total employees	Alitalia		Cai First		Cai Second		Air One		Alitalia City Liner		Alitalia Loyalty		**Alitalia Group**		
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	**change**
Executives	49	54						1			1	2	**50**	**57**	- 7
Middle managers and administrative staff	4.358	5.549	3	8	2	3		4	8	3	44	33	**4.415**	**5.600**	- *1.185*
Blue collar workers	2.099	2.491						32					**2.099**	**2.523**	- *424*
total GROUND STAFF	*6.506*	*8.094*	*3*	*8*	*2*	*3*	-	*37*	*8*	*3*	*45*	*35*	***6.564***	***8.180***	- *1.616*
Flight crew	1.386	1.486							174	161			**1.560**	**1.647**	- *87*
Cabin crew	3.487	3.625	23	27	25	25		46	180	170			**3.715**	**3.893**	- *178*
total AIRCREW	*4.873*	*5.111*	*23*	*27*	*25*	*25*	-	*46*	*354*	*331*	-	-	***5.275***	***5.540***	- *265*
TOTAL	11.379	13.205	26	35	27	28	-	83	362	334	45	35	**11.839**	**13.720**	- *1.881*
										of which:		*of which:*			
												part-time ground	*1.202*	*1.602*	- *400*
												part-time aircrew	*2.263*	*2.360*	- *97*
												permanent	*11.160*	*12.835*	- *1.675*
												fixed-term	*679*	*885*	- *206*

Alitalia Group January - December Average employees on payroll	Alitalia		Cai First		Cai Second		Air One		Alitalia City Liner		Alitalia Loyalty		**Alitalia Group**		
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	**Change**
Executives	49,2	58,9					0,9	1,0			1,1	1,4	**51,2**	**61,3**	- *10,2*
Middle managers and administrative staff	3.981,5	4.510,9	4,4	7,3	1,8	2,7	-	0,3	5,8	2,7	24,2	21,6	**4.017,7**	**4.545,5**	- *527,9*
Blue collar workers	2.088,6	2.216,0					-	-					**2.088,6**	**2.216,0**	- *127,4*
total GROUND STAFF	*6.119,2*	*6.785,8*	*4,4*	*7,3*	*1,8*	*2,7*	*0,9*	*1,3*	*5,8*	*2,7*	*25,3*	*23,0*	***6.157,4***	***6.822,8***	- *665,4*
Flight crew	1.162,8	1.398,5							162,1	157,9			**1.324,9**	**1.556,4**	- *231,4*
Cabin crew	2.397,5	2.639,6	14,5	17,1	14,3	15,8	18,7	32,5	160,9	156,8			**2.605,9**	**2.861,8**	- *255,9*
total AIRCREW	*3.560,3*	*4.038,0*	*14,5*	*17,1*	*14,3*	*15,8*	*18,7*	*32,5*	*323,0*	*314,7*	-		***3.930,8***	***4.418,1***	- *487,3*
TOTAL	9.679,5	10.823,9	18,9	24,4	16,1	18,4	19,6	33,9	328,8	317,4	25,3	23,0	**10.088,2**	**11.241,0**	- *1.152,8*

Our staff

As at 31 December 2014, the Group's workforce amounted to 11,839, including 11,160 on permanent contracts (down 1,675 on 31 December 2013) and 679 on fixed-term contracts (down 206 on 31 December 2013), registering a total decrease of 1,881 compared with 31 December 2013.

This decrease derives from a reduction in ground staff of 1,616 (including 1,386 on permanent contracts and 230 on fixed-term contracts), and a reduction in aircrew of 265 (including 289 on permanent contracts and 24 on fixed-term contracts).

Permanent contracts underwent the following changes during the year:

- ground staff
  24 staff recruited (20 in Italy and 4 overseas) +3 conversions to fixed-term contracts (overseas); 1,413 terminations (1,339 in Italy and 74 overseas), including 1,278 layoffs.
- aircrew
  42 staff recruited;
  331 terminations, including 261 layoffs.

It should also be noted that part-time staff amounted to 3,465 at the end of the year, compared with 3,962 at 31 December 2013 (down 497, including 400 ground staff and 97 aircrew); full-time staff amounted to 8,374 compared with 9,758 at 31 December 2013 (down 1,384, including 1,216 ground staff and 168 aircrew).

In 2014 the average number of employees on the payroll amounted to 10,088.2, compared with 11,241 in the previous year, registering an overall decrease of 1,152.8 (665.4 ground staff and 487.3 aircrew). This reduction is due to the introduction of job security agreements for aircrew and a redundancy fund for ground staff, via the agreement signed in February 2014, as well as collective layoffs via redundancy schemes, and the spinoff of business units as part of the corporate restructuring process, both provided for in the agreement signed in July 2014.

Internal communication

Alitalia-Etihad roadshow

A roadshow took place between 11 and 16 September, aimed at presenting details of the publicised partnership between Alitalia and Etihad Airways to thousands of staff. Meetings were held in Rome and Milan, with participation across all departments, including the senior management of Alitalia and Etihad.

Meetings with senior executives

On 16 December 2014, the president of Alitalia SAI, Luca Cordero di Montezemolo, the CEO of Alitalia SAI, Silvano Cassano, and the senior management team met around 250 senior executives and middle managers to present the new organisation and launch the new Company. An inspirational video was made for the occasion by an external agency.

On 12 June, the CEO of Alitalia CAI, Gabriele Del Torchio, and members of the senior management team had already met senior executives and middle managers from the Company at the auditorium in the new building at Fiumicino airport to inform them of the state of negotiations with Eithad.

Cloud

New functions were implemented for Cloud, the corporate intranet: an incorporated Google search engine, a searchable organisation chart and a contacts address book. All the professional communities are now active on Cloud. The second phase of the project will include implementation of forums, noticeboards and wiki pages[15].

The old intranet (Peoplenet) has been deactivated, although some functions are still running on the platform. Migration is in progress, so the servers cannot be shut down for the moment.

Communication campaigns

An inspirational video filmed by an external agency at the Fiumicino offices, in collaboration with several colleagues, was produced and posted on Cloud to involve all members of staff in the Functional Assessment (October-November 2014).

In order to support the English Workout training initiative (an interactive English course financed by Fondimpresa and aimed at all permanent and fixed-term employees), an internet communication campaign, including an animated video and a demo, was launched. The cost of the campaign was covered by Fondimpresa funding.

People Care

Care Box

The package of exclusive agreements for staff was boosted by funding of €200,000 (spread over two years) from Lazio Regional Authority. The agreements regard Elder Care (assistance for parents/elderly family members/those who are not self-sufficient), Family Care (welfare assistance, family support) and summer camps (partially funded by the Company, for children of members of staff).

110 children took part in the summer camps, with the Company contributing €200 per child, and a total of €22,000 completely financed by Lazio Regional Authority.

Company tax assistance

Once again in 2014, all staff members at the Rome and Milan offices were offered a tax assistance service in agreement with "CAF Italia 2000" (individual and joint completion of income tax returns at prices lower than those offered by tax assistance centres operated by the unions).

[15] Website pages to which users may add or revise content in a collaborative way.

Industrial relations and occupational health and safety

During 2014, dialogue with the labour unions and professional associations focused on a number of complex industrial problems, primarily in connection with the widely-reported cyclical and structural difficulties faced by the aviation sector.

Generally speaking, on 26 February 2014, administrative approval of the agreements signed on 13 February was received. The agreements were entered into with all the labour unions and professional associations representing staff at the Company and regarded a rotating special redundancy fund for ground staff and "defensive" job security agreements for CAI Group companies, excluding Alitalia Cityliner, involving up to a maximum of 4,524 ground staff. A total of 4,946 flight and cabin crew, representing all the aircrew employed by Group companies, were included in the job security agreements.

In June, a round table was launched at the relevant department of the Ministry of Infrastructure and Transport, including the CGIL, CISL, UIL and UGL labour unions, the national secretary of USB, and the professional associations, Anpac, Avia and Anpav. Discussions focused on the guidelines set out in the Business Plan and repercussions for employment, in view of the formation of partnerships with international carriers. The negotiations, which proceeded at a rapid pace, led to the signing of a framework agreement on 12 July with all the recognised labour unions and professional associations, except for the CGIL. This agreement regards previously announced job cuts and was accompanied by an agreement governing the terms for implementation. The plan, presented by the Minister of Infrastructure and Transport, provided for 2,251 job cuts, to be implemented via redeployment within the organisation, layoffs and redundancies.

In implementation of the plan, an application was submitted to the Ministry of Labour and Social Policy requesting conversion of the redundancy fund from one set up for the purposes of "reorganisation" to one set up in response to a "corporate crisis", with effect between 1 July 2014 and 28 February 2015, in accordance with the numbers and application procedures set out in the agreements of 13 and 26 February 2014.

In accordance with these agreements, on 31 July, Alitalia – Compagnia Aerea Italiana and Air One launched an initial redundancy scheme, aimed at taking advantage of the redundancy fund, for staff willing to terminate their employment, involving payment of an pre-tax incentive of €10,000, as well as staff who, during the period of available income support measures, were able to meet the requirements for receipt of some form of pension.

Regarding management of the crisis plan, the following measures were also agreed: a) the launch of a retraining plan for ground staff (for up to 200 staff); b) the activation of a "defensive" job security agreement for cabin crew, involving a reduction in working hours sufficient to absorb 250 staff otherwise surplus to requirements; c) the redeployment of around 500 staff.

The redundancy scheme was drawn up under an agreement dated 8 August, which was signed by all the labour unions present at the Company.

As notified on 3 October, a second redundancy scheme was launched. Taking into account the 2,251 layoffs envisaged in the agreements of 12 July, the terminations of employment arising from the first redundancy scheme, the retraining programmes implemented and staff reinstated by court order, a total of 1,244 staff employed by Alitalia – Compagnia Aerea Italiana S.p.A. were declared surplus to requirements (including 879 ground staff, 61 flight crew and 304 cabin crew).

The agreement of 24 October, signed by all the labour unions and professional associations representing staff at the Company, except for the CGIL, provided for the layoff of up to 994 staff, including 879 ground staff, 61 flight crew and 54 cabin crew. On the same date, an agreement was also signed regarding the redeployment of ground staff, together with a job security agreement for cabin crew.

On 26 November and 16 December 2014, statements of agreement were signed with all the labour unions and professional associations representing staff at the Company. These regarded the contribution of Alitalia - Compagnia Aerea Italiana's airline business, including all the related capital assets and investments in the subsidiaries, CAI First, CAI Second, Cityliner and Loyalty, with the exception of the interest in Air One, to Alitalia - Società Aerea Italiana, the company incorporated as a result of the strategic partnership with Etihad Airways. The agreements also provide for the transfer of 11,084 staff on permanent contracts, including 10,673 from Alitalia - Compagnia Aerea Italiana (of which 1,383 flight crew, 3,430 cabin crew, 5,472 ground staff and 388 staff on "local" contracts), 26 from CAI First, 27 from CAI Second, 313 from Alitalia Cityliner, and 45 from Alitalia Loyalty, as well as 578 staff on fixed-term contracts at the time the transfer is effective (no later than 1 January 2015).

Taking into account the crisis and the risk to jobs, in order to mitigate the social impact of the crisis resolution plan, this operation was deemed appropriate – including via substantial investment – to achieve the following objectives: a) to protect the levels of employment resulting from the reorganisation and restructuring of CAI Group companies; b) a definitive turnaround of the Group in the global air transport sector, with positive repercussions for the entire productive system, allied industries and Italian economic competitiveness.

The IT support unit and the related staff (except for those involved in providing fixed and mobile telephony and audio-visual services) was excluded from the transfer of assets, as Alitalia - Compagnia Aerea Italiana launched another procedure on 5 December 2014 regarding the transfer of this unit to IBM. This additional transfer procedure, defined by an agreement signed with all the labour unions present at the Company on 17 December 2014, involved 69 staff on permanent contracts.

It should also be noted that, on 16 July 2014, as part of discussions regarding the Business Plan and after lengthy negotiations, Assaereo – together with the labour unions, FILT-CGIL, FIT-CISL, Uiltrasporti, Ugltrasporti and USB, and the professional associations, Anpac, Avia and Anpav – signed the single collective contract for the air transport sector as it relates to Specific Airlines in the National Collective Labour Contract (relating to flight crew, cabin crew and ground staff). The General Section of the National Collective Labour Contract had already been signed on 2 August 2013, while Assocatering and Fairo accepted and signed the contract on 24 March and 31 March 2014, respectively. The National Collective Labour Contract is valid from 1 January 2014 to 31 December 2016.

On the same date, an agreement was signed regarding the adoption of extraordinary measures designed to cut staff costs during the period July-December 2014, in order to help in overcoming the current crisis affecting the Company and the workforce. In particular, a mechanism provided for a gradual reduction in the percentage of collective remuneration, correlated to the total amount of compensation received per year, ranging between 4% and 17% (for remuneration up to €30,000 and above €100,000, respectively).

More specifically regarding managerial aspects, dialogue with the labour unions relating to flight crew, also focused on re-hubbing issues, transfers to Fiumicino and Milan, the peripheral operating bases that have been closed, and the assets of CAI Group companies covered by the Business Plan, as well as issues more closely connected with employment, shift working and changes to scheduled flights. Particular difficulties were encountered in relation to application of the job security contribution, as per the agreement of 16 July 2014, and regarding bringing Alitalia Cityliner's pay structure into line with the one planned for Alitalia – Compagnia Aerea Italiana.

Issues discussed regarding cabin crew included staff reorganisation (also affecting Alitalia Cityliner), staff transfer procedures relating to the Group's re-hubbing process and the closure of peripheral operating bases, especially the one in Palermo, as well as service dynamics, stopover locations and onboard working methods, the concession of part-time contracts and seniority lists.

In terms of ground staff, no significant negotiations are underway. Many meeting were held, especially in March and April, regarding implementation of redundancy funds for the various sectors, with particular reference to deskilling mechanisms for ground and administrative staff, though these were strictly connected with operational issues.

In June, given the shift of the focus of negotiations with the labour unions towards the new Business Plan, these issues were set aside whilst discussion of the main issues continued.

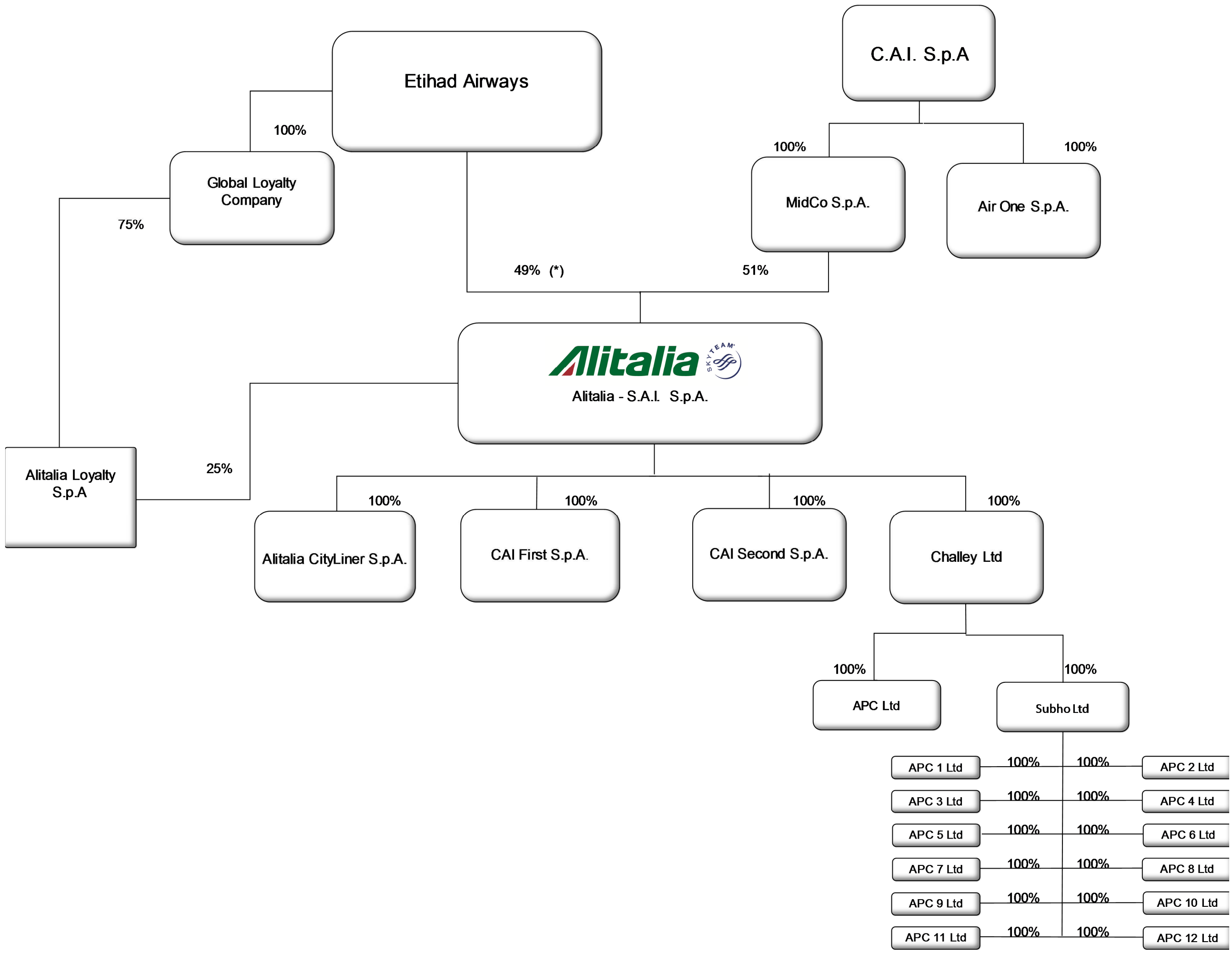
Industrial unrest during the year included a few strike actions arising from issues relating to the difficult economic situation, and others launched against the Company by independent and unrecognised labour organisations. None of these actions had a significant impact on flight operations.

With regard to occupational health and safety, checks were carried out during the year on correct implementation of the Health and Safety Management System, as provided for in the 2014 annual audit plan agreed with employers. Also regarding adoption of the Health and Safety Management System, a request was submitted to INAIL (National Institute for Insurance against Labour Accidents) to reduce the insurance premium for companies that have implemented preventive measures designed to improve workplace health and safety conditions. Actions also continued to personalise the IT platform used by the Health and Safety Management System. The Risk Assessment Documents relating to areas of the Group that have undergone process-related and/or organisational changes affecting occupational safety, and the Single Interference Risk Assessment Documents for activities put out to tender, were updated. Training and refresher courses for staff who use equipment for their work, as per the Agreement of 22 February 2012 between central and regional government, and training and information courses as per articles 36 and 37 of Legislative Decree no. 81/08 (as well as the Agreement of 21 December 2011 between central and regional government) for seasonal staff and/or staff returning after long periods of suspension from work, continued.

In 2014, the Occupational Safety unit was audited by the Auditing department, pursuant to Legislative Decree no. 23/2001. During the observation period, the good performance of the accident rate over the last four years, which had already been particularly positive in 2013, was confirmed.

Outlook and Business Continuity

With regard to the companies in existence as at 31 December 2014, the structure of the Group is as follows in 2015:



The subsidiary, Alitalia – SAI, has announced that it intends to merge CAI First S.p.A. and CAI Second S.p.A. with and into Alitalia SAI in the first half of 2015, with retroactive effect for accounting and tax purposes from 1 January 2015.

The new company, Alitalia - Società Aerea Italiana S.p.A., and the subsidiaries transferred to it through the above in-kind contribution - which gave rise to the 51% equity interest held by CAI - will operate in partnership with Etihad, the national airline of the United Arab Emirates. Etihad holds the remaining 49% of Alitalia - SAI via the cash injection made, effective 1 January 2015.
From 2015, CAI will cease to operate directly, continuing to operate indirectly through Alitalia SAI (controlled via MidCo).

At the same time, the above-mentioned financial restructuring, implemented in 2014 in the form of interventions designed to bolster the Group's capital and reserves, including a significant debt restructuring, has strengthened CAI's financial position and rebalanced its financial structure.

From 2015, CAI will only incur the operating costs linked to the Company's operations, providing its investee company, Air One, which is no longer in operation, the cash needed to meet its financial commitments, primarily relating to pending tax disputes, all of which, moreover, attributable to the previous ownership (Toto).

At the same time, the disputes to which CAI is party have been appropriately assessed and, based on the existing information, it is reasonable to believe that the assumed risks will be covered by adequate financial resources.

In this regard, it should be noted that CAI's medium-term financial needs are also covered by the option to take advantage of the remaining unused portion of the above Equity Commitment (€100 million has yet to be used as at 31 December 2014, falling to €86.6 million following the injection of additional capital of €13.4 million by CAI's shareholders in 2015).
Further cash is expected to be received as a result of the collection of certain receivables due to CAI, above all including the "trapped cash" held in Venezuela, although the amount to be collected is expected to be substantially less than the original amount. It should, in any event, be remembered that, under the commitments given by the Parties in the Amendment to the TIA, 50% of any repatriated cash, up to a maximum of €26 million, must be transferred to Alitalia – SAI.

Having said this, the Group's short-term outlook is inevitably linked to the growth prospects for Alitalia - SAI, with the aim of preserving the value of the significant investment made, which will be reflected in the value of CAI's investment, held indirectly through MidCo, and in the turnaround of the business and its subsequent earnings growth and expansion.

Alitalia – SAI and its direct subsidiaries, in the context of the partnership to be developed with Etihad, will be transformed into a premium global airline through a repositioning in the air transport market via the development of long-haul flights, cooperation with other airlines in order to expand the offering, the upgrade of the fleet and a new, more customer-oriented culture, as well as new product and service standards.

Alitalia – SAI's assumptions and forecasts took into account currently known and predictable scenarios and events that can be reasonably expected to materialize, on the basis of available information.
However, it should be noted that, while the outlook regarding financial sustainability is satisfactory, thanks to the above commitment of its shareholders, the assumptions underlying Alitalia SAI's growth prospects remain prudent.
Within this context, the Directors have the reasonable expectation that the Group, and the companies that make up the Group as at 31 December 2014, will be able to continue as a going concern in the foreseeable future.

For this reason, the consolidated financial statements have been prepared on a going concern basis, continuing to recognise the value of the assets and without accounting for any specific impairments or provisions that would be necessary were the going concern principle not applicable.

Additional information

Italian, European Union and international regulatory environment

Italy

Public service obligations

Sardinia

Regarding the public service obligations imposed on the routes to and from Sardinia,[16] Alitalia was awarded the following routes for a four-year period from 27 October 2013:

Alghero – Milan Linate - with maximum annual compensation of €3,099,734.00, including VAT;

Cagliari – Rome Fiumicino - with maximum annual compensation of €13,901,178.05, including VAT;

Cagliari – Milan Linate - with maximum annual compensation of €15,510,968.00, including VAT.

The Italian authorities have imposed[17] public service obligations on scheduled air passenger services on the routes from Alghero to Bologna and Turin and vice versa, from Cagliari to Bologna, Naples, Turin and Verona and vice versa, and from Olbia to Bologna and Verona and vice versa.

On 3 December 2014, the Transport Department of the Sardinia Regional Authority published a notice for acceptance, without financial compensation, of the public service obligations for the above routes from Cagliari and Olbia. It is expected that, in early March 2015, these routes will be assigned without financial compensation to Meridiana, the only airline, according to press reports, that submitted formal acceptance of the public notice.

The Transport Department also pointed out that the routes connecting Cagliari to Florence and Palermo may be operated on a free market basis, as no airline had accepted the related terms for their operation.

Calabria

As a result of Ministerial Decree no. 40 of 12 February 2014[18], the ministerial decree[19] regarding the "imposition of public service obligations on the air routes from Reggio Calabria to Milan Malpensa, Pisa San Giusto and Turin Caselle and vice versa" was revoked.

With Ministerial Decree no. 414 of 20 November 2013[20], the Italian authorities imposed public service obligations on the routes from Crotone to Milan Linate and Rome Fiumicino and vice versa.

Alitalia opted not to bid for the tender.

Sicily

With Ministerial Decree no. 5 of 15 June 2014[21], the Italian authorities imposed public service obligations on the routes between Pantelleria and Lampedusa and Palermo, Trapani and Catania.

[16] Following publication of calls for tender in the Official Journal of the European Union on 26, 27 and 28 June 2013.

[17] By Decree of the Ministry of Infrastructure and Transport of 14 March 2014, published in Official Gazette no. 74 of 29 March 2014.

[18] Published in Official Gazette no. 48 of 27 February 2014.

[19] No. 108 of 23 March 2011 (Official Gazette no. 91 of 20 April 2011).

[20] Published in the Official Gazette - General Series - no. 294 of 16 December 2013.

[21] Published in the Official Gazette - General Series - no. 34 of 11 February 2014.

The maximum amount of financial compensation, including a reasonable profit margin for awarding the air transport service, was €30,707,382.00 before VAT for a three-year period, or a fraction of it calculated on the basis of the actual period of service.

Alitalia participated in the tender, submitting its bid on 11 April 2014, and was awarded an exclusive contract to operate on these routes for a three-year period from 1 July 2014.

Destinazione Italia legislation

On 21 February 2014[22], Law no. 9 of 21 February 2014 was published, converting Law Decree no. 145 (the so-called "Destination Italy" legislation[23]) into law.

In particular, art. 13 containing "Urgent measures regarding Expo 2015, public works and air transport" relates to:

the extension of income support for airline staff, a reduction in the tax wedge for aircrew (flight and cabin crew), the elimination of dual taxation (airport fees) for transit passengers, mandatory transparency in provision of subsidies to airlines by local authorities and airport operators, and a regional tax on aircraft noise;

urgent measures contained in the above decree relating to the launch of the "Destination Italy" plan, cuts in electricity and gas prices, a reduction motor insurance premiums, internationalisation, the development and digitalisation of companies, and measures relating to public works and Expo 2015.

Regional tax on aircraft noise

RESA (regional tax on aircraft noise) was introduced in Italy by laws dated 21 November 2000 and 1 January 2013, and converted into a "regional levy" by art. 8 of Legislative Decree no. 68 of 6 May 2011.

Application of the new aircraft noise tax on a regional basis, which until now had been applied using different criteria and for purposes unrelated to the provisions of the original legislation, leading to a series of untenable situations, to the extent that art. 13, paragraph 15-*bis* of the above Law no. 9 of 21 February 2014, converting the "Destination Italy" decree, stated that "in order to avoid effects that might distort competition between airports and to promote the attractiveness of the Italian airport system, including with reference to events connected with Expo 2015, in defining the measure relating to the regional tax on civil aircraft noise (IRESA), [24]……., the unit charge for IRESA has been capped at €0.50. Without prejudice to the above cap, the tax has been reformulated taking into account other criteria that differentiate between day- and night-time flights and the urban characteristics of the geographical areas surrounding individual airports".

With sole regard to art. 13, paragraph 15-*bis*, Lazio Regional Authority filed a legal challenge with the Constitutional Court, contesting its constitutional illegitimacy.

The outcome of the challenge is awaited.

For some time, carriers have been requesting consistent application of the tax, and Alitalia has also taken this matter to court[25].

[22] In the Official Gazette no. 43.

[23] Published on 23 December 2013 in the Official Gazette no. 300.

[24] "pursuant to art. 90 *et seq.* of Law 342 of 21 November 2000."

[25] For further information reference should be made to the section on "Litigation" in the notes to these financial statements.

Lobbying on the issue is also taking place at international level. On 18 July, the Council for Environmentally Friendly Aviation (CEFA) sent a letter to the President of Lazio Regional Authority expressing the same concerns.
In a judgment filed on 13 February, the Constitutional Court ruled that the cap of €0.50 per tonne for the regional tax on civil aircraft noise is completely legitimate.

Tourist tax

In a letter dated 20 December 2013, Assaereo reiterated a request to the Minister of Transport and the president of ANCI (National Association of Italian Municipalities) to waive payment of, or substantially reduce, the tourist tax payable to municipalities and collected by accommodation providers, for aircrew and ground staff obliged to stay overnight in another location as part of their duties, as well as for passengers on delayed or diverted flights.
This request took account of the strategic importance of the role played by air transport in facilitating tourists' access to local areas, and the resulting ability of airline services to substantially increase the number of tourists on whom this tax would be levied.

The National Airport Plan

The proposed Plan, aimed at rationalising the airport system, has yet to be approved by central government and regional authorities. The Plan's approval process, which formally opened with Minister Lupi's report to the Cabinet on 17 January, identifies 11 strategic airports (including Fiumicino, Malpensa and Venice) and another 26 airports of national interest.
On 30 September, the Cabinet adopted the National Airport Plan.
The process now requires the approval of the Permanent Conference representing central government and regional and autonomous provincial authorities and the opinion of the relevant parliamentary committees. The Plan will finally be adopted in a decree to be issued by the President of the Republic.

Disembarkation tax for Italy's smaller islands

Art. 11 of Law no. 1322, "Provisions regarding the regions, local transport, polling stations, disasters and healthcare providers", which was approved by the Senate on 27 March 2014 and is currently under examination by the Chamber of Deputies, has introduced a disembarkation tax for airlines serving Italy's smaller islands.
Approval of the law under examination would entail:
1 – levy of a tax with a maximum value of approximately 10% of the tariff specified in calls for tender relating to the imposition of public service obligations, which would have a significant impact on the financial terms and thereby jeopardise airlines' participation in the tender;
2 – additional direct costs for airlines, given the difficulties in collecting the tax from passengers, as individual municipalities can modify it, even several times a year, in terms of its duration, method of application the related exemptions and amounts.
The draft legislation is still under examination by Parliament.
Lobbying is in progress via Assaereo to prevent application of the new provisions.

"*Sblocca Italia*" Decree

On 29 August 2014, the Cabinet approved a law decree entitled "Urgent measures regarding the start-up of construction work, execution of public works, the digitalisation of Italy, the simplification of bureaucracy, hydrogeological emergencies and the revival of industrial output", known as the "Unblock Italy" legislation.[26]

The decree contains a series of measures regarding infrastructure, construction, the environment and energy aimed at companies and local authorities.

Specifically regarding the air transport sector, art. 1 provides for the approval of planning agreements signed by the Civil Aviation Authority, ENAC, and the operators of airports of national interest, the definition of a tariff regime and the setting of airport fees for individual airports, as well as the setting of airport fees for 2015 in the case of planning agreements expiring on 31 December 2014.

Measures specifically aimed at airports, as well as ports, are contained in articles 28 and 29. In particular, art. 28 regards the payment of contributions on the compensation paid to aircrew, extends the exemption of aircrew in service from the payment of boarding fees in some cases, and regulates airport first aid services. The promotion of new bilateral air transport agreements, or the amendment of existing ones, is to be undertaken by the Ministry of Infrastructure and Transport, acting together with the Foreign Ministry, within 30 days of application of the conversion law.

Regional marketing

Abruzzo

Following publication of an expression of interest from SAGA (Società Abruzzese Gestione Aeroporto SpA) to identify domestic or international airlines able to ensure passenger traffic growth at Abruzzo airport in February 2014, on 10 April Alitalia presented a commercial proposal regarding the Linate-Pescara route and vice versa.

The Abruzzo Regional Authority was not interested in Alitalia's proposal.

Fee used to fund the operations of the Office of Transport Regulation

The Decree[27] regarding "Initial determination of the fee for 2014 to be paid by regulated infrastructure and service operators, collection procedures and notification of the related data to the regulator" lays down that the fee, initially set at 0.04% of revenue, is due from transport sector operators with revenue for 2014 of more than €80 million, as reported in the latest approved financial statements. The relevant amount is to be paid by 30 April 2014.

The Group companies involved fulfilled this obligation.

The Jobs Act

Law no. 137 of 13 December 2014 was published in Official Gazette no. 290 on 15 December 2014: "Authority for the government to reform income support, employment services and job creation schemes, and to reform employment law, including legislation governing inspections, protections and the balance between health care, life and working requirements" (the so-called "Jobs Act").

[26] Law Decree 133 of 2014, converted with amendments into Law 164 of 2014.

[27] Cabinet Office Decree of 12 February 2014 approved, for the purposes of implementation, Office of Transport Regulation Resolution 10/2014 of 23 January 2014.

Parliament is examining two implementation decrees relating to the Law regarding fixed-term contracts subject to protections that gradually increase with the length of service and reform of income support in the event of enforced redundancy and the outplacement of workers who have been made unemployed.

<u>Job creation Fund</u>

The Ministry of Labour[28] has ordered the establishment of a Job Creation Fund[29] in order to encourage the return to employment of people on redundancy schemes, including under derogation arrangements, and the unemployed.[30]

The Job Creation Fund has been allocated an initial sum of €15 million for 2014 and of €20 million for both 2015 and 2016.

The Fund is aimed at financing initiatives, including those of an experimental nature, supported by specific training programmes designed to encourage the return to employment of people on redundancy schemes, including under derogation arrangements, and the unemployed. Such initiatives include: a) trial outplacement contracts; b) training programmes; c) professional, refresher and specialist training courses, updating of key skills, higher education courses, etc.

In order to access the Fund, regional authorities must submit an application to the Ministry of Labour by completing the relevant forms available on the Ministry's website. The applications will be examined by the Ministry every three months.

A call for tender is being launched by Lazio Regional Authority relating to trial outplacements. This will initially be aimed at the short- and long-term unemployed aged between 30 and 65.

<u>Provisions regarding the annual and multi-year budget (the 2015 Stability Law) and the budget for 2015 and the multi-year budget for the three-year period 2015-2017.</u>

Regarding the 2015 Stability Law[31], the following relevant provisions should be noted:

- Transfer of air traffic control charges to ENAV SpA

Paragraph 219 amends paragraph 10 of art. 5 of Law Decree no. 77 of 1989, which regards funding for the government financing of air traffic control. The funds are no longer provided by the Ministry of the Economy and Finance under ENAV SpA's service and planning agreements, but are to be raised by ENAV S.p.A. in return for the air traffic control services its provides for civil aviation.

- Airport fees

By amending art. 76 of Law Decree no. 1 of 2012, paragraph 220 lays down that the tariff model for setting airport fees adopted by the Office of Transport Regulation should no longer take account of the criteria

[28] Ministerial Decree of 14 November 2014 pursuant to art. 1, paragraph 125 of Law 147/2013.
[29] Circular no. 39/871 of 15 January 2015.
[30] Pursuant to art. 1, paragraph 2 c) of Legislative Decree 181/2000, the Job Creation Fund is managed by the Ministry of Labour and Social Policy.
[31] Law 190 of 23 December 2014, "Provisions regarding the annual and multi-year budget (the 2015 Stability Law)", published in Ordinary Supplement no. 99 to Official Gazette no. 300 of 29 December 2014.

specified in art. 11-9 of Law Decree no. 203 of 2005 (projected inflation rate, productivity improvement target, returns on invested capital, amortisation and depreciation of capex). It also specifies that approval of planning agreements between ENAC and airport operators by ministerial decree remains unchanged.

- The fifth freedom

Paragraph 221 amends the formulation and provisions contained in the so-called "Unblock Italy" decree (art. 28, paragraph 8-*bis* of Law Decree no. 133/2014) regarding the issue of "fifth freedom" authorisations to airlines[32]; this right is already recognised for EU carriers, and therefore the provision should also apply to non-EU airlines.

Compared with the existing legislation (Law no. 164 of 2014, "Unblock Italy"), it should be noted that ENAC may issue fifth freedom authorisations at airlines' request (the current wording states that "ENAC issues authorisations"), and that the expected endorsement from the Ministry of Infrastructure and Transport should specifically assess compliance with EU legislation and principles.

- Exclusion of withholding tax on the remuneration of certain shipping companies and airlines

Paragraph 725 stipulates that the provisions of art. 25, paragraph 4 of the Consolidated Tax Act regarding withholding tax on remuneration paid to non-residents do not apply, on the grounds of the territoriality requirement, as provided for in art. 4 of the Navigation Code, according to which Italian shipping companies and airlines in locations that are not part of any sovereign jurisdiction are deemed to be on Italian territory. Essentially, the law appears to exclude these companies from the above-mentioned withholding tax.

Regarding the Budget Act[33], Table 10 is of interest as it indicates a gradual reduction in charges for air transport development and safety.

These charges will be reduced from €89,480,765 in 2015 to €87,109,090 in 2016 and to €81,634,719 in 2017.

<u>The "*Milleproroghe*" (multiple extensions) Law Decree</u>

The[34] so-called "*Milleproroghe*" Decree, which Parliament is currently examining as part of the conversion procedure, has been published. Matters of interest include the provisions regarding the planning agreements with ENAC:

"In order to enable the launch of investments provided for in the planning agreements of airports of national interest, with a decree from the Minister of Infrastructure and Transport to be adopted within 180 days (no longer within 60 days) of application of the conversion law for Law Decree no. 133 of 12 September 2014, in agreement with the Minister of the Economy, who is required to express an opinion within 30 days without fail, the planning agreements signed between ENAC and the operators of airports of national interest are hereby approved (art. 8, paragraph 7)".

[32] Right sanctioned by the Chicago Convention of 1944, which consists of the possibility for overseas airlines to land at Italian airports, disembark and board passengers, mail or freight and depart for any other country.

[33] Law 191 of 23 December 2014, "Budget for 2015 and multi-year budget for the three-year period 2015-2017", published in Ordinary Supplement no. 100 of Official Gazette no. 300 of 29 December 2014.

[34] In Official Gazette no. of 302 of 31 December 2014, Law Decree 192 of 31 December 2014, "Extension of terms pursuant to legal provisions".

Alghero-Fiumicino

Regarding the Alghero-Fiumicino route and vice versa, it should be noted that New Livingston was the winner of the tender published in the Official Journal of the European Union in June 2013, in which Alitalia participated. Therefore, New Livingston was assigned this route from 27 October 2013 on a temporary basis. However, following breaches of contract and subsequent outcomes of litigation[35], as of 6 June 2014 the route was assigned to Alitalia as the bidder ranked second in the tender process.

Linate Decree

On 1 October, Mr Lupi, the Transport Minister, signed the so-called Linate Decree[36], which lays down that "European Union airlines may operate point-to-point routes using narrow-body aircraft between Milan Linate airport and other airports in the European Union, within the limits of the defined operating capacity of Milan Linate airport". The limits imposed by the Bersani Decree, which provides for a maximum of 18 movements per hour, the operation of point-to-point routes only, and landing rights for EU aircraft alone will remain in force. The aim is to rationalise the offering of flights at Milan's Linate and Malpensa airports.

Within the European Union

EU Passenger Name Record (PNR)

After the terrorist attack in Paris on 7 June 2015, many senior European Union politicians, including the President of the European Commission, Jean Claude Juncker, and the President of the Council of Europe, Donald Tusk, as well as several heads of state, made statements regarding the need to collect and transfer air passenger data for security reasons. Requests to speed up issue of an EU PNR Directive (governing the exchange of PNR data within the EU) came from several quarters.

The European Parliament is currently examining a new PNR proposal that provides for inclusion of flights within the EU in the Directive and 100% coverage of all flights entering and leaving the EU and those within the EU (in the Commission's proposal this objective would have been achieved gradually).

These new demands are a cause for concern for the aviation sector, which is currently engaged in deciding how best to lobby the EU authorities.

The relevant authorities wish to complete the approval process rapidly, preferably before September and in any event by the end of 2015.

Advance Passenger Information (API) – United Kingdom

For some time, the UK authorities have been requesting EU carriers to send data regarding passengers travelling to and from the United Kingdom. Discussions are underway between Alitalia, the UK authorities and the Italian Information Commissioner to evaluate whether the right conditions exist, above all from a legal viewpoint, to begin the transmission of such data, which the Italian Information Commissioner vetoed in 2009.

[35]For further information, reference should be made to the section on "Litigation" in the notes to these financial statements.

[36] "Amendments to Decree 15 of 3 March 2000 regarding the distribution of air traffic within the Milan airport system and subsequent amendments", published in Official Gazette no. 237 of 11 October 2014.

Better Airports Package

The Better Airports Package presented by the Commission in 2012 provided for the revision of slot regulations, the ground handling directive and aircraft noise regulations.

As it was impossible to reach agreement on the three proposals, the Commission decided to separate the provisions regarding noise abatement at the airports described in the section below.

On 16 April 2013, the European Parliament approved the text of the proposal regarding ground handling service regulations, revoking Directive 96/67/EC.

According to the proposal, a minimum of three ground handlers (two until now) should provide ground services for airlines at airports with more than 15 million passengers and/or 200,000 tonnes of freight per year. The new regulations, if approved by the Council of Europe and the European Commission, will be applied to 21 European Union airports. It was not possible to reach agreement on the text, and discussion of this proposal, together with the one regarding the revision of slot regulations, may be resumed.

Developments are awaited.

Emission Trading Scheme (ETS)

Background

On 16 October 2013, the European Commission presented a proposal to revise Directive 2003/87/EC, which establishes a scheme for greenhouse gas emission allowance trading within the European Union.

The proposal, which arrived the day after the ICAO Assembly, surprised and concerned the majority of international stakeholders, including the Association of European Airlines (AEA) and the International Air Transport Association (IATA).

Indeed, the proposal frustrated the concerted efforts made at the ICAO Assembly to find an overall solution for the aviation sector regarding ETS, and failed to take into account the industry’s views.

While the Commission's proposal limited the impact of the provisions on non-EU operators, after suspension of the so-called “stop the clock” measure, it once again included non-EU carriers in the ETS as of 2014, providing for application of an air space model and disregarding the principle of mutual consent contained in ICAO Resolution A38/18 regarding market based measures. Art. 16a: “States, when designing new and implementing existing MBMs for international aviation should engage in constructive and bilateral and/or multilateral consultations and negotiations with other States to reach an agreement”.

Moreover, in addition to the above, the proposal once again adopted positions already strongly opposed by non-EU member states, with the risk of generating retaliatory measures against EU carriers, while frustrating efforts made so far to combat climate change and at the same time promote sustainable aviation growth.

It should also be noted that the proposal did not cover certain points deemed vitally important by carriers (see limitations on the use of CER and ERU carbon credits) and did not intervene regarding significant inequalities, such as the one that, in the allocation of free allowances (benchmark calculations), penalises companies (for example Alitalia and Meridiana) with a strong domestic network, thus operating fairly short routes, compared with companies operating primarily non-EU networks.

Developments

In line with the wishes of the aviation sector, after intense lobbying, on 3 April 2014 the members of the European Parliament ruled that EU legislation on CO2 emission allowances for the aviation sector would only regard flights within the European Economic Area (EEA) until 31 December 2016, after which it would apply to all flights to and from the European Union, as provided for by Directive 2003/87/EC. In the approved measure, the members of the European Parliament also requested Member States to record how revenue from the sale of emission allowances at auction is spent.

Consequently, EU Regulation 421/2014 of the European Parliament and the Council of 16 April 2014, amending Directive 2003/87/EU, was published in edition L129 of the Official Journal of the European Union on 30 April 2014. This Regulation establishes a scheme for trading greenhouse gas emission allowances within the European Union, ahead of implementation by 2020 of an international agreement within the scope of the ICAO, that will introduce a single, global, market-based measure to be applied to international air transport emissions.

On 21 January 2014, the Commission issued a proposal for a decision by the European Parliament and the Council regarding the establishment and functioning of a market stability reserve relating to the European greenhouse gas emission allowance trading scheme and amendment of Directive 2003/87/EC.

In particular, in the 2030 climate and energy policy framework, during phase 4 starting in 2021, the market stability reserve will serve to offset the imbalances between allowance demand and supply.

The European Parliament is currently examining the proposal.

On 19 December 2014, the Commission launched a public consultation regarding revision of the ETS Directive. Developments are awaited.

Guidelines on state aid for airports and airlines

On 20 February, the Commission adopted the measure regarding guidelines on state aid to airports and airlines, which replaces the previous legislation of 1994 and 2005.

The guidelines take stock of the legal and financial situation regarding public funding of airports and airlines, and specify under which conditions such public funding might constitute state aid. When public support constitutes state aid, the Commission considers that, under certain conditions, some categories of aid to regional airports and the airlines that use them are justifiable, especially in order to develop new services and contribute towards accessibility and economic growth in local areas. In principle, operating aid is an extremely distortive form of aid and may only be authorised in exceptional circumstances.

The new guidelines introduce a new approach to assessing the compatibility of aid for airports:

a) the revised guidelines introduce caps on aid based on airport size;
b) in principle, for large airports with passenger traffic of more than 5 million per year, investment aid should be declared incompatible with the internal market as per art. 107, paragraph 3 c), of the Treaty, except in very exceptional circumstances, such as the transfer of an existing airport, where the need for state intervention is characterised by clear market incapacity, taking into account exceptional circumstances, the size of the related investment and limited distortions of competition
c) the cap on investment aid is increased by up to 20% for airports located in remote regions;
d) for a temporary period of ten years, operating aid to regional airports may be declared compatible with art. 107, paragraph 3 c), of the Treaty. However, for airports with passenger traffic of less than

700,000 per year, after a four-year period the Commission will re-examine the projected profitability of this category of airport, in order to assess the need to draw up special regulations governing assessment of the compatibility of operating aid for these airports with the internal market.

The new guidelines, applicable from 4 April 2014 (date of publication in the Official Journal of the European Union), will apply in cases in which the Commission has been requested to issue a ruling after 4 April, even though the guidelines were notified beforehand. The new regulations do not resolve the problems of the previous legislation, as the temporary ten-year period guaranteed to smaller airports, as well as retroactive application of the regulations to cases that have been notified but not discussed, continue to allow situations of market and competition distortion.

On 2 October 2014, Minister Lupi issued "Guidelines regarding incentives for the launch and development of aviation routes by airlines, pursuant to art. 13, paragraphs 14 and 15 of Law Decree no. 145 of 23 December 2013, as amended by Conversion Law no. 9 of 21 February 2014".

European Commission investigation of state aid to airports and airlines

The Commission's investigation of state aid to airports and airlines has been completed. The states concerned were Italy, Germany, Belgium and Sweden.

Regarding Italy, the Commission examined the agreements entered into between SO.GE.A.AL and the airlines that used Alghero airport during the period 2000–2010. It reached the conclusion that, at the time of their conclusion, one might reasonably expect that the agreements entered into by this company with Ryanair/AMS, Alitalia, Volare, bmibaby, Air Italy and Air Vallée would have improved the airport's financial situation, and therefore would not have given these carriers an undue financial advantage compared with their competitors. However, the Commission established that the agreements entered into between SO.GE.A.AL and Germanwings, in 2007, and with Meridiana, in 2010, entailed a certain degree of state aid for these airlines. Therefore, it ruled that such aid constituted operating aid to these airlines, which is not compatible with EU regulations and must be repaid by the beneficiaries.

<u>Passenger rights</u>

In March 2013, the European Commission proposed an amendment to Regulation (EC) 261 of 2004 regarding passenger rights, in the light of recent European Court of Justice judgments. These have introduced a highly restrictive interpretation of the exceptional circumstances airlines may cite in order to avoid payment of compensation to passengers, and have extended the right to compensation for denial of boarding and cancellations to include delays.

While agreeing on the need to revise the regulations, airlines are concerned about the impact of certain specific provisions, including those regarding amounts due to as compensation and assistance due to passengers in the event of denied boarding, cancellation or delay, limitations on the no-show policy that currently allows airlines to cancel an ongoing flight for those passengers who did not show up for their previous connecting flight, and more restrictive regulations governing misconnections and the obligation to transfer passengers on to other carriers' flights.

Via IATA and the AEA, airlines are carrying out intense lobbying activities aimed at curbing the effects of this over-burdensome revision on the aviation sector and reaching an acceptable balance between passenger rights and the financial and operational sustainability of such protections. The legislation was discussed at

length and voted on by the European Parliament during a second reading in February 2014, based on a text that did not contain more detrimental measures compared with the Commission's proposal. The legislation was examined by the Council of Europe on 5 June 2014. While the Council of Europe seems to have accepted some of the airlines' requests, the process appears to be deadlocked due to the constitution of the new European Parliament and the decision by the Italian presidency not to continue examination of the text until a different matter affecting Gibraltar and the United Kingdom has been resolved, as this also influences the possibility of reaching a political agreement at the Council of Europe.
Therefore, it is impossible to predict how long it will take to approve the new regulations.

<u>Package Travel Directive</u>

On 13 March 2014, the European Parliament in plenary session adopted the European Commission's proposal regarding package travel.
The Commission proposes new measures to raise the level of protection for tourists who book this type of holiday, including the obligation to provide customers with all the necessary information before signing the travel contract, guaranteeing that a party is responsible for provision of all the services and the right to repatriation in the event of an operator going bankrupt.
The reform primarily intends to bring the directive into line with the digital age and is aimed at protecting consumers by increasing transparency and strengthening protection in the event of any problems.
However, it includes particularly burdensome provisions for the air transport sector.
Intense IATA/AEA lobbying is in progress to reduce the impact of the new provisions.

<u>Airport noise abatement measures</u>

On 16 April 2014, with its approval by the European Parliament, the legislative procedure regarding the proposal to introduce noise abatement measures at airports was completed.
REGULATION (EU) 598/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 April 2014 (edition L173/65 of the Official Journal of the European Union) was published in the Official Journal on 12 June 2014. The Regulation, as part of a balanced approach, lays down regulations and procedures regarding the introduction of operating restrictions for the purposes of noise abatement at European Union airports, and revokes Directive 2002/30/EC.
The new regulations will come into effect two years after their publication, namely from 13 June 2016.
With these regulations national and local authorities will be required to decide on operating restrictions aimed at mitigating the impact of noise, based on the characteristics of each airport.

<u>Outside the European Union</u>

<u>Communication of passenger data</u>

The non-EU countries that have requested API and/or PNR passenger data are the United Arab Emirates, Brazil and Russia. In all cases, EU airlines have refused requests to provide PNR data.
Alitalia started sending API data to the United Arab Emirates on 7 November, and has been sending only API data regarding passengers and aircrew to Russia since 1 December.

In July, Alitalia also began sending API data to and from Brazil and is currently sending API data regarding charter flights to and from Mexico.

Regarding PNR data, in December Mexico announced that it would grant a waiver to airlines unable to start sending their data from 1 January; therefore no penalties will be imposed on non-compliant airlines until 1 April 2015.

Turkey also requested non-standard passenger data, but accepted a demand from EU airlines to revise the permitted terms and procedures in the request.

Finally, the opening of new routes by Alitalia in 2015, unless otherwise provided for, will also involve sending API data to China and South Korea.

On 25 June 2014, an agreement was signed between the European Union and Canada regarding the transfer of PNR passenger data.

The agreement, which replaces the 2006 agreement applied until now, is aimed at guaranteeing a solid legal basis for passenger data transfer by airlines operating between Europe and Canada and consequently use of this data by the Canadian authorities for security reasons, was sent to the European Court of Justice for its opinion.

The outcome of this consultation will not be forthcoming until the end of this year and, in any case, is bound to have repercussions on the transfer of PNR data between EU and non-EU countries.

Also on the non-EU front, Canada has announced its intention to introduce an interactive API data transmission programme, similar to the one already set up by the United States.

The programme will be introduced during the third quarter of 2015.

Developments are awaited.

Also regarding the non-EU context, for some time airlines have been asking the European Commission to finalise a directive that would enable member states to operate within a clear legal framework, in order to deal with the countless requests from non-EU countries. At the moment the matter is at a standstill at the European Parliament, although the start-up of dialogue with the aviation sector has been discussed.

Security management policies

Aviation security

Aviation security, namely the set of measures and resources aimed at preventing and combatting unlawful interference with civil aviation (air transport and airports) is guaranteed by international regulations based on the Chicago Convention (1944). The Convention established the International Civil Aviation Organisation (ICAO), the leading legislative and regulatory authority for the word's aviation sector. Guaranteeing flight and passenger safety at domestic level is ENAC's primary objective.

The Company constantly analyses and applies new regulations at national and international level, with particular reference to European Union and United States legislation, assessing the impact on operations and always seeking to comply with the relevant requirements.

Security of assets

This entails the implementation of actions aimed at safeguarding corporate assets (integrated video surveillance systems, access and anti-trespassing controls), and constant fraud prevention actions in order to identify the causes and suggest corrective measures to be implemented. Corporate data is released to judicial authorities and criminal investigators, as well as to any other authorities authorised to request such data (passenger lists, bookings, etc.).

IT security

In accordance with Legislative Decree no. 196/03 (the Data Protection Code), and in particular regarding compliance with the Information Commissioner's regulation of November 2008, data has been extracted from the control system and audits carried out on access to systems by system administrators with user privileges, based on the following principles:

- Consistency/correspondence of uses by system administrators with their terms of appointment
- Checks on the number of uses by system administrators
- Traceability of system administrators' uses to the actual users
- Special uses
- Checks on difficulties and non-compliance risks relating to the Information Commissioner’s regulation regarding system administrators.

Based on the outcomes, a report was written and sent to the relevant organisational units so that appropriate actions could be taken.

The action plan relating to security checks on systems (vulnerability assessments and penetration tests on corporate infrastructure – internal and public networks – as well as security checks on the Company's websites and intranet) was fully implemented. Security and compliance checks were carried out on the aircraft maintenance IT system called AMOS, as well as on “mobile” systems used by flight and cabin crew. The outcomes were written up into appropriate reports and sent to the relevant organisational units.

Regarding best practices, once again in 2014 the PCI DSS (international standard for processing credit card data) certification procedure was implemented, via appropriate checks and compliance with requirements. Although not expressly provided for by PCI-DSS, an additional precautionary measure for the Company and its customers involved a specific assessment of the risks relating to credit card data processing procedures. The results were sent to the relevant bodies so that appropriate actions could be taken.

Environmental management policies

Italian environmental protection legislation (including Legislative Decree no. 152 of 3 April 2006, as amended, the “Environmental Code”) regulates all aspects of environmental protection, as well as the issue, by the relevant local authorities, of consents for industrial activities.

In this case, management of the various environmental issues, regarding different corporate activities, is carried out by a specific internal organisation which, in application of current legislation and in compliance with the related authorisations, implements the necessary actions.

In particular, the process deals with inspections carried out by the relevant public authorities and bodies (ARPA, ASL, etc.) to check compliance with environmental legislation or in connection with the issue or renewal of consents. Environmental inspections may entail document and/or technical checks.

The declarations Alitalia submits to the relevant environmental bodies, as well as the related regulatory references, include:

ELECTRICITY CONSUMPTION DECLARATION

In order to meet the obligations provided for by the Consolidated Excise Law (Legislative Decree no. 504 of 26 October 1995) “Declaration regarding annual electricity consumption”, Alitalia submits the relevant electricity consumption declaration electronically to the Customs Agency.

FIRE DECLARATION

Pursuant to art. 19 of Law no. 10 of 9 January 1991, “Regarding energy use and conservation”, overall consumption of primary energy sources relating to all Alitalia sites is monitored, calculated and sent to the Italian Federation for the Rational Use of Energy (FIRE).

INES/PRTR DECLARATION (Electroplating)

Pursuant to Legislative Decree no. 59 of 18 February 2005, “Implementation of Directive 96/61/EC regarding integrated prevention and reduction of pollution”, and with reference to the electroplating workshop, Alitalia submits an INES/PRTR declaration, in compliance with art. 12, paragraph 1 of Legislative Decree no. 59 of 18 February 2005.

Regarding its activities and/or operations, the Group has obtained the necessary consents from the relevant authorities and bodies to carry out environmental protection activities (air emissions, discharge of industrial wastewater, operation of the electroplating workshop and the power plant, use of an artesian well – public groundwater).

With regard to waste management, in accordance with current procedures, Alitalia is not bound to obtain any specific provincial and/or regional consents, but is required to comply with the related regulations and/or provisions (e.g. customs regulations). However, the Group is obliged to comply with Part IV of Legislative Decree no. 152/2006 regarding waste management and the clean-up of polluted sites.

Alitalia outsources waste disposal and recycling and carries out document checks via inspections and the audit of documents, aimed at monitoring compliance with the administrative requirements regulated by Legislative Decree no. 152/06 regarding waste traceability. Technical checks are conducted by monitoring compliance with legal limits on the emissions produced by the wastewater treatment plant, the power plant and smokestacks (around 70 in the Technical Area at Fiumicino airport).

Financial risk management policies

Credit risk

Qualitative information

Credit risk relates to potential losses due to customer defaults (commercial credit risk) and to counterparty defaults in relation to trading in financial assets.

Commercial credit risk, which arises as a result of the Group’s ordinary air passenger and cargo transport activities, is extremely limited in view of the airline industry’s approach to managing such risk.

In fact:

- tickets are mainly issued to ordinary customers in exchange for payment in advance or by credit card. The risk relating to Public Sector customers is low;
- exposure to agents is guaranteed by a surety held by IATA, usually equal to the agent's average sales for a period of three months;
- exposures to other airlines are primarily settled via a clearing house system.

The type of credit most exposed to this risk is so-called "miscellaneous" credit, not relating to air transport. This accounts for 28% of the Group's commercial exposure, as shown in the following table:

Category of trade receivable	Nominal value at 31 December 2014	Allowance for bad debts	Carrying amount at 31 December 2014	Exposure as % of trade receivables
- Ordinary customers	108.516	(12.647)	95.869	31%
- Airlines	48.904	(2.902)	46.002	15%
- Agents	88.946	(8.813)	80.133	26%
- Sundry	90.933	(5.939)	84.994	28%
- Insurance companies	50	0	50	0%
TOTAL TRADE RECEIVA	**337.349**	**(30.300)**	**307.049**	**100%**

The CAI Group manages credit risk by coordinating the activities on the extension of credit terms to third parties (with the relevant maximum exposures set), credit collection procedures, the management of past due amounts and requests for security.

Quantitative information

Below the aging schedule of receivables is shown by customer class and by number of past due days, as used internally to monitor receivables at 31 December 2014. Attention is called also to the allowance for bad debts and the total amounts of receivables current at 31 December 2014.

31 December 2014 €000	Types of customers	Nominal value at 31 December 2014	Current	Overdue	Allowance for bad debts	Number of days overdue < 90	91-180	181-360	>360
		a+b	a	b					
TRADE RECEIVABLES	**Customers**								
	- Ordinary customers	108.517	97.568	10.949	(12.647)	(159)	1.229	426	9.453
	- Airlines	48.904	45.521	3.383	(2.902)	284	196	140	2.763
	- Agents	88.946	82.192	6.754	(8.813)	0	0	0	6.754
	Other receivables								
	- Sundry	90.932	78.265	12.666	(5.939)	6.408	503	155	5.601
	- Insurance companies	50	50	0	0	0	0	0	0
	TOTAL	**337.349**	**303.596**	**33.753**	**(30.300)**	**6.532**	**1.928**	**721**	**24.571**
FINANCIAL RECEIVABLES	**short-term**								
	due from third parties	19.379	19.379	0	0	0	0	0	0
	Total	**19.379**	**19.379**	**0**	**0**	**0**	**0**	**0**	**0**
	medium/long-term								
	due from third parties	485.697	485.697	0	0	0	0	0	0
	Total	**485.697**	**485.697**	**0**	**0**	**0**	**0**	**0**	**0**
	TOTAL	**505.077**	**505.077**	**0**	**0**	**0**	**0**	**0**	**0**

Liquidity risk

Qualitative information

Liquidity risk refers to the Group's potential inability to meet its payment obligations as they come due.

The Group closely monitors this risk, which is peculiar and relates to the cyclical nature of the airline industry, managing it through a prudential approach, in line with the practice adopted by the leading airlines. When cash holdings and lines of credit allow, this consists in ensuring that the Group has access to immediately available liquidity.

Quantitative information

Financial liabilities have been classified by contractual maturity, based on six time bands that substantially meet internal reporting requirements.

The following table shows an ageing schedule for the Group's financial obligations as at 31 December 2014, based on the Group's nearest payment obligation.

In particular, the total amount payable at the due date shows:

- in the case of financial debt, repayments of principal due on the remaining debt at the end of the year, in accordance with contractual amortisation schedules;
- in the case of trade and other payables, the carrying amount payable as at 31 December 2014, in accordance with the specific payment terms for each type.

31 December 2014 **€000**		**within 1 year**	**from 1 to 5 years**	**over 5 years**
Short-term liabilities	**Borrowings:**			
	Bonds	33.276		
	Bank borrowings	7.095		
	Other borrowings	2.617		
	Trade payables:			
	Suppliers(1)	562.347		
	Advances	2.921		
	Airlines	50.055		
	Travel agents	24.104		
	Sundry payables:			
	Prepaid tickets(2)	223.371		
	Social security contributions payable	19.502		
	Tax liabilities	24.340	9.277	
	Other payables	52.667		
Medium-/Long-term liabilities	**Medium-/Long-term debt**			
	Due to third parties	266.818	133.995	177.428
	Other borrowings		77.025	
TOTAL AMOUNT PAYABLE AT DUE DATE		**1.269.113**	**220.297**	**177.428**

Note 1: amounts payable to suppliers are based on invoices received from suppliers at the reporting date, in addition to amounts resulting from accounting controls conducted in order to determine payable in the form of "invoices to be received". With regard to this latter figure, it should be noted that the related payment terms, to the extent contractually established, may provide for payment that may also take place or be completed after the first quarter of 2015, based on the timing of the receipt of the invoices from suppliers.

On this basis, for the purposes of this analysis and based on the extremely prudential approach adopted by the Group, the entire amount for invoices to be received has been classified as falling due within 3 months after 31 December 2014.

Note 2: the amount payable in the form of prepaid tickets includes the entire amount arising from customers' payment for tickets in advance. The period of validity of a ticket is usually 1 year, but the customer may, in return for payment of an appropriate penalty, extend the duration, concluding a new transaction resulting in the issue of a new ticket. Normally, the payable recognised by the CAI Group as a result of prepaid tickets is not immediately payable, but falls due in the medium term. This is despite that fact that, in view of the usual prudential approach, necessary when preparing the financial statements, the amount due for prepaid tickets has been classified as falling due within the first six months after 31 December 2014.

Market risk

The Group is exposed to financial risks generated by, in order of importance, movements in the price of jet fuel, exchange rates and interest rates. The Group take a centralised approach to the measurement, management and monitoring of risks. This is based on a strategy that requires Alitalia's Board of Directors to grant authority to the CEO and CFO to enter into the hedging transactions approved from time to time, including through the use of special powers of attorney. This strategy, within the limits represented by available lines of credit and taking into account the Group's cash holdings, aims to safeguard the objectives set out in the budget with respect to unexpected changes in the above risk factors and the related impact on costs and revenues on which the Group's planning is based. All such transactions are entered into with highly creditworthy banks or financial institutions.

I – Price risk – commodities

Qualitative information

The main source of financial risk for the Group is the commodity price risk resulting from purchases of jet fuel.

Price risk is defined as the risk that rises in the price of oil and jet fuel result in significant increases in the cost of purchasing jet fuel, with respect to the objectives in the budget and/or the business plan, not offset by fare increases in the form of fuel surcharges.

Quantitative information

A sensitivity analysis of the derivatives hedging commodity price risk at 31 December 2014 has been conducted. To this end, four possible movements in the forward price of Jet Fuel NWE (the commodity underlying the derivatives) at 31 December 2014 have been used (+/- 10% and +/- 20%).

Scenario	Fair Value 31.12.2014	Fair Value Scenario	Delta
JF NWE + 20%	-198.345.498,00	-121.477.907,14	76.867.590,86
JF NWE + 10%	-198.345.498,00	-159.835.122,81	38.510.375,19
JF NWE - 10%	-198.345.498,00	-236.549.554,14	-38.204.056,14
JF NWE - 20%	-198.345.498,00	-274.906.769,80	-76.561.271,80

Fair value losses on the related derivative financial instruments at 31 December 2014 amount to €198 million. In line with the approach described in the section, "Accounting policies", in the notes, given that these instruments qualify for the application of hedge accounting, the fair value losses on such financial instruments are not recognised in profit or loss, but the derivatives are accounted for in the memorandum accounts at their notional value, as described in more detail in the paragraph, “Memorandum accounts”, in the notes.

II – Price risk – Green certificates

The Group uses hedges to mitigate its exposure to price risk on the purchase of green certificates relating to CO2 emissions, in accordance with industry regulations.

A sensitivity analysis of the derivatives hedging the price risk on green certificates at 31 December 2014 has been conducted. To this end, six possible movements in the forward price of the certificates at 31 December 2014 have been used (+/- 5%, +/- 10% and +/- 15%).

Scenario	Fair value at 31 December 2014	Fair value under scenario	Change
EUA +15%	1.155.534,66	1.807.064,27	651.529,61
EUA +10%	1.155.534,66	1.589.887,73	434.353,07
EUA + 5%	1.155.534,66	1.372.711,20	217.176,54
EUA - 5%	1.155.534,66	938.358,12	-217.176,54
EUA - 10%	1.155.534,66	721.181,58	-434.353,08
EUA - 15%	1.155.534,66	504.005,04	-651.529,62

III - ***Currency risk***

Qualitative information

The Group defines currency risk as the risk that adverse movements in exchange rates may result in a significant loss of revenue and/or higher costs with respect to the objectives set out in the budget and/or the business plan, as revised.

Exposure to currency risk derives from inflows and outflows in the form of revenue, costs and borrowings denominated in (or indexed to) currencies other than the euro. In order of importance, these are US dollars, Japanese yen and GB sterling.

The amounts at risk refer (primarily) to the cost of purchasing jet fuel denominated in/indexed to the US dollar, and sales revenue in currencies other than the euro.

Currency risk exposure also derives from the medium/long-term currency loans, denominated in US dollars, obtained to finance or refinance the aircraft fleet, and future payments due on operating leases.

Quantitative information

No analysis of the sensitivity of foreign currency borrowings to currency risk has been conducted at 31 December 2014, in that they are hedged by derivative financial instruments at the reporting date.

Despite this, a sensitivity analysis of outstanding derivatives at 31 December 2014, hedging the expected outflows in dollars to pay for jet fuel (synthetic forwards), has been conducted. To this end, based on the 1-year embedded volatility of the euro/dollar exchange rate at 31 December 2014, four possible values for the spot rate at 31 December 2014 have been used (+/- 5%, +/- 10% and +/- 15%).

Scenario		Fair value at 31 December 2014	Fair value under new scenario at 31 December 2014	Change
Spot €/US$	Change in spot			
1,3962	+15%	€ 22.010.046	-€ 12.978.977	-€ 34.989.023
1,3355	+10%	€ 22.010.046	-€ 2.816.164	-€ 24.826.210
1,2748	+5%	€ 22.010.046	€ 8.314.535	-€ 13.695.511
1,1534	-5%	€ 22.010.046	€ 34.090.892	€ 12.080.846
1,0927	-10%	€ 22.010.046	€ 49.127.101	€ 27.117.055
1,0320	-15%	€ 22.010.046	€ 65.932.275	€ 43.922.229

Fair value gains on the related derivative financial instruments at 31 December 2014 amount to €22 million. In line with the approach described in the section, "Accounting policies", in the notes, given that these instruments qualify for the application of hedge accounting, the fair value gains on such financial instruments are not recognised in profit or loss, but the derivatives are accounted for in the memorandum accounts at their notional value, as described in more detail in the paragraph, "Memorandum accounts", in the notes.

IV – Interest rate risk

Qualitative information

Exposure to interest rate risk is linked to movements in net debt. In this case, interest rate risk is defined as the risk that rising interest rates may result in significant increases in financial expenses with respect to the expenses used as the basis for the Group's planning. This exposure regards floating rate debt, reported after deducting cash invested in assets subject to the same interest rate.

The Group uses interest rate swaps (IRSs) to hedge its exposure to this financial risk.

Debt consists of floating rate borrowings.

Quantitative information

An analysis of average debt at 31 December 2014, totalling €453 million, has been conducted to assess the impact of financial expenses on the income statement as a result of a change in interest rates.

The method used consisted of two scenarios, one a decline and the other a rise in the average interest rate on the Group's borrowings. These were applied to the average value of borrowings by type. The possible movements in the interest rates used (Euribor, Libor) are +/- 75 and +/- 100 basis points.

The results of the analyses are summarized below:

	Analysis of change in average rate on Group's m/l-term debt				
rate	2,77%	3,02%	3,80%	4,52%	4,77%
charges	12,542	13,675	**17,073**	20,472	21,604
shift in rate	-1,00%	-0,75%		0,75%	1,00%
shift in charges	-4,53100	-3,39825		3,39825	4,53100

A sensitivity analysis of the derivatives hedging interest rate risk at 31 December 2014 has been conducted. To this end, six possible zero coupon rates at 31 December 2014 have been used (+/- 200, +/- 100 and +/- 50 basis points) and the related impact on the fair value of the derivative calculated.

BP shift in rates	Fair value at 31 December 2014	MtoM with shift	Change
200	-402.873	-277.534	125.339
100	-402.873	-340.252	62.621
50	-402.873	-371.654	31.219
-50	-402.873	-438.876	-36.003
-100	-402.873	-473.372	-70.499
-200	-402.873	-544.150	-141.277

Corporate information

Alitalia CAI S.p.A.

Board of Directors

On 26 September 2014, the Director, Paolo Luca Stanzani Ghedini, resigned as a Director of the Company with effect from 1 October 2014.

All the remaining Directors then resigned from their positions, subject to closing of the transaction with Etihad and with effect from the date of closing.

As a result, having acknowledged the resignation of the entire Board of Directors, the General Meeting of shareholders held on 26 November 2014 elected a new Board of Directors with the following 7 members: Luca Cordero di Montezemolo (Chairman), Luigi Borrè, Gianpaolo Alessandro, Amedeo Giovanni Maria Nodari, Dante Pasqualini, Enrico Laghi and Antonino Turicchi.

The Meeting also fixed the term of office of the new Board as the date of the General Meeting convened to approve the financial statements for the year ended 31 December 2017, and established that the effectiveness of the new Board was subject to closing of the strategic transaction with Etihad Airways and would coincide with the date of closing.

Given that closing of the strategic transaction with Etihad Airways was effective 1 January 2015, the following should be noted with regard to members of the Board of Directors:

- from 1 January 2014 to 30 September 2014, the members were: Roberto Colaninno (Chairman), Gabriele Del Torchio (Deputy Chairman and Chief Executive Officer, appointed by the Board of Directors of 13 January 2014), Fabio Cosmo Canè, Amedeo Giovanni Maria Nodari, Ranieri De Marchis, Davide Maccagnani, Pierre Francois Riolacci, Paolo Luca Stanzani Ghedini, Antonino Turicchi, Mario Volpi and Alessandro Zurzolo;
- from 1 October 2014 to 31 December 2014, the members were: Roberto Colaninno (Chairman), Gabriele Del Torchio (Deputy Chairman and Chief Executive Officer), Fabio Cosmo Canè, Amedeo Giovanni Maria Nodari, Ranieri De Marchis, Davide Maccagnani, Pierre Francois Riolacci, Antonino Turicchi, Mario Volpi and Alessandro Zurzolo;

- from 1 January 2015, the members are: Luca Cordero di Montezemolo (Chairman), Luigi Borrè, Gianpaolo Alessandro, Amedeo Giovanni Maria Nodari, Dante Pasqualini, Enrico Laghi and Antonino Turicchi.
The General Meeting of shareholders held on 4 February 2015 resolved to increase the number of Directors to 8 and to thus elect Francesco Di Giovanni as a Director.
On the same date, the Board of Directors then appointed Francesco Di Giovanni as the Company's Chief Executive Officer.

Board of Statutory Auditors

The term of office of the Company's Board of Statutory Auditors expired on the date of the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2013. It was, therefore, necessary to elect a new oversight body.
The Ordinary General Meeting of 25 July 2014 thus elected the following to serve until the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2016: Giovanni Barbara (Chairman), Tommaso Di Tanno and Graziano Gianmichele Visentin as Standing Auditors; Domenico Busetto and Maria Luisa Bonanno as Alternate Auditors.

Independent auditors

The engagement of the Company's independent auditors expired on the date of the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2013. It was, therefore, necessary to appoint new auditors.
The Ordinary General Meeting of 25 July 2014 thus approved the engagement of Deloitte & Touche S.p.A. to audit the Company's accounts for the financial years from 2014 to 2016.

Financial position as at 31 March 2014

The Board of Directors' meeting of 8 July 2014 approved the report on the financial position of Alitalia S.p.A. as at 31 March 2014, prepared in accordance with art. 2446 of the Italian Civil Code and showing a loss for the period of €156,041,030. The report was then submitted to the General Meeting of shareholders.
The Extraordinary General Meeting of 25 July 2014:
- in view of the Company's financial position as at 31 March 2014, showing a total loss at that date of €541,179,345.00, which was more than one third of the share capital;
- in view of the disclosures in the report provided in accordance with article 2446 of the Italian Civil Code;
- in view also of the remarks of the Board of Statutory Auditors, provided in accordance with article 2446 of the Italian Civil Code;
- having noted the Board of Statutory Auditors' assurance that the share capital is fully subscribed and paid-in;
resolved to charge the above losses to retained earnings.

Capital injections

Into CAI First S.p.A.

In relation to the continuous monitoring of the financial position and operating performance of Group companies, in view of the accumulated loss reported by CAI First S.p.A. as at 28 February 2014, Alitalia made a capital contribution to this company, within the scope of the Group's centralized treasury management, of €2,000,000.00 (two million) with a value date of 10 April 2014.

Into Air One S.p.A.

In relation to the continuous monitoring of the financial position and operating performance of Group companies, in view of the accumulated loss reported by Air One S.p.A. as at 28 February 2014, Alitalia made a capital contribution to this company, within the scope of the Group's centralized treasury management, of €20,000,000.00 (twenty million) with a value date of 17 April 2014.

Subsequently, in April 2014, Air One made a provision of €18 million, accounted for in extraordinary expenses in the financial statements for the year ended 31 December 2013, following a number of audits conducted by the tax authorities, following on from previous audits and extended to include the fiscal years from 2006 to 2009. This resulted in a situation, at 31 December 2013, qualifying for the application of art. 2446 of the Italian Civil Code.

The sole shareholder, Alitalia, thus made a second capital contribution of €18 million (eighteen million) with a value date of 16 May 2014, resolving the above situation.

Financial position as at 31 December 2014

In terms of financial position, following the further losses incurred during the year, the Company is in the situation provided for in article 2446 of the Italian Civil Code.

Update on equity transactions and the transaction with Etihad

Resolutions approving capital injections of 25 July and 8 August 2014

The Extraordinary General Meeting of 25 July 2014 was called to deliberate on the following agenda:

1. The report on the financial position of Alitalia – Compagnia Aerea Italiana S.p.A. as at 31 March 2014.
2. Measures in accordance with art. 2446 of the Italian Civil Code.

With particular reference to item 1, as noted above, the Meeting resolved to charge the losses to retained earnings.

With regard to item 2, having noted the Directors' report on the action to take in accordance with art. 2446, paragraph one of the Italian Civil Code, the Meeting resolved:

(a) "to issue new shares at a premium, amounting to up to €250,000,000.00, with up to €8,587,786.26 to be allocated to share capital and up to €241,412,213.74 to be allocated to the share premium reserve, to be carried out via the issue of 23,854,961,832 shares ("*Azioni 2*"), to be offered in the form of a rights issue;

(b) to fix the issue price for each "*Azione 2*" as €0.01048, with €0.00036 to be allocated to share capital and €0.01012 to be allocated to the share premium reserve."

The rights issue period was set at 45 days from the date of publication of the offering – with the option for the Chairman of the Company's Board of Directors and/or its Chief Executive Officer, if necessary acting severally, to extend the period one or more times, and in any event not beyond 31 March 2015.

The prospectus for the rights issue approved on 25 July 2014 was filed with the competent companies' register and at the registered office on 27 August 2014. The term for the receipt of acceptances was 11 October 2014. No acceptances were received by this date.

The Extraordinary General Meeting of 8 August 2014 was called to deliberate on the following agenda:

1. To increase the value of the rights issue approved by the Extraordinary General Meeting of 25 July 2014 to up to €300 million.

   The General Meeting resolved: "(a) not to increase the maximum value of the rights issue approved by the Extraordinary General Meeting of 25 July 2014;

2. To issue new shares, for the purposes of restructuring the Company's debt, with a value of at least €550 million (including the share premium), in divisible form, to be carried out in three tranches, each divisible, as follows :

   a) the first of at least €200 million, including the share premium,
   b) the second of at least €215 million, including the share premium, and
   c) the third of at least €135 million, including the share premium,

via the issue of three categories of share with different rights.

The General Meeting thus resolved to issue new shares at a premium. The value of the issue was to be up to €695,320,000.00, with up to €23,885,038.17 to be allocated to share capital and up to €671,434,961.83 to be allocated to the share premium reserve. The issue was to be in three separate tranches:

First Tranche: up to 32,568,702,290 category 1 shares ("*Azioni 1*"), with a value of up to €341,320,000.00, with up to €11,724,732.83 to be allocated to share capital and up to €329,595,267.17 to be allocated to the share premium reserve, to be offered in the form of a rights issue;

Second Tranche: up to 20,733,255,534 category 3 shares ("*Azioni 3*"), with a value of up to €217,284,518.00, with up to €7,463,971.99 to be allocated to share capital and up to €209,820,546.01 to be allocated to the share premium reserve, to be offered in the form of a rights issue;

Third Tranche: up to 13,045,370,420 category 4 shares ("*Azioni 4*"), with a value of up to €136,715,482.00, with up to €4,696,333.35 to be allocated to share capital and up to €132,019,148.65 to be allocated to the share premium reserve, to be offered in the form of a rights issue;

The General Meeting also fixed the issue price for each share, of whatever category, to be issued as €0.01048, with €0.00036 to be allocated to share capital and €0.01012 to be allocated to the share premium reserve.

In particular, the Meeting resolved that the *Azioni 1* shares, issued in execution of the First Tranche, "*will have the following rights and characteristics: regardless of the percentage of the Company's share capital represented by the shares as a whole, they will carry the right to receive 95% (the "First Percentage") of any distribution to shareholders of earnings and reserves, and of any other monies or assets, for whatever reason, carried out, including during the Company's winding up (the "Distributions"), taking priority with respect to all other categories of share issued by the Company, until the holders have received a sum equal to the total amount paid in order to subscribe for and pay up the* Azioni 1 *shares, plus simple interest at a rate of 4% per annum (the "Total Value of the* Azioni 1 *shares Plus a Return"), whilst the remaining 5% (the*

"Second Percentage") of Distributions will be allocated on a pro-rata basis among all the Company's shares other than those classed Azioni 1*;*

The prospectus for the rights issue approved on 8 August 2014 was filed with the competent companies' register and at the registered office on 27 August 2014. The term for the receipt of acceptances was 11 October 2014. No acceptances were received by this date.

Subscriptions for share issues as at 31 December 2014

On 29 October, the share issue in divisible form approved by the Extraordinary General Meeting of 25 July 2014 was partially carried out through its subscription by one shareholder and the concomitant issue of 477,099,230 new category 2 shares ("*Azioni 2"*), with no par value.

Again in execution of the above resolution, given that a number of shareholders had paid in contributions for future capital increases, totalling €120 million, and given that the contributions were allocated as partial subscription and payment for the shares to be issued in accordance with the above resolution, on 23 December the following new no-par *Azioni 2* shares were issued as follows:

1) 2,597,600,872 Atlantia S.p.A.;
2) 124,318,429 to Finanziaria di Partecipazioni e Investimenti S.p.A.;
3) 510,359,869 to IMMSI S.p.A.;
4) 4,475,463,468 to Intesa Sanpaolo S.p.A.;
5) 510,359,869 to Pirelli & C. S.p.A.;
6) 3,232,279,172 to UniCredit S.p.A.

In execution of the share issue in divisible form approved by the Extraordinary General Meeting of 8 August, given that certain of the Company's creditor banks had subscribed and paid for the tranches of the above issue regarding the "*Azioni 3*" and "*Azioni 4*" shares, using - in the form of a voluntary offset – their respective loans and receivables due from the Company, totalling €354 million (all in accordance with the debt restructuring agreement signed on 22 December and effective from the following day), on 23 December 2014 the following new *Azioni 3* and *Azioni 4* shares were issued as follows:

1) 7,878,739,363 *Azioni 3* shares to UniCredit S.p.A.;
2) 6,731,257,625 *Azioni 3* shares to Intesa Sanpaolo S.p.A.;
3) 5,155,312,539 *Azioni 3* to Banca Popolare di Sondrio S.C.p.A.;
4) 955,254,787 *Azioni 3* to Banca Monte dei Paschi di Siena S.p.A.;
5) 5,957,138,500 *Azioni 4* to UniCredit S.p.A.;
6) 3,752,234,360 *Azioni 4* to Intesa Sanpaolo S.p.A.;
7) 2,382,855,400 *Azioni 4* to Banca Popolare di Sondrio S.C.p.A.;
8) 953,142,160 *Azioni 4* to Banca Monte dei Paschi di Siena S.p.A.

Finally, with regard to the debt classified as "ex factoring and pool", repayable to Unicredit, MontePaschi and Banca Popolare di Sondrio, totalling €177.4 million, this, again in accordance with the above debt restructuring agreement, was consolidated as long-term debt paying interest at 4% and with a term to maturity of ten years.

This latter sum, increased by interest in the meantime accrued on the principal, may in future, subject to fulfilment of certain specific conditions (such as, for example, the reduction of the Company's equity to below €20 million, or the inability of the Company, at maturity of the long-term loan, to raise the funds necessary to repay the loan and the related interest), be used for a further share issue (*Azioni 1*).

In brief, the following table shows a summary of the equity transactions described above:

value of shares in €	
0,01048	price
0,00036	share capital
0,01012	share premium reserve

No. of shares	**Subscribed on**	**Type of share**	**Shareholder**	**Amount paid in**	of which CAPITAL	of which RESERVES
2.597.600.872	23 Dec	*Azioni 2*	Atlantia	27.222.857,14	935.136,31	26.287.720,82
124.318.429	23 Dec	*Azioni 2*	Finanz.Part Inv.	1.302.857,14	44.754,63	1.258.102,50
510.359.869	23 Dec	*Azioni 2*	IMMSI	5.348.571,43	183.729,55	5.164.841,87
4.475.463.468	23 Dec	*Azioni 2*	Intesa S paolo	46.902.857,14	1.611.166,85	45.291.690,30
510.359.869	23 Dec	*Azioni 2*	Pirelli	5.348.571,43	183.729,55	5.164.841,87
3.232.279.172	23 Dec	*Azioni 2*	Unicredit	33.874.285,72	1.163.620,50	32.710.665,22
477.099.230	29-ott	*Azioni 2*	Macca	5.000.000,00	171.755,72	4.828.244,21
11.927.480.909				**125.000.000,00**	**4.293.893,13**	**120.706.106,80**
7.878.739.363	23 Dec	*Azioni 3*	Unicredit	82.569.188,52	2.836.346,17	79.732.842,35
6.731.257.625	23 Dec	*Azioni 3*	Intesa S paolo	70.543.579,91	2.423.252,75	68.120.327,17
5.155.312.539	23 Dec	*Azioni 3*	B pop Sondrio	54.027.675,41	1.855.912,51	52.171.762,89
955.254.787	23 Dec	*Azioni 3*	Monte Paschi	10.011.070,17	343.891,72	9.667.178,44
20.720.564.314				**217.151.514,01**	**7.459.403,15**	**209.692.110,86**
5.957.138.500	23 Dec	*Azioni 4*	Unicredit	62.430.811,48	2.144.569,86	60.286.241,62
3.752.234.360	23 Dec	*Azioni 4*	Intesa S paolo	39.323.416,09	1.350.804,37	37.972.611,72
2.382.855.400	23 Dec	*Azioni 4*	B pop Sondrio	24.972.324,59	857.827,94	24.114.496,65
953.142.160	23 Dec	*Azioni 4*	Monte Paschi	9.988.929,84	343.131,18	9.645.798,66
13.045.370.420				**136.715.482,00**	**4.696.333,35**	**132.019.148,65**
45.693.415.643				**478.866.996,01**	**16.449.629,63**	**462.417.366,31**

As a result of the above transactions, from 23 December 2014 to 31 December 2014, the subscribed and paid-in share capital amounted to €357,544,812, represented by 54,269,928,100 shares, of which 7,969,577,138 ordinary shares, 606,935,319 special category B shares, 11,927,480,909 category 2 shares (*Azioni 2*), 20,720,564,314 category 3 shares (*Azioni 3*) and 13,045,370,420 category 4 shares (*Azioni 4*), all no par value, held by shareholders as follows:

Shareholder list

Shareholders	Share capital pre-share issue			Share issues: *Azioni 2*		*Azioni 3*		*Azioni 4*		Share capital as at 31	
	No. of shares	Cat	Interest	No. of shares	Interest	No. of shares	Interest	No. of shares	Interest	No. of shares	Interest
Acqua Marcia Finanziaria S.p.A. in liquic	11.838.402	*Ord.*	0,14%							11.838.402	0,02%
Air France KLM	606.935.319	B	7,08%							606.935.319	1,12%
Atlantia	638.498.318	*Ord.*	7,44%	2.597.600.872	21,78%					3.236.099.190	5,96%
Aura Holding	79.267.192	*Ord.*	0,92%							79.267.192	0,15%
Banca Monte Paschi di Siena	0	*Ord.*	0,00%			955.254.787	4,61%	953.142.160	7,31%	1.908.396.947	3,52%
Banca Popolare di Sondrio	0	*Ord.*	0,00%			5.155.312.539	24,88%	2.382.855.400	18,27%	7.538.167.939	13,89%
Equinocse Sarl	25.447.299	*Ord.*	0,30%							25.447.299	0,05%
Finanziaria di Parte. e Invest.	100.964.962	*Ord.*	1,18%	124.318.429	1,04%					225.283.391	0,42%
FIRE SpA in liquidation	367.069.159	*Ord.*	4,28%							367.069.159	0,68%
Fondiaria - SAI S.p.A., now Unipol SAI S.p	29.589.882	*Ord.*	0,35%							29.589.882	0,05%
G.&C. Holding S.r.l.	106.471.476	*Ord.*	1,24%							106.471.476	0,20%
GFMC S.p.A.	11.834.320	*Ord.*	0,14%							11.834.320	0,02%
I2 Capital Partners	80.806.188	*Ord.*	0,94%							80.806.188	0,15%
Immsi	873.676.975	*Ord.*	10,19%	510.359.869	4,28%					1.384.036.844	2,55%
Intesa San Paolo	1.647.868.554	*Ord.*	19,21%	4.475.463.468	*37,52%*	6.731.257.625	*32,49%*	3.752.234.360	*28,76%*	16.606.824.007	*30,60%*
Loris Fontana	50.243.163	*Ord.*	0,59%							50.243.163	0,09%
Macca	316.862.034	*Ord.*	3,69%	477.099.230	4,00%					793.961.264	1,46%
Marcegaglia	64.613.498	*Ord.*	0,75%							64.613.498	0,12%
Odissea	334.224.599	*Ord.*	3,90%	0	0,00%					334.224.599	0,62%
Ottobre 2008	*118.345.918*	*Ord.*	*1,38%*							118.345.918	*0,22%*
Pirelli	229.104.399	*Ord.*	2,67%	510.359.869	4,28%					739.464.268	1,36%
Poste Italiane	1.671.122.994	*Ord.*	19,48%							1.671.122.994	3,08%
Solido Holding S.p.A.	17.752.050	*Ord.*	0,21%							17.752.050	0,03%
T.H. S.A.	35.502.959	*Ord.*	0,41%							35.502.959	0,07%
Toto S.p.A.	35.514.220	*Ord.*	0,41%							35.514.220	0,07%
Uni Credit	1.114.081.980	*Ord.*	12,99%	3.232.279.172	27,10%	7.878.739.363	38,02%	5.957.138.500	45,66%	18.182.239.015	33,50%
Vitrociset S.p.A.	8.876.597	*Ord.*	0,10%							8.876.597	0,02%
Total	**8.576.512.457**		**100,00%**	**11.927.480.909**	**100,00%**	**20.720.564.314**	**100,00%**	**13.045.370.420**	**100,00%**	**54.269.928.100**	**100,00%**

<u>Etihad transaction</u>

The Board of Directors' meeting of 7 August 2014 resolved:

1) *"to approve the strategic transaction (the "Transaction"), as a result of which it is envisaged, briefly, that:*

a) *Alitalia:*

(i) *contribute to a (new or pre-existing) company, initially a wholly owned company ("Nuova Alitalia"), all its airline business, with exception essentially of: (x) the debt includied in the above-mentioned debt restructuring; (y) disputes and (current and potential) liabilities not closely related to ordinary airline operations; (z) the equity interest in Air One S.p.A.;*

(ii) *contribute its equity interest in Nuova Alitalia to a newly incorporated wholly owned company ("MidCo");*

b) *Etihad Airways P.J.S.C. ("Etihad") invest a total of €560 million and, in particular:*

(i) *subscribe (and at the same time pay in the related amount) for new shares in Nuova Alitalia, making a cash contribution of €387.5 million. As a result of the subscription, Etihad will acquire a 49% equity interest in Nuova Alitalia, with Alitalia (through Midco) continuing to hold the remaining majority interest of 51%;*

(ii) *buy from Nuova Alitalia, in accordance with the terms of the relevant contract documents: (x) 75% of Alitalia Loyalty S.p.A. for a total amount of €112.5 million; (y) 5 pairs of slots at London Heathrow for a total of €60 million;*

c) *Nuova Alitalia and Etihad enter into a commercial partnership agreement in accordance with the Plan;*

d) *in close connection with execution of the Transaction:*

(i) *Alitalia proceed to restructure the financial debt not transferred to Nuova Alitalia, with the aim of ensuring the Company's ongoing financial stability, to be carried out on the basis of a plan whose sustainability shall be subject to assurance in accordance with art. 67, paragraph 3.d of the Bankruptcy Law;*

(ii) *Alitalia commit to: (x) pay Nuova Alitalia an amount equal to the eventual cash shortfall reported by* *the latter at the date of transaction closing with respect to the target amount agreed with Etihad, up to a maximum limit of €200 million; (y) indemnify Nuova Alitalia against any costs or payments incurred/made by the latter in relation to liabilities not covered by the contribution to the new company, and in relation to any consequences resulting from eventual inaccuracies in the statements or guarantees issued as part of the contract documents.*

2) *to approve the business plan presented during the Board meeting;*
3) *to approve the content of the "term-sheet Poste" (summarising the main conditions applicable to Poste Italiane's injection of €75 million in capital through Midco);*
4) *to thus approve the execution, signature, formalisation and finalisation of all the contracts and deeds to be executed, signed, formalised and finalised by the Company within the context of and for the purposes of the Transaction, including, among other things and not limited to:*
   (i) *the contract containing the terms and conditions of the Transaction, including all the relevant annexes and ancillary agreements (the "Transaction Implementation Agreement");*
   (ii) *the Company's contribution to Nuova Alitalia of a business unit consisting of the tangible and intangible assets, other assets, payables, obligations and other liabilities and contractual obligations (with the related rights) attributable to the Company's existing air passenger activities, as described in more detail in the contract documents relating to the Transaction and excluding the assets, liabilities, obligations (contractual or otherwise) and/or rights expressly indicated;*
   (iii) *the Company's subsequent contribution to MidCo of its equity interest in Nuova Alitalia resulting from the above contribution;*
   (iv) *the Company's commitments referred to above in point 1.d.ii;*
   (v) *the Company's debt restructuring plan, as described during the Board of Directors' meeting;*
   (vi) *in general, any other contract, deed or document considered useful and/or necessary with regard to and for the purposes of the Transaction (including the incorporation of Nuova Alitalia and Midco), all in accordance with the necessary and/or appropriate terms and conditions, authorising the Chairman and Chief Executive Officer, acting jointly or severally, to conduct the related negotiations and finalise all the texts, documents and deeds to be signed and the related annexes;*
5) *to approve the fact that the financial support for the transaction to be provided by the shareholder, Poste Italiane S.p.A. shall take the form of a debt instrument to be issued by MidCo;*
6) *to approve and endorse all the actions of the Company's Directors within the context of and for the purposes of the Transaction".*

The Ordinary General Meeting of shareholders held on 8 August 2014 resolved:

1) "*to approve and, for all intents and purposes, authorise the overall strategic transaction with Etihad (the "Transaction");*
2) *to approve and, for all intents and purposes, authorise the connected debt restructuring, as described above and the form of Poste Italiane's participation via a debt instrument to be issued by Midco;*
3) *to approve and, for all intents and purposes, authorise:*
   (i) *the Company's contribution of its airline business unit to Nuova Alitalia; and*
   (ii) *the Company's subsequent contribution to MidCo of its equity interest in Nuova Alitalia resulting from the above contribution,*

with regard to both contributions, authorising the Board of Directors, and/or endorsing their actions, to appoint an independent expert to prepare the reports required by art. 2343-ter, paragraph 2-bis of the Italian Civil Code".

Conversion of bonds

The Extraordinary General Meeting of Alitalia - Compagnia Aerea Italiana S.p.A.'s shareholders, held on 22 February 2013, voted in favour of a resolution approving the issue of new shares for the purposes of conversion of subordinated convertible bonds issued by the Company. In execution of this resolution, following amendment of the Terms and Conditions of the convertible bond issue by the general meetings of both shareholders and bondholders held on 26 November 2014, and following the decision of the holders of the remaining bonds to exercise their conversion rights in compliance with the applicable terms and conditions, on 1 January 2015 the below new ordinary no-par shares were issued:

1) 278,934,524 ordinary shares to Intesa Sanpaolo S.p.A.;
2) 34,485,780 ordinary shares to October 2008 s.r.l..

In this regard, on 18 December 2014, the shareholder, Atlantia, announced that it would not exercise its right to convert the bonds in its possession and, at the same time, that it would waive and forgive any debt relating to the bonds, as result thereby waiving any right deriving from the Terms and Conditions of the convertible bond issue or from its subscription for or holding of the bonds.

As a result, following the above share issues, as at 1 January 2015, the Company's subscribed and paid-in share capital amounts to €357,657,643.00, represented by 54,583,348,404 shares, of which 8,282,997,442 ordinary shares, 606,935,319 special category B shares, 11,927,480,909 category 2 shares (*Azioni 2*), 20,720,564,314 category 3 shares (*Azioni 3*) and 13,045,370,420 category 4 shares (*Azioni 4*), all no par value, held by shareholders as follows:

Shareholder list

Shareholders	Share capital as at 31 December 2014 No. of shares	Share capital as at 31 December 2014 Interest	Conversion of convertible bonds No. of ord. shares	Share capital as at 1 January 2015 No. of shares	Share capital as at 1 January 2015 Interest
Acqua Marcia Finanziaria S.p.A. in liqui	11.838.402	0,02%		11.838.402	0,02%
Air France KLM	606.935.319	1,12%		606.935.319	1,11%
Atlantia	3.236.099.190	5,96%		3.236.099.190	5,93%
Aura Holding	79.267.192	0,15%		79.267.192	0,15%
Banca Monte Paschi di Siena	1.908.396.947	3,52%		1.908.396.947	3,50%
Banca Popolare di Sondrio	7.538.167.939	13,89%		7.538.167.939	13,81%
Equinocse Sarl	25.447.299	0,05%		25.447.299	0,05%
Finanziaria di Parte. e Invest.	225.283.391	0,42%		225.283.391	0,41%
FIRE SpA in liquidation	367.069.159	0,68%		367.069.159	0,67%
Fondiaria - SAI S.p.A.ora Unipol SAI S.p..	29.589.882	0,05%		29.589.882	0,05%
G.&C. Holding S.r.l.	106.471.476	0,20%		106.471.476	0,20%
GFMC S.p.A.	11.834.320	0,02%		11.834.320	0,02%
I2 Capital Partners	80.806.188	0,15%		80.806.188	0,15%
Immsi	1.384.036.844	2,55%		1.384.036.844	2,54%
Intesa San Paolo	16.606.824.007	*30,60%*	*278.934.524*	16.885.758.531	30,94%
Loris Fontana	50.243.163	0,09%		50.243.163	0,09%
Macca	793.961.264	1,46%		793.961.264	1,45%
Marcegaglia	64.613.498	0,12%		64.613.498	0,12%
Odissea	334.224.599	0,62%		334.224.599	0,61%
Ottobre 2008	118.345.918	*0,22%*	*34.485.780*	152.831.698	0,28%
Pirelli	739.464.268	1,36%		739.464.268	1,35%
Poste Italiane	1.671.122.994	3,08%		1.671.122.994	3,06%
Solido Holding S.p.A.	17.752.050	0,03%		17.752.050	0,03%
T.H. S.A.	35.502.959	0,07%		35.502.959	0,07%
Toto S.p.A.	35.514.220	0,07%		35.514.220	0,07%
Uni Credit	18.182.239.015	33,50%		18.182.239.015	33,31%
Vitrociset S.p.A.	8.876.597	0,02%		8.876.597	0,02%
Total	**54.269.928.100**	**100,00%**	**313.420.304**	**54.583.348.404**	**100,00%**

Subscriptions for new shares after 1 January 2015

In execution of the resolution approving the issue of new shares, in divisible form, via the issue of "*Azioni 2*" shares, passed by the Extraordinary General Meeting of the shareholders of Alitalia - Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.) on 25 July 2014, given that certain shareholders have subscribed and paid for a further tranche of shares, the below new ordinary shares have been issued:

1) 288,740,458 *Azioni 2* no-par shares to Atlantia S.p.A.;
2) 14,153,944 *Azioni 2* no-par shares to Finanziaria di Partecipazioni e Investimenti S.p.A.;
3) 56,615,776 *Azioni 2* no-par shares to IMMSI S.p.A.;
4) 498,218,829 *Azioni 2* no-par shares to Intesa Sanpaolo S.p.A.;
5) 56,615,776 *Azioni 2* no-par shares to Pirelli & C. S.p.A.;
6) 359,510,177 *Azioni 2* no-par shares to UniCredit S.p.A..

As a result, following the above share issues, as at 15 January 2015, the Company's subscribed and paid-in share capital amounts to €358,116,231.00, represented by 55,857,203,364 shares, of which 8,282,997,442 ordinary shares, 606,935,319 special category B shares, 13,201,335,869 category 2 shares (*Azioni 2*), 20,720,564,314 category 3 shares (*Azioni 3*) and 13,045,370,420 category 4 shares (*Azioni 4*), all no par value, held by shareholders as follows:

Shareholder list

Shareholders	Share capital as at 1 January 2015		Subscriptions after 1 January 2015	Share capital as at 15 January 2015	
	No. of shares	Interest	No. of *Azioni 2*	No. of shares	Interest
Acqua Marcia Finanziaria S.p.A. in liquid	11.838.402	0,02%		11.838.402	0,02%
Air France KLM	606.935.319	1,11%		606.935.319	1,09%
Atlantia	3.236.099.190	5,93%	288.740.458	3.524.839.648	6,31%
Aura Holding	79.267.192	0,15%		79.267.192	0,14%
Banca Monte Paschi di Siena	1.908.396.947	3,50%		1.908.396.947	3,42%
Banca Popolare di Sondrio	7.538.167.939	13,81%		7.538.167.939	13,50%
Equinocse Sarl	25.447.299	0,05%		25.447.299	0,05%
Finanziaria di Parte. e Invest.	225.283.391	0,41%	14.153.944	239.437.335	0,43%
FIRE SpA in liquidation	367.069.159	0,67%		367.069.159	0,66%
Fondiaria - SAI S.p.A.ora Unipol SAI S.p.A	29.589.882	0,05%		29.589.882	0,05%
G.&C. Holding S.r.l.	106.471.476	0,20%		106.471.476	0,19%
GFMC S.p.A.	11.834.320	0,02%		11.834.320	0,02%
I2 Capital Partners	80.806.188	0,15%		80.806.188	0,14%
Immsi	1.384.036.844	2,54%	56.615.776	1.440.652.620	2,58%
Intesa San Paolo	16.885.758.531	30,94%	*498.218.829*	17.383.977.360	31,12%
Loris Fontana	50.243.163	0,09%		50.243.163	0,09%
Macca	793.961.264	1,45%		793.961.264	1,42%
Marcegaglia	64.613.498	0,12%		64.613.498	0,12%
Odissea	334.224.599	0,61%		334.224.599	0,60%
Ottobre 2008	152.831.698	0,28%		152.831.698	0,27%
Pirelli	739.464.268	1,35%	56.615.776	796.080.044	1,43%
Poste Italiane	1.671.122.994	3,06%		1.671.122.994	2,99%
Solido Holding S.p.A.	17.752.050	0,03%		17.752.050	0,03%
T.H. S.A.	35.502.959	0,07%		35.502.959	0,06%
Toto S.p.A.	35.514.220	0,07%		35.514.220	0,06%
Uni Credit	18.182.239.015	33,31%	359.510.177	18.541.749.192	33,19%
Vitrociset S.p.A.	8.876.597	0,02%		8.876.597	0,02%
Total	**54.583.348.404**	**100,00%**	**1.273.854.960**	**55.857.203.364**	**100,00%**

Closing of transaction with Etihad

All the activities related to the closing of the strategic transaction with Etihad Airways took place on 22 and 23 December 2014.

In particular, on 22 December Etihad subscribed new shares amounting to €387.5 million – through a wholly owned subsidiary (named Etihad Investment Holding Company LLC) - to be issued as a result of the capital increase approved by the shareholders of Alitalia - Società Aerea Italiana ("Nuova Alitalia") at the Extraordinary General Meeting held on 19 December 2014. Despite the fact that it was effective 1 January 2015, Etihad's subscription coincided with its payment of the full amount payable into a "demand" current account in the name of Nuova Alitalia (the "irrevocable cash contribution", which, on 1 January 2015, was automatically allocated as payment in full for the new shares issued).

On 22 December 2014, Alitalia – CAI contributed its airline business to Alitalia - SAI, amounting to a total of €403,266,324.00, to subscribe and as full in-kind payment for the capital increase approved by the shareholders at the Extraordinary General Meeting of Nuova Alitalia's shareholders held on 19 December 2014. As noted above, the contribution was effective as of 00:01am on 1 January 2015.

As reported above, in addition, on 22 December a debt restructuring agreement was executed by Alitalia, MidCo and the Company's banks, complementary to the recovery plan drawn up in accordance with art. 67 of the Bankruptcy Law and assured by the independent expert, Prof. Maurizio Dallocchio. On the same day, the deed of amendment and consent, on the part of Alitalia S.A.I., to the existing loan from Intesa Sanpaolo S.p.A. and Banca Popolare dell'Emilia Romagna Soc. Coop. was also executed, as a result of which the banks acknowledged Alitalia's release from its obligations deriving from the loan following the contribution of the airline business to Nuova Alitalia. A third document amending the framework agreement, under which the banks acknowledge the transfer of the unsecured lines of credit and derivatives governed by the framework agreement to Nuova Alitalia, was also executed.

The activities relating to the closing proceeded on 23 December, when the Board of Directors of Nuova Alitalia – supported by a Valuation Review issued by the advisor, Prof. Marco Reboa – conducted the checks and issued the declaration required by art. 2343-*quater* of the Italian Civil Code, stating that there was no evidence of exceptional or relevant circumstances such as to affect the valuation of the business units transferred.

This declaration, which was promptly filed with the competent Companies' Register, was the prerequisite for execution, again on 23 December, of the deed transferring Alitalia's entire equity interest in Nuova Alitalia from Alitalia to MidCo (including the newly issued shares resulting from the capital increase paid for through the in-kind contribution of the business unit). With this second transfer, Alitalia thus subscribed and paid in full for the in-kind issue of new shares, amounting to €403,266,324.00, issued to it under the resolution approved by the Extraordinary General Meeting of MidCo's shareholders held on 19 December 2014.

Immediately following the contribution, the Board of Directors of MidCo also met to conduct the checks and issue the declaration required by art. 2343-*quater* of the Italian Civil Code, stating that there was no evidence of exceptional or relevant circumstances such as to affect the valuation of the equity investment transferred. MidCo's Board of Directors also based their declaration on a Valuation Review issued by Prof. Reboa. The declaration required by art. 2343-*quater* of the Italian Civil Code was filed with the competent Companies' Register at the end of the board meeting.

The activities relating to the closing continued and were completed with:

- the execution of deeds discharging and releasing a number of guarantees encumbering certain of Alitalia's assets transferred to Nuova Alitalia (a pledge on the investment in Alitalia Loyalty, a pledge on trademarks, etc.);
- the execution of a pledge on Alitalia's entire investment in MidCo and its entire equity interest in Nuova Alitalia, securing repayment of the so-called "ex factoring and pool" debt, as restructured (through its rescheduling over ten years and potential conversion into equity) under the restructuring agreement;
- Poste Italiane's subscription (effective 1 January 2015) for all the contingent convertible notes, amounting to €75 million, issued by MidCo in accordance with the resolutions passed by the Extraordinary General Meeting of 19 December (as partially amended by the Extraordinary General Meeting, attended by all shareholders, of 23 December).
- the release, by Loan Agency Services (acting as the "Agent" under the restructuring agreement), of the letter attesting to fulfilment of all the conditions precedent in the restructuring agreement and, therefore, the effectiveness of the agreement. This resulted in – among other things – the immediate conversion into equity (specifically, into *Azioni 3* and *Azioni 4* shares, issued as a result of the capital increase

approved by the Extraordinary General Meeting of Alitalia's shareholders held on 8 August 2014), of loans of €353.8 million repayable to Monte dei Paschi di Siena, Banca Popolare di Sondrio, Intesa Sanpaolo, UniCredit and UniCredit Factoring by Alitalia.

The signature of novation agreements with certain lenders and leasing companies, who had requested execution of the new agreements prior to effectiveness of the transfer of the related contracts and/or guarantees from Alitalia to Nuova Alitalia, and receipt of the letters of consent from the other lenders and leasing companies was also completed on 23 December.

Finally, on 23 December, ENAC, the Italian Civil Aviation Authority, formally announced the re-issue, in the name of Nuova Alitalia, of the air carrier operating licence and certificate of airworthiness previously issued to Alitalia, effective as of 00:01am on 1 January 2015.

Lastly, on 21 January 2015, Alitalia – Società Aerea Italiana S.p.A. (sole shareholder of Alitalia Loyalty as of 1 January 2015) completed the sale of 75% of its equity interest in Alitalia Loyalty S.p.A. to Global Loyalty Company LLC[37].

Change in Company name

In accordance with the resolution passed by the Extraordinary General Meeting of 26 November 2014, from 1 January 2015, Alitalia – Compagnia Aerea Italiana S.p.A. has changed its name to Compagnia Aerea Italiana S.p.A.

CAI FIRST S.P.A.

Board of Statutory Auditors

The term of office of the company's Board of Statutory Auditors expired on the date of the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2013. It was, therefore, necessary to elect a new oversight body.

The Ordinary General Meeting of CAI FIRST S.p.A.'s shareholders held on 25 July 2014 thus elected the following to serve until the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2016: Giovanni Barbara (Chairman), Tommaso Di Tanno and Graziano Gianmichele Visentin as Standing Auditors; Maria Luisa Bonanno and Domenico Busetto as Alternate Auditors.

The Meeting also resolved to pay annual compensation of €9,000.00 to the Chairman of the Board of Statutory Auditors and of €6,000.00 a year to each Standing Auditor throughout their term of office, in addition to any travel expenses incurred.

[37] Global Loyalty Company (GLC) is an Etihad company specializing in loyalty-building and lifestyle programs. GLC helps Etihad and its partners to act more effectively in the global market of loyalty-building schemes, through the development of significant technological and management synergies. GLC also manages such programs as "Etihad Guest" for Etihad Airways, "topbonus" for Air Berlin and "JetPrivilege" for Jet Airways. Together, Etihad Guest, topbonus, JetPrivilege and MilleMiglia have a total of 14 million members worldwide.

Independent auditors

The engagement of the company's independent auditors expired on the date of the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2013. It was, therefore, necessary to appoint new auditors.

The Ordinary General Meeting of 25 July 2014 thus approved the engagement of Deloitte & Touche S.p.A. to audit the company's accounts for the financial years from 2014 to 2016.

Capital injections

In relation to the continuous monitoring of the financial position and operating performance of Group companies, in view of the accumulated loss reported by CAI First S.p.A. as at 28 February 2014, Alitalia made a capital contribution to this company, within the scope of the Group's centralized treasury management, of €2,000,000.00 (two million) with a value date of 10 April 2014.

Transfer of the equity interest in Alitalia - Società Aerea Italiana S.p.A.

On 22 December 2014, Alitalia – Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.) finalised the contribution of its airline business to Alitalia - Società Aerea Italiana S.p.A., with effect from 1 January 2015. The contribution was carried out to subscribe and as full in-kind payment for the capital increase approved by the shareholders of Alitalia - Società Aerea Italiana S.p.A. at the Extraordinary General Meeting held on 19 December 2014.

As part of the business contributed, Alitalia – Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.) also transferred its equity interest in CAI First S.p.A. to Alitalia – Società Aerea Italiana S.p.A..

CAI SECOND S.P.A.

Board of Statutory Auditors

The term of office of the company's Board of Statutory Auditors expired on the date of the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2013. It was, therefore, necessary to elect a new oversight body.

The Ordinary General Meeting of CAI SECOND S.p.A.'s shareholders held on 25 July 2014 thus elected the following to serve until the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2016: Giovanni Barbara (Chairman), Tommaso Di Tanno and Graziano Gianmichele Visentin as Standing Auditors; Maria Luisa Bonanno and Domenico Busetto as Alternate Auditors.

The Meeting also resolved to pay annual compensation of €9,000.00 to the Chairman of the Board of Statutory Auditors and of €6,000.00 a year to each Standing Auditor throughout their term of office, in addition to any travel expenses incurred.

Independent auditors

The engagement of the company's independent auditors expired on the date of the General Meeting of

shareholders convened to approve the financial statements for the year ended 31 December 2013. It was, therefore, necessary to appoint new auditors.
The Ordinary General Meeting of 25 July 2014 thus approved the engagement of Deloitte & Touche S.p.A. to audit the company's accounts for the financial years from 2014 to 2016.

Transfer of the equity interest in Alitalia - Società Aerea Italiana S.p.A.

On 22 December 2014, Alitalia – Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.) finalised the contribution of its airline business to Alitalia - Società Aerea Italiana S.p.A., with effect from 1 January 2015. The contribution was carried out to subscribe and as full in-kind payment for the capital increase approved by the shareholders of Alitalia - Società Aerea Italiana S.p.A. at the Extraordinary General Meeting held on 19 December 2014.
As part of the business contributed, Alitalia – Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.) also transferred its equity interest in CAI Second S.p.A. to Alitalia – Società Aerea Italiana S.p.A..

AIR ONE S.P.A.

Board of Directors

The General Meeting of shareholders held on 29 April 2013: (i) elected, to serve until the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2015, the following members of the company's Board of Directors: Paolo Amato, Giancarlo Schisano, Giovanni Amedeo Maria Nodari, Laura Cavatorta and Nicola Dell'Edera; (ii) fixed the annual remuneration to be paid to members of the Board of Directors – to be allocated as the Board of Directors see fit – at €15,000, in addition to the reimbursement of expenses incurred in carrying out their duties. The above was effective from 29 April 2013.
The Meeting also elected Paolo Amato to serve as Chairman.
Subsequently, on 29 April 2013, the Board of Directors appointed the Director, Giancarlo Schisano, as the company's Chief Executive Officer.
Following the resignations of the majority of the Directors of Air One, the General Meeting of shareholders held on 15 January 2015 resolved:

1. to appoint a Sole Director to manage the company;
2. to appoint Francesco Di Giovanni as the company's Sole Director, vesting him with the widest powers for the ordinary and extraordinary administration of the company, normally granted to the board of directors;
3. to establish that his term of office will be for 3 (three) financial years, expiring therefore on the date of the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2017;
4. to pay him all-inclusive gross annual remuneration of €50,000.00 (fifty thousand).

As a result, from 29 April 2013 to 15 January 2015, the members of the Board of Directors were as follows: Paolo Amato (Chairman), Giancarlo Schisano (Chief Executive Officer), Amedeo Giovanni Maria Nodari, Laura Cavatorta and Nicola Dell'Edera.

From 15 January 2015, the company has been managed by a Sole Director, Francesco Di Giovanni.

Board of Statutory Auditors

The term of office of the company's Board of Statutory Auditors expired on the date of the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2013. It was, therefore, necessary to elect a new oversight body.

The Ordinary General Meeting of Air One S.p.A.'s shareholders held on 24-28 July 2014 thus elected the following to serve until the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2016: Giovanni Barbara (Chairman), Tommaso Di Tanno and Graziano Gianmichele Visentin as Standing Auditors; Maria Luisa Bonanno and Domenico Busetto as Alternate Auditors.

The Meeting also resolved to pay annual compensation of €18,000.00 to the Chairman of the Board of Statutory Auditors and of €12,000.00 a year to each Standing Auditor throughout their term of office, in addition to any travel expenses incurred.

Financial position as at 30 September 2014

The General Meeting of shareholders held on 15 January 2015 acknowledged that, on the basis of the financial position as at 30 September 2014, the company was in a situation requiring application of art. 2446 of the Italian Civil Code (given that its equity had been reduced to €5,343,561.00 as a result of losses totalling €52,736,896.00). The Meeting also acknowledged that, as a result of the transaction with Etihad, the company (the equity interest in which was not transferred to Alitalia - Società Aerea Italiana S.p.A.) was effectively no longer operational. As a result, the Meeting deemed it necessary, before taking any form of "appropriate action", to ask the Sole Director to prepare updated accounts for the company as at 1 January 2015, reflecting the effects of the transaction with Etihad and any further effects on the company's equity, and on the valuation of items in the financial statements, of the cessation of operations.

The General Meeting, therefore, voted unanimously to delay the adoption of appropriate action until a subsequent General Meeting to be convened as soon as the Sole Director had prepared accounts as at 1 January 2015 and drawn up resulting proposals based on these accounts.

Capital injections

Into Air One S.p.A.

In relation to the continuous monitoring of the financial position and operating performance of Group companies, in view of the accumulated loss reported by Air One S.p.A. as at 28 February 2014, Alitalia made a capital contribution to this company, within the scope of the Group's centralized treasury management, of €20,000,000.00 (twenty million) with a value date of 17 April 2014.

Subsequently, in April 2014, Air One made a provision of €18 million, accounted for in extraordinary expenses in the financial statements for the year ended 31 December 2013, following a number of audits conducted by the tax authorities, following on from previous audits and extended to include the fiscal years from 2006 to 2009. This resulted in a situation, at 31 December 2013, qualifying for the application of art. 2446 of the Italian Civil Code.
The sole shareholder, Alitalia, thus made a second capital contribution of €18 million (eighteen million) with a value date of 16 May 2014, resolving the above situation.

Conclusion of intercompany agreements relating to the suspension of Air One's operations

Following execution, on 8 August 2014, of a Transaction Implementation Agreement ("TIA") between Alitalia-CAI and Etihad, setting out the terms and conditions of the strategic partnership between the Parent Company and Etihad, with effect from 30 September 2014, Air One suspended the sale of its flights and proceeded with redelivery of the aircraft used to provide its smart carrier services.
At the same time, the carve-out of the company's accounts was completed.
Following reconciliation of all the line items and in accordance with the terms of the TIA and subsequent agreements, the two companies agreed that Alitalia-CAI *(i)* would acquire the receivables and assets of Air One, and *(ii)* would assume the subsidiary's payables, liabilities and obligations, all attributable to air transport services provided through to the redelivery, to Alitalia-CAI, of the last aircraft.
As a result, Air One undertook to pay Alitalia-CAI the sum of €40,974 thousand, being the balance of the above assets and liabilities. The parties undertook to invoice the respective amounts receivable, to be settled in accordance with the terms of the centralised treasury management system used by the two companies.
The terms of the agreement in question are set out in an Acknowledgement Agreement.

ALITALIA CITYLINER S.P.A.

Board of Statutory Auditors

The term of office of the company's Board of Statutory Auditors expired on the date of the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2013. It was, therefore, necessary to elect a new oversight body.
The Ordinary General Meeting of Alitalia CityLiner S.p.A.'s shareholders held on 24-28 July 2014 thus elected the following to serve until the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2016: Giovanni Barbara (Chairman), Tommaso Di Tanno and Graziano Gianmichele Visentin as Standing Auditors; Maria Luisa Bonanno and Domenico Busetto as Alternate Auditors.

The Meeting also resolved to pay annual compensation of €9,000.00 to the Chairman of the Board of Statutory Auditors and of €6,000.00 a year to each Standing Auditor throughout their term of office, in addition to any travel expenses incurred.

Transfer of the equity interest in Alitalia - Società Aerea Italiana S.p.A.

On 22 December 2014, Alitalia – Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.)

finalised the contribution of its airline business to Alitalia - Società Aerea Italiana S.p.A., with effect from 1 January 2015. The contribution was carried out to subscribe and as full in-kind payment for the capital increase approved by the shareholders of Alitalia - Società Aerea Italiana S.p.A. at the Extraordinary General Meeting held on 19 December 2014.

As part of the business contributed, Alitalia – Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.) also transferred its equity interest in Alitalia CityLiner S.p.A. to Alitalia – Società Aerea Italiana S.p.A..

Alitalia Loyalty S.p.A.

Board of Directors

At the General Meeting held on 25 July 2015, the shareholders appointed Mr. Paolo Amato, Deputy general Manager Corporate at Alitalia S.p.A., to the Board of Directors, thereby increasing the number of its members until the expiration of its term of office.

Therefore, as of 25 July 2014, the company's Board of Directors consists of Gabriele Del Torchio (Chairman), Lucio Pasquale Attinà (Chief Executive Officer) and Paolo Amato.

Subsequently, at the General Meeting held on 17 December 2014, the shareholders – in acknowledging the resignation of the Directors, Gabriele Del Torchio and Paolo Amato, effective as of the appointment of the new Board of Directors, and that, pursuant to the agreement entered into with Etihad, the closing of the sale of the 75% interest in Alitalia Loyalty should take place after the "main" closing, i.e. on 21 January 2015 (a date on which a new Board should be appointed, inclusive of representatives of Etihad, the new majority shareholder) – resolved:

- to have the Company managed by, and therefore appoint, a sole director;
- to appoint as the Company's sole director the current Chief Executive Officer, Mr Lucio Attinà, until the date of the closing of the sale of the 75% equity interest to Etihad Airways (expected by 21 January 2015);
- to attribute to the Sole Director the same compensation package as that given to him as Chief Executive Officer.

Subsequently, at the ordinary General Meeting held on 21 January 2015, the shareholders, in acknowledging the closing of the sale of 75% of Alitalia Loyalty, resolved:

- to have the company managed by a five-member Board of Directors;
- to appoint Peter Baumgartner, Lucio Attinà, Ariodante Valeri, Darren Arthur Peisley and Vydya Venkateswaran as members of the Board of Directors, until the date of the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2017;
- to appoint Peter Baumgartner as Chairman of the Board;
- that the Directors will only be entitled to receive a reimbursement for the costs incurred during their term of office, with the exception of the Chef Executive Officer (with a compensation package to be set by the Board of Directors).

Establishment of the legal reserve and distribution of part of the share premium reserve

As at 31 December 2014, the company had a share premium reserve of €149,500,000 and a receivable due from its sole shareholder, Alitalia – Società Aerea Italiana S.p.A., of €59,155,717.00 (the amount does not reflect the payment order of €1.7 million to be credited to the company's current account, as per the parent's instructions following termination of the cash pooling arrangements between the two companies at year-end).
Until the end of 2014, trading and financial transactions between Alitalia Loyalty and the parent were settled from time to time through the offsetting from time to time of all payables and receivables.
At 3 December 2013, Alitalia Loyalty had a credit balance of €38.7 million.
On 16 January 2015, the shareholders acknowledged that, as of that date, in light of the situation illustrated above, prepared on 9 January 2015, Alitalia Loyalty had a credit balance of €59,155,717.00 (without considering the above payment order of €1.7 million).
Mindful of the financial statements with the result for the year up to that date, the shareholders also took cognizance of the absence of losses that would have eroded the share premium reserve existing as of the date of approval of the financial statements for the year ended 31 December 2013.
Lastly, the shareholders recognized the need to replenish the full legal reserve, debiting to that effect retained earnings by €100,000.00.
Considering the foregoing, on 16 January 2015 the shareholders of Alitalia Loyalty S.p.A. acknowledged the company's financial statements as of 31 December 2014 and resolved:

1. to debit retained earnings by €100,000 and credit the legal reserve with the same amount, to replenish it in full;
2. to distribute €59,155,717.00, minus €1.7 million, out of the share premium reserve;
3. to approve the offset between the distribution out of the share premium reserve against the amount due to the company from the sole shareholder.

Transfer of the equity interest in Alitalia - Società Aerea Italiana S.p.A.

On 22 December 2014, Alitalia – Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.) finalised the contribution of its airline business to Alitalia - Società Aerea Italiana S.p.A., with effect from 1 January 2015. The contribution was carried out to subscribe and as full in-kind payment for the capital increase approved by the shareholders of Alitalia - Società Aerea Italiana S.p.A. at the Extraordinary General Meeting held on 19 December 2014.
As part of the business contributed, Alitalia – Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.) also transferred its equity interest in Alitalia Loyalty S.p.A. to Alitalia – Società Aerea Italiana S.p.A..

Closing of the transaction with Etihad

On 21 January 2015, Alitalia – Società Aerea Italiana S.p.A. (sole shareholder of Alitalia Loyalty as of 1 January 2015) entered into an agreement to sell 75% of its interest in Alitalia Loyalty S.p.A. to Global Loyalty Company LLC.

The Irish companies

Transfer of the equity interest in Alitalia - Società Aerea Italiana S.p.A.

On 22 December 2014, Alitalia – Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.) finalised the contribution of its airline business to Alitalia - Società Aerea Italiana S.p.A., with effect from 1 January 2015. The contribution was carried out to subscribe and as full in-kind payment for the capital increase approved by the shareholders of Alitalia - Società Aerea Italiana S.p.A. at the Extraordinary General Meeting held on 19 December 2014.

As part of the business contributed, Alitalia – Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.) also transferred its equity interest in Challey Ltd. to Alitalia – Società Aerea Italiana S.p.A..

<u>Alitalia – Società Aerea Italiana S.p.A.</u>

As at 31 December 2014, the company's share capital amounts to €50,000.00 [represented by 50,000 (fifty thousand) ordinary shares with a par value of €1.00 each], fully subscribed and paid-in by the sole shareholder, Alitalia - Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.).

At the Extraordinary General Meeting held on 19 December 2014, the shareholders approved the capital increase from €50,000.00:

- to €52,583,614.60 (via the issue of 52,533,614 ordinary shares with no par value for a nominal amount of €52,583,614.60) to be subscribed and paid for through the contribution of the airline business; and
- to €103,005,126.99 (via the issue of 50,521,512 class B shares with no par value or a nominal amount of €103,005,126.99) to be subscribed and paid for through a cash contribution by Etihad Airways P.J.S.C..

Subsequently, on 23 December 2014, Alitalia - Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.) contributed to MidCo. S.p.A. all the shares outstanding of Alitalia – Società Aerea Italiana S.p.A., thus becoming MidCo. S.p.A.'s sole shareholder.

Governance model

Alitalia – S.A.I. S.p.A.'s governance system is the traditional one, where the body of shareholders has the powers provided for by law, the board of directors manages the company and the board of statutory auditors exercises control.

Governance Bodies and Officers

<u>Shareholders</u>

Extraordinary and ordinary general meetings of shareholders are convened in accordance with the law. General meetings may take place also in venues other than the registered office, provided that they are in Italy.

<u>Board of Directors</u>

The Company is managed by a Board of Directors, which is vested with the widest powers for the ordinary and extraordinary administration of the company, provided that they are not attributed, by law or by the articles of association, to the body of shareholders.

When the company was established, at the General Meeting held on 24 September 2014 the shareholders appointed Giancarlo Schisano as Sole Director of the company. Mr Schisano resigned on 26 November 2014. In a general meeting held on such date, the shareholders appointed a board of directors, with a term of office expiring on the date of the General Meeting convened to approve the financial statements for the year ended 31 December 2016, made up of the following nine members: Luca Cordero di Montezemolo (Chairman), Roberto Colaninno (Honorary Chairman), James Reginald Hogan (Deputy Chairman), Silvano Cassano (Chief Executive Officer), James Denis Rigney (director), Giovanni Bisagni (director), Jean Pierre Mustier (director), Paolo Andrea Pio Colombo (director), Antonella Mansi (director).
At the meeting held on 26 November 2014, the Board of Directors appointed Silvano Cassano as Chief Executive Officer, Roberto Colaninno as Honorary Chairman and James R. Hogan as Deputy Chairman.

Board of Statutory Auditors
The Board of Statutory Auditors consists of 3 Standing Auditors and 2 Alternate Auditors.
At the General Meeting held on 4 December 2014, the shareholders appointed Corrado Gatti as Chairman of the Board of Statutory Auditors, Luca Ponzellini and Alessandro Cortesi as Standing Auditors and Giovanni Ghelfi and Maurizio Longhi as Alternate Auditors. The term of office of the Board of Statutory Auditors will expire on the date of the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2016.

Remuneration of Directors and Statutory Auditors
At the General Meeting held on 26 November 2014, the shareholders postponed any decision on Directors' remuneration to a subsequent meeting.
At the General Meeting held on 4 December 2014, the shareholders assigned annual compensation of €50,000 to the Chairman of the Board of Statutory Auditors and €37,500 a year to each Standing Auditor.

Independent auditors
The General Meeting of shareholders held on 4 December 2014 assigned responsibility for auditing the company's accounts to the Board of Statutory Auditors until the engagement of an auditor or audit firm. The General Meeting of Alitalia-SAI's shareholders, held on 20 March 2015, approved the engagement of Deloitte & Touche S.p.A. as Alitalia SAI's independent auditors for the financial years 2015-2017.

Direction and coordination activities
On 10 November 2014 the company determined that it was subject to the direction and coordination activities of Alitalia C.A.I. S.p.A. (now CAI S.p.A.) pursuant to articles 2497 *et seq.* of the Italian Civil Code.
Effective 1 January 2015, following the corporate actions that resulted in the new ownership structure, the Company is no longer subject to such direction and coordination.

Reserve restrictions under the Articles

Article 11.1 of the Articles of Association in force prevents shareholders from distributing annual profits and available reserves without the favourable vote of the holders of class B shares.

Compliance Program and Code of Ethics

Legislative Decree no. 231 of 8 June 2001

The company has not yet adopted a Compliance Program pursuant to Legislative Decree no. 231 of 8 June 2001.

Code of Ethics

The company has not yet adopted a Code of Ethics.

Representation and signatory powers

The company is managed by a Board of Directors, which is vested with the widest for the ordinary and extraordinary administration of the company, provided that they are not attributed, by law or by the articles of association, to the shareholders.

In the meetings held on 26 November 2014 and 19 January 2015, the Board of Directors vested the Chief Executive Officer and the Chairman with certain powers.

The Chief Executive Officer, in turn, delegated certain representation and signatory powers to the executives reporting directly to him to carry out ordinary transactions falling within the scope of the company's business purpose with third parties, both in Italy and abroad.

<u>MidCo S.p.A.</u>

Share capital as at 31 December 2014

As at 31 December 2014, the company's share capital amounts to €50,000.00, fully subscribed and paid-in by the sole shareholder, Alitalia - Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.).

At the Extraordinary General Meeting held on 19 December 2014, the shareholders approved a capital increase from €50,000.00 to €1,000,000.00 via the issue of 950,000 ordinary no-par shares, fully subscribed by the sole shareholder through the contribution of 52,583,614 ordinary shares in Alitalia – Società Aerea Italiana S.p.A. (equal to 51% of this company's share capital). The deed governing the transfer of the shares from Alitalia - Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.) to MidCo was signed on 23 December 2014 and effective 1 January 2015.

Governance model

MidCo S.p.A.'s governance system is the traditional one, where the body of shareholders has the powers provided for by law, the board of directors manages the company and the board of statutory auditors exercises control. The company's accounts are audited by independent auditors.

Governance Bodies and Officers

Shareholders

Extraordinary and ordinary general meetings of shareholders are convened in accordance with the law. General meetings may take place also in venues other than the registered office, provided that they are in Italy.

MidCo S.p.A.'s sole shareholder is Compagnia Aerea Italiana S.p.A. (formerly Alitalia - Compagnia Aerea Italiana S.p.A.).

Board of Directors

The Company is managed by a Board of Directors, which is vested with the widest powers for the ordinary and extraordinary administration of the company, provided that they are not attributed, by law or by the articles of association, to the body of shareholders.

When the company was established, at the General Meeting held on 24 September 2014 the shareholders appointed Giancarlo Schisano as Sole Director of the company. Mr Schisano resigned on 26 November 2014. In a general meeting held on such date, the shareholders appointed a board of directors, with a term of office expiring on the date of the General Meeting convened to approve the financial statements for the year ended 31 December 2016, made up of the following three members: Enrico Laghi (Chairman), Giampaolo Alessandro (Director) and Luigi Borrè (Director).

Board of Statutory Auditors

The Board of Statutory Auditors consists of 3 Standing Auditors and 2 Alternate Auditors.

At the General Meeting held on 26 November 2014, the shareholders appointed Gianluca Ponzellini as Chairman of the Board of Statutory Auditors, Tommaso di Tanno and Fabio Cassi as Standing Auditors and Carlo Bertola and Mariana Tognoni as Alternate Auditors. The term of office of the Board of Statutory Auditors will expire on the date of the General Meeting of shareholders convened to approve the financial statements for the year ended 31 December 2016.

Independent auditors

The General Meeting of shareholders held on 26 November 2014 assigned responsibility for auditing the Company's accounts to the Board of Statutory Auditors until the engagement of an auditor or audit firm.

Remuneration of Directors and Statutory Auditors

At the General Meeting held on 26 November 2014, the shareholders assigned annual compensation for the Board of Statutory Auditors as a whole at €5,000 for each year in office.

No remuneration was assigned to the Directors.

Direction and coordination activities

On 10 November 2014, the company determined that it was subject to the direction and coordination activities of Alitalia C.A.I. S.p.A. (now CAI S.p.A.) pursuant to articles 2497 *et seq.* of the Italian Civil Code.

On 4 February 2015, the Board of Directors confirmed that the company was subject to the direction and coordination of the Parent Company, Compagnia Aerea Italiana S.p.A..

Reserve restrictions under the Articles

The Articles of Association in force do not contain provisions restricting the availability or distribution of reserves.

Representation and signatory powers

The company is managed by a Board of Directors, which is vested with the widest for the ordinary and extraordinary administration of the company, provided that they are not attributed, by law or by the articles of association, to the shareholders.

On 4 February 2015, the Board of Directors voted to vest the Chairman with additional powers with respect to those provided for under the law and in accordance with the Articles of Association:

(a) responsibility for ordinary administration of the company and for corporate affairs, with responsibility for offices, personnel, safeguarding the company's assets, and the correct and prudent conduct of the company's business. In carrying out his duties, the Chief Executive Officer shall correctly implement the Board of Directors' resolutions and guidelines to the extent of his responsibilities, carrying out all activities pertaining to operations necessary for, in support of or relating to the sound management of the company's affairs and in order to achieve its business purposes, it being understood that the Chairman shall report periodically to the Board of Directors;

(b) all other powers such that, in the name and on behalf of the company, he may do everything that is useful or necessary to ensure legal and regulatory compliance, including with regard to fire prevention and environmental protection, both internally and externally, industrial waste, refuse, emissions and pollution in any form;

(c) the power to delegate the powers granted, via powers of attorney or in any other form permitted by law;

(d) the power to purchase and sell, in any manner, form or type of transaction (including subscription, contribution, etc.), movable assets, whether registered or not, properties, businesses, equity or other forms of interest, under a single signature, with a value of up to €50,000, without prejudice to the fact that: (1) this cap refers to single transactions or a series of related transactions; (2) in determining the value of any purchase or sale of assets, businesses or equity interests, it is also necessary to take into account, in addition to the agreed price (if in the form of a cash consideration) or exchange value (if payment is in a form other than cash), the value of any financial liabilities directly or indirectly assumed by the company or encumbering the assets, businesses or companies being purchased or sold; (3) the above caps do not apply in the case of investments specifically envisaged in the company's business plan and budget approved by the Board of Directors (to the extent of the approved limits); (4) in any event, decisions regarding the transfer of and any transaction relating to the company's equity interest in Alitalia - Società Aerea Italiana S.p.A. shall remain subject to the collective approval of the Board of Directors;

(e) the power to carry out any other transaction and sign any other contract, deed or agreement, provided that it remains within a limit on expenditure or financial commitment, under a single signature, with a value of up to €50,000, without prejudice to the fact that determination of the limit shall follow the same criteria set out in paragraph (d), sub-paragraphs (1), (2) and (3);

(f) the power to assume or repay early borrowings and financing in general and to carry out other financial transactions, under a single signature, with a value of up to €50,000 per single transaction;

(g) the power to provide or release restrictions, pledges, collateral or unsecured guarantees, other guarantees or similar rights, under a single signature, with a value of up to, or on tangible or intangible assets with a value below, €50,000 per single transaction, without prejudice to the fact that any transaction regarding a pledge on the equity interest in Alitalia - Società Aerea Italiana S.p.A. shall remain subject to the collective approval of the Board of Directors;

(h) the power to engage, insofar as it relates to management of the company's affairs, in relations with regulators, legislative bodies or associations;

(i) the power to undertake or withdraw from lawsuits of a civil, administrative and/or criminal nature, to accept settlements, court or out-of-court arrangements, voluntary bankruptcies or compositions with creditors, to waive receivables or collateral or unsecured guarantees, or to accept the sale of assets or receivables with or without recourse, for amounts, in terms of the principal, of up to €50,000, appointing legal counsel or attorneys to represent the company, and, more generally, the power to appoint defending counsel and appear before courts to represent the company in any legal action in which the company is involved;

(l) notwithstanding the above, it shall be expressly understood that the Chairman, in exercising the powers and the authority granted to him, shall comply with any instructions received from the Parent Company, Compagnia Aerea Italiana S.p.A., including those relating to the recovery plan in accordance with art. 67 of the Bankruptcy Law, as approved by the Board of Directors of the Parent Company on 17 December 2014 and assured by Prof. Maurizio Dallocchio on 21 December 2014 (as from time to time amended);

3) to reserve all powers not expressly delegated to the Chairman for the collective decision of the Board of Directors, without prejudice to the responsibilities assigned to it by the Articles of Association and the Board of Directors' responsibilities that may not be delegated under the law or the Articles of Association, including (without limitation to) decisions regarding how to vote at General Meetings convened by the investee company, Alitalia - Società Aerea Italiana S.p.A..

<u>Investments</u>

Transfer of the equity interest in Alitalia - Società Aerea Italiana S.p.A.

On 22 December 2014, Alitalia – Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.) finalised the contribution of its airline business to Alitalia - Società Aerea Italiana S.p.A., with effect from 1 January 2015. The contribution was carried out to subscribe and as full in-kind payment for the capital increase approved by the shareholders of Alitalia - Società Aerea Italiana S.p.A. at the Extraordinary General Meeting held on 19 December 2014.

As part of the business contributed, Alitalia – Compagnia Aerea Italiana S.p.A. (now Compagnia Aerea Italiana S.p.A.) also transferred its equity interests in Atitech S.p.A., AMS Holding s.r.l., Sita SC, Sita Group Foundation, Cicatec and WheelTug to Alitalia - Società Aerea Italiana S.p.A..

SITA

As at 31 December 2014:

- Alitalia held 77 shares in SITA SC, each with a par value of €5.00, equal to 1.12% of the total number of SITA SC's shares, totalling 6,848.

- Alitalia continued to hold 1,191,758 Depository Certificates in SITA Group Foundation, equal to 1.19%.

- Air One continued to hold 229,124 Depository Certificates in SITA Group Foundation, equal to 0.22%.

Compliance Programme and Code of Ethics

Legislative Decree no. 231 of 8 June 2001

Legislative Decree no. 231 of 8 June 2001, as amended (the "Legislative Decree" or "Decree") has introduced into Italian law the concept of corporate responsibility, meaning that a company may be held directly responsible, before a criminal court, for the fact that one of its employees or representatives has committed an offence. Such offences must be referred to in the Decree and must, in any event, have been committed in the interests or for the benefit of the company. This responsibility may result in the application of administrative sanctions, including fines and sometimes bans. These bans, in the most serious cases, may even extend to the company's business activities. A company is exempted from the provisions of the Decree, when, in brief, the company has adopted and effectively implemented measures designed to prevent commission of the offences referred to in the Decree.

Against this backdrop, in addition to exempting the Company from responsibility, adoption and effective implementation of a Compliance Programme certainly helps to improve the internal control system, reinforcing an internal culture that values the principles of transparency, ethical behaviour, fairness and compliance with the law, thereby benefitting the Company's reputation and strengthening the loyalty felt by passengers and all the entities with which the Company has relations.

The Company has thus adopted a Compliance Programme in accordance with Legislative Decree no. 231 of 8 June 2001 (the "Compliance Programme" or "Programme").

Through the Compliance Programme, the Company aims to establish and disseminate a corporate culture based on:

- legality, transparency, ethical behaviour, fairness and compliance with the law, reiterating that, in keeping with the principles adopted, no illegal conduct is permissible, even if committed in the interests or for the benefit of the company;
- the concept of control, governing all phases of the company's decision-making and operational processes, in the full awareness of the risks resulting from the commission of offences.

Achievement of the above purposes has led to the creation of a coherent system of principles and organisational, operational and control procedures that make up the Programme.

The principal aims of the Programme are:

- to spread awareness among the persons who work for or with the Company, in their various roles, requesting that, in carrying out their duties in the interests of the Company, they conduct themselves in a fair and transparent manner, in line with the ethical values that form the basis for the Company's way of doing business and such as to prevent the risk of committing offences referred to in the Decree;
- to ensure that the above persons are aware of the fact that, in the event of violation of the regulations established by the Company, they risk disciplinary and/or contractual action, in addition to criminal prosecution and administrative sanctions;
- to introduce and/or strengthen controls enabling the Company to prevent or rapidly respond to avoid the commission of offences by senior managers and persons who report to them and/or are under their control;
- to enable the Company, by monitoring the areas at risk, to rapidly intervene in order to prevent or pre-empt the commission of offences and punish violations;
- to guarantee the Company's integrity, expressly complying with the requirements of art. 6 of the Decree;
- to improve the effectiveness and transparency of the Company's operations;
- to ensure that persons who may potentially commit an offence are fully aware that the Company is firmly opposed to the commission of any offence and that such conduct is not only in contrast with the law, but also with the ethical principles that the Company's intends to adhere to and the Company's interests, even when it may apparently benefit.

The existing internal control and risk management system has been created based on the following control standards:

- general control standards, applicable to all the areas at risk;
- specific control standards, applicable to each area at risk for which they have been devised.

General control standards are summarised below.

- the existence of formalized procedures;
- the ex post traceability and verifiability of transactions through adequate document/IT support and the objectification of choices;

- the segregation of duties;
- the existence of a system of powers consistent with the organizational responsibilities assigned;
- a Code of Ethics.

Violation of the provisions established in the Programme and the Code of Ethics results in – as more fully described in the two documents – the application of sanctions or, in any event, action regardless of whether or not an offence has been committed or it is has resulted in a criminal prosecution. This approach is also based on the fact that the obligation to comply with the above provisions also constitutes a duty of loyalty, fairness and care resulting from contractual relationships between the Company and persons internal and external to it.
In relation to the above, attention is called to the section of the general part of the Programme dealing with the requirements and role of the Supervisory Body. This section highlights the specific obligation to report to the Body any event or circumstances witnessed in carrying out duties and worthy of report in accordance with Legislative Decree no. 231/2001.
Partners, consultants and other external parties to whom the Programme applies are requested to immediately inform the Supervisory Body if they receive a direct or indirect request, from an employee or representative of the Company, such as to constitute a violation of the programme.
Reports of violations to the Supervisory Body are strictly confidential, except in the case of legal obligations. Reports are handled in accordance with the procedure, “Reports under the Compliance Programme”.

Subsidiaries have undertaken, until they adopt their own compliance programmes, to ensure prevention of the offences in keeping with the control standards, principles and values set out in the Programme and the Code of Ethics of Compagnia Aerea Italiana S.p.A. (formerly Alitalia - Compagnia Aerea Italiana).

Specifically, Air One S.p.A., Alitalia CityLiner S.p.A., CAI FIRST S.p.A. and CAI SECOND S.p.A. have adopted their own programmes, which reflect the aims and principles set out in Compagnia Aerea Italiana’s Compliance Programme.

Ethical Code

The Code of Ethics is closely related to the standards of control adopted, as it constitutes an additional standard of control (as the set of values and principles to which all conduct in every area at risk must conform). The Code of Ethics sets out principles and values that are much broader in scope than rules and regulations. These principles and values must guide the activities of all the people who operate in the Company or who have business relationships with the Company and vis-à-vis third parties.

In fact, the Company is convinced that, to establish and maintain trust with its stakeholders, it is necessary not only to comply constantly with the law but also to be aware that regulations might not be enough. As such, these regulations should be accompanied by a set of ethical principles that are both general and specific, to guide the individual and collective behaviours and choices in the proper pursuit of their interests.

The values on which the Code of Ethics is founded are: (i) lawfulness; (ii) confidentiality; (iii) honesty and fairness; (iv) personal growth and integrity; (v) customer care and satisfaction; (vi) responsibility towards the community; (vii) transparency.

The principles of the Code of Ethics concern: (i) the efficient management of the business; (ii) the accurate and complete preparation of accounting, financial and management data; (iii) the protection of corporate assets; (iv) compliance with the law and corporate procedures.

The set of values and principles expressed in the Code guides the activity of all those who operate in the Company, taking into account the importance of roles, the complexity of their functions and the responsibilities attributed to them to pursue to the Company's purposes.
In accordance with the above, subsidiaries have adopted Compagnia Aerea Italiana S.p.A.'s Code of Ethics.

Research and development activities

In the period under review, the Company did not perform any research and development activities falling within the purview of Italian Accounting Standard OIC 24.

Other significant events occurred before and after 31 December 2014

There are no further significant events to report, other than those already mentioned above, with the exception of the Board of Directors' decision, on 13 January 2015, to call on a further tranche of the Equity Commitment, amounting to €13,350,000, as more fully shown in the following table:

shareholder	amount paid in	no. of *Azioni 2*
ISP	€5,221,333.33	498,218,830
UC	€3,767,666.67	359,510,178
Atlantia	€3,026,000.00	288,740,458
Immsi	€593,333.33	56,615,776
Pirelli	€593,333.33	56,615,776
FPI	€148,333.33	14,153,944
Total	€13,350,000.00	1,273,854,962

All the above shareholders paid in the requested amount. As a result, as at 15 January 2015, CAI has notified an increase in its share capital to €358,116,231.00 (represented by 55,857,203,364 shares, of which 8,282,997,442 ordinary shares, 606,935,319 special category B shares, 13,201,335,869 category 2 shares (*Azioni 2*), 20,720,564,314 category 3 shares (*Azioni 3*) and 13,045,370,420 category 4 shares (*Azioni 4*)).

Reclassified Financial Statements of Compagnia Aerea Italiana Group companies

Compagnia Aerea Italiana S.p.A.

RECLASSIFIED BALANCE SHEET

(€000)

		31 December 2014	31 December 2013	Increase/ (Decrease)
A-	**Non-current assets**			
	Intangible assets	359.453	363.826	(4.373)
	Tangible assets	195.303	257.010	(61.707)
	Financial assets:			
	• Investments	205.277	361.764	(156.487)
	• Other	533.525	386.436	147.089
		1.293.558	**1.369.036**	**(75.478)**
B-	**Working capital**			
	Inventories	49.716	56.249	(6.533)
	Trade receivables	245.392	271.875	(26.483)
	Other assets	140.664	136.333	4.331
	Trade payables	(683.777)	(730.324)	46.547
	Provisions for risks and charges	(456.221)	(238.145)	(218.076)
	Other liabilities	(311.666)	(429.401)	117.734
		(1.015.893)	**(933.413)**	**(82.480)**
C-	**Invested capital, less current liabilities (A+B)**	**277.666**	**435.623**	**(157.957)**
D-	**Provisions for post-employment benefits**	**(9.062)**	**(10.046)**	**984**
E-	**Invested capital, less liabilities and provisions for post-employment benefits (C-D)**	**268.604**	**425.577**	**(156.973)**
	covered by:			
F-	**Equity**			
	Paid-in share capital	357.545	270.677	86.868
	Reserves and retained earnings	367.279	327.467	39.812
	Net profit/(loss) for the period (*)	(698.834)	(385.138)	(313.696)
		25.990	**213.006**	**(187.016)**
G-	**Medium/long-term borrowings**	**211.679**	**53.803**	**157.876**
H-	**Net short-term borrowings (Net cash and cash equivalents)**			
	• short-term borrowings	320.632	473.412	(152.779)
	• cash and cash equivalents and short-term financial receivables	(289.697)	(314.643)	24.946
		30.935	**158.769**	**(127.833)**
	NET DEBT/(CASH) (G + H)	**242.614**	**212.572**	**30.043**
I-	**TOTAL, AS IN E (F+G+H)**	**268.604**	**425.577**	**(156.973)**

(*)	Loss covered during the year		171.949	
	Net profit/(loss) for the period	(698.834)	(557.087)	

RECLASSIFIED INCOME STATEMENT

(€000)

	2014	2013	*Increase/ (Decrease)*
A - Revenue	**3.034.874**	**3.287.065**	**(252.191)**
- of which passenger revenue	*2.464.720*	*2.623.406*	(158.686)
Capitalisation of internal costs	24.129	18.676	5.453
Grants related to income	31.158	3.752	27.406
B - Value of production from ordinary activities	**3.090.162**	**3.309.493**	**(219.331)**
Cost of external material and services	(2.814.939)	(2.900.892)	85.952
C- Added value	**275.222**	**408.601**	**(133.379)**
Staff costs	(535.548)	(656.092)	120.544
D - Gross operating margin	**(260.326)**	**(247.491)**	**(12.835)**
Other allowances	(63.444)	(76.311)	12.867
Provisions for risks and charges	(54.159)	(9.712)	(44.447)
Sundry income (expenses)	61.222	14.382	46.840
E - EBITDA	**(316.707)**	**(319.132)**	**2.424**
Amortization and depreciation	(97.853)	(95.080)	(2.773)
F - EBIT	**(414.560)**	**(414.211)**	**(348)**
Financial income/(expenses)	30.613	(47.237)	77.850
(Impairment losses)/Reversal of impairment losses on financial assets	(206.664)	(182.387)	(24.277)
G- Profit/(Loss) before extraordinary items and taxes	**(590.610)**	**(643.835)**	**53.225**
Extraordinary income/(expenses)	(123.092)	76.472	(199.564)
H - Profit/(Loss) before taxes	**(713.703)**	**(567.363)**	**(146.339)**
Income tax expense for the period	14.868	10.276	4.592
I - Net profit/(loss) for the period	**(698.834)**	**(557.087)**	**(141.747)**

RECLASSIFIED BALANCE SHEET
(€000)

			31 December 2014	31 December 2013	Increase/ (Decrease)
A-	**NON-CURRENT ASSETS**				
	Intangible assets		138	83	55
	Tangible assets		0	0	0
	Financial assets:				
	.Investments		0	0	0
	.Other		497	497	0
			635	**580**	**55**
B-	**WORKING CAPITAL**				
	Inventories		0	0	0
	Trade receivables		1.306	8.719	(7.414)
	Other assets		888	1.395	(507)
	Trade payables		(5.259)	(3.183)	(2.075)
	Provisions for risks and charges		(5.584)	(3.728)	(1.856)
	Other liabilities		(3.584)	(16.140)	12.555
			(12.234)	**(12.937)**	**703**
C-	**INVESTED CAPITAL, less current liabilities**	**(A+B)**	**(11.599)**	**(12.357)**	**758**
D-	**PROVISIONS FOR POST-EMPLOYMENT BENEFITS**		**0**	**0**	**0**
E-	**INVESTED CAPITAL, less current liabilities and provisions for post-employment benefits**	**(C+D)**	**(11.599)**	**(12.357)**	**758**
	covered by:				
F-	**EQUITY**				
	Paid-in share capital		1.120	1.120	0
	Reserves and retained earnings		1.695	1.637	58
	Net profit/(loss) for the period		(307)	(1.942) *)	1.635
			2.508	**816**	**1.693**
G-	**MEDIUM/LONG-TERM BORROWINGS**		**0**	**0**	**0**
H-	**NET SHORT-TERM BORROWINGS (NET CASH AND CASH EQUIVALENTS)**				
	.short-term borrowings		0	732	(732)
	.cash and cash equivalents and short-term financia		(14.107)	(13.904)	(203)
			(14.107)	**(13.173)**	**(935)**
	NET DEBT/(CASH)	**(G + H)**	**(14.107)**	**(13.173)**	**(935)**
I-	**TOTAL, AS IN E**	**(F+G+H)**	**(11.599)**	**(12.357)**	**758**

RECLASSIFIED INCOME STATEMENT
(€000)

	2014	2103	INCREASE/ (DECREASE)
A - REVENUE	70.729	69.846	883
- of which passenger revenue	*63.768*	*62.881*	*887*
Changes in inventories of work in progress	0	0	0
Capitalisation of internal costs	0	0	0
B - VALUE OF PRODUCTION FROM ORDINARY ACTIVITIES	70.729	69.846	883
Cost of external material and services	(69.618)	(71.355)	1.737
C- ADDED VALUE	1.111	(1.509)	2.620
Staff costs	(836)	(1.224)	388
D - GROSS OPERATING MARGIN	274	(2.733)	3.008
Other allowances	(20)	0	(20)
Provisions for risks and charges	(10)	0	(10)
Net sundry income and expenses	352	573	(221)
E - EBITDA	597	(2.161)	2.757
Amortization and depreciation	(170)	(2.510)	2.340
F - EBIT	427	(4.671)	5.098
Financial income/(expenses)	(616)	187	(803)
(Impairment losses)/Reversal of impairment losses on financial assets	0	0	0
G - PROFIT/(LOSS) BEFORE EXTRAORDINARY ITEMS AND TAXES	(189)	(4.484)	4.294
Extraordinary income/(expenses)	(22)	130	(152)
H- PROFIT/(LOSS) BEFORE TAXES	(212)	(4.354)	4.142
Income tax expense for the period	(95)	110	(205)
I - NET PROFIT/(LOSS) FOR THE PERIOD	(307)	(4.244)	3.937

RECLASSIFIED BALANCE SHEET
(€000)

			31 December 2014	31 December 2013	Increase/ (Decrease)
A-	**NON-CURRENT ASSETS**				
	Intangible assets		2.922	3.539	(617)
	Tangible assets		0	0	0
	Financial assets:				0
	.Investments		0	0	0
	.Other		0	0	0
			2.922	**3.539**	**(617)**
B-	**WORKING CAPITAL**				
	Inventories		0	0	0
	Trade receivables		0	17.988	(17.988)
	Other assets		455	2.502	(2.047)
	Trade payables		(6.191)	(5.475)	(716)
	Provisions for risks and charges		(10)	0	(10)
	Other liabilities		(5.325)	(26.787)	21.461
			(11.071)	**(11.771)**	**700**
C-	**INVESTED CAPITAL, less current liabilities**	**(A+B)**	**(8.149)**	**(8.233)**	**83**
D-	**PROVISIONS FOR POST-EMPLOYMENT BENEFITS**		**0**	**0**	**0**
E-	**INVESTED CAPITAL, less current liabilities and provisions for post-employment benefits**	**(C+D)**	**(8.149)**	**(8.233)**	**84**
	covered by:				
F-	**EQUITY**				
	Paid-in share capital		1.120	1.120	0
	Reserves and retained earnings		7.143	5.579	1.564
	Net profit/(loss) for the period		11.642	1.563	10.079
			19.905	**8.262**	**11.643**
G-	**MEDIUM/LONG-TERM BORROWINGS**		**0**	**0**	**0**
H-	**NET SHORT-TERM BORROWINGS (NET CASH AND CASH EQUIVALENTS)**				
	.short-term borrowings	(*)	6	786	(780)
	.cash and cash equivalents and short-term financia		(28.061)	(17.281)	(10.780)
			(28.054)	**(16.495)**	**(11.559)**
	NET DEBT/(CASH)	**(G + H)**	**(28.054)**	**(16.495)**	**(11.559)**
I-	**TOTAL, AS IN E**	**(F+G+H)**	**(8.149)**	**(8.233)**	**84**

RECLASSIFIED INCOME STATEMENT
(€000)

	2014	2013	INCREASE/ (DECREASE)
A - REVENUE	99.220	106.690	(7.470)
- of which passenger revenue	*92.560*	*99.882*	*(7.322)*
Changes in inventories of work in progress	0	0	0
Capitalisation of internal costs	0	0	0
B - VALUE OF PRODUCTION FROM ORDINARY ACTIVITIES	99.220	106.690	(7.470)
Cost of external material and services	(82.595)	(99.226)	16.630
C- ADDED VALUE	16.625	7.464	9.161
Staff costs	(743)	(954)	211
D - GROSS OPERATING MARGIN	15.882	6.510	9.372
Other allowances	(97)	0	(97)
Provisions for risks and charges	(10)	0	(10)
Net sundry income and expenses	1.292	823	469
E - EBITDA	17.067	7.332	9.734
Amortization and depreciation	(687)	(5.867)	5.180
F - EBIT	16.380	1.465	14.914
Financial income/(expenses)	4	18	(14)
(Impairment losses)/Reversal of impairment losses on financial assets	0	0	0
G - PROFIT/(LOSS) BEFORE EXTRAORDINARY ITEMS AND TAXES	16.384	1.484	14.900
Extraordinary income/(expenses)	40	254	(213)
H- PROFIT/(LOSS) BEFORE TAXES	16.424	1.738	14.686
Income tax expense for the period	(4.782)	(174)	(4.608)
I - NET PROFIT/(LOSS) FOR THE PERIOD	11.642	1.563	10.079

RECLASSIFIED BALANCE SHEET
(€000)

		31 December 2014	31 December 2013	Increase/ (Decrease)
A-	**Non-current assets**			
	Intangible assets	0	2.844	(2.844)
	Tangible assets	0	2.717	(2.717)
	Financial assets:			
	• Investments	0	42	(42)
	• Other	74	71.338	(71.264)
		74	**76.941**	**(76.866)**
B-	**Working capital**			
	Inventories	0	0	0
	Trade receivables	11.052	28.656	(17.604)
	Other assets	7.068	15.492	(8.424)
	Trade payables	(2.909)	(36.630)	33.721
	Provisions for risks and charges	(64.413)	(43.745)	(20.668)
	Other liabilities	(1.584)	(5.436)	3.852
		(50.786)	**(41.663)**	**(9.122)**
C-	**Invested capital, less current liabilities (A+B)**	**(50.712)**	**35.277**	**(85.989)**
D-	**Provisions for post-employment benefits**	**0**	**(292)**	**292**
E-	**Invested capital, less liabilities and provisions for post-employment benefits (C-D)**	**(50.712)**	**34.985**	**(85.696)**
	covered by:			
F-	**Equity**			
	Paid-in share capital	50.000	50.000	0
	Reserves and retained earnings	8.080	11.586	(3.506)
	Net profit/(loss) for the period	(47.250)	(41.505)	(5.745)
		10.830	**20.081**	**(9.251)**
G-	**Medium/long-term borrowings**	**-**	**-**	**-**
H-	**Net short-term borrowings**			
	(Net cash and cash equivalents)			
	• short-term borrowings	176	18.145	(17.969)
	• cash and cash equivalents and short-term financial recei\	(61.718)	(3.240)	(58.478)
		(61.542)	**14.905**	**(76.447)**
	NET DEBT/(CASH) (G + H)	**(61.542)**	**14.905**	**(76.447)**
I-	**TOTAL, AS IN E (F+G+H)**	**(50.712)**	**34.985**	**(85.696)**

RECLASSIFIED INCOME STATEMENT
(€000)

	2014	2013	INCREASE/ (DECREASE)
A - REVENUE	161.808	192.110	(30.302)
- of which passenger revenue	*125.592*	*131.282*	*(5.690)*
Changes in inventories of work in progress	0	0	0
Capitalisation of internal costs	0	0	0
B - VALUE OF PRODUCTION FROM ORDINARY ACTIVITIES	161.808	192.110	(30.302)
Cost of external material and services	(164.396)	(208.676)	44.281
C- ADDED VALUE	(2.588)	(16.566)	13.978
Staff costs	(1.257)	(3.779)	2.522
D - GROSS OPERATING MARGIN	(3.845)	(20.345)	16.501
Other allowances	(4.011)	(994)	(3.017)
Provisions for risks and charges	(1.611)	(1.188)	(422)
Net sundry income and expenses	6.596	795	5.801
E - EBITDA	(2.870)	(21.733)	18.863
Amortization and depreciation	(1.800)	(1.324)	(476)
F - EBIT	(4.670)	(23.057)	18.387
Financial income/(expenses)	(140)	(78)	(62)
(Impairment losses)/Reversal of impairment losses on financial assets	(61)	7	(68)
G - PROFIT/(LOSS) BEFORE EXTRAORDINARY ITEMS AND TAXES	(4.871)	(23.128)	18.257
Extraordinary income/(expenses)	(41.489)	(18.417)	(23.073)
H- PROFIT/(LOSS) BEFORE TAXES	(46.361)	(41.545)	(4.816)
Income tax expense for the period	(889)	39	(929)
I - NET PROFIT/(LOSS) FOR THE PERIOD	(47.250)	(41.505)	(5.745)

RECLASSIFIED BALANCE SHEET
(€000)

		31 December 2014	31 December 2013	Increase/ (Decrease)
A-	**Non-current assets**			
	Intangible assets	495	0	495
	Tangible assets	2	5	(4)
	Financial assets:			
	• Investments	0	0	0
	• Other	59.479	56.207	3.272
		59.976	**56.212**	**3.764**
B-	**Working capital**			
	Inventories	0	0	0
	Trade receivables	1.304	13.566	(12.262)
	Other assets	9.925	41.013	(31.088)
	Trade payables	(5.483)	(3.955)	(1.529)
	Provisions for risks and charges	(41.533)	(19.974)	(21.559)
	Other liabilities	(3.024)	(18.519)	15.494
		(38.811)	**12.132**	**(50.943)**
C-	**Invested capital, less current liabilities (A+B)**	**21.164**	**68.344**	**(47.180)**
D-	**Provisions for post-employment benefits**	**(203)**	**(214)**	**11**
E-	**Invested capital, less liabilities and provisions for post-employment benefits (C-D)**	**20.961**	**68.130**	**(47.169)**
	covered by:			
F-	**Equity**			
	Paid-in share capital	1.000	1.000	0
	Reserves and retained earnings	14.908	14.679	229
	Net profit/(loss) for the period	3.783	229	3.553
		19.691	**15.908**	**3.783**
G-	**Medium/long-term borrowings**	**0**	**20.250**	**(20.250)**
H-	**Net short-term borrowings (Net cash and cash equivalents)**			
	• short-term borrowings	1.270	31.973	(30.703)
	• cash and cash equivalents and short-term financial receiva	(0)	(1)	0
		1.270	**31.972**	**(30.702)**
	NET DEBT/(CASH) (G + H)	**1.270**	**52.222**	**(50.952)**
I-	**TOTAL, AS IN E (F+G+H)**	**20.961**	**68.130**	**(47.169)**

RECLASSIFIED INCOME STATEMENT
(€000)

	2014	2013	INCREASE/ (DECREASE)
A - REVENUE	130.991	131.781	(790)
- of which passenger revenue	*21.941*	*27.716*	*(5.775)*
Changes in inventories of work in progress	0	0	0
Capitalisation of internal costs	0	0	0
B - VALUE OF PRODUCTION FROM ORDINARY ACTIVITIES	130.991	131.781	(790)
Cost of external material and services	(110.239)	(120.634)	10.395
C- ADDED VALUE	20.752	11.147	9.605
Staff costs	(17.593)	(18.164)	571
D - GROSS OPERATING MARGIN	3.159	(7.017)	10.176
Other allowances	(0)	0	(0)
Provisions for risks and charges	0	0	0
Net sundry income and expenses	8.224	14.386	(6.161)
E - EBITDA	11.383	7.369	4.014
Amortization and depreciation	(10)	(4)	(5)
F - EBIT	11.373	7.364	4.009
Financial income/(expenses)	1.050	(1.145)	2.195
(Impairment losses)/Reversal of impairment losses on financial assets	0	0	0
G - PROFIT/(LOSS) BEFORE EXTRAORDINARY ITEMS AND TAXES	12.424	6.219	6.204
Extraordinary income/(expenses)	(160)	(225)	65
H- PROFIT/(LOSS) BEFORE TAXES	12.264	5.994	6.269
Income tax expense for the period	(8.481)	(5.765)	(2.716)
I - NET PROFIT/(LOSS) FOR THE PERIOD	3.783	229	3.553

Alitalia Loyalty S.p.A.

RECLASSIFIED BALANCE SHEET

(€000)

		31 December 2014	31 December 2013	INCREASE/ (DECREASE)
A-	**Non-current assets**			
	Intangible assets	135.493	142.993	(7.500)
	Tangible assets	0	0	0
	Financial assets:			
	• Investments	0	0	0
	• Other	0	0	0
		135.493	**142.993**	**(7.500)**
B-	**Working capital**			
	Inventories	0	0	0
	Trade receivables	0	24.302	(24.302)
	Other assets	6.684	9.473	(2.789)
	Trade payables	(8.966)	(2.277)	(6.689)
	Provisions for risks and charges	(35.530)	(30.610)	(4.920)
	Other liabilities	(993)	(3.745)	2.752
		(38.805)	**(2.857)**	**(35.948)**
C-	**Invested capital, less current liabilities (A+B)**	**96.688**	**140.136**	**(43.448)**
D-	**Provisions for post-employment benefits**	**0**	**0**	**0**
E-	**Invested capital, less liabilities and provisions for post-employment benefits (C-D)**	**96.688**	**140.136**	**(43.448)**
	covered by:			
F-	**Equity**			
	Paid-in share capital	500	500	0
	Reserves and retained earnings	154.961	149.500	5.461
	Net profit/(loss) for the period	7.831	5.461	2.370
		163.292	**155.461**	**7.831**
G-	**Medium/long-term borrowings**	**0**	**0**	**0**
H-	**Net short-term borrowings (Net cash and cash equivalents)**			
	• short-term borrowings	0	0	0
	• cash and cash equivalents and short-term financial rec	(66.605)	(15.325)	(51.280)
		(66.604)	**(15.325)**	**(51.279)**
	NET DEBT/(CASH) (G + H)	**(66.604)**	**(15.325)**	**(51.279)**
I-	**TOTAL, AS IN E (F+G+H)**	**96.688**	**140.136**	**(43.448)**

RECLASSIFIED INCOME STATEMENT
(€000)

	2014	2013	INCREASE/ (DECREASE)
A - REVENUE	56.294	63.433	(7.139)
Changes in inventories of work in progress	0	0	0
Capitalisation of internal costs	0	0	0
B - VALUE OF PRODUCTION FROM ORDINARY ACTIVITIES	56.294	63.433	(7.139)
Cost of external material and services	(24.441)	(15.424)	(9.017)
C- ADDED VALUE	31.853	48.009	(16.156)
Staff costs	(1.407)	(1.268)	(139)
D - GROSS OPERATING MARGIN	30.446	46.741	(16.295)
Other allowances	(12)	0	(12)
Provisions for risks and charges	(10.488)	(28.669)	18.181
Net sundry income and expenses	3.620	8.958	(5.338)
E - EBITDA	23.566	27.029	(3.464)
Amortization and depreciation	(7.500)	(7.007)	(493)
F - EBIT	16.066	20.022	(3.957)
Financial income/(expenses)	38	6	32
(Impairment losses)/Reversal of impairment losses on financial assets	0	0	0
G - PROFIT/(LOSS) BEFORE EXTRAORDINARY ITEMS AND TAXES	16.104	20.028	(3.925)
Extraordinary income/(expenses)	191	0	191
H- PROFIT/(LOSS) BEFORE TAXES	16.295	20.028	(3.734)
Income tax expense for the period	(8.463)	(14.567)	6.104
I - NET PROFIT/(LOSS) FOR THE PERIOD	7.831	5.461	2.370

RECLASSIFIED BALANCE SHEET
(€000)

	31 December 2014	31 December 2013	INCREASE/ (DECREASE)
A.- NET NON-CURRENT ASSETS			
Intangible assets	1.663	4.737	(3.074)
Tangible assets	472.715	739.715	(267.000)
Financial assets	0	0	0
	474.378	**744.452**	**(270.074)**
B.- WORKING CAPITAL			
Inventories	143.018	86.100	56.918
Trade receivables	51.507	34.874	16.633
Other assets	403	13.060	(12.657)
Trade payables	0	(0)	0
Provisions for risks and charges	(22.189)	(12.242)	(9.947)
Other liabilities	(42.289)	(80.142)	37.853
	130.450	**41.650**	**88.800**
C.- INVESTED CAPITAL, less current liabilities	**604.828**	**786.102**	**(181.274)**
D.- PROVISIONS FOR POST-EMPLOYMENT BENEFITS	**0**	**0**	**0**
E.- INVESTED CAPITAL, less current liabilities and provisions for post-employment benefits	**604.828**	**786.102**	**(181.274)**
covered by:			
F.- EQUITY			
Paid-in share capital	19.966	19.966	0
Reserves and retained earnings	151	151	(0)
Net profit/(loss) for the period	(16.177)	(9.169)	(7.008)
	(14.017)	(7.008)	(7.009)
EQUITY	**(10.076)**	**3.940**	**(14.017)**
G.- MEDIUM/LONG-TERM BORROWINGS	**201.861**	**501.350**	**(299.489)**
H.- NET SHORT-TERM BORROWINGS (NET CASH AND CASH EQUIVALENTS)			
- short-term borrowings	443.322	283.088	160.235
- cash and cash equivalents and short-term financial receivables	(30.279)	(2.276)	(28.003)
	413.044	**280.812**	**132.232**
NET DEBT/(CASH) (G+H)	**614.905**	**782.162**	**(167.257)**
I.- TOTAL (F+G+H)	**604.828**	**786.102**	**(181.274)**

RECLASSIFIED INCOME STATEMENT
(€000)

	2014	2013	Increase/ (Decrease)
A - REVENUE	148.414	158.925	(10.510)
B - VALUE OF PRODUCTION FROM ORDINARY ACTIVITIES	148.414	158.925	(10.510)
Cost of external material and services	(504)	(539)	35
C- ADDED VALUE	147.911	158.386	(10.475)
Staff costs	(292)	(240)	(53)
D - GROSS OPERATING MARGIN	**147.618**	**158.146**	**(10.527)**
Other allowances	(68.673)		(68.673)
Provisions for risks and charges			0
Net sundry income and expenses		266	(266)
E. EBITDA	**78.945**	**158.412**	**(79.466)**
Amortization and depreciation	(58.984)	(70.680)	11.696
F - EBIT	**19.961**	**87.732**	**(67.770)**
Financial income/(expenses)	(24.049)	(24.479)	430
G - PROFIT/(LOSS) BEFORE EXTRAORDINARY ITEMS AND TAXES	(4.088)	63.253	(67.341)
Extraordinary income/(expenses)	(10.409)	(68.342)	57.933
H- PROFIT/(LOSS) BEFORE TAXES	(14.496)	(5.089)	(9.408)
Income tax expense for the period	479	(1.920)	2.399
I - NET PROFIT/(LOSS) FOR THE PERIOD	**(14.017)**	**(7.008)**	**(7.009)**

MidCo S.p.A.

RECLASSIFIED BALANCE SHEET

(€000)

	31 December 2014	*December 2013*	*Increase/ (Decrease)*
A.- NET NON-CURRENT ASSETS			
Intangible assets			
Tangible assets			
Financial assets			
B.- WORKING CAPITAL			
Inventories			
Trade receivables			0
Other assets			0
Trade payables	(9)		(9)
Provisions for risks and charges			0
Other liabilities			0
	(9)	**0**	**(9)**
C.- PROVISIONS FOR POST-EMPLOYMENT BENEFITS			
D.- INVESTED CAPITAL, less current liabilities and provisions for post-employment benefits	**(9)**		**(9)**
covered by:			
E.- EQUITY			
Paid-in share capital	50		50
Reserves and retained earnings			0
Net profit/(loss) for the period	(9)		(9)
EQUITY	**41**	**0**	**41**
F.- MEDIUM/LONG-TERM BORROWINGS	75.000		75.000
G.- NET SHORT-TERM BORROWINGS (NET CASH AND CASH EQUIVALENTS)			
- short-term borrowings			0
- cash and cash equivalents and short-term financial receivables	(75.050)		(75.050)
NET DEBT/(CASH) (F+G)	**(50)**	**0**	**(50)**
H.- TOTAL (E+F+G)	**(9)**	**0**	**(9)**

RECLASSIFIED INCOME STATEMENT

(€000)

	2014	*2013*	*Increase/ (Decrease)*
A. REVENUE			
Changes in inventories of work in progress			
B. VALUE OF PRODUCTION FROM ORDINARY ACTIVITIES			
Cost of external material and services	(9)		
C. ADDED VALUE	**(9)**	**0**	**0**
Staff costs			
D. GROSS OPERATING MARGIN	**(9)**	**0**	**0**
Other allowances			
Provisions for risks and charges			
Sundry income (expenses)	(0)		
E. EBITDA	**(9)**	**0**	**0**
Amortization and depreciation			
F. RISULTATO OPERATIVO (EBIT)	**(9)**	**0**	**0**
Financial income/(expenses)	0		
(Impairment losses)/Reversal of impairment losses on financial assets			
G. PROFIT/(LOSS) BEFORE EXTRAORDINARY ITEMS AND TAXES	**(9)**	**0**	**(9)**
Extraordinary income/(expenses)			
H. PROFIT/(LOSS) BEFORE TAXES	**(9)**	**0**	**(9)**
Income tax expense for the period			
I. NET PROFIT/(LOSS) FOR THE PERIOD	**(9)**	**0**	**(9)**

RECLASSIFIED BALANCE SHEET

(€000)

	31 December 2014	*31 December 2013*	*Increase/ (Decrease)*
A.- NET NON-CURRENT ASSETS			
Intangible assets			
Tangible assets			
Financial assets			
B.- WORKING CAPITAL			
Inventories			
Trade receivables			
Other assets			0
Trade payables	(25)		(25)
Provisions for risks and charges	(387.500)		(387.500)
Other liabilities	(37)		(37)
	(387.562)	**0**	**(387.562)**
C.- PROVISIONS FOR POST-EMPLOYMENT BENEFITS			
D.- INVESTED CAPITAL, less current liabilities and provisions for post-employment benefits	**(387.562)**		**(387.562)**
covered by:			
E.- EQUITY			
Paid-in share capital	50		50
Reserves and retained earnings			0
Net profit/(loss) for the period	(262)		(262)
EQUITY	**(212)**	**0**	**(212)**
F.- MEDIUM/LONG-TERM BORROWINGS			0
G.- NET SHORT-TERM BORROWINGS (NET CASH AND CASH EQUIVALENTS)			
- short-term borrowings	2.401		2.401
- cash and cash equivalents and short-term financial receivables	(389.751)		(389.751)
NET DEBT/(CASH) (F+G)	**(387.350)**	**0**	**(387.350)**
I.- TOTAL (E+F+G)	**(387.562)**	**0**	**(387.562)**

RECLASSIFIED INCOME STATEMENT

(€000)

	2014	*2013*	*Increase/ (Decrease)*
A. REVENUE			
Changes in inventories of work in progress			
B. VALUE OF PRODUCTION FROM ORDINARY ACTIVITIES			
Cost of external material and services	(263)		
C. ADDED VALUE	**(263)**	**0**	**0**
Staff costs			
D. GROSS OPERATING MARGIN	**(263)**	**0**	**0**
Other allowances			
Provisions for risks and charges			
Sundry income (expenses)	(0)		
E. EBITDA	**(263)**	**0**	**0**
Amortization and depreciation			
F. RISULTATO OPERATIVO (EBIT)	**(263)**	**0**	**0**
Financial income/(expenses)	1		
(Impairment losses)/Reversal of impairment losses on financial assets			
G. PROFIT/(LOSS) BEFORE EXTRAORDINARY ITEMS AND TAXES	**(262)**	**0**	**(262)**
Extraordinary income/(expenses)			
H. PROFIT/(LOSS) BEFORE TAXES	**(262)**	**0**	**(262)**
Income tax expense for the period			
I. NET PROFIT/(LOSS) FOR THE PERIOD	**(262)**	**0**	**(262)**

Consolidated Accounts

Financial Statements

CONSOLIDATED BALANCE SHEET

(€000)

	ASSETS		*31 December 2014*			*31 December 2013*	
A)	**UNPAID SUBSCRIBED CAPITAL DUE FROM SHAREHOLDERS**						
B)	**NON-CURRENT ASSETS**						
I	**INTANGIBLE ASSETS**						
1)	. Start-up and expansion costs					289	
2)	. Research, development and advertising costs					242	
3)	. Industrial patents and other intellectual property rights		29.744			24.203	
4)	. Concessions, licences, trademarks and similar rights		2.623			2.906	
5)	. Goodwill		201.837			216.481	
6)	. Intangible assets under construction and advances		17.091			15.745	
7)	. Other		54.265			46.542	
8)	. Goodwill arising from consolidation			305.560		59.830	366.238
II	**TANGIBLE ASSETS**						
1)	. Land and buildings					2.080	
2)	. Plant and machinery:						
	a) Fleet	697.864			1.017.980		
	b) Other	6.355	704.219		8.621	1.026.600	
3)	. Industrial and commercial equipment		7.279			9.688	
4)	. Other assets		6.570			12.043	
5)	. Tangible assets under construction and advances		16.772	734.839		22.681	1.073.092
III	**FINANCIAL ASSETS**						
1)	. Investments in:						
	d) other companies		2.242			2.284	
2)	. Receivables:						
	d) due from others	* *17.279*			* *12.627*		
		** *485.697*	502.977		** *350.581*	363.209	
3)	. Other financial assets		65	505.284		65	365.558
	Total non-current assets			**1.545.683**			**1.804.887**
C)	**CURRENT ASSETS**						
I	**INVENTORIES**						
1)	. Technical and other consumable materials		47.367			54.274	
6)	. Assets held for sale		145.367			88.074	
				192.734			142.348
II	**RECEIVABLES**						
1)	. Due from customers	** *5.688*	222.005		** *24.203*	269.172	
4bis)	. Tax assets		14.210			20.838	
4ter)	. Deferred tax assets		35.467			29.540	
5)	. Due from others	** *13.610*	136.621	408.302	** *16.405*	97.998	417.547
III	**SECURITIES HELD FOR TRADING**						
6)	. Other securities		49	49		68	68
IV	**CASH AND CASH EQUIVALENTS**						
1)	. Bank and post office deposits		428.648			75.432	
3)	. Cash and other valuables in hand		403	429.051		539	75.971
	Total current assets			**1.030.136**			**635.935**
D)	**ACCRUED INCOME AND PREPAID EXPENSES**		19.419	**19.419**		30.490	**30.490**
	TOTAL ASSETS			**2.595.238**			**2.471.312**

(*) amounts falling due within 12 months
(**) amounts falling due beyond 12 months

CONSOLIDATED BALANCE SHEET

(€000)

	LIABILITIES AND EQUITY			*31 December 2014*				*31 December 2013*	
A)	**EQUITY**								
I	. SHARE CAPITAL				357.545				270.677
II	. SHARE PREMIUM RESERVE				752.417				290.000
III	. REVALUATION RESERVE								
IV	. LEGAL RESERVE								
V	. STATUTORY RESERVE								
VII	. OTHER RESERVES								
	1.- Shareholders' capital contributions								
	2.- Loss coverage reserve								
	3.- Capital contribution for conversion of convertible bonds							37.467	
	4.- Foreign currency translation reserve			(3.292)				(3.868)	
	5.- Extraordinary reserve								
	6.- Other			545	(2.748)			545	34.144
VIII	RETAINED EARNINGS/(ACCUMULATED LOSSES)				(621.991)				(225.331)
IX	. NET PROFIT/(LOSS) FOR THE PERIOD				(578.280)				(568.609)
	Losses covered during the year								171.949
	Total Equity attributable to owners of the parent				(93.056)				(27.170)
X	. Capital and reserves attributable to non-controlling interests								
XI	. Profit (loss) for the period attributable to non-controlling interests								
	Equity attributable to non-controlling interests								
	Total Equity				**(93.056)**				**(27.170)**
B)	**PROVISIONS FOR RISKS AND CHARGES**								
1)	. Pensions and similar obligations								
2)	. Tax liabilities, including deferred taxes			10.230				9.218	
3)	. Other:								
	a) Provisions for prize competitions and loyalty programmes		*35.530*				*30.610*		
	b) Maintenance reserve		*414.875*				*262.554*		
	c) Provisions for restructuring		*19.202*						
	d) Sundry provisions		*135.687*	605.294			*46.238*	339.402	
4)	. Capital increase/Irrevocable cash contribution			387.500					
	Total provisions for risks and charges				**1.003.023**				**348.620**
C)	**PROVISIONS FOR POST-EMPLOYMENT BENEFITS**				**9.265**				**10.551**
D)	**PAYABLES**								
1)	. Bond issues								
2)	. Convertible bonds			33.276		** *30.956*		63.867	
3)	. Shareholder loans								
4)	. Bank borrowings	** *311.423*		585.336		** *434.306*		770.038	
5)	. Other borrowings	** *77.025*		79.642		** *4.665*		166.805	
6)	. Advances			2.921				3.235	
7)	. Trade payables	**		636.507		** *189*		653.754	
8)	. Debt securities								
9)	. Due to subsidiaries								
10)	. Due to associates								
11)	. Due to parents								
12)	. Tax liabilities	** *9.277*		33.616		** *21.655*		49.673	
13)	. Social security contributions payable			19.502		** *738*		56.943	
14)	. Other payables:								
	a) Prepaid tickets		*223.371*				*281.832*		
	b) Sundry payables		*52.667*	276.038			*83.221*	365.053	
	Total liabilities				**1.666.837**				**2.129.369**
E)	**ACCRUED EXPENSES AND DEFERRED INCOME**			9.168	**9.168**			9.942	**9.942**
	TOTAL LIABILITIES AND EQUITY				**2.595.238**				**2.471.312**

(*) amounts falling due within 12 months

(**) amounts falling due beyond 12 months

CONSOLIDATED MEMORANDUM ACCOUNTS

(€000)

	31 December 2014		31 December 2013	
1) UNSECURED GUARANTEES PROVIDED				
2) COLLATERAL GUARANTEES PROVIDED				
3) COMMITMENTS				
a) Purchase				
various services	1.665.843		1.388.830	
contractual commitments	3.189		647	
derivative contracts	1.373.992		1.208.462	
b) Sale				
Sale of maintenance materials		**3.043.023**	2.446	**2.600.386**
4) OTHER				
a) Third-party assets held under custody, bailment or lease	2.535.201		2.495.667	
b) Assets held by third parties	71.914		94.733	
c) Risks	60.491		108.992	
d) Guarantees received from third parties	1.956		1.759	
e) Third-party guarantees for company obligations	246.432	**2.915.994**	213.524	**2.914.674**
TOTAL		**5.959.017**		**5.515.060**

CONSOLIDATED INCOME STATEMENT

(€000)

		31 December 2014		31 December 2013
A) VALUE OF PRODUCTION				
1.- Revenue from sales and services		3.180.595		3.405.888
2.- Changes in inventories of materials for work in progress				
3.- Changes in contract work in progress				
4.- Increases in self-constructed assets		24.129		18.676
5.- Other revenue and income		234.062		151.152
Total value of production		3.438.786		3.575.716
B) PRODUCTION COSTS				
6.- technical materials, fuel, other consumables and goods for resale		(1.026.525)		(1.101.187)
7.- services		(1.344.209)		(1.350.099)
8.- lease expense		(370.278)		(386.574)
9.- staff costs				
a) wages and salaries	(441.280)		(520.922)	
b) social insurance contributions	(77.953)		(114.695)	
c) post-employment benefits	(21.335)		(27.805)	
d) pension and similar costs	(3.536)		(5.314)	
e) other costs	(13.571)	(557.676)	(12.986)	(681.721)
10.- Amortisation, depreciation and impairments				
a) amortisation	(43.462)		(55.606)	
b) depreciation	(125.109)		(128.113)	
c) other impairments	(112.853)		(72.291)	
d) allowance for bad debts and changes in value of cash and cash equivalents	(17.001)	(298.425)	(5.014)	(261.023)
11.- Changes in inventories of technical materials, consumables and goods for resale		(6.907)		1.096
12.- Provisions for risks		(55.790)		(10.900)
13.- Other provisions				
14.- Sundry operating costs		(126.156)		(107.000)
Total production costs		(3.785.966)		(3.897.408)
Difference between value of production and production costs		(347.180)		(321.693)
C) FINANCIAL INCOME/(EXPENSES)				
15.- Income from investments				
16.- Other financial income				
a) from long-term receivables	10		4	
d) income other than the above	2.888	2.898	11.869	11.872
17.- Interest and other financial charges				
. Interest and commissions to others and sundry charges	(54.284)	(54.284)	(47.832)	(47.832)
17bis.- foreign exchange gains/(losses)		57.653		(37.904)
Total financial income/(expenses)		6.267		(73.864)
D) ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS				
18.- Revaluations				7
19.- Impairments		(61)		(2.181)
Total adjustments		(61)		(2.174)
E) EXTRAORDINARY INCOME/(EXPENSES)				
20.- Income		33.395		18.175
21.- Expenses		(263.394)		(177.095)
Total extraordinary items		(229.999)		(158.920)
Income before taxes		(570.973)		(556.651)
22.- Income tax expense for the period		(7.307)		(11.958)
23.- Net profit/(loss) for the period		**(578.280)**		**(568.609)**
of which:				
25.- Attributable to owners of the parent		*(578.280)*		*(568.609)*
26.- Attributable to non-controlling interests				

RECONCILIATION OF SEPARATE AND CONSOLIDATED EQUITY AND NET PROFIT/(LOSS)

(€000)

	Equity		Net profit/(loss)	
	31 December 2014	**31 December 2013**	**2014**	**2013**
Paent Company's equity and net profit/(loss)	25.990	213.006	(698.834)	(557.087)
Consolidation adjustments for the period and for previous years	85.930	(73.213)	159.144	33.982
Net profit/(loss) of subsidiaries for the period	(38.589)	(45.503)	(38.589)	(45.503)
Net profit/(loss) of subsidiaries for previous years	(171.514)	(126.011)		
Change in foreign currency translation reserve	4.582	4.006		
Other reserves	545	545		
	(93.056)	(27.170)	(578.280)	(568.609)
Equity and profit/(loss) attributable to non-controlling interests				
Equity and profit/(loss) attributable to owners of the parent	**(93.056)**	**(27.170)**	**(578.280)**	**(568.609)**

Notes

Part A–Group's activities, financial statements and accounting policies

The main activities of Alitalia and its subsidiaries, as well as the geographical areas where they are conducted, are described in the Report on Operations, in the section "The Compagnia Aerea Italiana Group".

Scope of consolidation

In 2014, newly-established Alitalia-SAI S.p.A. and MidCo S.p.A. were included in the scope of consolidation. The table below lists Alitalia – Compagnia Aerea Italiana S.p.A.'s consolidated direct and indirect subsidiaries.

Subsidiary	***Parent Company***	***% held***
Air One S.p.A. – Fiumicino (RM) Share capital: €50,000,000.00 fully paid-in	Alitalia – Compagnia Aerea Italiana S.p.A.	100%
CAI FIRST S,p,A – Fiumicino (RM) Share capital: €1,120,000.00 fully paid-in	Alitalia – Compagnia Aerea Italiana S.p.A.	100%
CAI SECOND S,p,A – Fiumicino (RM) Share capital: €1,120,000.00 fully paid-in	Alitalia – Compagnia Aerea Italiana S.p.A.	100%
Alitalia CityLiner S.p.A. – Fiumicino (RM) Share capital: €1,000,000.00 fully paid-in	Alitalia – Compagnia Aerea Italiana S.p.A.	100%
Alitalia Loyalty S.p.A. – Fiumicino (RM) Share capital: €500,000 fully paid-in	Alitalia – Compagnia Aerea Italiana S.p.A.	100%
Alitalia – Società Aerea Italiana S.p.A. – Fiumicino (RM) Share capital: €50,000 fully paid-in	Alitalia – Compagnia Aerea Italiana S.p.A.	100%
MidCo S.p.A. Italiana S.p.A. – Fiumicino (RM) Share capital: €50,000 fully paid-in	Alitalia – Compagnia Aerea Italiana S.p.A.	100%
Challey Ltd – Dublin (Eire) Share capital: €25,704,500.00 fully paid-in	Alitalia – Compagnia Aerea Italiana S.p.A.	100%
Aircraft Purchase Company Ltd – Dublin (Eire) Share capital: approved €5,500,000.00 of which €50,000,00 paid-in	Challey Ltd	100%
SubHo Ltd - Dublin (Eire) Share capital: €100,000.00 fully paid-in	Challey Ltd	100%
Aircraft Purchase Company 1 Ltd - Dublin (Eire) Share capital: €50,000.00 fully paid-in	SubHo Ltd	100%
Aircraft Purchase Company 2 Ltd - Dublin (Eire) Share capital: €50,000.00 fully paid-in	SubHo Ltd	100%
Aircraft Purchase Company 3 Ltd - Dublin (Eire) Share capital: €50,000.00 fully paid-in	SubHo Ltd	100%
Aircraft Purchase Company 4 Ltd - Dublin (Eire) Share capital: €50,000.00 fully paid-in	SubHo Ltd	100%
Aircraft Purchase Company 5 Ltd - Dublin (Eire) Share capital: €50,000.00 fully paid-in	SubHo Ltd	100%
Aircraft Purchase Company 6 Ltd - Dublin (Eire) Share capital: €50,000.00 fully paid-in	SubHo Ltd	100%
Aircraft Purchase Company 7 Ltd - Dublin (Eire) Share capital: €50,000.00 fully paid-in	SubHo Ltd	100%
Aircraft Purchase Company 8 Ltd - Dublin (Eire) Share capital: €50,000.00 fully paid-in	SubHo Ltd	100%
Aircraft Purchase Company 9 Ltd - Dublin (Eire) Share capital: €50,000.00 fully paid-in	SubHo Ltd	100%
Aircraft Purchase Company 10 Ltd – Dublin (Eire) Share capital: €50,000.00 fully paid-in	SubHo Ltd	100%
Aircraft Purchase Company 11 Ltd - Dublin (Eire) Share capital: €50,000.00 fully paid-in	SubHo Ltd	100%
Aircraft Purchase Company 12 Ltd - Dublin (Eire) Share capital: €50,000.00 fully paid-in	SubHo Ltd	100%

All the consolidated companies end their financial year on 31 December.

Basis of consolidation

Control is deemed to exist when the Parent Company can govern the financial and operating policies of another company, a subsidiary, to gain benefits from its operations.

The results of subsidiaries purchased or sold during the year are included in the consolidated income statement as of the effective date on which control is obtained until such control ceases to exist.

Where necessary, adjustments are made to the subsidiaries' financial statements to align their accounting policies to those adopted by the Group.

The accounts of consolidated companies are combined on a line-by-line basis, as follows:

- assets, liabilities, costs and revenues are added for their full amount, regardless of the percentage of ownership held and attributing to non-controlling interests, in the designated balance sheet and income statement line items, the share of equity and profit attributable to them;
- investments held by the Parent Company in the subsidiaries are eliminated against the corresponding portions of the subsidiaries' equity;
- receivables, payables, costs and revenues, including dividends, arising from transactions between consolidated companies are eliminated;
- profits and losses arising from transactions between consolidated companies are eliminated, recording the relevant taxation.

Any difference between the carrying amount of investments and the corresponding equity portions arising on the acquisition date are allocated, where possible, to assets and liabilities, while any unallocated amount is recognised, if positive, in assets as "Goodwill arising from consolidation"; if negative, the amount is recognised either as "Provisions for future risks and charges" or directly in equity as "Negative goodwill", depending on whether the company's earnings projections are favourable.

The foreign currency translation reserve reflects the effects of the previous translations of the subsidiaries' financial statements prepared in currencies other than that of the Parent Company. In particular, as a result of the transition to the euro, from 1 January 2011, except for the Irish companies, Challey and APC 12 (which used to prepare their accounts in US dollars), all consolidated subsidiaries have the same presentation currency as the Parent Company.

Form and content of the financial statements

The consolidated financial statements as at and for the year ended 31 December 2014 were prepared in accordance with the provisions and the formats provided for by Legislative Decree 127/91 and are shown in thousands of euros.

The consolidated financial statements consist of the balance sheet, income statement (prepared in accordance with the formats required by articles 2424, 2424 *bis* of the Italian Civil Code and articles 2425

and 2425 *bis* of the Italian Civil Code, respectively) and these Notes. In keeping with the provisions of article 2423-*ter* of the Italian Civil Code, line item “4. Provision for capital increase” has been added to “B) Provisions for risks and charges” was added on the liability side, to specify that it refers to Etihad’s cash contribution, as explained in greater detail in these Notes.
These Notes are intended to illustrate, analyse and, in some cases, supplement the information included in the financial statements and contain the information required by article 2427 of the Italian Civil Code, other provisions of the Civil Code and previous laws. In addition, they provide all the additional information considered necessary to give a true and fair view of the Group’s condition, even though this might not be required by law.

Lastly, in addition to the balance sheet and the income statement, a cash flow statement has been prepared to show changes in the financial position for the year.

Accounting principles

The accounting principles used to prepare the consolidated financial statements are those provided for by the Italian Civil Code, which require the adoption of the accrual basis of accounting, a prudent approach, the going concern assumption, consistency of accounting policies and prevalence of the economic substance of transactions over their formal aspects. Such principles are interpreted and supplemented with those recommended by the Italian Accounting Standards Setter (the OIC).
In 2010, the OIC initiated a project designed to revise and update Italian GAAP. In 2014, Italian GAAP were revised in keeping with the amendments, additions and new standards introduced as a result of this project. The revised GAAP were approved and published by the OIC on 5 August 2014 (with the exception of OIC 24, which was approved on 28 January 2015). The adoption of these new principles did not entail any significant effects on the Company’s financial statements for the period.
Based on the reasons illustrated in the Report on Operations, the consolidated financial statements have been prepared on the assumption that the Group is a going concern, reporting the amounts of the assets and liabilities without any further impairments and provisions for charges that would materialize in the event that the going concern assumption no longer holds.

Accounting policies

The main accounting policies adopted to prepare the consolidated financial statements for the year ended 31 December 2014 are illustrated below.

INTANGIBLE ASSETS

Intangible assets are entered at cost, inclusive of ancillary charges directly attributable to them.
Intangible assets with finite useful lives are amortised on a straight line basis over their useful lives.
In the presence of any impairment, regardless of any accumulated amortisation, the impaired intangible asset is written down. If, in subsequent years, the reason for the impairment no longer applies, the original amount is reinstated, as adjusted solely for any accumulated amortisation.

Capitalised costs

These are recognised with the consent of the Board of Statutory Auditors and are amortised over a period of up to five years.

- Start-up and expansion costs

These refer in essence to charges incurred in the start-up phase and concern costs for consulting services, taxes and other expenses incurred by the Group to purchase the assets of the Group placed in extraordinary administration.

- Advertising expenses

Advertising expenses are capitalised only in case they refer to the launch of a new commercial initiative in a new market and are of an extraordinary nature.

Goodwill

Goodwill arising from acquisitions is recognised as a non-current asset.

Goodwill is amortised on a straight-line basis over a period of up to five years.

However, a longer time horizon may be adopted, albeit no longer than twenty years, if the useful life of goodwill is longer than five years.

Every year tests are run, including an impairment test, to determine the recoverable amount of net invested capital.

Goodwill arising from consolidation

Goodwill resulting from the difference between the price paid for all or part of a subsidiary and the subsidiary's net asset value is reported as goodwill arising from consolidation. It is recognised on the asset side of the consolidated balance sheet only if it results from the acquisition of the subsidiary and when the excess amount is deemed to incorporate the subsidiary's ability to recover such excess price through future earnings.

In this case goodwill is amortised on a straight-line basis over a twenty-year period.

Every year tests are run, including an impairment test, to determine the recoverable amount of net invested capital.

Other intangible assets

- Patents

Industrial patent rights are recognised initially at cost and are amortised on a straight-line basis over their useful lives (5-10 years).

- Trademarks

Trademarks purchased for consideration or obtained as a result of a business combination are recognised as intangible assets, if they can be distinguished from goodwill.

The amortisation period is typically the shorter of the period to produce and sell on an exclusive basis the goods and services to which the trademark refers and twenty years.

- Leasehold improvements

Leasehold improvements by the Group are capitalised and recognised as intangible assets if the improvements and the value-accretive expenditures cannot be separated from the assets (i.e. they cannot function separately), otherwise they are recognised as "Tangible assets" in the category to which they belong.

Capitalised costs incurred for leasehold improvements are amortised at the earlier of the lease's expiration date (considering any renewals) and the end of the useful life of the expenses incurred.

In particular, capitalised expenses include those incurred for:

- changes and improvements, other than heavy maintenance costs on aircraft and engines, to leased aircraft;
- changes and improvements to buildings or facilities owned by third parties.

TANGIBLE ASSETS

Tangible assets are recognised at cost, including any revaluation thereof pursuant to applicable special laws, minus any write-downs. Cost includes directly attributable ancillary charges and the cost of improvements, upgrades and conversions.

Tangible assets with a finite life are depreciated on a straight-line basis in accordance with their remaining useful lives.

The depreciable amount of a tangible asset is its original carrying amount minus the expected residual value at the end of their useful lives. According to OIC 16, the useful life of a tangible asset is the estimated amount that the Group expects to recover from the sale of the asset, minus any removal costs. Such amount is updated regularly, after it is estimated when the depreciation schedule is prepared on the basis of market prices for similar assets, in accordance with their characteristics and the manner in which they are utilised.

In case of impairment, regardless of any accumulated depreciation, the asset is written down. However, if the reasons for the impairment no longer apply, the original amount is reinstated as adjusted for any depreciation.

Land and buildings

The Group owns hangars and light constructions whose estimated useful life is ten years.

Plant, machinery, equipment and other assets

The Group has adopted, as a residual value of aircraft and engines, an amount equal to a percentage of their historical cost, in line with prevailing practices in the airline industry. More specifically, the percentage adopted for B777, A319, A320, A321 aircraft is 10%.

Useful life means the period in which the asset is deemed to be available for use by the Group.

Heavy maintenance costs for aircraft (D and IL checks) and engines (shop visits and APU overhauls), as well as maintenance costs for landing gear, are depreciated over the expected useful life of such activity, which is typically the time between two checks or overhauls.

Routine maintenance costs are expensed as incurred.

Phase-out costs for owned or leased aircraft are expensed in the year in which the aircraft is dismissed.

If the different components of a complex piece of equipment have different useful lives, they are recognised separately on the basis of such useful lives (the "component approach").

In particular, aircraft, which constitute a type of complex piece of equipment, have been broken down into the following components:

- airframe;
- heavy maintenance on the airframe (D and IL checks);
- heavy maintenance on the airframe (C, 2C checks)
- overhaul of thrust reversers;
- heavy maintenance on jet intakes;
- engine;
- heavy maintenance on the engine (shop visits);
- APU (auxiliary power unit) overhauls;
- landing gear maintenance.

Tangible assets are depreciated on a straight-line basis in accordance with their remaining useful lives.

More specifically, for the fleet, whose depreciation is in line with practices adopted in the airline industry, the following useful lives are used:

Useful lives of aircraft components (no. of years)							
Family	**Airframe**	**Cyclical ILO check**	**Landing gear maintenance**	**Engine**	**Thrust reversers and jet intakes**	**Shop visits**	**APU**
B777	20	8	10	20	6	5	5
A319, A320 and A321	20	6	10	20	6	5	5

Aircraft interior fittings are depreciated over 12 years.

Rotables and replacement engines

Rotables are large-value aircraft parts which can be rebuilt/overhauled and put back in stock to use again.

The Group capitalises rotables and depreciates them over a useful life that takes account of the period of time the relevant family of aircraft will remain in the fleet (whether owned or leased).

The table below shows the useful lives of other tangible assets:

Asset	**Useful life (no. of years)**
Plant	7-10
Flight simulators	10
Equipment	5-10
Test benches	10
Furniture, fittings and office equipment	8,5
Computers	5
Cars for civilian use	4
Internal transportation vehicles	5-10
Communication systems	5

Finance leases

Finance leases are accounted for in accordance with OIC 17, which requires consolidated financial statements to report all leases as finance leases.

FINANCIAL ASSETS

Non-current investments and securities

These are entered at cost and are written down in case of impairment. If the reasons for the impairment no longer apply, the value of the financial assets in question is reinstated for up to the original amount.

Financial receivables and security deposits

These are recognised at the lower of their nominal value and the expected realisable/reimbursement value.

- Reimbursable maintenance reserve

Lease contracts may provide for the payment of an additional sum (i.e. Maintenance Reserve) to be held by the lessor as collateral against the credit risk arising from the lessee's failure to perform the required maintenance during the term of the contract or otherwise before the aircraft is returned upon expiration of the contract.

The maintenance reserve is paid to the lessor on the basis of flight hours of the aircraft/engine.

IMPAIRMENT

The recoverability of the carrying amounts of tangible and intangible assets is verified in accordance with the requirements of OIC 9.

At each reporting date, the C.A.I. Group assesses whether there are any indications of impairment of the carrying amounts of tangible and intangible assets. In evidence of such impairment is found, the recoverable amount of the asset is estimated in order to verify the recoverability of the carrying amount. Such carrying amount is tested by reference to the asset or the cash generating unit (CGU) to which the asset belongs, such CGU being "the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets".

The recoverable amount is the higher of fair value, minus selling costs, and value in use. In determining value in use, estimated future cash flows are discounted at a rate that reflects the time value of money and risks specific to the asset (WACC), to calculate their present value.

If the recoverable amount of an asset (or a CGU) is lower than the carrying amount, the latter must be written down to the recoverable amount. The relevant impairment losses are recognised in the income statement at the reporting date.

Impairment of the fleet

Given the new conditions determined by the positive outcome of the strategic deal with Etihad, the Directors deemed it appropriate – in keeping with a prudential approach – to align the carrying amount of the aircraft accounted for as tangible assets in the Group's carve-out consolidated balance sheet at 30 September 2014 with their fair value, as reported in the appraisal performed by an independent expert. For further details, reference is made to the section on tangible assets.

Impairment of net invested capital, inclusive of goodwill

Alitalia has impairment tested its net invested capital (inclusive of goodwill) in the carve-out consolidated balance sheet at 30 September 2014, as approved by the Board of Directors on 17 December 2014. In particular, for the purposes of the impairment test, the amount of goodwill was allocated to the consolidated Group, which is considered as a single CGU. In fact, management did not identify any lower level CGU with largely independent cash flows to which goodwill could be attributed. At any rate, the identification of a single CGU is consistent with the structure of the business plan used for the impairment test. ([38])

In equating the recoverable amount with value in use, or the present value of future cash flows, and more generally with net invested capital, the Directors referred to the 2014-2018 business plan, which was updated with the Etihad transaction and approved by the Board of Directors on 7 August 2014.

More specifically, to determine the recoverable amount of net invested capital, as reported in the consolidated financial statements, cash flow was discounted at a rate reflecting the current cost of funds and the risks specific to the business. The after-tax discount rate used (WACC) was 7.98%. The test did not bring to light any impairment.[39]

Moreover, the impairment test conducted on net invested capital, inclusive of goodwill, based on the carve-out consolidated financial statements at 30 September 2014, did not reveal any impairment that would lead to the write-down of the relevant carrying amount.

Impairment of goodwill arising from consolidation

In view of the strategic transaction with Etihad, the uncertainties related to the review of intercompany contracts – which are a primary source of revenue for certain investees – and the write-down of owned aircraft, as indicated above, as well as certain strategic choices on the basis of the Group's new guidelines, the Directors deemed it appropriate to act prudently and to write off the full amount of goodwill arising from consolidation. On the other hand, this write-off should be balanced against the Directors' decision to align the carrying amount of investments with the value of investees' equity (with the exception of the 75% investment in Alitalia Loyalty, which was sold to GLC, a Etihad company, in January 2015 at a fraction of its cost). The write-off of the goodwill arising from the consolidation of Air One should be considered in light of the strategic decision made by the Board of Directors on 26 August 2014 – on the basis of the Group's new guidelines – to discontinue Air One S.p.A.'s flights and to remove Air One from the group of companies transferred to the new Alitalia - SAI.

INVENTORIES

Inventories, which consist of spare parts and various materials, are classified into classes of similar items and measured at the lower of cost and replacement value.

Cost means weighted average cost.

- Assets held for sale

This item includes also goods to be sold; in fact, the characteristic of tangible assets to be associated with long-lasting factors and conditions is not intrinsic to the assets but to their purpose. Accordingly, if, as a result of a resolution by the Board of Directors or the Executive Committee, assets, such as aircraft, are no longer considered as fit for long-term use, they are reclassified from non-current assets to current assets, under the above caption. Therefore, as of the date of the resolution authorizing the reclassification, depreciation stops accruing and these assets are measured at the lower of cost, less

[38] To this end, for the sake of completeness, it is worthy of note that such CGU is basically the business involved in the oft-cited transaction with Etihad, which was valued in accordance with article 2343-*ter* of the Italian Civil Code for the purposes of its transfer to Alitalia SAI.

accumulated depreciation, and expected realisable value.

NON-CURRENT INVESTMENTS AND SECURITIES

Securities, investments and treasury shares are measured at the lower of cost and market value. Write-downs are reversed if the reasons for the write-down no longer apply.

SHORT-TERM RECEIVABLES

Short-term receivables are recognised at their expected realizable value, as resulting from the difference between their face value and the allowance for bad debts, which is deducted from the balance of the assets to which it refers.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are initially recognised, and subsequently measured, at their nominal value. In the presence of collection difficulties, they are reported at their expected realisable value.

They include:

- cash and stamps in hand, which are measured at their nominal value;
- “items in transit” reflect cash that at the end of the reporting period is being transferred from Alitalia’s secondary places of business to headquarters; these items are recognised at their nominal value;
- bank deposits, post office deposits and cheques are recognised at their expected realisable value, since they are considered receivables;
- foreign cash balances subject to restrictions are recorded at their expected realisable value.

POST-EMPLOYMENT BENEFITS

Provisions for post-employment benefits are made to cover the debt accrued towards employees in accordance with the applicable law and collective and company labour agreements. Where applicable, post-employment benefits reflect any applicable regulatory changes.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are made to meet losses or liabilities of a given nature, which are certain or likely, of which both the amount and the date of occurrence could not be determined at year-end. Provisions reflect the best possible estimate on the basis of the available information. The risks associated with contingent liabilities are indicated in the Notes, without any provisions for risks and charges being made.

Provisions for MilleMiglia

Provisions are made to meet the costs expected to be incurred to fulfil the contractual obligation associated with the loyalty programme.

These provisions are adequate when they cover all the costs related to the contractual commitments that are expected to be actually incurred.

Additional provisions and uses are accounted for, on the basis of substance over form, as traffic revenue.

Maintenance reserve

This reserve reflects provisions made in connection with significant expenses incurred for maintenance activities performed regularly after a certain number of years or hours of operation, on the basis of a finance or operating lease agreement.

In fact, when the Group is required under a lease agreement to perform cyclical maintenance activities throughout the term of the lease agreement, it has to report this obligation in the balance sheet by establishing a specific reserve.

Provisions to this reserve are designed to allocate, according to the matching principle, costs incurred for maintenance activities that, even though they are performed after a certain number of years, relate to the asset's wear and tear occurred in the years preceding that in which maintenance is performed. Maintenance expenses are estimated on the basis of: (i) a price per unit and (ii) the number of hours or cycles necessary to reach the stage where specific maintenance is required in relation to the following components: (a) airframe, (b) engines, (c) APUs, and (d) loading gear.

In defining the number of flight hours or cycles necessary for a maintenance event, account is taken of the following:

- the expected date of the maintenance event;
- scheduled costs on the basis of the maintenance agreements in place;
- conditions of the component at the time of the maintenance event;
- the likely use of the asset in terms of flight hours or cycles until the date of the maintenance event.

In defining the price per unit of the maintenance reserve, account is taken, among others, of the terms and conditions applicable to the refundable maintenance reserve. In particular:

- if the maintenance event must take place before redelivery of the aircraft:
    - in the presence of the so-called refundable maintenance deposit clause - which allows the lessee to recover refundable maintenance reserve payments made also in case the cost of the maintenance event is lower than the balance of the maintenance reserve - the price per unit will be equal to the estimated cost of the specific maintenance activity, regardless of the refundable maintenance reserve payments made;
    - in the absence of a refundable maintenance deposit provision, the price per unit will be at least equal to that equivalent to the refundable deposit maintenance payments made to the lessor, to offset any loss arising from the inability to collect the balance of the maintenance reserve held by the lessor;
- if no maintenance event must take place before redelivery of the aircraft, the price per unit will be equal to at least the refundable maintenance reserve payments made to the lessor, to offset any loss on the refundable amount that will take place by the expiration date of the lease agreement, via greater provisions to the maintenance reserve.

At each reporting date, the estimate of the provisions is reviewed and updated, in the event that the assumptions underlying it should change.

Provisions to and uses of this reserve are accounted for, on the basis of the principle of substance over form, in maintenance costs.

PAYABLES

Payables are recognised at their nominal value, which is deemed to reflect their expected extinguishment value.

Trade payables are discounted to their present value only if their nominal value exceeds by a substantial amount the market price of goods purchased for immediate payment and if the credit term extended exceeds to a significant extent the next twelve months. Amounts due to employees for unused holidays and for deferred compensation, including sums due to social security institutions, are set aside on the basis of the amount that should be paid in case of employment termination at the reporting date.

Payables arising from prepaid tickets refer to the Group's exposure to third parties for air transportation services to be rendered.

ACCRUALS AND DEFERRALS

These items include costs and revenues which are recognised on an accrual basis.

Accruals and deferrals measure costs and revenues that are recognised in a year other than that in which the associated cash outlay or collection takes place.

FINANCE LEASES

Lease agreements that include a purchase option qualify as finance leases and are accounted as such in the consolidated financial statements in accordance with OIC 17.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to hedge the risks of changes in commodity prices, exchange rates and interest rates.

A derivative is designated as a hedge when:

a) the Group intends to hedge;

b) there is a high correlation between the terms and conditions of the hedged asset/liability (maturity, interest rate, exchange rate, etc.) and those of the hedging contract;

c) the conditions under a) and b) above are supported by internal evidence.

Hedging derivatives are measured in keeping with the hedged assets, liabilities or commitments. Consequently, derivatives are recognised in the memorandum accounts at their notional value.

Changes in the realised portions of derivatives are recognised through profit or loss; changes related to the unrealised portions are recognised through profit or loss when the hedged risk materialises and has an impact on the income statement. Financial instruments that do not qualify for hedge accounting are measured at their fair value and the difference with the contract value, if negative, is recognised through profit or loss under "Financial income and expenses", in accordance with the prudence principle.

In the event that the Group changes the designation of a derivative contract as an effective hedge, and eventually sells it, hedge effectiveness is no longer tested on a prospective basis, as long as the hedged transaction takes place or is reasonably expected not to take place. In this sense, based on International Financial Reporting Standards, the replacement or rollover of a hedging instrument into another instrument does not signal extinguishment or termination, if this replacement or rollover is part of the Group's documented hedging strategy.

FOREIGN CURRENCY ITEMS OR THOSE SUBJECT TO CURRENCY RISK

Assets and liabilities originally denominated in foreign currency are translated at the spot exchange rates prevailing at the reporting date. At year-end, foreign-denominated assets and liabilities, except non-current assets, are reported at the spot exchange rate quoted in the market at the reporting date, taking account of any hedging instrument. Foreign exchange gains and losses are recognised in a specific reserve and cannot be distributed unless they are realised.

Foreign currency non-current assets and liabilities are recognised at the lower of the exchange rate prevailing when they were purchased and the spot rate at the reporting date, if the negative change has determined an impairment of the non-current assets and liabilities.

Revenue recognition

Passenger and freight revenue is recognised in profit and loss when the passenger or cargo has been transported.

Revenue from sales is recognised when the goods are shipped and the Group has transferred to the buyer the risks and rewards of ownership.

Dividends are recognised when the right of the shareholders to collect them is declared.

Self-constructed assets reflect costs incurred internally by the Company, mainly staff costs, that are capitalised as tangible and intangible assets. Specifically, the Company includes in this item also employee training and development costs, if such costs are related to implementation of a retraining programme or a restructuring of the business, with significant consequences for the operational and commercial structure, and are also intended to achieve future economic benefits and to respond to the Company’s current difficulties.

The Group recognises non-recurring revenue generated from third parties, in consideration of the primary role played by Alitalia in its industry, under “Other revenue”. These sums are certain, given their unconditional, unwaivable, irrevocable and contractually defined nature.

GREENHOUSE GAS EMISSION ALLOWANCES

Costs for the obligation to deliver emission allowances to the competent national authorities are recognised on an accrual basis and entered under “Other operating costs” in the year in which the relevant obligation arises, in proportion to the greenhouse gas emissions produced in the year and the market value of the emission allowances at the reporting date.

EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income and expenses directly related to the phase out of aircraft families, as a result of the Company’s reorganization and the shutdown of operations, are recognised as extraordinary items.

In relation to 2014, they include the sums involved in the restructuring linked to the strategic transaction with Etihad.

INCOME TAXES

Income taxes are recognised on the estimated taxable income in accordance with the laws in force, taking into account applicable exemptions and tax credits.

Deferred tax liabilities and assets are calculated on the basis of temporary differences between the book value and the tax base of assets and liabilities. Also, use is made of the likely tax rate applicable to the Company in the year in which such differences will contribute to the formation of the taxable result, considering the tax rates in force or already issued at the reporting date. Deferred tax liabilities are recognised in the provisions for risks and charges, while deferred tax assets are recognised in sub-item 4 ter) in current assets.

Deferred tax assets are recognised for all deductible temporary differences, in accordance with the prudence principle, to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

By contrast, deferred tax liabilities are recognised on all taxable temporary differences.

Deferred tax liabilities in connection with tax-deferred reserves are not recognised if such reserves are not very likely to be distributed to shareholders.

MEMORANDUM ACCOUNTS

These items are recognised at their nominal value, considering the commitments and risks existing at year-end. Memorandum accounts include commitments that, by their nature and amount, can affect the company's financial condition and operating performance; as such, awareness of their existence is helpful in determining the Company's situation.

Part B – Notes to the Balance Sheet

Below, information is provided on the Group's main balance sheet items.

ASSETS:

A) As at 31 December 2014 and 2013, ***UNPAID SUBSCRIBED CAPITAL DUE FROM SHAREHOLDERS*** has a zero balance.

B) As at 31 December 2014, ***NON-CURRENT ASSETS*** amounts to €1,545,683,000, compared with €1,804,887,000 as at 31 December 2013. They consist of:

I) ***INTANGIBLE ASSETS,*** amounting to €305,560,000, are down €60,678,000 from the comparable amount as at 31 December 2013. The table below provides a breakdown:

INTANGIBLE ASSETS	Start-up and expansion costs	Research, development and advertising costs	Industrial patents and other intellectual property rights	Concessions, licences, trademarks	Goodwill	Intangible assets under construction and advances	Other	Goodwill arising from consolidation	Total
Carrying amount at 31 December 2013	**289**	**242**	**24.203**	**2.906**	**216.481**	**15.745**	**46.542**	**59.830**	**366.238**
of which :Cost	*44.672*	*970*	*38.401*	*4.310*	*321.541*	*15.745*	*92.567*	*82.892*	*601.098*
Accumulated amortisation	*(44.382)*	*(728)*	*(14.198)*	*(1.405)*	*(105.060)*	*0*	*(46.025)*	*(23.062)*	*(234.860)*
Cost at 1 January 2014	**44.672**	**970**	**38.401**	**4.310**	**321.541**	**15.745**	**92.567**	**82.892**	**601.098**
Increases			3.706			14.926	24.921		43.553
Reclassifications			6.860			(8.224)	4.956		3.592
Decreases							(915)		(915)
Impairments		(970)	(4.748)		(175)	(5.356)	(6.358)	(55.701)	(73.309)
Cost at 31 December 2014	**44.672**	**0**	**44.218**	**4.310**	**321.365**	**17.091**	**115.171**	**27.192**	**574.019**
Amortisation at 1 January 2014	**(44.382)**	**(728)**	**(14.198)**	**(1.405)**	**(105.060)**	**0**	**(46.025)**	**(23.062)**	**(234.860)**
Amortisation for the period	(289)	(145)	(4.879)	(283)	(14.644)		(19.093)	(4.130)	(43.461)
Reclassifications			11						11
Decrease in accumulated amortisation							157		157
Reversals in accumulated amortisation		873	4.591		175		4.056		9.695
Amortisation at 31 December 2014	**(44.671)**	**(0)**	**(14.475)**	**(1.687)**	**(119.528)**	**0**	**(60.905)**	**(27.192)**	**(268.458)**
Carrying amount at 31 December 2014	**0**	**0**	**29.744**	**2.623**	**201.837**	**17.091**	**54.266**	**0**	**305.560**

Specifically:

1. **Start-up and expansion costs** are fully amortised, following recognition of amortisation of €289,000 for the year.

2. **Research, development and advertising costs,** which are fully amortised, decreased by €242,000, due to amortisation for the period (€145,000) and the write-off of the advertising costs capitalised in previous years by Air One to launch the "Smart Carrier" initiative (€97,000).

3. ***Industrial patents and other intellectual property rights,*** amounting to €29,744,000, are up €5,541,000, due to:

- the capitalisation of investments related to licences and software for the period, totalling €3,706,000, the purchase of Microsoft licences (€2,265,000) and other software development projects (€1,441,000);

- the positive reclassification from Intangibles assets under construction and advances, totalling €6,915,000, relating to WEB 2013 software applications (€2,190,000); CRM (Customer Relationship Management) (€1,462,000); the New Flight Profitability System (€539,000); GE-FCS fees (€456,000); Revenue Management software (€223,000); and other projects (€2,045,000);

- the net negative reclassification to assets held for sale, totalling €44,000, of the software transferred with the sale of the IT unit to IBM;

- amortisation for the period of €4,879,000;

- the write-off of €157,000 in capitalised costs, net of accumulated amortisation, by Air One for its "Core System Smart Carrier – Navitaire", a software application, and Web Fly Air One, a website, as they no longer had useful lives;

4. **Concessions, licences, trademarks and similar rights**, amounting to €2,623,000, are down €283,000 from the comparable amount as at 31 December 2013, due to amortisation for the year;

5. **Goodwill**, amounting to €201,837,000, is down €14,644,000 from the comparable amount as at 31 December 2013, due to amortisation for the year. Attention is called to the impairment losses taken on goodwill on 31 December 2013, based on the outcome of sensitivity analyses of the load factor – which was borne out by the results for 2014 – conducted in connection with impairment tests.

Details of the Group's goodwill as at 31 December 2014, as indicated in the table below, are as follows:

- €192,675,000 from the partial spin-off of Air One into Alitalia, which took place on 16 November 2009, as described in full detail in the separate and consolidated accounts for 2009, to which reference is made;

- €9,162,000 in goodwill arising on the merger of Air One with European Avia Service, a subsidiary, on the same date.

Furthermore, the operations acquired by CAI SECOND from the Volare Group, Volare Airlines and Air Europe, which had been taken over by the Group companies under extraordinary administration, and the Gandalf business acquired by CAI FIRST – with both acquisitions taking place on 12 January 2009 - have been fully amortised.

Regarding the recoverable amount for goodwill, reference is made to the paragraph in the accounting policies on "Impairment of net invested capital, inclusive of goodwill".

GOODWILL	Carrying amount at 31 December 2013	Amortisation	Carrying amount at 31 December 2014
Alitalia: Partial spin-off of AIRONE	206.438	(13.763)	192.675
Alitalia: Goodwill merger of EAS into Airone	9.823	(660)	9.162
CAI Second: Volare Group business	138	(138)	(0)
CAI First: Gandalf business	82	(82)	(0)
	216.481	**(14.643)**	**201.837**

Considering the peculiarity of the aviation sector, goodwill is amortised over twenty years, corresponding to four business cycles (with each cycle lasting, on average, five years), which is the estimated time necessary to recover it.

6. **Intangible assets under construction and advances** amount to €17,091,000, reflecting an increase of €1,346,000. This change was due to new investment of €14,926,000 associated with the capitalisation of:

- projects in the progress of implementation, including Linkage (€1,322,000), a software application that was eventually written own, WEB 2014 (€1,431,000) and other software (€982,000);
- the first implementation fee instalment for the Sabre project, totalling €8,131,000, relating to the reservation system that will replace the previous software, as specified below;
- staff costs incurred for Group employees devoted to new development activities and the implementation and release of software (€1,645,000);
- leasehold improvements to the fleet (€1,415,000), such as C-1, 5C and 2C checks, shop visits and other changes;

all of the above was partly offset by:

- negative reclassifications of €8,224,000, mainly to "Industrial patents and intellectual property rights", relating to software development projects completed (€6,723,000), and to "Other" under intangible assets (€1,164,000) and other items (€337,000);
- a net write-down of €5,356,000, related mainly to the Linkage software project (€5,349 thousand), as a consequence of early termination of the contract with Amadeus, a supplier responsible for completion of the Linkage reservation system. This early termination should be considered within the context of the TIA and the consequent purchase of the new reservation system (SabreSonic system). It is worthy of note that the write-down and the early termination fee paid to Amadeus (recognised in the income statement as "other operating costs") were offset by the sum of €48,128,000 (US$60,000,000).

7. ***Other***, amounting to €54,265,000, shows an increase of €7,723,000 on 31 December 2013, related to:

- total investment in the period of €24,921,000 to be attributed to maintenance of the leased fleet (€24,092,000) – such as C-1, 5C and 2C checks (€8,761,000), engine modifications (P) (€3,417,000), reconfiguration of A330 aircraft called "densification" (€8,847,000), shop visits for engines (€153,000), overhauls of thrust reversers and jet intakes (€1,339,000), and sundry modifications and painting (€1,935,000). Further increases concern leasehold improvements of €829,000;
- a positive reclassification from "Work in progress" to tangible assets, amounting to €3,225,000, for civil and other engineering works for offices and agencies, and from "Intangible assets under construction and advances" (€1,731 thousand) in relation to work performed on the leased fleet, such as C and 2C checks, painting and other maintenance activities;
- amortisation for the period of €19,093,000;
- a net decrease of €758,000, related mainly to the removal of "Live TV" equipment previously capitalised on leased aircraft;
- the write-down of certain financial charges on financing related to A320 aircraft owned by the Irish companies, which will be sold shortly to AirBerlin (€1,976,000) and the balance of the leasehold improvements to leased aircraft capitalised previously (€326,000), following the phase out of the A320 and A321 aircraft from the fleet, after they had been grounded.

This item also reflects the amount attributable to the "New headquarters", recently renamed the "Alfa" building, totalling €8,239,000.

8. **Goodwill arising from consolidation** has a zero balance, following the write-off of €55,701,000, as described more extensively in the paragraph "Impairment of goodwill arising from consolidation" in the accounting policies, and amortisation for the period of €4,130,000, as shown in the following table:

GOODWILL ARISING FROM CONSOLIDATION	Cost	Net assets purchased	Original goodwill arising from acquisition	Accumulated amortisation	Impairment	**Carrying amount**
Air One S.p.A.	87.940	40.292	47.648	(17.638)	(30.011)	(0)
Alitalia Cityliner S.p.A.	38.861	3.911	34.950	(9.260)	(25.690)	0
Total	**126.801**	**44.203**	**82.598**	**(26.898)**	**(55.701)**	**(0)**

The Company wrote off the amount for the reasons indicated in the paragraph, "Impairment of goodwill arising from consolidation", in the accounting policies.

II) TANGIBLE ASSETS, amounting to €734,839,000, are down €338,252,000 from the comparable amount as at 31 December 2013. The table below shows changes in this item:

TANGIBLE ASSETS	Land and buildings	Fleet	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total
Carrying amount at 31 December 2013	**2.080**	**1.017.980**	**8.621**	**9.688**	**12.043**	**22.681**	**1.073.092**
of which :Cost	*2.656*	*1652.450*	*30.178*	*20.091*	*45.742*	*22.681*	*1773.826*
Accumulated depreciation	*(576)*	*(634.470)*	*(21557)*	*(10.404)*	*(33.699)*	*-*	*(700.734)*
Cost at 1 January 2014	**2.656,45**	**1.652.450**	**30.178**	**20.091**	**45.742**	**22.681**	**1.773.826**
Purchases		48.343	47	248	618	12.761	62.017
Cost reclassifications		(224.643)	40	1059	(7.493)	(16.605)	(247.642)
Sales/disposals		(7.006)	(11)	(2.548)	(111)	(75)	(9.751)
Impairments	(2.657)	(334.769)	(1250)	(5.400)	(5.888)	(1991)	(351955)
Cost at 31 December 2014	**(0)**	**1.134.375**	**29.004**	**13.449**	**32.868**	**16.771**	**1.226.494**
Depreciation at 1 January 2014	**(576)**	**(634.470)**	**(21.557)**	**(10.404)**	**(33.699)**	**0**	**(700.734)**
Depreciation for the period	(65)	(116.111)	(2.215)	(1852)	(4.866)		(125.109)
Reclassifications		101.546			6.365		107.912
Decreases in accumulated depreciation (sales/disposals)		2.909	11	889	103		3.912
Reversals in accumuated depreciation	642	209.615	1.113	5.196	5.799		222.365
Depreciation at 31 December 2014	**1**	**(436.511)**	**(22.648)**	**(6.170)**	**(26.298)**	**-**	**(491.627)**
Carrying amount at 31 December 2014	**0**	**697.864**	**6.355**	**7.279**	**6.570**	**16.771**	**734.839**

Details of changes for the year in each sub-item are as follows:

1. **Land and buildings,** related to the Pescara hangars owned by Air One, have a zero balance, following the write-down of €2,015,000 and depreciation for the year of €65,000;

2. **Plant and machinery,** amounting to €704,220,000, is down €322,381,000 on 31 December 2013. Changes were as follows:

a) the **fleet** amounts to €697,864,000, down €320,115,000 from the comparable amount of 2013, due to:

- depreciation for the period of €116,111,000;
- write-off of capitalised improvement, overhaul and fitting expenses incurred for the owned fleet, totalling €20,452,000, a sum that can no longer be recovered due to the phase out of the A320 and A321 aircraft from the fleet as – based on the new guidelines – they have been grounded;
- write-down of the fleet by the Group at 30 September 2014, totalling €104,702,000. The write-down resulted from estimates conducted by the Company, with the support of an independent expert who determine the fair market value of the aircraft. In the cases where the carrying amount of the aircraft was higher than its fair market value the carrying amount was written down to align it to such lower value. For further details of the total write-down, reference is made to the paragraph on “Impairment of the fleet” in the accounting principles;

- divestments of €4,097,000 (net of accumulated depreciation of €2,909,000), related to the sale and obsolescence of spare parts (€3,425,000), removal of Live TV equipment (€172,000) and the dismantling of cabin equipment (€500,000);
- investment during the year, totalling €48,343,000, represented by cyclical airframe checks, such as C checks, amounting to €7,239,000, ILO/RED checks, totalling €10,925,000, shop visits for engines (€14,533 thousand), purchases of spare parts (€8,071,000), the cyclical overhaul of APUs and landing gear (€5,600,000), the overhaul of thrust reversers, jet intakes and other parts (€1,172,000) and other modifications to owned aircraft (€803,000);
- positive reclassifications, totalling €13,300,000, from “Tangible assets under construction and advances” (€10,756,000), related to cyclical airframe checks (€1,487,000), shop visits for engines (€8,829,000) and other maintenance activities (€440,000), and from “Inventories” due to the allocation of rotable material (€2,544,000);
- negative reclassifications for €136,396,000 related to:
- the reclassification of 2 A321 aircraft (Registration mark EI-IXB / EI-IXC) to “Assets held for sale”, totalling €6,061,000 (inclusive of the positive reclassification of €576,000 from the “Foreign currency translation reserve”) - following the aircraft sale agreement entered into, on 6 November 2014, by the Irish company, APC12, with GA TELESIS LLC regarding the sale of 6 A321 aircraft. Of these 2 aircraft one was owned by APC12, and included in the sale agreement, while the other was phased out;
- reclassification of 7 A 320 aircraft (Registration Marks EI-DSH/ DSI/ DSK/ DSO/ DSR/ DSS/ DST) to “Assets held for sale”, totalling €128,104,000, given that they were part of the package covered by the Binding framework aircraft sale agreement signed on 1 October 2014 by certain Irish subsidiaries and Air Berlin;
- reclassification of spare parts, amounting to €1,345,000, used for the fleet’s maintenance and reclassification to inventories of consumables recovered from the dismantling of aircraft for €886,000.

Attention is called to the table below, which lists mortgages on the various aircraft securing the bank loans obtained to purchase them.

Family	Number of mortgaged aircraft
A320	24
A321	12
A319	12
B777	6
Total	**54**

b) **other plant and machinery,** amounting to €6,355,000, is down €2,266,000, due to depreciation for the year (€2,215,000) and the write-down of the investment in Air One (€137,000), partially offset by investment and positive reclassifications (€87,000).

3. **Industrial and commercial equipment*,*** amounting to €7,279,000, is down €2,409,000, reflecting depreciation for the year of €1,852,000, removal of Live TV equipment (€1,373,000), the sale of ground and airport equipment (€286,000) and write-downs for the period of €204,000. In contrast, new purchases were made, mainly of ground equipment, for €248,000, while reclassifications to "Tangible assets under construction and advances" total €1,059,000.

4. **Other assets** amount to €6,570,000, with a decrease of €5,472,000 from the comparable amount as at 31 December 2013. This decrease resulted from the combined effect, on the one hand, of depreciation for the year, amounting to €4,866,000, net negative reclassifications to "Assets held for sale" of the IT unit sold to IBM (€1,884,000) and the sale and write-down of assets for the year totalling €97,000 and, on the other, total investment of €618,000 and a positive reclassification from "Tangible assets under construction and advances", amounting to €757,000.

5. **Assets under construction and advances** amount to €16,772,000, down €5,909,000. This was due to:

- negative reclassifications of €16,605,000 attributable to: "Fleet" (€10,756,000), as described already under item 2.a) of tangible assets in these Notes, intangible assets (€2,800,000), due to maintenance performed on leased assets and patent rights, and to other items (€3,048,000);
- a decrease of €2,066,000, due mostly to the write-down of capitalized improvement costs on the owned fleet, following the phase out from the fleet of A320 and A321 aircraft, after they had been grounded;
- an overall increase of €12,761,000, related to advances for maintenance activities, still under way at the reporting date, on aircraft and engines, totalling €9,010,000 (such as shop visits for engines, totalling €3,091,000, cyclical ILO, RED and C airframe checks, amounting to €1,739,000, the overhaul of APUs and landing, totalling €188,000, and other improvements of €3,992,000) and to other work in progress, totalling €3,751,000 (including the modification and overhaul of ground equipment, totalling €1,505,000, the upgrade of fire alarm and security systems, amounting to €428,000, and other assets, totalling €1,818,000).

III) FINANCIAL ASSETS amount to €505,284,000, reflecting an increase of €139,726,000. They consist of:

1. **Investments in other companies,** amounting €2,242,000, with a decrease of €42,000 on the comparable amount as at 31 December 2013, due to the write-off of Air One's investment in SAGA S.p.A. – following the decision, by the latter's shareholders, to reduce its share capital to zero – and in the Abruzzo Incoming consortium. The table below shows investments as at 31 December 2014:

Investments in other companies *in euros*	SITA SC	SITA Group Foundation	Atitech	SAGA S.p.a.	Consorzio Abruzzo Incoming	AMS Holding S.r.l.	CICA Terminal Equipment Corporation	Wheel Tug PLC	Total
Registered office	*Bruxelles*	*Amsterdam*	*Napoli*	*Pescara*		*Roma*	*Chicago*	*Gibraltar*	
Percentage interest	*1,48%*	*1,34%*	*15,0%*	*0,7%*		*15,0%*	*3,03%*		
rrying amount at 31 December 2013	**92**	**308.027**	**1.875.002**	**41.537**	**516**	**0**	**58.901**	**1**	**2.284.077**
Changes during the period				(41.537)	(516)			(1)	(42.054)
rrying amount at 31 December 2014	**92**	**308.027**	**1.875.002**	**0**	**0**	**0**	**58.901**	**0**	**2.242.023**

Regarding investments, on 31 December 2013 Alitalia wrote off the shareholding in AMS Holding S.r.l.. Moreover, on the same date Alitalia made provisions of €589,000, eventually reduced to €16,000 on 31 December 2014 as a result of the capital contributions made by Alitalia under the Memorandum of Understanding entered into with EAT, a company that, together with Iniziative Prima S.r.l. and Alitalia, is part of AMS Holding S.r.l.'s shareholder base.

2. **Receivables due from others**, amounting to €502,977 (of which the current portion amounts to €17,279,000) are up by €139,768,000 on 31 December 2013. The table below shows the main changes:

Non-current financial assets: Receivables due from others	31 December 2013	Disbursements	Reclassifications	Reimbursements	Perdite su crediti	Foreign exchange adjustments	31 December 2014
Security deposits	73.316	2.306	(1.877)	(1.021)		9.431	82.155
Financial receivables for payments into maintenance reserve	287.068	106.705		(22.464)		46.923	418.233
Financial receivables: other	2.825	4.585	(256)	(4.574)		9	2.588
Total	**363.209**	**113.596**	**(2.133)**	**(28.059)**	**0**	**56.363**	**502.976**

Thus, the net increase was due to:

- additions for the year, amounting to €113,596,000, referring to medium/long-term receivables arising from payments into the maintenance reserve, totalling €106,705,000; cash collateral of €4,575,000 provided by APC12 to PK Airfinance in relation to the loan for the A321 MSN495 aircraft, which was sold in February 2014; and the posting of security deposits of €2,306,000; and other items, totalling €10,000;

- total refunds received of €28,059,000, due to: maintenance reserve receivables collected, totalling €22,464,000, in relation to maintenance activities performed during in the year; the release of security deposits of €1,021,000 on expired lease agreements; collection of the above cash collateral, totalling €4,574,000;

- the recalculation of foreign currency items at closing exchange rates, totalling €56,363,000 (to this end, attention is called to the 12% increase in the value of the US dollar – the reference currency for security deposits and the maintenance reserve – against the euro, from 1.3791 as at 31 December 2013 to 1.2141 as at 31 December 2014);

- negative reclassifications of €2,133,000, related mostly to the security posted in 2009 with Freccia Alata 2, regarding the lease of the property located in viale Alessandro Marchetti, 11, Rome, following the settlement reached in July 2014 on several issues involving the Parent Company (€1,800,000).

3. **Other financial assets**, representing investment certificates held by Air One, amount to €65,000, unchanged from the comparable amount as at 31 December 2013.

B) CURRENT ASSETS, amounting to €1,030,136, are up €394,201,000 on 31 December 2013 and consist of:

I) INVENTORIES, which amount to €192,734,000, are up €50,386,000 on the comparable amount as at 31 December 2013, as shown in the following table:

Inventories	**31 December 2014**	**31 December 2013**	**Increase/ (Decrease)**
1. Raw materials:			
Spare parts and maintenance materials	41.938	48.855	(6.917)
Sundry materials	5.429	5.418	10
Sub-total	*47.367*	*53.177*	*(6.907)*
6. Assets held for sale	145.367	88.074	57.293
Total	**192.734**	**141.252**	**50.386**

The €50,386,000 rise resulted from the combined effect of increases resulting from reclassifications with a net value of €57,293,000 from “Fleet”:

- of seven A320 aircraft owned by the APCs, which were sold to Air Berlin, in a transaction to be completed in 2015 (€128,104,000);
- of an additional A320 sold to GA Telesis and another A320, which was phased out (totalling €8,451,000, including the revised sale value of two more A320 aircraft that had been classified in this item in the previous year);
- of the IT unit, which was sold to IBM, effective 1 January 2015 (€2,349,000).

In contrast, decreases are due to:

- sales during the year of 10 CRJ900s owned by APC, APC2 and APC3 and Alitalia’s spare parts (a total of 67,611,000);
- the sale of 4 A321 aircraft owned by APC12 (€12,926,000);
- the sale of 2 MD82 aircraft and spare engines owned by the Parent Company, Alitalia C.A.I. (€1,074,000);
- the sale of fleet spare parts and other maintenance materials (€6,917,000).

As at 31 December 2014, “Assets held for sale”, amounting to €145,367, breaks down as follows:

Assets held for sale	31 December 2014	31 December 2013	Increase/ (Decrease)
- CRJ aircraft and parts		67.611	(67.611)
- MD80/82 aircraft and parts	0	1.074	(1.074)
- A321 aircraft and parts	14.914	19.389	(4.475)
- A320 aircraft	128.104	0	128.104
- IT unit	2.349		2.349
Total	**145.367**	**88.074**	**57.293**

Inventories are shown net of allowances for obsolete inventory, totalling €2,871,000, related to the obsolescence of maintenance materials (€2,330,000), and the allowance that reflects the valuation of maintenance materials for the MD80, B767 and CRJ aircraft at the lower of cost and market value, totalling €541,000.

II) RECEIVABLES of €408,302,000 ate down €9,245,000.

Details of this item are as follows:

1) **Due from customers,** amounting to €222,005,000 (of which €5,688,000 falling due beyond 12 months), reflecting a decrease of €47,167,000, as shown in the following table:

RECEIVABLES:	31 December 2014	31 December 2013	Increase/ (Decrease)
Customers:			
Ordinary customers	108.516	100.947	7.569
Allowance for bad debts	(12.635)	(8.853)	(3.782)
Allowance for late-payment interest	(12)	(1)	(11)
Airlines	48.904	57.673	(8.769)
Allowance for bad debts	(2.902)	(882)	(2.020)
Travel agents	88.946	123.613	(34.667)
Allowance for bad debts	(8.813)	(3.324)	(5.489)
Total	**222.005**	**269.172**	**(47.167)**

This change is essentially due to:

- a decrease in amounts due from travel agents, totalling €40,155,000, due to lower sales volumes;
- a decrease in amounts due from airlines, totalling €10,789,000, due to lower settlement amounts with other carriers, related mainly to the collection of signing bonuses from Air France;
- an increase in amount due from customers, totalling €3,777,000, due mainly to higher credit card sales.

To take account of the portion of the above receivables deemed not to be recoverable, an allowance for bad debts has been established which, at 31 December 2014, amounts to €24,339,000 (€13,061,000 as at 31 December 2013), following provisions of €14,564,000, uses of €3,273,000 and reclassifications of €11,000 for the year.

An ageing schedule for receivables, according to the date ranges used internally to monitor receivables resulting from invoices issued as of 31 December 2014, is included in the section, "Financial risk management", in the Report on Operations.

4bis. – **Tax assets,** amounting to €14,210,000, are down €6,628,000, due mainly to lower tax (IRAP) prepayments for the period, net of the tax liability accrued for the period. This item reflects the amounts recognised in previous years in relation to the benefits derived from the tax deductibility, for IRES purposes, of the staff costs incurred in previous years (€5,558,000).

4ter –Deferred tax assets, amounting to €35,467,000, are up €5,927,000 on the comparable amount as at 31 December 2013, due to the prepayment of IRAP payable in 2014.

Deferred tax assets reflect €18,224,000 in tax loss carryforwards (IRES) recognised in years prior to 2011, and €17,243,000 in temporary tax differences (IRAP), attributable mainly to the maintenance reserve and provisions for sundry risks. The deferred tax assets related to the tax loss carryforwards can be recovered through the "Tax consolidation" mechanism, in view of the taxable income projected in Alitalia S.A.I.'s 2015-2018 business plan. The Directors saw fit, for prudential reasons, considering the losses posted after 2011, not to recognise any additional deferred tax assets on past losses, amounting to €612,455,000.

. **5.** **Due from others,** amounting to €136,621,000 (of which €13,610,000 falling due beyond 12 months), is up €38,623,000, as shown in the following table:

RECEIVABLES:	31 December 2014	31 December 2013	Increase/ (Decrease)
5. Due from others:			
Sundry receivables: invoices issued	35.277	43.355	(8.078)
Sundry receivables: provisions	19.102	18.824	278
Sundry receivables: past due amounts	5.440	7.601	(2.161)
Allowance for bad debts	(5.873)	(7.357)	1.485
Allowance for late-payment interest	(66)	(129)	63
Other receivables	30.704	12.896	17.808
Insurance companies	50	159	(109)
Due from staff	4.703	6.091	(1.388)
Advances to suppliers	15.356	6.094	9.262
Short-term financial receivables	31.927	10.465	21.463
Total	**136.621**	**97.998**	**38.623**

This change was due mainly to:

- an increase in financial receivables of €21,463,000, relating to the increase in the value of the foreign exchange derivative used to hedge the dollar-denominated loans of Irish companies APC10 and APC12 (up €27,867,000, with an equal and offsetting amount being entered among short-term bank borrowings, relating to the offsetting adverse effect of the exchange rate on the borrowing itself), and an increase in the short-term portion of security deposits (up €870,000), partly offset by the write-down of receivables due from Aeroporti di Roma, determined by the latter's enforcement of a surety (down €6,295,000), and of receivables due from others (down €979,000);

- an increase in advances to suppliers, totalling €9,262,000, mainly in connection with maintenance services;

- an increase in other receivables, totalling €17,808,000, essentially sums due from INPS, reflecting an increase in refundable amounts (€10,408,000);

- a decrease in receivables due from staff (€1,388,000);

- a decrease in various debtors, totalling €8,476,000 (after the change in the allowances for bad debts and late-payment interest, totalling €1,547,000). This item refers, among others, to the balance of receivables arising from signing bonuses obtained in previous years, but whose collection is to take place in instalments over time, as per the relevant agreements (i.e. Airport Handling, amounting to €6,100,000, Amadeus, amounting to €6,000,000, Almaviva, totalling €3,828,000, Maggiore, totalling €1,574,000 and GH, totalling €1,449,000).

To take account of the portion of the above receivables deemed not to be recoverable, an allowance for bad debts has been established which, at 31 December 2014, amounts to €5,860,000 (€7,357,000 as at 31 December 2013), following provisions for the year of €2,405,000 and uses for the same period of €3,902,000.

III) SECURITIES HELD FOR TRADING consist of shares held by Air One and deposited with Banco Popolare di Pescara Group, which as at 31 December 2014 amount to €49,000, down €19,000 due to a write-down.

IV) CASH AND CASH EQUIVALENTS amount to €429,051,000, reflecting an increase of €353,080,000 due to higher bank and post office deposit balances. The increase reflects Etihad's cash contribution to Alitalia S.A.I. – in relation to the complex and comprehensive strategic transaction entered into by the companies and with Alitalia C.A.I. – and the €125,000,000 injected by shareholders in relation to the capital increase approved by the General Meeting of 25 July 2014, as well as the €75,000,000 intercompany loan between Midco and Alitalia, less the cash used for the period, for which reference should be made to the cash flow statement.

Specifically:

IV. CASH AND CASH EQUIVALENTS	31 December 2014	31 December 2013	Increase/ (Decrease)
Bank and post office deposits	353.175	27.834	325.341
Cash and other valuables in hand	403	539	(136)
Restricted bank deposits	179.362	112.007	67.355
Allowance for changes in value of cash and cash equivalents	(103.889)	(64.409)	(39.480)
Total	**429.051**	**75.971**	**353.080**

An allowance for bad debts has been established for the cash trapped in Venezuela and Iran, amounting to €102,455,000 and €1,434,000, respectively. This has been done to adjust the relevant nominal value to their expected realisable value, following the restrictions in place in the two countries. Bank deposits subject to restrictions, amounting to €179,362,000, before the related allowance for bad debts, are shown in the table below by country:

RESTRICTED BANK DEPOSITS	31 December 2014	31 December 2013	Increase/ (Decrease)
Iran	2.868	8.402	(5.534)
Venezuela	170.758	100.347	70.411
Libia	2.236	1.281	955
Algeria	3.500	1.977	1.523
Total	**179.362**	**112.007**	**67.355**

The financial and economic conditions in Venezuela and related movements in the country's currency against the US dollar are of particular concern, as are the Venezuelan government's restrictions on the repatriation of cash generated from local sales. Against this backdrop, the Directors continue to monitor constantly and closely the situation in Venezuela and, based on the available information at the time of writing (including maintenance of SICAD I bolivar/dollar exchange rate), they consider the reported amount of €68,303,000 (already written down by the amount indicated previously) to be recoverable.

C) DEFERRED INCOME AND PREPAID EXPENSES amount to €19,419,000, reflecting a decrease of €11,071,000 on the comparable amount as at 31 December 2013, as shown in the following table:

D) ACCRUED INCOME AND PREPAID EXPENSES	31 December 2014	31 December 2013	Increase/ (Decrease)
Accrued income:	25	0	25
Prepaid expenses:			
staff	2.581	1.984	597
leased assets	10.740	18.767	(8.026)
services	5.468	9.996	(4.528)
other	604	(257)	861
Total	**19.419**	**30.490**	**(11.071)**

This item does not include any amount that extends beyond five years.

EQUITY AND LIABILITIES:

A) As at 31 December 2014 the Group's **EQUITY** is a negative €93,056,000. This item consists of:

I. **SHARE CAPITAL**, fully paid-in and amounting to €357,545,000, represented by 54,269,928,100 shares, including 7,969,577,138 ordinary shares, 606,935,319 special category B shares, 11,927,480,909 category 2 shares (*Azioni 2*), 20,720,564,314 category 3 shares (*Azioni 3*), and 13,045,370,420 category 4 shares (*Azioni 4*), all no par value. Compared with 31 December 2013, the share capital has increased by €86,868,000, due to (a) the issue of new shares under the capital increase of €70,418,000 approved by the shareholders at the General Meeting held on 14/15 October 2013, in connection with exercise of the option embedded in the convertible bonds issued pursuant to the resolution adopted by the shareholders at the Extraordinary General Meeting held on 22 February 2013, whose exercise date had been extended until 10 January 2014; and (b) the issue of new shares under the capital increase of €16,450,000 approved by the shareholders at the Extraordinary General Meeting held on 25 July and 8 August 2014.

For more details, reference is made to "Corporate information – Update on equity transactions" in the Report on Operations accompanying these consolidated financial statements.

II. **SHARE PREMIUM RESERVE**, which amounts to €752,417,000, is up €462,417,000 on 31 December 2013, following the resolution adopted by the shareholders at the Extraordinary General Meeting held on 25 July and 8 August 2014, as described more extensively in "Corporate information – Update on equity transactions" in the Report on Operations.

VII. **OTHER RESERVES**, which show a negative balance of €2,748,000, compared with a positive balance of €34,414,000 as at 31 December 2013. They consist of:

3. The **Reserve for the capital contribution for conversion of convertible bonds,** which has a zero balance, reflecting a decrease of €37,467,000 as a result of the partial conversion into ordinary shares of the convertible bonds issued pursuant to the resolution adopted by the shareholders at the Extraordinary General Meeting held on 22 February 2013. Given that the terms and conditions of the bonds permitted conversion until 10 January 2014, the amount of the conversion as at 31 December 2013 was accounted for in a specific capital reserve, pending the issue of new shares and the related capital increase. On 11 January, upon completion of the filing of the assurances required by article 2420-*bis* and 2444 of the Italian Civil Code with the competent Companies' Register, the amount of the reserve in question was transferred to "Share capital";
4. The **Foreign currency translation reserve,** which shows a negative balance of €3,292,000, reflecting a positive change of €576,000 on 31 December 2013; such change was due to the release of the amount recorded in 2010, in relation to the sale of two aircraft owned by the Irish company APC12, at the end of 2014, which has been reclassified to "Assets held for sale" under current assets.
6. **Other,** amounting to €545,000, unchanged from the comparable amount as at 31 December 2013.

VIII. **RETAINED EARNINGS/(ACCUMULATED LOSSES)**, which reflect accumulated losses of €621,991,000, are up €396,660 due to the Group's reported loss for the year ended 31 December 2013.

IX. The **LOSS FOR THE YEAR** amounts to €578,280,000, compared with a loss of €568,609,000 for 2013, which was reduced to €396,660,000 after the shareholders decided, at the General Meeting held on 14/15 October 2013, to make up for the loss of €171,949,000 for the six months ended 30 June 2013.

The table below shows changes in Equity during the period under review and in the preceding three years:

STATEMENT OF CHANGES IN EQUITY OF THE C.A.I. GROUP

€000	Share capital	Share premium reserve	Retained earnings/ (accumulated losses)	Net profit/(loss) for the period	Loss coverage reserve	Foreign currency translation reserve	Capital contribution for conversion of convertible bonds	Other reserves	Total
Balance at 31 December 2011	**668.355**	**501.156**	**(613.628)**	**(69.014)**	**23**	**(7.875)**		**220**	**479.237**
Appropriation of profit and losses			(69.014)	69.014					0
Other increases and decreases						1.019		325	1.344
Net profit/(loss) for the period				(279.597)					(279.597)
Balance at 31 December 2012	**668.355**	**501.156**	**(682.642)**	**(279.597)**	**23**	**(6.856)**		**545**	**200.984**
Appropriation of profit and losses			(279.597)	279.597					0
Loss coverage	(407.678)	(501.156)	736.908	171.949	(23)				0
Share capital increase	10.000	290.000							300.000
Conversion of convertible bonds							37.467		37.467
Other increases and decreases						2.987			2.987
Net profit/(loss) for the period				(568.609)					(568.609)
Balance at 31 December 2013	**270.677**	**290.000**	**(225.331)**	**(396.659)**	**0**	**(3.868)**	**37.467**	**545**	**(27.169)**
Appropriation of profit and losses			(396.660)	396.660					0
Share capital increase	4.294	120.706							125.000
Conversion of convertible bonds	70.418						(37.467)		32.951
Debt restructuring	12.156	341.711							353.867
Other increases and decreases						576			576
Net profit/(loss) for the period				(578.280)					(578.280)
Balance at 31 December 2014	**357.545**	**752.417**	**(621.991)**	**(578.280)**	**0**	**(3.293)**	**0**	**545**	**(93.056)**

B) As of 31 December 2014, **PROVISIONS FOR RISKS AND CHARGES** amount to €1,003,023, reflecting an increase of €654,403,000 on the comparable amount for 2013. The table below provides a breakdown of this item:

€000	Provisions as at 31 December 2014						
Provisions	31 December 2013	Provisions for the period	Uses	Releases to income statement	Exchange rate adjustment	Reclassifications	31 December 2014
2) Provisions for taxes, including deferred tax liabilities	**9.218**	1.547		-535			**10.230**
3) Other provisions:							
a) Provisions for prize competitions and loyalty programmes	**30.610**	**18.421**	**-963**	**-12.539**			**35.530**
b) Maintenance reserve	**262.554**	**148.332**	**-29.225**	**-10.987**	**44.200**		**414.875**
c) Provisions for restructuring	**-**	**34.658**	**-15.456**				**19.202**
d) Sundry provisions:							
Coverage of losses of investees	**589**		**-572**				**16**
Sundry risks	**45.650**	**122.128**	**-16.759**	**-16.568**	**-**	**1.220**	**135.670**
of which							
. Legal disputes	*6.281*	*3.805*	*-5.783*	*-1.605*			*2.698*
. Supplier disputes	*4.832*	*38.069*	*-4.372*	*-2.727*			*35.801*
. Labour disputes	*1.718*	*11.964*	*-1.073*	*0*			*12.609*
. Foreign employee disputes	*1.910*	*300*	*0*	*-210*			*2.000*
. Foreign transportation disputes	*3.104*	*1.561*	*-1.375*	*0*			*3.290*
. Foreign tax disputes	*468*	*1*	*-290*	*-6*			*173*
. Transport and regulatory disputes	*3.158*	*2.328*	*-1.897*				*3.589*
. Tax audits	*18.000*	*13.250*	*0*	*-8.000*		*0*	*23.250*
. Identified TOTO disputes	*-*	*44.400*	*0*	*0*		*0*	*44.400*
. Social security (INPS)	*-*	*5.600*	*0*	*0*		*0*	*5.600*
. Fleet phase-out	*4.967*	*830*	*-1.970*	*-4.020*		*1.220*	*1.028*
. Sundry disputes	*1.211*	*20*					*1.231*
4) Provisions for irrevocable cash contribution						*387.500*	***387.500***
TOTAL PROVISIONS FOR RISKS AND CHARGES	**348.620**	**325.086**	**- 62.976**	**- 40.629**	**44.200**	**388.720**	**1.003.022**

Specifically:

2. **Provisions for taxes, including deferred tax liabilities,** amounting to €10,230,000, are up €1,012,000 on the comparable amount as at 31 December 2013. This item consists of:

   a) **provisions for taxes** of €500,000, unchanged from the previous year, which cover several tax disputes initiated by Air One in previous years;

   b) **deferred tax liabilities** of €9,730,000, having increased €1,011,000, refer to deferred taxation recognised by the Parent Company (€1,547,000), to releases carried out by the Irish companies (€479,000) and the positive tax effect of leased assets accounted for in accordance with OIC 17 (€55,000).

3. **Other provisions**, amounting to €605,294,000, are up €265,892,000 on 2013. This item consists of:

   a) **Provisions for prize competitions and loyalty programmes**, amounting to €35,530,000, reflecting the Group's current exposure to its customers for the frequent flyer programme known as "Millemiglia". This item is up €4,919,999 on the previous year, as a result of the combined effect of provisions (€18,421,000) and uses (€13,502,000) for the year. The loyalty programme is managed by Alitalia Loyalty S.p.A., to which the relevant business unit was transferred from Alitalia – Compagnia Aerea Italiana on 25 January 2013;

b) The **maintenance reserve,** which includes sums set aside in relation to certain maintenance activities to be performed on leased aircraft, amounts to €414,875,000, with an increase of €152,322,000 on the comparable amount for 2013. This increase is due to provisions for the year of €148,334,000 and the effect of the alignment to closing exchange rates, totalling €44,200,000, partly offset by uses and releases during the year of €40,212,000;

c) **Provisions for restructuring**, which were established in the year under review, amount to €19,202,000. This item reflects the balance resulting from the combined effects of the Group's restructuring process which saw: a) provisions of €19,067,000 made and uses of €13,041,000 in connection with the cost of staff leaving the Group, both overseas (€4,279,000) and in Italy (€14,788,000, relating to redundancy payments, including voluntary redundancy payments, contributions for unemployment schemes payable to INPS, pay in lieu of notice and other charges of this nature), and €15,591,000 in provisions for costs in relation to phase-outs and penalties for the early repayment of debt related to the replacement 24 A320 and A321 aircraft, after they had been grounded, in addition to €2,415,000 in uses of the same nature;

d) **Sundry provisions**, amounting to €135,686,000, are up €89,448,000. They consist of:

- **provisions to cover the losses of investees**, amounting to €16,000, which are down €573,000 following the full use of provisions made last year in relation to Alitalia's commitment to cover the losses of AMS Holding;

- **provisions for sundry risks**, amounting to €135,671,000, which are up €90,021,000 on the previous year due to:

  - provisions of €122,128,000 related to: related to the assessment of risk for different legal disputes with suppliers (€38,069,000), the overall risk associated with the inability of Air One to recover from its former owner (Carlo Toto) sums related to known tax disputes (€44,400,000), the amount necessary to address claims from INPS in connection with the redundancy fund (€5,600,000), a tax assessment by the Italian tax authorities, following a tax audit completed in July 2013, in relation to the tax residence of the Irish companies for fiscal years 2002-2008 (€13,250,000), labour disputes (€11,964,000), litigation in civil courts (€3,805,000); labour disputes abroad (€300,000); air transport overseas (€1,561,000); regulatory/transportation issues in Italy (€2,328,000); and consulting and other expenses related to the early repayment of debt financing the fleet (€830,000).
    Regarding the provisions for the inability to recover the above sums from Toto, the Directors – though mindful of the Framework Agreement, which clearly attributes responsibility for payment of these sums to the seller (Toto) – saw fit to adopt a prudent approach and to make provisions for the potential charges arising from the relevant tax disputes. This decision was made, among others, in light of the objections raised by Toto to the payment of sums for largely similar situations (the reimbursement of charges associated with tax disputes associated with events that occurred under the previous owner, especially the Irish case);

- release of pre-existing provisions, totalling €16,568,000, relating to sums set aside in previous years, including €4,020,000 for charges to phase out the CRJ and B767 aircraft; €8,000,000 for the excess provisions – based on the opinion of the Group's counsel upon specific request – made in 2013 by Air One (€18 million) in connection with tax audits by the Italian tax authorities, focusing on matters that had already been investigated and extended to fiscal years 2006-2009; €2,727,000 for risks relating to airport suppliers; €1,605,000 for litigation in civil courts; €210,000 in relation to foreign labour disputes; and, lastly, €6,000 for overseas taxes;
- uses, totalling €16,759,000, of provisions made for litigation in civil courts (€5,783,000) – among which attention is called to the settlement between the Parent Company and Freccia Alata 2 for the lease of the buildings in via Alessandro Marchetti 111, Rome -, for disputes with airport suppliers (€4,372,000), for work-related risks (€1,073,000), overseas transportation (€1,375,000), the costs connected with the phase-out of MD80 and CRJ900 aircraft (€1,970,000) and for overseas taxes (€290,000);
- reclassifications from trade payables, totalling €1,220,000, to cover risks related to the phase-out of the fleet.

4. **Provisions for irrevocable cash contribution,** established in the year under review and totalling €387,500,000, represent the irrevocable cash contribution made by Etihad to Alitalia S.A.I. on 22 December 2014 in respect of its subscription for shares to be issued by Alitalia S.A.I. as a result of the capital increase, effective 1 January 2015.

C) **PROVISIONS FOR POST-EMPLOYMENT BENEFITS** amount to €9,265,000, reflecting a decrease of €1,286,000 on the comparable amount at €31 December 2013. This item represents the Group's debt towards its employees as at 31 December 2014, less any advances and in accordance with the Finance Act (law no. 296 of 27 December 2006).

D) As at 31 December 2014, ***PAYABLES*** amount to €1,666,837,000, with a decrease of €462,531,000, as shown in the following table:

D) Payables	**31 December 2014**	**31 December 2013**	**Increase/ (Decrease)**
Convertible bonds	33.276	63.867	(30.591)
Bank borrowings	585.336	770.038	(184.702)
Other borrowings	79.642	166.805	(87.164)
Advances	2.921	3.235	(314)
Trade payables	636.507	653.754	(17.247)
Tax liabilities	33.616	49.673	(16.057)
Social security contributions payable	19.502	56.943	(37.441)
Other payables:			
Prepaid tickets	223.371	281.832	(58.461)
Sundry payables	52.667	83.221	(30.555)
Other payables	*276.038*	*365.053*	(89.016)
Total	**1.666.837**	**2.129.369**	**(462.531)**

More specifically:

2. **Convertible bonds** amount to €33,276,000, reflecting the balance outstanding of the convertible bond issue approved by the shareholders in the Extraordinary General Meeting of 22 February 2013. This item is down €30,592,000 on the comparable amount as at 31 December 2013, due to the conversion to ordinary shares, in January 2014, of bonds totalling €32,951,000, partly offset by €2,360,000 in interest accrued as of 31 December 2014, at the rate of 8% per annum, on the remaining convertible bonds outstanding.

4. **Bank borrowings** total €585,336,000 (of which €311,423,000 falls due beyond 12 months), marking a decline of €184,702,000, as shown in the following table:

4. Bank borrowings	31 December 2014	31 December 2013	Increase/ (Decrease)
a) medium/long-term			
portion maturing withn 12 months	*263.104*	*108.580*	*154.524*
portion maturing beyond 12 months	*311.423*	*434.306*	*(122.883)*
	574.527	542.886	31.641
b) short-term			
due to banks	10.809	227.152	(216.343)
Total	**585.336**	**770.038**	**(184.702)**

The reduction of €184,702,000 is mainly due to:

- a decrease in short-term borrowings of €216,343,000, following the debt restructuring based on the agreement signed, on 22 December 2014, by the Company and its lenders, whereby the loans provided by Monte dei Paschi, Banca Popolare di Sondrio, Intesa Sanpaolo and Unicredit were converted into new shares (specifically, *Azioni 3* and *Azioni 4*, totalling €313,867,000), partly offset by an increase in the exposure to lines of credit of €97,524,000;

- an increase in medium/long-term debt of €31,641,000, following the above-mentioned restructuring transaction, whereby debt classified as "ex factoring and pool" with Unicredit, Monte dei Paschi di Siena and Banca Popolare di Sondrio (€177,428,000) was consolidated into a 10-year loan carrying a 4% interest rate, and an increase in the dollar-denominated loans obtained by the Irish companies, APC10 and APC12, due to the impact of closing exchange rates (€27,867,000, with an equal and offsetting amount being entered in short-term financial receivables). In contrast, total repayments for the year amounted to €173,654,000. Based on the provisions of the restructuring agreement, the "ex factoring and pool" debt will be voluntarily offset against the cost of subscribing for *Azioni 1* shares if (i) the book value of the Company's equity falls to below €20 million, or (ii) the Company, at maturity of the loan, is unable to raise the funds necessary to repay the loan. In the event of (i), the "ex factoring and pool" banks will subscribe for new shares, in one or more tranches, with a value equal to the debt, plus interest accrued thereon, necessary to restore CAI's equity to €20 million. In the event of (ii), the banks will subscribe for new shares equal to the full amount of the "ex factoring and pool" debt that cannot be repaid by CAI due to a lack of, or insufficient, funds.

In addition, the "ex factoring and pool" creditors will fund the subscription and payment of new *Azioni 1* shares via a voluntary offset of their "ex factoring and pool" debt, including accrued and unpaid interest.

Lastly, the "ex factoring and pool" creditors will have the option, each year, to extend the date of repayment of their loans, in which case:

- they will not subscribe for new *Azioni 1* shares;
- on each new repayment date so extended, they will purchase new *Azioni 1* shares equal to the amount of the "ex factoring and pool" debt (plus interest accrued thereon) that cannot be repaid by CAI on such date, due to lack of, or insufficient, funds to cover repayment;
- effective as of the repayment date, the "ex factoring and pool" debt (a) will stop accruing interest, both legal and contractual, and (b) will be considered as consolidated until a new repayment date, as determined from time to time.

Several agreements governing borrowings include financial covenants, requiring the maintenance of certain ratios.
Regarding the SACE loan, as at 31 December 2014, this loan had been swapped into equity and, as such, was not subject to financial covenants.
With regard to the borrowings from Intesa San Paolo/BPER Group, as at 31 December 2014 the Company had breached the relevant covenant, as the Group's equity was negative. However, it should be noted that, as at 31 December 2014, a new agreement has been signed, whereby part of the debt has been transferred to Alitalia SAI, while the remaining portion has been restructured and, as such, is no longer subject to any covenant.
As to the amount due to HSH Nordbank, the Company breached the relevant covenants as at 31 December 2014, as both the Group's equity and EBITDA were negative. However, in February and March, the aircraft used as collateral were sold and this debt was repaid in full.
Regarding the debt outstanding with Unicredit, Intesa San Paolo and MPS (formerly Nuova Finanza 02/2014), it should be noted that, as at 31 December 2014, this debt has been swapped into equity and, as such, is not subject to any financial covenant.

5. **Other borrowings,** amounting to €79,642,000 (of which €77,025,000 falling due beyond twelve months), are down €87,164,000, as shown in the following table:

5. Other borrowings	31 December 2014	31 December 2013	Increase/ (Decrease)
portion maturing w ithn 12 months	2.617	2.578	38
portion maturing beyond 12 months	77.025	4.665	72.359
	79.642	*7.244*	*72.398*
other		159.562	(159.562)
Total	**79.642**	**166.805**	**(87.164)**

In essence, the change is due to the conversion of factoring financing into medium/long-term loans, in connection with the above-mentioned debt restructuring (€159,467,000), and the repayment of the Group's finance lease liabilities, which was accounted for in accordance with OIC 17 (€2,602,000), partly offset by the capital contribution provided by Poste Italiane S.p.A. through MidCo (€75,000,000), a subsidiary established in relation to the overall strategic transaction described above.

6. **Advances**, amounting to €2,921,000, are down €314,000.

7. **Trade payables,** totalling €636,507,000, are down €17,247,000 on the comparable amount as at 31 December 2013, as shown by the following table:

7. Trade payables	31 December 2014	31 December 2013	Increase/ (Decrease)
Sundry suppliers	562.347	614.964	(52.617)
Airlines	50.055	15.380	34.675
Travel agents	24.104	23.409	695
Total	**636.507**	**653.754**	**(17.247)**

The lower exposure is due in essence to the decrease in payables to Italian and foreign suppliers, amounting to €52,617,000, offset by the increase in payables to overseas airlines, amounting to €34,675,000, reflecting the higher number of the Group's tickets used for flights operated by other carriers and to the greater use of wet lease services by Mistral Air. Amounts due to travel agents are also up €695,000.

12. **Tax liabilities,** amounting to €33,616,000 (of which €9,277,000 falling due beyond 12 months), are down €16,057 on the comparable amount as at 31 December 2013. This is due mainly to payments to the tax authorities of €18,585,000 during the year - in relation to the tax assessed in 2013 following an audit by the tax authorities, as described extensively in the Notes to the 2013 consolidated financial statements -, a lower amount of IRAP (regional tax on productive activities) payable as at 31 December 2014 (a reduction of €1,834,000) and a monthly VAT payment of €401,000. Such payments were offset by a higher amount of IRPEF (personal income tax) payable on wages and salaries, totalling €5,437,000.

13. **Social security contributions payable**, totalling €19,502,000, are down €37,441,000, due mainly to the reduced amount payable to INPS, following the contribution holiday on compensation paid to

aircrew obtained by the Group for 2014 and the payment of contributions in instalments for all employees (total amount: - €30,061,000), lower payments to supplementary pension funds (down €2,300,000), lower labour insurance (INAIL) payments (down €1,722,000), and lower social security contributions payable on salaries as at 31 December 2014 (down €3,025,000).

The above should be viewed in relation to overall changes to staffing levels in 2014.

14. **Other payables,** amounting to €276,038,000, are down €89,016,000. These break down as follows:

14. Other payables	31 December 2014	31 December 2013	Increase/ (Decrease)
Prepaid tickets	223.371	281.832	(58.461)
Insurance companies	2.426	3.922	(1.496)
Amounts due to employees	21.102	29.197	(8.095)
Third-party security deposits	491	615	(124)
Sundry creditors	10.816	19.199	(8.383)
Provisions payable to creditors	17.831	30.289	(12.458)
Total	**276.038**	**365.053**	**(89.016)**

The decrease is due in essence to the following:

- a decline in the value of prepaid tickets, amounting to €58,461,000, reflecting lower ticket sales and the higher volume of tickets used compared with 2013;
- a decline in amounts due to employees, amounting to €8,095,000, due to a reduction in accrued but unpaid wages and salaries as at 31 December 2014 (down €9,025,000), following the collective layoffs carried out through redundancy schemes, in connection with the restructuring process implemented in accordance with the agreement signed in July 2014, and to an increase in outstanding holiday pay (up €930,000);
- lower amounts due to sundry creditors, amounting to €20,841,000, reflecting a reduction in the regional tax on aircraft noise (IRESA);
- a reduction in amounts payable to insurance companies, amounting to €1,496,000.

E) **ACCRUED EXPENSES AND DEFERRED INCOME,** amounting to €9,168,000, are down €773,000, as shown in the following table:

Accrued expenses and deferred income	31 December 2014	31 December 2013	Increase/ (Decrease)
Accrued expenses	4.222	4.157	65
Deferred income	4.946	5.785	(839)
Total	**9.168**	**9.942**	**(773)**

Deferred income includes amounts due beyond five years, totalling €35,000.

MEMORANDUM ACCOUNTS

As at 31 December 2014, the **memorandum accounts** amount to €5,959,017,000, marking an increase of €443,957,000 on 31 December 2013.
Specifically:

3. **Purchase and sale commitments**, totalling €3,043,023,000, are up on the €2,600,386,000 as at 31 December 2013. They refer to:

   - purchase commitments of €1,665,843,000 entered into with Air France, Bedeck, Atitech and AMS for maintenance activities to be carried out on aircraft and engines (€1,647,152,000), for local improvements and plant (€14,044,000) and for in-flight services (€2,590,000), as well as in relation to the capital increase for the investee company, Atitech (€1,875,000) and the commitment to contribute €182,000 to AMS Holding S.r.l.;

   - contractual commitments, covering CO2 emission allowances, totalling €3,189,000;

   - derivative contracts, totalling €1,373,992,000, related to: i) transactions to hedge EUR/US$ exchange rate risk, in connection with fuel payments and the sale of aircraft in dollars, and, to a more limited extent, the EUR/GBP/JPY exchange rate risk associated with sales in the United Kingdom and Japan, totalling €533,998,000; ii) transactions hedging the risk associated with movements in fuel prices, totalling €629,351,000; iii) transactions hedging the EUR/US$ exchange rate risk in connection with loans to the Irish companies, APC10 and APC12, totalling €205,877,000; and iv) transactions hedging the interest rate risk on the loan to APC1, totalling €4,766,000.

     As indicated in the section, "Additional information", in the Notes, changes in the fair value of derivative financial instruments as at 31 December 2014 has resulted in: i) fair value losses of €198.3 million, with reference to hedges of fuel price risk; ii) fair value gains of €4.4 million, with reference to the exchange rate hedges; and iii) fair value losses of €0.4 million, with reference to interest rate hedges. In keeping with the "Accounting policies" described in the Notes, considering that such instruments qualify for hedge accounting, these changes in fair value have not been recognised through profit or loss. Tthe derivatives have instead been reported in the memorandum accounts at their notional amount.

4. **Other memorandum accounts,** amounting to €2,915,994,000, are up €1,320,000 on 31 December 2013.

   Specifically:

- **Third-party assets held under custody, bailment or lease**, amounting to €2,535,201,000 and represented by leased assets, such as aircraft (€2,447,505,000), spare parts, engine parts and flight simulator parts (€28,769,000), property (€53,480,000) and leased vehicles (€5,447,000). Compared with 31 December 2013, this item is up €39,534,000;

- **owned assets held by third parties**, amounting to €71,914,000 and relating mainly to aircraft and engines undergoing repair at third parties' facilities as at 31 December 2014 (€57,838,000), spare parts (€13,263,000) and other assets leased to third parties (€812,000). The comparable amount as at 31 December 2013 was €94,733,000;

- **risks,** amounting to €60,491,000 and down €48,501,000 on the comparable amount at the end of 2013. This item reflects penalties that the Group will have to pay in the event of the termination of contracts with suppliers;

- **guarantees received from third parties**, totalling €1,956,000 and referring essentially to the guarantees posted by agents; as at 31 December 2013, this item amounted to €1,759,000;

- **third-party guarantees for company obligations**, amounting to €246,432,000 and up €32,908,000 on the comparable figure as at 31 December 2013. These relate to certain guarantees provided by banks and insurance companies to secure the Group's obligations related to operations and to the tax authorities, following the adoption of a Group-wide VAT arrangement.

  The above amount includes a guarantee provided by Banca Popolare di Sondrio to Air France in the interests of Alitalia, totalling €10,331,000.

Part C – Notes to the Income Statement

Below, the main items in the consolidated income statement are discussed.

A) The **VALUE OF PRODUCTION** is €3,438,786,000, down €136,930,000 on the comparable amount for the previous year (down 4%). Details are as follows:

1. **Revenue from sales and services**, amounting to €3,180,595,000, are down €225,293,000 (€3,405,888,000 in 2013, down 7%) and consists of:

a). **Revenue from services** amounts to €3,178,657,000, compared with €3,403,187,000 in 2013, and consists of:

1) **Revenue from traffic,** amounting to €3,031,856,000, is down €221,174,000, or 7%, on the comparable figure, as shown in the following table:

a. Revenue from services	2014	2013	Increase/ (Decrease)
Revenue from traffic			
Passengers	2.748.673	2.924.650	(175.978)
Other passenger revenue	121.079	141.945	(20.866)
Cargo	95.783	99.443	(3.660)
Mail	3.913	2.929	984
Income from joint operations with other carriers	5.423	8.138	(2.715)
Total	***2.974.871***	***3.177.105***	**(202.234)**
Other revenue from traffic			
Passenger charters	43.601	62.324	(18.723)
Freight charters	1.328	1.981	(653)
Night mail flights	5.919	3.931	1.988
Block space	6.136	7.689	(1.552)
Total	***56.985***	***75.925***	***(18.940)***
Total revenue from traffic	**3.031.856**	**3.253.030**	**(221.174)**

The overall reduction was determined mainly by decreases in:

- passenger revenue (down €175,978,000, or 6%), reflecting a reduction in average revenue (down 5%) across all three segments (Domestic down 5.1%, International down 6.7% and Intercontinental down 7%), partly due to adverse foreign currency movements; the number of passengers carried declined slightly (1%) compared with the previous year (22,445,095 passengers in 2014 versus 22,688,472 in 2013);
- other passenger revenue (down €20,866,000), primarily due to a reduction in change fees and distribution charges (down €14,700,000), a reduction in tickets that are no longer usable as their validity has expired or because they are subject to fare restrictions that mean they are no longer valid (down €10,421,000), a decrease in fare adjustments (down €7,485,000) and a reduction of the crisis surcharge (€2,666,000), partially offset by the amount linked to MilleMiglia bonus mile entitlements (up €6,304,000), greater ancillary revenue (such as excess baggage charges, up

€4,657,000) and an increase in administrative charges on the refund of fares subject to restrictions (up €3,445,000).

- revenue from passenger charters (down €18,723,000, or 30%, due to the combined effect of lower volumes and reduced unit revenue) and freight charters (down €653,000);
- revenue from cargo activities (down €3,660,000, or 3.2%), a decrease occurring mostly on long-haul international flights and partially offset by the positive performance of domestic cargo (up 9.1%) and short- and medium-haul international flights (up 7.8%);
- income from joint operations with other carriers (down €2,715,000);
- block space revenue (down €1,552,000);

the above decreases were slightly offset by:

- an increase in revenue from night mail flights of €1,988,000, a service operated on behalf of Mistral Air, a wholly owned subsidiary of the Poste Italiane group, with the aim of maximizing synergies between the two groups;
- revenue from mail and daytime flights (up €984,000).

2) **Revenue from other services** amounts to €146,801,000, down €3,357,000 (2.2%), and breaks down as follows:

a.Revenue from services	2014	2013	Increase/ (Decrease)
Other services			
Commission income passengers	13.982	14.336	(353)
Traffic and re-start penalties	9.812	9.556	256
Other ancillary income	7.582	7.893	(311)
Charter income	201	248	(47)
Technical and airline assistance	13.169	12.120	1.049
Ground handling	33.804	33.694	110
Maintenance services	1.227	7.405	(6.178)
Seconded personnel	480	400	80
Sundry services	23.452	23.613	(162)
Revenue from MilleMiglia airline partnerships	5.541	5.484	58
Revenue from MilleMiglia commercial partnerships	32.705	29.195	3.510
Reservations	4.845	6.214	(1.369)
Total other services	**146.801**	**150.158**	**(3.357)**

The decline relates in essence to lower revenue from maintenance services (down €6,178,000), from reservation activities (€1,369,000) and from commission income (€353,000), partly offset by higher revenue from technical assistance (up €1,049,000) and Millemiglia commercial and airline partnerships (up €3,568,000).

b). **Revenue from sales** total €1,938,000, reflecting a decrease of €762,000 compared with the previous year, in relation mainly to lower sales of maintenance materials.

4. **Increase in self-constructed assets,** amounting to €24,129,000 (€18,676,000 as at 31 December 2013) refers to the capitalisation of costs incurred for leasehold improvements to owned or leased aircraft, such as work on engines, overhauls and landing gear (€18,493,000), the cost of employees employed to develop software (€1,937,000) and fleet maintenance (€2,079,000).

5. **Other revenue and income,** amounting to €234,062,000, is up €82,910,000, as shown in the following table:

5. Other revenue and income	2014	2013	Increase/ (Decrease)
Grants related to income	31.158	3.752	27.406
Gains on disposal of aircraft	774	1.392	(618)
Gains on disposal of other assets	134	1.320	(1.186)
Release from provisions for risks	4.547	14.026	(9.478)
Release from allow ance for bad debts	690	0	690
Excess provisions made in previous years	74.209	63.006	11.204
Contingent assets arising from passenger traffic	29.241	0	29.241
Propety income	150	131	19
Employee w ithholdings for canteen and other expens	275	268	7
Insurance claims	373	1.518	(1.145)
Commercial allow ances	3.134	22	3.112
Grants from third parties	699	1.576	(877)
Penalties for contract breaches	1.679	2.684	(1.005)
Sundry income	62.333	34.083	28.250
Chargeback of sundry expenses	24.652	27.375	(2.724)
Total other revenue and income	**234.062**	**151.152**	**82.910**

The positive change is due mainly to:

- contingent assets arising from passenger traffic (up €29,241,000), compared with a zero balance for the previous year;
- higher excess provisions made in previous years (up €11,204,000);
- higher grants related to income (territorial continuity), which are up €27,406,000, reflecting payments received for air transport services provided on routes subject to public subsidies in relation to flights operated between Fiumicino and Linate, on the one hand, and Sardinia, on the other;
- an increase in sundry income of €28,250,000, related in essence to the one-time payment (€48,128,000 equivalent to $60,000,000) from Etihad to Alitalia to pay the penalty charged by Amadeus for early termination of the contract, following the start of negotiations with Sabre Sonic to purchase a new passenger reservation system (one of the conditions precedent of the above-mentioned Transaction Implementation Agreement (TIA), and to provide Alitalia with a return on the necessary investments to be made, in addition to the €899,000 collected from Enel for the sale of energy certificates; in contrast, revenue from signing bonuses and other ancillary income is down €20,831,000 on the comparable amount for 2013;
- revenue from commercial allowances (up €3,112,000);

all of the above were partly offset by:

- lower releases from provisions for risks and charges (down €9,478,000), in relation to legal disputes, suppliers and foreign employees;

- a €1,804,000 reduction in gains on the disposal of aircraft (down €618,000) and rotable materials and other equipment (€1,186,000), with disposals in the previous year relating solely to testing equipment;

- a decrease in the recovery of charges paid on behalf of Group companies (down €2,724,000), which was, however, offset by a matching decline in other operating expenses);

- lower penalties for breaches of contract (down €1,005,000), grants from third parties (down €877,000) and insurance claims (down €1,145,000).

B) PRODUCTION COSTS amount to €3,785,966,000, marking a decrease of €111,442,000 (3%). They consist of:

6. Maintenance materials, fuel, consumables and other goods for resale, amounting to €1,026,525,000, marking a decrease of €74,662,000 (7%) on the comparable amount for 2013, related to:

- a decrease in fuel costs of €74,908,000 (after the effects of price and foreign currency hedges of €14,737,000), due to a reduction in flights (down €28 million), the appreciation of the dollar (down €34 million) and the positive change in the relevant prices (down €13 million);

- a decrease in purchases of sundry materials of €2,609,000, mainly for in-flight services;

- greater use of maintenance materials (up €2,854,000).

The table below shows the relevant details:

6. for maintenance materials, fuel and other	2014	2013	Increase/ (Decrease)
Aircraft maintenance materials and spare parts	(39.434)	(36.580)	(2.854)
Sundry materials (in-flight services, apparel, office supplies)	(27.655)	(30.264)	2.609
Aircraft fuel	(949.701)	(1.039.345)	89.644
Gains/(Losses) on fuel hedges	(9.735)	5.002	(14.737)
Total raw materials	**(1.026.525)**	**(1.101.187)**	**74.662**

7. **Service costs**, amounting to €1,344,209,000, are down €5,890,000 (0.4%). This item consists of:

7. for services	2014	2013	Increase/ (Decrease)
Selling expenses	(196.299)	(212.990)	16.690
Traffic expenses and airport fees	(692.922)	(712.476)	19.554
Fleet maintenance and overhaul	(216.796)	(175.355)	(41.441)
Cost of joint operations with other carriers	(22.770)	(21.002)	(1.768)
Cost of financial services	(36.695)	(37.055)	360
Other: consultants, ancillary staff costs, telecommunications, insurance, general expenses	(178.728)	(191.221)	12.494
Total services	**(1.344.209)**	**(1.350.099)**	**5.890**

Below, service costs are described in greater detail:

- selling expenses are down overall by €16,690,000, due essentially to lower advertising and promotional expenses (down €11,809,000), call centre services (down €3,401,000), promotional campaigns (down €1,707,000), passenger commissions (down €928,000) and reservation services and web fees (down €337,000), partly offset by higher costs for cargo fees (up €1,109,000), fare promotions (up €94,000) and higher other service costs (up €289,000);

- traffic expenses and airport fees are down €19,554,000, due mostly to the lower level of activity and, to a lesser extent, to exchange rate effects; attention is called to lower handling expenses (down €4,792,000), radio and weather services (down €8,583,000), flyover fees (down €2,484,000), onboard catering (down €5,463,000) assistance and transportation of passengers, freight and sundries (down €944,000), partly offset by an increase in airport fees (up €2,712,000, in connection with an increase in the fees charged);

- fleet maintenance costs, amounting to €216,796,000, are up €41,441,000 on the previous year, due to: a) lower calibration services compared with those for 2013, with the ensuing release from the maintenance allowance, mainly thanks to the efficiencies achieved in certain contracts with primary maintenance companies such as Bedek and AMS, in relation to work performed on A320 engines; b) the adjustment to the allowance for the overhaul of the low pressure turbine used by the 8 leased B777 engines (costs of approximately $16 million); c) maintenance costs incurred to repair an engine and the effect of contractual upward price adjustments;

- the cost of joint operations with other carriers, up €1,768,000 due to greater joint venture costs (up €4,605,000) and the reduction in costs related to MilleMiglia partnership agreements (down €2,837,000);

- the cost of financial services is down €360,000 to €38,695,000;

- sundry services, amounting to €178,728,000, have decreased by €12,494,000, particularly the general expenses for internal transport equipment and miscellaneous administrative expenses (down €11,462,000), data and telecommunications (down €1,327,000), insurance (down €1,519,000), professional and consulting services (down €359,000), and fees for Directors and Statutory Auditors (down €212,000); by contrast, expenses rose in relation to personnel transportation, hotel accommodation and training (up €1,332,000) and maintenance activities and overhauls of electronic equipment, vehicles, machinery and equipment (up €1,053,000).

8. **Lease expense**, amounting to €370,278,000, is down €16,296,000, as shown in the following table:

8. lease expense	2014	2013	Increase/ (Decrease)
Aircraft leases	(22.661)	(17.120)	(5.542)
Operating leases	(288.799)	(301.775)	12.976
Block space	(13.458)	(13.192)	(265)
Rental expenses	(20.073)	(25.638)	5.566
Concession fees for utilities and sundry expenses	(25.288)	(28.849)	3.561
Total lease expense	**(370.278)**	**(386.574)**	**16.296**

The above change was related, in essence, to the decrease in aircraft operating leases (down €12,976,000), to lower rental expenses (down €5,566,000) and lower concession fees and utilities (down €3,561,000); on the other hand, fleet and engine lease expense is up (up €5,542,000), as is the cost of block space agreements with other air carriers (up €265,000);

9. **Staff costs**, totalling €557,676,000, are down €124,045,000 (18%), due mainly to: a) a lower average headcount, accounting for €54 million (down 1,153 from 11,241 employees as at 31 December 2013 to 10,088 as at 31 December 2014), mainly in relation to the introduction of job security agreements for ground staff from June 2013, to the launch of a rotating special redundancy fund for ground staff from March 2014 and "defensive" job security agreements for aircrew (agreement signed in February 2014, superseding all previous job security and redundancy agreements), and the collective layoffs via redundancy schemes agreed in July 2014; b) the reduction of pay for all employees, totalling €19 million, following the agreement signed with the trade unions on 16 July 2014; c) the reduction in variable costs related to flight operations, totalling €29 million; d) the benefits deriving from the contribution holiday on compensation paid to aircrew, totalling €20 million; and e) reduced personnel insurance charges (down €1 million).

9. staff costs	2014	2013	Increase/ (Decrease)
Wages and salaries	(441.280)	(520.922)	79.642
Social insurance contributions	(77.953)	(114.695)	36.742
Post-employment benefits	(21.335)	(27.805)	6.470
Pension costs	(3.536)	(5.314)	1.777
Other costs (personnel insurance, temporary staff)	(13.571)	(12.986)	(586)
Total staff costs	**(557.676)**	**(681.721)**	**124.045**

10. **Amortisation, depreciation and impairments**, amounting to €298,425,000, is up €37,402,000 on 2013. Details of this item are as follows:

10. Amortisation, depreciation and impairments	2014	2013	Increase/ (Decrease)
Amortisation:			
start-up costs	(289)	(8.799)	8.510
licences and trademarks	(145)	(290)	146
industrial patent and intellectal property rights	(4.879)	(3.510)	(1.368)
concessions, licences and trademarks	(283)	(283)	(0)
goodwill	(14.644)	(25.930)	11.286
goodwill arising from consolidation	(4.130)	(4.130)	-
leasehold improvements - fleet	(13.565)	(6.936)	(6.629)
other capitalised costs	(5.528)	(5.727)	199
	(43.462)	***(55.606)***	***12.144***
Depreciation:			
land and buildings	-	(87)	87
fleet	(116.111)	(118.751)	2.640
other plant and equipment	(4.132)	(4.393)	261
other assets	(1.737)	(1.770)	33
electronic systems	(3.129)	(3.112)	(17)
	(125.109)	***(128.113)***	***3.004***
Other asset impaiments	**(112.853)**	**(72.291)**	(40.562)
Allowance for bad debts	**(17.001)**	**(5.014)**	(11.987)
tal amortisation, depreciation and impairments	**(298.425)**	**(261.023)**	**(37.402)**

The increase of €37,402,000 refers mainly to:

- an increase in impairment losses of €40,562,000, in relation to aircraft and capitalised maintenance costs incurred for owned and leased aircraft, recognised by the Group on 30 September 2014 following a valuation performed with support from an independent expert, to align the carrying amount (as of that date) of the fleet to its fair market value (total impairment losses of €104,702,000); to the costs incurred to develop the software related to the Linkage project (€5,349,000) and to the hangars in Pescara, advertising costs, the "Navitaire" ticket sale system and other assets (totalling €2,802,000). As a reminder, following an impairment test, goodwill recognised in 2009 by Alitalia, in connection with the partial de-merger of Air One, was written down by €71,870,000 in 2013;

- an increased allowance for bad debts in relation to certain trade payables (up €11,987,000);

- increases in depreciation of owned and leased aircraft (up €3,989,000), following investment during the year, and in the amortisation of patents (up €1,368,000);

- lower amortisation of start-up costs (down €8,510,000), as "Start-up and expansion costs", in relation to the expenses incurred to start up Alitalia –Compagnia Aerea Italiana S.p.A., CAI First S.p.A. and CAI Second S.p.A., had been fully amortised by 12 January 2014;

- lower goodwill amortisation (down €11,286,000), as a consequence of the above-mentioned impairment losses recognised on 31 December 2013 in connection with the Airbus business and the handling business, as well as the amortisation of Gandalf, the Volare Group, Volare

Airlines and Air Europe, which were accounted for on 12 January 2009 and fully amortised by 12 January 2014;

- lower depreciation expenses for other plant and equipment, furniture and fittings (down €294,000).

11. **Changes in Inventories of raw, ancillary and consumable materials and goods for resale** are a negative €6,907,000, compared with an increase of €1,096,000 as at 31 December 2013. The overall negative difference concerned spare parts and stocks (down €8,003,000), maintenance materials (€8,780,000) and lower use of other materials, mainly for in-flight services (€777,000).

12. **Provisions for risks** amount to €55,790,000, reflecting an increase of €44,889,000 on 2013, and relate mainly to sundry disputes with suppliers (€35,812,000), labour disputes (€11,964,000), litigation in civil courts (€3,805,000), regulatory/transportation issues (€2,328,000), overseas transportation (€1,561,000) and overseas labour disputes (300,000).

14. **Sundry operating costs**, totalling €125,156,000, are up €19,156,000 on 2013. The following is a breakdown:

14. Sundry operating costs	**2014**	**2013**	**Increase/ (Decrease)**
Losses on disposal of aircraft	(1.145)	(1.374)	229
Losses on disposal of other assets	(204)	(0)	(204)
Shortfall in provisions made in previous years	(21.117)	(31.134)	10.017
Contingent liabilities from passenger traffic	(8.112)	-	(8.112)
Other taxes and levies for the period	(13.336)	(22.857)	9.521
Association membership dues and operating manuals	(5.080)	(4.093)	(987)
MilleMiglia partnership charges	(10.012)	(9.957)	(55)
Expenses to be charged back	(24.652)	(27.378)	2.726
Losses on bad debts	(8.058)	(543)	(7.515)
Other charges	(34.440)	(9.664)	(24.776)
Total sundry operating charges	**(126.156)**	**(107.000)**	**(19.156)**

The increase of €19,156,000 is due mainly to higher sundry costs (up €24,776,000), relating essentially to the penalty paid to Amadeus for the early termination of the contract for passenger reservation services (€29,175,000); contingent liabilities from passenger traffic (up €8,122, vs. nil for the previous year); an increase in losses on bad debts (up €7,515,000); and higher expenses for association membership dues and aircraft manuals (up €987,000). This increase was partially offset by the reduced shortfall in provisions made in previous years (down €10,017,000); lower taxes and levies for the year (down €9,521,000, of which €6,768,000 related to the lower regional tax on aircraft noise - IRESA), and lower charges incurred on behalf of Group companies (down €2,726,000, which was offset by a matching decline in other sundry income).

Based on the above, **negative EBIT**, i.e. the difference between value of production and production costs, is €347,180,000, which compares with negative EBIT of €321,693,000 for the previous year.

C) NET FINANCIAL INCOME of €6,267,000 marks an improvement of €80,132,000, as shown in the following table:

Financial income and expenses	2014	2013	Increase/ (Decrease)
16. Other financial income			
From non-current receivables	10	4	6
Bank interest and commissions	992	765	227
Interest income on other receivables	1.755	1.883	(127)
Fuel option premiums collected	-	8.737	(8.737)
Other financial income	141	484	(343)
Total financial income	**2.898**	**11.872**	**(8.974)**
17. Interest and other financial charges			
Interest and charges on bonds	(2.360)	(6.334)	3.975
Bank interest and commission expenses	(42.874)	(36.350)	(6.524)
Interest on trade payables	(229)	(108)	(121)
Interest on other payables	(1.763)	(1.235)	(528)
Financial expenses on derivative transactions	(3.910)	(237)	(3.673)
Other financial expenses	(3.147)	(3.568)	421
Total financial expenses	**(54.284)**	**(47.832)**	**(6.452)**
Foreign exchange gains/(losses)	**57.653**	**(37.904)**	**95.557**
Total financial (income)/expenses	**6.267**	**(73.864)**	**80.132**

The improvement of €80,132,000 is due mainly to:

- the positive effect of exchange rates, amounting to €95,557,000, with foreign exchange gains of €57,653,000 reflecting the translation of cash held in Venezuela at the exchange rate posted by the ECB (€38,646,000) and exchange rate movements, primarily against the dollar;
- a €3,975,000 reduction in interest expense accrued on convertible bonds in 2014, following partial conversion of the issue in January 2014;
- the increase in interest and commission expenses paid to banks, totalling €6,297,000, in relation to higher interest expense on short-term borrowings (up €9 million), due to greater use of lines of credit and the increase in interest rates (average increase of 0.7 percentage points, from 3.9% in 2013 to 4.6% in 2014, following the rise in market rates and the need to use lines of credit which are definitely costlier than others). On the other hand, interest expense was lower on medium/long-term borrowings (down €3 million), due to the lower amount of borrowings as a result of repayments and the early repayment of loans obtained to finance the aircraft sold during the year. This effect, however, was partly offset by higher interest rates (an average increase of approximately 0.4 percentage points, from 3.5% in 2013 to 3.77%, in 2014, due to an increase in market rates);

- the increase in the cost of derivative transactions, amounting to €3,673,000, related mainly to the payments made by the Irish companies to IMI Bank for a derivative contract related to certain loans linked to aircraft due to be sold; these derivatives expired in February 2015, prior to repayment of the loans to which the contract was linked.

- the absence of fuel option premiums, which in 2013 amounted instead to €8,737,000;

- higher interest on other and trade payables, amounting to €649,000.

D) ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS, reflecting a loss of €61,000, compared with a loss of €2,174,000 for the previous year, reflect the impairment losses recognised on securities held by Air One with the Banca Popolare di Pescara Group (€19,000) and the write-off of Air One's equity investment in SAGA S.p.A., following the decision of the latter's shareholders to reduce the company's share capital to zero (€42,000).

E) EXTRAORDINARY INCOME AND EXPENSES shows a negative balance of €229,999,000 (€158,920,000 in 2013), as illustrated in the following table:

Extraordinary income and expenses	**2014**	**2013**	**Increase/ (Decrease)**
20. Extraordinary income			
gains on disposals	1.376	332	1.044
contingent assets	12.223	6.552	5.671
other: release from provisions for tax audit	8.000		8.000
other extraordinary income	11.796	11.291	505
Total extraordinary income	***33.395***	***18.175***	***15.220***
21. Extraordinary expenses			
losses/impairments on disposal	(2.689)	(39.538)	36.849
extraordinary tax expense	(155)	(343)	188
sundry contingent liabilities	(2.935)	(9.228)	6.293
other expenses: tax disputes	(57.650)	(56.375)	(1.275)
other expenses: write-down of restricted bank d	(49.354)	(62.125)	12.771
other: write-off of goodwill arising from consolida	(55.701)		(55.701)
other extraordinary expenses	(23.017)	(9.486)	(13.531)
other expenses: consulting expenses	(18.212)		(18.212)
restructuring charges	(53.681)		(53.681)
Total extraordinary expenses	***(263.394)***	***(177.095)***	***(86.299)***
Extraordinary income/(expenses), net	***(229.999)***	***(158.920)***	***(71.079)***

Net extraordinary expenses reflect mainly:

- €53,681,000 relating to the Group's restructuring process, with impairments, phase-out costs and penalties for the early repayment of loans for 24 A320 and A321 aircraft sold, after they had been grounded (€33,636,000) and expenses for redundancies, both abroad (€4,426,000) and in Italy (€15,619,000, relating to redundancy payments, including voluntary redundancy payments, contributions for unemployment schemes payable to INPS, pay in lieu of notice and other charges of this nature);

- €49,354,000 in provisions for losses in relation to the cash trapped in Venezuela, reflecting the exchange rate and repatriation risks associated with them. This amount reflects the difference between €64,064,000, i.e. the amount of sales for 2014, and €14,710,000, i.e. the sum repatriated from Venezuela representing cash accrued in 2013; it is also worthy of note that net financial income includes a foreign exchange gain in relation to these cash balances, based on the exchange rate posted by the ECB;

- €55,701,000 for the write-off of goodwill arising from the consolidation of Air One (€30,011,000), and Alitalia Cityliner (€25,690,000). The write-off was due to the discontinuance of Air One's operations and the removal of this company from the assets contributed to the newly-established Alitalia S.A.I.. This corporate action, which took place in the manner described previously, involved also goodwill arising from the consolidation of Cityliner - a company transferred to SAI – which had been on the books since 2008, as this was one of Air One's subsidiaries;

- €44,000,000 in provisions for the overall inability to collect from the former owner of Air One, Carlo Toto, all the amounts involved in tax disputes, including potential disputes, rooted in events preceding the purchase of Air One by Alitalia, with any positive or negative effects, including potential effects, to be attributed to the seller (Toto), as provided for by the Framework Agreement signed at the time of the acquisition (articles on Identified Disputes and Significant Ongoing Litigation);

- €13,250 for further provisions made by the Irish companies, in connection with the remarks made on their "tax residence" by the Italian tax authorities, which on 16 October 2016 notified commencement of an audit of fiscal year 2009. The Irish companies made provisions for the amount in question, based on the opinion of a tax attorney retained to represent the companies;

- €5,600,000 in provisions in relation to the risk that Air One might be required to pay back this amount to the redundancy fund set up by INPS;

- €18,212,000 for consulting expenses of various types, in relation to conduct of the complex and far-reaching negotiations involved in creating the strategic partnership with Etihad and in the disputes with Toto and WindJet;

- €5,500,000 in costs for the settlement of the issue related to termination of the agreement on loyalty schemes with Payback, thus meeting one of the conditions precedent set out in the pre-agreement with Etihad;

- €4,173,000 in costs for the removal of the LIVE TV equipment installed on the A321 aircraft, including the sum agreed with the supplier, following termination of the agreement and cessation of the relevant capitalisations;

- extraordinary income of €3,781,000 related to the phase-out of the CRJ aircraft (resulting from the release of excess provisions made in the previous year and gains on the disposal of aircraft and rotable material), and €1,685,000, related to completion of the phase-out of the MD80 and B767 aircraft.

- the release of €8,000,000 – based on the opinion of the Group's counsel – in provisions established in 2013 by Air One (€18 million) in relation to tax audits by the tax authorities for fiscal years 2006-2009, among others;

- net contingent assets of €9,288,000 related to the reversal of handling, fuel and maintenance costs for previous years.

Based on the above, the Group posted a pre-tax loss of €570,973,000 for the year ended 31 December 2014, compared with a pre-tax loss of €556,651,000 for the year ended 31 December 2013.

22. **Income tax expense for the period** amounts to €7,307,000, compared with income tax expense of €11,958,000 for the year ended 31 December 2013, with a positive change of €4,650,000. This amount relates to IRAP for the period of €12,063,000, deferred tax expense of €820,000 and foreign taxes of €160,000. On the other hand, deferred tax income of €5,736,000 was recognised in relation to IRAP, as shown in the following table:

22. Income tax expense for the period	2014	2013	Increase/ (Decrease)
current IRES for the period	0	-	0
current IRAP for the period	(12.063)	(14.058)	1.995
deferred tax expense	(820)	(1.877)	1.057
deferred tax income	5.736	4.097	1.639
tax expense of foreign branches	(160)	(120)	(40)
Total tax expense	**(7.307)**	**(11.958)**	**4.650**

Consequently, the Group reports a **loss for the year** ended 31 December 2014 of €578,280,000, compared with a loss of €568,609 for the year ended 31 December 2013.

Part D – Additional Information

Consolidated Cash Flow Statement

	2014	2013
A) Cash flows from (for) operating activities		
Net profit/(loss) for the period	**(578.280)**	**(568.609)**
Income tax expense	7.307	11.958
Interest expense/interest income		35.960
Gains/(losses) on disposal of assets	1.754	37.867
1. **Profit (loss) for the period before income tax, interest, dividends and gains/losses on disposals**	**(569.219)**	**(482.824)**
Adjustments for non-cash items that did not have a matching entry in working capital		
Provisions/(Releases from provisions)	671.892	114.824
Amortisation and depreciation	168.571	183.718
Impairments	136.883	102.333
Other adjustments for non-cash items	16.969	5.014
Total adjustments for non-cash items	**994.314**	**405.889**
2. Cash inflows (outflows) before changes in working capital	**425.096**	**(76.935)**
Changes in working capital		
Decrease/(increase) in inventories	(50.386)	13.686
Increase/(decrease) in trade receivables	30.198	35.881
Increase/(decrease) in trade payables	(17.247)	48.975
Decrease/(increase) in accrued income and prepaid expenses	11.071	2.871
Increase/(decrease) in accrued expenses and deferred income	(773)	1.166
Other changes in working capital (negative)+	(188.037)	64.658
Total changes in working capital	**(215.174)**	**167.238**
3. Cash flow after changes in working capital	**209.922**	**90.302**
Other adjustments		
Interest collected/(paid)		(35.960)
(Income tax paid)		
(Use of provisions)	(62.976)	(28.722)
Adjustment to foreign currency items	44.200	(11.094)
Total other adjustments	**(18.776)**	**(75.776)**
4. Cash flow after other adjustments		
Cash flow from (for) operating activities (A)	**191.146**	**14.527**
B. Cash flows from (for) investing activity		
Tangible assets		
(Additions)	(62.017)	(81.181)
Proceeds from disposals	143.816	(6.607)
Intangible assets		
(Additions)	(43.553)	(40.373)
Proceeds from disposals	(2.846)	(3.036)
Non-current financial assets		
(Additions)	(113.596)	(107.134)
Proceeds from disposals	30.192	18.070
Cash flow from (for) investing activities (B)	**(48.004)**	**(220.261)**
C. Cash flows from (for) financing activities		
Debt		
Increase (decrease) in short-term bank borrowings	(201.572)	(160.741)
New borrowings	75.000	152.040
Repayment of borrowings	(175.885)	(115.265)
Equity		
Issue of new shares for payment	511.818	337.467
Other changes in equity	576	2.987
Sale (purchase) of treasury shares	0	
Dividends (and interim dividends) paid		
Cash flow from (for) financing activities (C)	**209.937**	**216.488**
Increase (decrease) in cash and cash equivalents (A ± B ± C)	**353.080**	**10.754**
Cash and cash equivalents at 1 January 2014 and N-1	**75.971**	**65.217**
Cash and cash equivalents at 31 December 2014 and N-1	**429.051**	**75.971**

Average employees on payroll

C.A.I. Group 2014 Average employees on payroll	Group 2014	2013	change
Executives	52,2	62,2	- *10,0*
Middle managers	539,3	568,9	- *29,7*
Administrative staff	4.834,2	5.212,0	- *377,8*
Blue collar workers	2.462,6	2.595,0	- *132,4*
total GROUND STAFF	***7.888,2***	***8.438,0***	**-** ***549,8***
Flight crew	1.627,5	1.656,2	- *28,7*
Cabin crew	3.861,7	3.905,6	- *43,9*
total FLIGHT	***5.489,2***	***5.561,8***	**-** ***72,6***
TOTAL	13.377,4	13.999,8	- *622,4*

Remuneration of Directors and Statutory Auditors

At the Extraordinary General Meeting held on 25 July 2014, the shareholders approved annual remuneration of €63,000.00 for the Chairman of the Board of Statutory Auditors and €42,000.00 for each Standing Auditor throughout their term of office, in addition to the reimbursement of expenses incurred in carrying out their duties.

Fees payable to the Independent Auditors

With regard external audit services, the fees payable to Deloitte & Touche for 2014 amount to €460,000, including (i) €456,000 to audit the consolidated financial statements of the Parent Company, Compagnia Aerea Italiana S.p.A., and the financial statements of all the Italian and foreign subsidiaries and (ii) €4,000 for the review of income tax returns. Details are provided in the following table:

Type of service	Provider	Client	Fees in euros (*)
Audit	Deloitte & Touche S.p.A.	Parent Company	281.000
Audit	Deloitte & Touche S.p.A.	Italian subsidiaries	100.000
Audit	Deloitte & Touche S.p.A.	Irish subsidiaries	75.000
Review of tax returns	Deloitte & Touche S.p.A. Chartered Accountants and Statutory Audit Film	Parent Company and Italian subsidiaries	4.000
Total			**460.000**

(*) The fees do not include VAT, expenses or any inflation-linked ISTAT revaluation.

Related Parties

The principal related party transactions are described in the Report on Operations and the Notes to the Financial Statements.

Any additional transactions, when concluded, are entered into at arm's length and, as such, do not fall within the scope of article 2427 no. 22-*bis* of the Italian Civil Code, given that they are not atypical and/or unusual, unrelated to company operations or such as to be detrimental to the financial condition, operating performance and cash flows of the Company and the Group. All related party transactions are carried out within the scope of the ordinary activities of all the companies involved.

Pending Litigation

A description of the Group's main legal disputes and the related expected outcomes is provided in the following notes.

Regarding the transfer of the airline business from the Parent Company to Nuova Alitalia, it should be noted that the Parent Company has retained responsibility for the disputes and liabilities not strictly related to the airline business, including among others: (i) the liabilities, including contingent liabilities, deriving from the contractual relationships existing between C.A.I., on the one hand, and Toto Holding S.r.l., Aircraft Purchase Fleet Ltd. and their subsidiaries and associates (the "Toto Group"); (ii) disputes between Alitalia and Wind Jet S.p.A. or between C.A.I. and G&C Holding S.r.l.; (iii) certain tax liabilities under review/dispute related to fiscal years preceding the contribution date; (iv) any liability towards employees other than those transferred.

CIVIL CASES

C.A.I.'s pending civil cases are described below:

1. WIND JET, Court of Catania writ of summons for €162,000,500.00 and €5,000,000.00 regarding the payment of compensation for C.A.I.'s non-contractual liability (drive Wind Jet into bankruptcy to seize market share) and reputational damage. With an order dated 19 July 2013 the Court of Catania scheduled the hearing for the parties to submit their pleadings for 17 March 2014, with specific reference to C.A.I.'s exceptions (i.e. lack of jurisdiction of the Court of Catania). At the hearing of 17 March 2014, Wind Jet requested a precautionary attachment for C.A.I.'s assets worth over €200,000,000, to protect its alleged claim. At the hearing of 30 April 2014, the request for a precautionary attachment was rejected and the judge postponed the hearing, for the submission of pleadings, to 29 September 2014, considering the case ready for a decision without any pre-trial phase. On 15 May 2014 Wind Jet appealed the judge's decision to reject the precautionary attachment. At the hearing of 16 June 2014, the judge took the case under advisement. On 21 July the Court rejected the appeal. At the hearing of 29 September 2014, the judgement was adjourned for further consideration in accordance with the law. On 16 February 2015, the judge ruled that neither the Court of Catania nor the Court of Milan had jurisdiction over the case. In fact the case should be settled in arbitration (accepting one of the two exceptions raised). Case risk: remote.

2. TOTO ARBITRATION. On 5 December 2012, C.A.I. initiated arbitration proceedings in relation to the purchase of Air One's shares requesting, as the main plea, that Toto pay damages to C.A.I. of €150 million for making fraudulent misrepresentations when the agreement was signed, given that he failed to mention circumstances that – had they been known at the time – would have led C.A.I. not to purchase Air One's shares, or to purchase them on terms and conditions different from those set out in the agreement. Alternatively, damages should be awarded to C.A.I., pursuant to the agreement to

purchase Air One, for labour litigation issues (approximately €32 million) and other claims (approximately €27 million). Toto filed his own entry of appearance and, by bringing into the case also AP Fleet (whose standing has been questioned by C.A.I. with a request for a preliminary ruling, given that it was not part of the arbitration clause), filed a counterclaim for €120 million, contesting a series of contract breaches. On 27 November 2013, the Arbitration Panel issued a partial non-final decision. Regarding the claims introduced by the parties, the Panel felt that it had no jurisdiction over the counterclaim filed by Toto/APF, relating to the failure to fulfil certain obligations not contained in the Framework Agreement (with the opposing party's demand for up to about €120 million), or C.A.I.'s claim about Toto Holding's responsibility for fraudulent misrepresentation and the resulting request for damages of €150 million. Following the failed attempt to settle, at the hearing of 21 January 2014 the Panel set the schedule for the continuation of the arbitration proceedings, stating that it would avail itself of the extension pursuant to article 820, paragraph 4, sub-paragraph c of the civil procedure code. During the same hearing the Panel set the deadline for the filing of briefs to rephrase the claims for 5 and 20 February 2014, with a new hearing scheduled for 19 March 2014; at the end of the discussion and the production of documentary evidence, the panel adjourned the hearing until 29 April 2014. On that date, the Panel took the case under advisement and requested the parties to extend the deadline for an arbitral decision. On 13 May 2014, the Panel set for C.A.I. the deadline of 23 May 2014 to produce its schedules on the labour dispute and for Toto 3 June to produce his. The deadline for an arbitral decision was extended to 19 July 2014. On 12 June 2014 the Arbitration Panel ordered that an expert assessment be completed, fixing 25 June 2014 as the starting date of the experts' activities. Following the meeting among the experts, the expert appointed by the Panel set 9 July as the deadline for the ex parte experts to produce their reports for the settlement of the dispute and 16 July as the deadline for any reply. On 22 July a technical meeting was held. On 15 September, the Panel filed its findings. On 18 November 2014, once the investigation was completed, the Panel granted the parties until 5 December to submit a short report with their conclusions and until 12 December for a short reply, setting the date for the final hearing on 16 December 2014. The arbitrators "with reference to Toto/APF's questions relating to C.A.I.'s obligation to provide a detailed account" charged C.A.I. with the obligation to provide a detailed account, by the deadline set for the final hearing, "of the existence of any significant assets under article 12.5 of the Framework Agreement that might be used to offset any resulting receivables attributable to C.A.I.". On 30 January 2015, the final decision was handed down. This was favourable to C.A.I., on the whole, as the majority of arbitrators found that C.A.I. was entitled to receive €19.1 million, which was eventually reduced by the deductible amount of €8 million, thus falling to €11.1 million, plus penalty interest. Moreover, the Panel rejected Toto's counterclaim, considering it as outside the scope of its jurisdiction. Both parties were to pay their share of arbitration expenses. The decision was adopted with a majority vote and with the dissenting opinion of Professor Di Porto (TOTO's arbitrator).

<u>2.a Alitalia + Irish companies / Toto</u>

Following a tax audit, the tax authorities – Rome Office – served, from 13 June 2013, Challey Ltd, Subho Ltd, APC Ltd, APC1 Ltd, APC2 Ltd, APC3 Ltd, APC 4 Ltd, APC5 Ltd, APC6 Ltd, APC7 Ltd,

APC8 Ltd, APC 9 Ltd, APC10 Ltd, APC11 Ltd, APC12 Ltd, with tax audit reports for fiscal years 2002-2008, potentially giving rise to contingent liabilities of €250 million.
C.A.I. requested Toto to pay compensation, pursuant to article 12 of the Framework Agreement of 11 December 2008.
In raising various exceptions, Toto rejected C.A.I.'s claim. In the meantime, however, upon receiving a specific mandate from C.A.I. (in accordance with article 12.3.2 of the Framework Agreement) Toto handled the dispute with the Tax Authority and, in agreement with C.A.I., created the conditions for a tax settlement between the Irish companies and the tax authorities, where the former undertook to pay to tax authorities €40.2 million, in quarterly instalments, in full payment of all claims for back taxes.
C.A.I. and the Irish companies requested urgently to the Civil Court of Rome, under article 700 of the civil procedure code, to order Toto to make available the sums to pay for the settlement with the tax authorities, in keeping with article 12.2.5 (a) of the Framework Agreement. In fact, such article requires the Seller to make available to C.A.I. "*at least 3 (three) business days prior to the payment date indicated in the payment order, sent by the third party to C.A.I.*", "*the sums necessary to fulfil any obligations related to assessments, injunctions or any measure from any authority that, even though they may not be final, are immediately enforceable on the basis of the laws in force and involve the non-deferrable obligation to disburse sums*".
Toto filed an entry of appearance requesting that the plaintiff's claims be rejected.
With an order dated 26/27 May 2014, the Court rejected the claims filed by C.A.I. and the Irish companies. The plaintiffs filed an appeal, which was rejected on 15 October 2014.
A further appeal against this ruling is being prepared.

2.b) Alitalia/Toto

Alitalia initiated proceedings in the Civil Court of Rome for the same reason it had commenced arbitration proceedings in the case Alitalia / Toto + APFleet Ltd, i.e. to order Toto to pay damages (of no less than €150 million) for non-contractual liability and/or false misrepresentation.
The writ of summons was served on Toto on 20 May 2014 and the hearing set for 21 October 2014. The case was assigned docket number (N.R.G.) 33800/14 and the first hearing will be held on 10 June 2015 before Judge Battagliese.

2.c) Alitalia/Toto

With a writ of summons served on Toto on 22 May 2014, Alitalia initiated clawback proceedings before the Civil Court of Chieti to nullify three corporate actions, whereby Toto Holding S.p.A. disposed of assets to wholly-owned subsidiaries to the detriment of certain claims Alitalia had on Toto in connection with representations and warranties made to the Buyer in the Framework Agreement of 11 December 2008. The first hearing was held on 19 November 2014. On that occasion the Judge granted until 19 December 2014 for the parties to file the first brief, until 19 January 2015 for the second brief and until 9 February 2015 for the filing of the third brief.

3. FINARIA SPA Vitaliti Angelo Agatino, Court of Catania, writ of summons for €92,380,000.00 with the request to determine the responsibility under article 2497 of the Italian Civil Code, in a capacity as both shareholders and creditors of Wind Jet. The plaintiffs – who owned 100% of Wind Jet – purport that, through an agreement with Wind Jet, Alitalia performed direction and coordination activities in violation of best management practices and allegedly took advantage of its position to change Wind Jet's commercial policy to make it non-competitive and unprofitable. At the hearing of 17 March 2014, the Judge (the same that has just rejected the petition to seize Wind Jet) postponed the hearing for the parties to submit their pleadings until 29 September 2014, considering the case ready for a decision without any pre-trial phase. At the hearing held on 29 September 2014 before the new investigative judge, the case was adjourned for further consideration in accordance with the law. A ruling is pending. Case risk: remote.

4. SIT: Court of Rome writ of summons for €6,948,652.00 regarding the unfair competition of Alitransport, which transported passengers from Fiumicino airport to the centre of Rome on behalf of Alitalia. The trial was postponed to the hearing of 13 November 2014 on the taking of evidence. On 13 November the Judge postponed the hearing until 30 April 2015. On 13 January 2015 the parties settled out of court and dropped all mutual claims.

5. ACCA 24 Srl: Court of Rome writ of summons whereby Acca 24 requested that Alitalia's unilateral withdrawal be pronounced illegal and that the contractual amount agreed until 31 December 2017 be paid for the full amount of €2,177,578.00. Alternatively, damages of €919,569.92 should be paid. At the hearing of 23 March 2014, the Judge granted the parties the terms under article 183, paragraph VI, of the civil procedure code and postponed the hearing until 1 October 2014. Negotiations began between the parties regarding possible outsourcing contracts and the settlement of the dispute. These talks failed. At the hearing of 1 October 2014, the Judge took the case under advisement to review the evidence submitted by the parties. Eventually, the Judge admitted the evidence submitted by the parties, and set the hearing to question the parties for 18 February 2015. In addition, pursuant to article 81-*bis* of the implementation provisions of the civil procedure code, two *ex parte* witnesses were heard on behalf of the opposing party, who were unable to say anything on the negotiations that preceded the contract; actually, one of the witnesses even mentioned that the negotiations preceding the agreement had been followed by Mr Alessandro Pimpini, on behalf of ACCA 24, thereby implying that there had been negotiations between the parties. An *ex parte* witness on behalf of Alitalia was heard, who confirmed the circumstances that the agreement signed on 1 April 2011 had been negotiated by the parties and preceded by submission of a draft. The Judge postponed until 22 April 2015 the hearing to hear the last witness on behalf of the opposing party. Considering the witness depositions, the Judge also asked the parties to attempt a settlement. Case risk: remote.
6. ARGOL S.p.A.: (i) Court of Rome writ of summons for €1,210.372.21 demanded for Alitalia's decision to insource the handling service rendered by ARGOL and for Alitalia's failure to hire Argol's

75 employees; (ii) Court of Rome: appeal against injunction to pay €750,506.50 by Alitalia in relation to the request to pay fees for 2 months and other extra flat works performed under the relevant contract with Alitalia. At the hearing of 26 September 2013 before the Court of Rome, the Judge ordered a joinder of proceedings. At the hearing of 16 April 2014, the Judge took the case under advisement to review the evidence and on 16 May 2014 a decision was handed down, whereby the Judge did not grant the enforceability clause for the injunction appealed by Alitalia, due to the complaint about the quality of the work. The Judge rejected the argument that Alitalia had filed its requests for evidence late and, by converse, accepted the request to obtain the attendance records of ARGOL's employees – intended to show their degree of absenteeism. Lastly, the Judge admitted the evidence provided by witnesses, as per Alitalia's request, and took the case under advisement to consider the possibility to have a court-appointed expert review the case and issue an opinion. A new hearing was set for 26 November for the admission of direct and contrary evidence by ARGOL and, on 3 December 2014, the Judge asked the parties to try to settle the matter, with officers duly empowered to enter into a mutually binding agreement. To this end, it is necessary for Alitalia to review the attendance records produced by ARGOL for the case, to understand whether and to what extent they confirm the Company's arguments in its defence, to negotiate from a position of strength and reduce the amount indicated in the injunction. Accordingly, it is necessary to review rapidly the documentation filed by the opposing party, providing a response to the court-appointed expert and appointing, if necessary, an *ex parte* expert. It is necessary to set the limits within which a settlement represents an attractive proposition. Risk: possible trial.

7. AIR TOTAL International: Court of Rome (Docket no. 578/08) third-party impleader for Alitalia CAI to pay airport fees payable by Alitalia LAI, totalling €1,033,918.05; hearing postponed for decision until 12 November 2014. The investigating Judge postponed until next hearing for a decision. Case risk: remote.

8. INCE 2002 s.r.l.: Court of Rome writ of summons for damages in the amount of €498,621.79 determined by a breach of contract, due to termination of the publication of an inflight magazine; at the hearing of 10 January 2014 the date of 30 November 2018 was set for the submission of pleadings, without admission of evidence. Case risk: remote.

9. TIA Airport SHPK claim under article 700 of the civil procedure code for €636,853.56 for the payment of an alleged obligation assumed by CAI for sums due by Alitalia LAI. The parties appeared at the hearing of 4 March 2014 and the judge, upon Alitalia's request, adjourned until 28 October 2014. This in connection with the formalization of the forgery charges for an inauthentic document that prompted TIA to think that CAI took over the contract in place of LAI. The hearing was adjourned for the same reason as before. Case risk: possible.

10. SAC (Società Aeroporto di Catania) S.p.A.: writ of summons for €7,139,860.00 relating to damages for Alitalia's non-contractual liability, which caused Wind Jet to go bankrupt and, consequently, to default on payments due to SAC.
    Specifically, the plaintiff argues that, to carry out the transaction with Wind Jet, Alitalia issued a comfort letter for the benefit of Wind Jet and its creditors (including SAC). In this comfort letter, Alitalia stated that, if Wind Jet reached a rescheduling agreement with its creditors, Alitalia would complete the acquisition of the company.
    By virtue of the comfort letter issued by Alitalia, SAC and Wind Jet entered into a rescheduling agreement of Wind Jet's debt, granting it a moratorium on current debt and suspending the collection of past due receivables. The hearing, fixed for 24 June 2014, was postponed ex officio under the terms of article 183. Case risk: remote.

11. LEONARDO & C. S.p.A. Appeal against payment injunction dated 21 June 2014 before the Civil Court of Milan. Such injunction required Alitalia to pay €3,395,639.79 (plus late-payment interest calculated pursuant to Legislative Decree no. 231 of 9 October 2002 from the due date and €3,030.00 in legal costs) for the "success fee" related to the activity performed on behalf of Alitalia under the financial advisory agreement dated 12 September 2013, particularly the search for, negotiation and implementation of financing to meet funding requirements of approximately €350 million. The appeal was scheduled for 5 May 2015. However, on 19 December 2014 the parties reached a settlement and all claims were dropped.

12. LIVINGSTON S.p.A. under Extraordinary Administration: Appeal filed before the Court of Appeal of Milan against the rejection – issued by the Court of Busto Arsizio – of the clawback procedure initiated by the Bankruptcy Trustees of Livingston demanding the return of €152,942.06 for several payments to Alitalia in the six months preceding the start of the extraordinary administration proceedings. The hearing for the final conclusions is scheduled for 28 January 2016. Case risk: possible.

AIR ONE'S pending legal disputes are as follows:

1. AVIONTERIORS: Court of Rome, two appeals against a payment injunction for a total of €880,600.00 for unpaid invoices and contractual responsibility filed in the Court of Rome. At the hearing of 26 November 2013, relating to the challenge against the injunction to pay €770,600, Aviointeriors's counsel acknowledged that the company was bankrupt. Following Air One's application to resume proceedings previously stayed, the Judge scheduled the hearing to resume proceedings against the Bankruptcy Trustees for 27 May 2014. The hearing for the challenge against the injunction of €110,000 – which has already resumed – was postponed until 17 June 2014 for a decision. Air One proposed a settlement of about €130,000.00 but, to this date, the opposing party has shown no interest in settling the matter out of court. Air One's counsel spoke with the Trustee's counsel, who confirmed that the all-inclusive settlement proposal had been submitted to the trustee and was considered unacceptable. He also pointed out that composition with creditors

should be reached shortly, which would make it easier to start discussions leading to a settlement, given that a private party would be brought into the picture.

With a decision put on record on 27 October 2014, the Court closed the case of the challenge against the payment injunction, considering that the relevant proceedings had been resumed against the estate of the insolvent company, AGW S.r.l. (formerly Aviointeriors S.p.A.) beyond the term under article 305 of the civil procedure code. Even though the proceedings had been regularly resumed within 3 months of the stay decision, following a declaration of the bankruptcy occurred in the meantime by the opposing party's counsel, the Judge assumed that Air One knew already about the opposing party's bankruptcy, because it had resumed the other appeal proceedings against the payment injunction pending between the parties. In fact, given that bankruptcy is one of the cases for an automatic stay of proceedings, according to new article 43 of the Bankruptcy Law, a court decision would not be necessary to produce a stay of proceedings, if a party has legal knowledge of the event. However, we disagree with the decision, because proceedings still pending between the parties cannot be resumed before such proceedings are stayed based on a court decision. Air One – which obtained legal knowledge of the bankruptcy, in these proceedings, only after the opposing party's counsel made a statement to that effect in court – appealed against the decision, requesting a stay for the effects of the appealed decision under article 283 of the civil procedure code. As it rejected the appeal, the decision allows the opposing party to make the injunction enforceable under article 647 of the civil procedure code and to collect the sum due from Air One. In the meantime, negotiations have begun between the parties to settle the case, with the opposing party's counsel giving a favourable opinion on an all-in settlement with the former Aviointeriors (currently Fall. AGW) for a payment of €400,000.00 by CAI. The bankruptcy trustee thought that the proposal was acceptable (and will relate this to the Judge). CAI confirmed the proposal with a letter dated 3 February 2015. On 20 February 2015 ruling no. 3998 was put on record by the Court of Rome regarding the second appeal against the payment injunction filed against Aviointeriors (currently Fall. AGW). The Court accepted in part the appeal and overturned the injunction, ordering Air One to pay €62,750.00, plus interest accruing as of the service of the injunction, with each party to pay for its own legal costs. Also this position was part of the proposed settlement submitted to the trustees. On 2 March 2015, the parties settled. The company made provisions for legal disputes for such amount.

2. Air One/ Fall.Aeroitalia – Court of Appeal of Rome, writ of summons for appeal against ruling no. 5648/2012 by the Court of Rome ordering Air One to pay €820,965.80. Aeroitalia's bankruptcy trustees based their claim on the missed payments for the aircraft lease agreement dated 23 December 23 1996, between Air One and Norman, which was succeeded by Aeroitalia as lessor. At the hearing of 12 March 2015 the parties requested jointly a postponement to try to reach a settlement. The trustees said that they are willing to settle for 40% of the sums disputed. Negotiations are under way to reach a settlement. Case risk: probable.

TRANSPORTATION DISPUTES

As at 31 December 2014, there were approximately 2,541 pending cases against Alitalia. In 2014, the company received 1,310 writs of summons.
A total of 1,200 cases were closed, with 220 settled out of court, at a total cost of approximately €190,000; 1,000 cases were settled on the basis of a court decision, at a total cost of approximately €1,550,000.

Abroad, especially in certain countries, there is a substantial number of cases for service disruption in transportation and related matters (injuries, agency claims). The overall risk is estimated to amount to 30%-50% of the requested amount, or approximately €13 million.

Based on the analyses performed, with support from counsel, the likely risk of loss for transportation disputes in Italy (including the risk related to proceedings by the competition authority, see below) and abroad is estimated to amount to €6,879,000 (see section on provisions in the Notes).

There are no transportation disputes of a nature or amount other than those analysed above.

1 .Altro Consumo versus Alitalia

With a writ of summons at the Court of Civitavecchia, Altroconsumo initiated cease-and-desist action and declaration of nullity for the unconscionable nature of a large number of clauses under the Terms and Conditions of Transportation.
The first hearing was held on 15 January while the hearing for the submission of pleadings was scheduled for 30 June 2016. The value of this case is undefined. The company is likely to lose in relation to certain clauses, may lose regarding others, while the risk of loss for the remaining ones is remote. A decision against the company may be detrimental in terms of legal costs and corporate image. So far no request for compensation has been put forth, nor could it be.

2. Litigation in the USA – Class action Gurevich & others vs Alitalia

In March 2011, a class action was initiated in the Court of Chicago against Alitalia and other European and US airlines (Delta, Continental, Lufthansa, Iberia, British Airways) to provide compensation, under European Regulation 261/2004 for cancellations, delays and overbookings, to US citizens who claim that they are entitled to it. The complex legal case has been reviewed by different parallel jurisdictions and by the US DOT.
Most courts that have handled cases against the various companies involved in similar actions have dismissed them. Similarly, the case against Alitalia was dismissed or not considered admissible, establishing that EU Regulation 261/2004 does not create actionable rights for passengers in US courts, unless rights do not arise from contractual clauses applicable to transportation. The courts ended with a favourable ruling in first instance. The plaintiffs appealed these decisions but the outcome should be in favour of the carriers.
The Company’s legal team regards as remote the risk of losses in this case.

ADMINISTRATIVE DISPUTES ALITALIA

1. <u>Assignment of fifth freedom rights on the Malpensa – New York route to Emirates. Administrative proceedings</u>

On 7 June 2013 Alitalia (with Delta's supporting joinder) and Assaereo filed an appeal before the Regional Administrative Court ("TAR") of the Lazio Region against ENAC's decision of March 2013 to authorise Emirates to operate flights with fifth freedom rights on the Malpensa-New York route. The request for a stay submitted with the appeal was rejected by the TAR, with a decision dated 9 July 2013, and by the Council of State. The hearing on the merits was held on 20 January 2014. On 10 April 2014, the TAR handed down a decision in favour of Alitalia and overturned the authorization granted by ENAC to Emirates to operate the Malpensa-New York route.

Emirates appealed to the State Council against the TAR's decision, and requested and obtained a stay of enforcement of the ruling. The appeal was discussed on 4 November 2014. On 12 December 2014, the Council of State issued a decision that accepted Emirates's appeal and overturning the TAR's decision. In fact, the Council of State considered the negotiations between ENAC and the United Arab Emirates in relation to bilateral agreements as valid and, as such, the authorisation issued by ENAC to Emirates, pending the outcome of the negotiations, as lawful. The parties paid their own legal costs.

2 <u>Appeal to Regional Administrative Court of Lazio Region and Tax Tribunal for cancellation of the IRESA tax</u>

IRESA (regional tax on aircraft noise) was introduced in Italy with Law no. 342 dated 21 November 2000 (see articles 90-95, doc. Annex 1). Effective 1 January 2013, this became a "regional tax" under article 8 of Legislative Decree no. 68 of 6 May 2011 (doc. Annex 1). Due to (tax-related) reasons inconsistent with the purpose of the tax, IRESA is administered by the different regions in widely diverse manners. Lazio Regional Authority introduced it with Regional Law no. 2 of 29 April 2013 (2013 Budget Act, annex 2), applying amounts much higher than those of other regions. However, the application of IRESA has been suspended in several regions, pending proper advance coordination and consistency in its application throughout the country.

On 27 August 2013, the Competition Authority, following reports by Alitalia and Aeroporti di Roma, sent a memorandum to the Italian government, the Ministry of Transportation and regional authorities, indicating the distortionary effects for competition and IRESA's failure to live up to its nature as a special-purpose tax.

On 22 February 2014, the law was amended by article 13, paragraph 15-bis, of Law no. 9/14 which converted into Law Decree 145/2013 (so-called "*Destinazione Italia*" legislation), which introduced significant changes in terms of both maximum applicable tax rates and determination criteria, "to prevent distortions in competition among airports".

To this end, in March 2014 Alitalia filed a complaint with the European Commission to have the tax declared illegal, due to its distorting effects on free circulation and market competition in the European Union and because it is against the EU principles on so-called "environmental taxation". Recently, the European Commission issued a communique announcing that it does not consider that IRESA is governed by Directive 2009/12 on airport fees or by Directive 200/30, because it does not introduce operational restrictions in view of noise reduction. Therefore, the Commission feels that it cannot open an infraction procedure.

Despite the changes introduced by Law no. 9/14, Lazio regional authority requested Aeroporti di Roma (ADR), in its capacity as Rome's airport operator, to collect the tax from airlines operating from Rome's airports, as calculated on the basis of the rates provided for by the Regional Law, also for the periods following the entry into force of the national legislation, disregarding the maximum applicable tax rate established by the latter.

On 15 July 2014, both Alitalia and Air One filed a complaint with the Regional Administrative Court and with the Tax Tribunal against Lazio regional authority and ADR, to have the tax levied by Lazio regional authority declared illegal and for the cancellation of the payment orders sent to Alitalia and Air One. The plaintiffs also filed a petition for a preliminary ruling with the European Court of Justice to determine whether article 5 of Law no. 3/2013, enacted by Lazio regional authority, is compliant with EU laws, and/or a request to determine whether article 5 of law no. 3/2013 enacted by Lazio regional authority is unconstitutional, as it contrasts with the national legislation fixing the applicable tax rate.

Complaints are being filed for the subsequent payment orders received from Aeroporti di Roma.

In April 2014, Lazio regional authority filed an appeal with the Constitutional Court to void article 13, paragraph 15-bis, of Law no. 9/14 which converted Law Decree 145/2013 into law for violating several Constitutional provisions (article 117, 119, 120). Recently, the Constitutional Court published the decision whereby it rejected in its entirety the appeal brought by Lazio regional authority, thus confirming that national legislation should prevail over regional laws.

<u>3. Complaint to the TAR Lazio - Ryanair/ENAC - versus Alitalia as third-party counterparty</u>

On 18 November 2014, Ryanair filed a complaint with the Regional Administrative Court ("TAR") of the Lazio Region against the measure adopted by ENAC on 7 August 2014, whereby Alitalia was assigned, starting from the 2015 summer season, three weekly flights on the Rome – Tel Aviv route, at the end of a procedure in which Ryanair ranked fourth. Ryanair requested the Court to void the assignment as well as a stay of the measure. The hearing for the stay was held on 19 February 2015, but the Court complied with Ryanair's request for a postponement to review an opinion sent by the Competition Authority to ENAC. The opinion criticises the approach of the Tender Commission with respect to the discrimination among the competing airlines in relation to the application of criteria a) and q) of the circular (with a reason similar to that in Ryanair's complaint). ENAC has been asked by the Competition Authority to remove the violation of competition laws within 60 days, pursuant to article 21 *bis* of law 287/90. Failure to take action may prompt the Competition Authority to bring the case before the TAR.

On 19 March 2015, a hearing was held for the stay and to review the preliminary objection raised by Alitalia concerning Ryanair's low ranking in the tender process (as already noted, the company ranked fourth in the tender for the assignment).

The risk of loss for ENAC is possible.

The damage is related to a possible cancellation by ENAC or voidance by the TAR of the assignment of the route to Alitalia.

<u>4. Complaint filed with the TAR by Germanwings and Air Dolomiti against Linate Decree</u>

On 10 December 2014, notice was served in relation to the complaints of Germanwings and Air Dolomiti, brought before the TAR of the Lazio Region against the Ministry of Transportation and ENAC,

Assoclearance, Alitalia C.A.I. and Alitalia S.A.I., for the voidance, after a stay, of Ministerial Decree 395 dated 1 October 2014 (the so-called “Linate Decree”).

In essence, the complainants point to (i) an excessive competitive advantage of the measures for Alitalia contained in the decree, which would create a “non-contestable oligopoly” and weaken competition; (ii) the lack of consultation before it was issued, involving mostly the absence of the European Commission as provided for by Regulation 1008/2008; (iii) the circumstance that the decree might be a form of state aid incompatible with the internal EU market.

The hearing for the stay has been scheduled for 19 February 2015. On that occasion, the TAR of the Lazio Region declared its lack of jurisdiction, in favour of the TAR of the Lombardy Region. Accordingly, the case should be resumed in that venue.

The impact of a stay (which currently seems highly unlikely) or a voidance of the Decree would be quite significant, considering that Alitalia’s current network plan for Linate and Northern Italy is based on the organisation of traffic from/for Linate established in the Decree. Therefore, the legal teams of the parties concerned (Ministry of Transportation, ENAC, Assoclearance, etc.) are performing all the research and coordination activities necessary for their best defence. In this respect, coordination activities are under way also among the legal teams that follow the EU-Pilot procedure opened by the European Commission to check the existence of an obligation of prior notification pursuant to EC Regulation no. 1008/2008, article 19.4.

It is hard to assess the risk of voidance for the decree, but such an outcome cannot be ruled out.

5. Codacons complaint against the Competition Authority. Expiration of MilleMiglia Programme

On 11 February 2014, Codacons (a consumers’ association) filed a complaint with the TAR against the Competition Authority, with Alitalia as third-party counterparty, to overturn the decision to dismiss a case (PS 8881) related to alleged unfair practices in the management of expiration of the MilleMiglia programme at the end of 2013.

The Competition Authority had ruled the case brought by Codacons to be baseless and the association is now complaining about the lack of grounds for the dismissal, particularly the consumer’s obligation to use a premium-rate telephone number to obtain the free ticket.

In case the argument about the lack grounds for a dismissal is upheld, the Competition Authority might just issue a statement outlining such grounds. On the other hand, if the TAR thinks that the grounds for the dismissal are mistaken, there is a risk that the Competition Authority might open proceedings against Alitalia for unfair commercial practices, the extent and outcome of which is hard to assess at this time.

COMPETITION AUTHORITY PROCEEDING: COMPETITION AND THE CONSUMER CODE

1. IP207/2014: failure to comply with the ruling of 27 November 2013, relating to the no-show rule

On 7 February 2013, notification was served on the opening of a procedure for unfair commercial practices regarding three different cases.

On 27 November 2013, the Authority notified the final ruling at the end of the procedure in question, whereby the Competition Authority found that Alitalia had engaged in unfair commercial practices, inflicting total fines for €120,000. In calculating the fines, the Authority granted a 50% discount in view of the company's financial conditions.

The Competition Authority also gave Alitalia 30 days starting from notification of the ruling to describe the steps taken to ensure compliance. Alitalia appealed the ruling before the TAR.

On 23 December 2013 and 17 February 2014, the company filed the compliance report in relation to the no-show rule and the identification of the carrier.

Subsequently, Alitalia requested a meeting to receive the Authority's guidance on the compliance measures adopted. The Competition Authority indicated that it considered the measures intended to mitigate the consequences of application of the no-show rule to be sufficient.

To prevent the issuance of a non-compliance ruling, on 15 May 2014 Alitalia proposed additional measures more favourable for passengers, again in relation to proven cases of *force majeure* that cause a no-show on the first leg of a round trip.

On 20 June 2014, the Authority notified the opening of a non-compliance procedure, considering the proposed measures on the way the no-show rule should be applied to be insufficient.

The procedure ended on 7 December 2014 with a fine of €60,000 (a sum already set aside in provisions for risks).

The non-compliance decision was appealed by SAI before the TAR. Following the significant pressure exercised by the pending appeal against the fine of 27 November 2013, a hearing was scheduled for 3 June 2015.

However, the opening of an additional non-compliance procedure and the levy of another fine in the absence of any action to implement the requirements in the Competition Authority ruling cannot be ruled out. The amount at risk in case of an additional fine is €60,000.

2. <u>PS/ 6871 Unfair commercial practices.</u>

On 6 June 2014, the Competition Authority notified the opening of a new procedure for unfair commercial practices.

The procedure concerns two distinct cases:

A) The manner of advertising ACE flight insurance policies on Alitalia's website;
B) The right to a refund, refund management expenses and premium-rate call centres.

Regarding these practices, the Competition Authority has requested a large number of documents and defence briefs, which were sent on 31 July 2014.

In the meantime, the possibility to make commitments was considered as a viable option. This procedure is designed to avoid all together a decision by the Authority on unfair practices and, consequently, to prevent any fine.

Alitalia made substantial commitments on changes to the practices regarded as unfair by the Authority (particularly practice B, which involves cancellation of the fee charged to manage refunds and availability of a non-premium-rate telephone number to request tax refunds) and proposed improvements to the information provided to customers on the company's website in relation to the ACE insurance policy.

On 15 January 2015, the Competition Authority notified acceptance of Alitalia's commitments, requiring only the publication of their content on Alitalia's website.

EU COMPETITION PROCEDURES

1. Case Comp:/39.964 AF-KL/DL/AZ on the Transatlantic JV

On 27 January 2012, the European Commission opened a procedure on the Transatlantic JV among Air France-KLM, Delta and Alitalia, to determine whether cooperation among these carriers, on the routes between Europe and the United States, was such as to restrict competition to the detriment of consumers, in breach of article 101 TFEU (Treaty on the Functioning of the European Union).

The investigation focused on the following 6 transatlantic routes operated by at least two of the four airlines: Amsterdam-New York, Paris-New York, Rome-New York, Nice-New York, Paris-Boston, Paris-Atlanta.

A decision was made with the partners to enter into the procedure provided for by article 9 of Regulation no. 1/2003, which makes it possible, through a negotiation process with the Commission, to avoid formal charges and the subsequent imposition of commitments and fines. Pursuant to article 9, the procedure requires that the parties present the commitments negotiated with the Commission, to offset any restriction on competition created by the arrangements.

From the outset, the law firm of WSGR-Wilson Sonsini Goodrich & Rosati, LLP, Brussels, which assists all the partners, recommended a staged defence strategy, initially excluding those routes where the absence of restrictions on competition could be more easily demonstrated (Paris – Boston and Nice – New York), with a view to completing more in-depth research, also of an economic nature, on routes characterized by a lower number of operators, that is: Paris -Atlanta, Paris - New York and Rome -New York.

The research, which was carried out by economists expert on the creation of synergies through alliances, did not unfortunately produce results suited to meet in full the criteria established by article 110, paragraph 3 of the Treaty (TFUE), so that airlines might benefit from the exemption of complying with the rules on anti-competitive arrangements, with the exception of the Paris-Atlanta route.

Under these circumstances, for the Paris – New York, Amsterdam – New York and Rome – New York routes, a defence was prepared on the basis of legal and factual arguments intended to prevent application of article 101, paragraph 1. The relevant papers were all presented to the Commission between July and August 2013.

However, the Commission announced that it did not consider the defence's arguments to be sufficient and confirmed the request of a package of commitments for the Fiumicino-New York, Paris-New York and Amsterdam-New York routes, similar to those provided by the other Alliances operating on Europe/US routes, namely previous procedures regarding One World, which ended in 2010, and Star Alliance, which ended in 2013.

The commitment packages offered by the parties involve, briefly:

1) Offer to release slots on the Fiumicino – New York and on the Amsterdam – New York routes to allow a new entrant to schedule up to 7 flights per week. The slots must be released if the airline cannot obtain them through normal assignment procedures.
2) Allow "fare combinability", upon request of an airline that starts operating or increases its flight frequency on the three routes without having a hub at these airports.

3) Sign Special Prorate Agreements, upon request, with a carrier that does not have a hub and starts operating on the routes;
4) Allow entry into the Parties' FFP- Frequent Flyer Programs to a carrier that does not have one or does not participate in one of the FFPs run by Alitalia, Air France-KLM and Delta on the routes in question.

Thus, the Commission formally announced preliminary assessments of the routes in question and ran an informal market test to gather comments from customers and competitors on the commitment proposal. The negotiation procedure is headed for the expected outcome of a decision accepting the commitments presented and should be completed by the end of the year or early in the next.

Therefore, the risk that the Commission starts a procedure with charges, fines and/or a prohibition to continue working with the Partners appears very remote.

It should also be specified that rarely have the commitments submitted, following antitrust procedures conducted by the European Commission, given rise to an actual request by competitors for slots or other concessions.

2. <u>Notification of Alitalia /EY merger to the European Commission/ Commitments on the Rome-Belgrade route</u>

Pursuant to Council Regulation (EC) no. 139/2004 on the control of concentrations, following an informal discussion (pre-notification) with the Commission, on 29 September 2014 Alitalia and Etihad sent a formal notification of the merger. After it conducted its own investigation, on 14 November 2014 the Commission handed down a decision to the effect that there are potential restrictions on the Rome-Belgrade route, which is currently operated only by Alitalia and Air Serbia, a subsidiary of Etihad and, as such, a company covered by the Commission's investigation.

To correct the potential restriction on this route, the Commission requested a very broad commitment package for an operator that intends to operate it, involving essentially:

1) An offer to release slots on the route to allow a new entrant to operate up to two flights a day.
2) To allow "fare combinability" upon request of the carrier that starts to operate or increases its flights on the route. To grant the possibility of applying combined fares (to the benefit of passengers) for a round trip with one leg operated by the new entrant and the other operated by one of the Parties.
3) To sign a Special Prorate Agreement with the new entrant to split the revenue deriving from a multi-segment journey with flights operated by different carriers;
4) An Interline Agreement to allow the new entrant to sell multi-segment tickets in connection with the Rome-Belgrade flight operated by it or a round trip operated by the new entrant and Alitalia or Air Serbia.
5) To allow a new entrant that does not have one to join the Parties' FFP- Frequent Flyer Programs.

On 9 December 2014 the Serbian Competition Authority cleared the merger, adopting the same commitments as those contained in the European Commission' decision.

<u>LABOUR LITIGATION</u>

Alitalia's labour litigation

Alitalia's pending labour litigation consists of 748 cases brought mainly to determine the unlawfulness of the expiration date of fixed-term contracts and the selection/hiring criteria set out in the 2008 agreement for the former employees of the Alitalia LAI Group, on the one hand, and, to a lesser extent, the existence of continuity for employment contracts between Alitalia LAI and Alitalia CAI.

Other cases relate to: salary differences, travel privileges, demotion, harassment, transfers, employment history, redundancy payments and application of the Collective Labour Agreement.

The amount associated with these disputes cannot be determined as no specific monetary claims are made in the complaints. However, monetary claims will be quantified by the judge with a decision or in a subsequent proceeding designed to calculate the amount.

Alitalia has made provisions for labour disputes, amounting to €13,537,000.

Air One labour litigation

AIRONE's pending labour litigation consists of 32 cases brought mainly to determine the unlawfulness of the expiration date of fixed-term contracts and the failure to make redundancy payments to the Alitalia CAI staff seconded to AirOne and then made redundant, after a period spent collecting benefits from the redundancy fund.

Additional disputes include: demotions, damages due to permanent inability to fly, dismissals, unlawfulness of sale of the business and salary differences.

The amount associated with these disputes cannot be determined as no specific monetary claims are made in the complaints. However, monetary claims will be quantified by the judge with a decision or in a subsequent proceeding designed to calculate the amount.

However, the amount of provisions made for labour disputes is €1,048,000, which is considered adequate on the basis of the risk assessment contained in the opinion of the company's counsel.

Tax litigation

Regarding tax disputes, reference is made to the paragraph "Group Tax Position".

Corporate Litigation

Cases brought by G&C Holding

Challenges to resolutions adopted at Extraordinary General Meeting of shareholders of 14-15 October 2013

With a writ of summons served on 4 February 2014, G&C Holding, a shareholder, initiated legal proceedings against Alitalia in the Court of Rome, section specializing in company law, with the request to "determine and declare …. void the resolutions adopted by the body of shareholders of ALITALIA CAI S.p.A. on 14-15 October 2013".

Briefly, the reasons why the plaintiff requests voidance for the contested resolutions are as follows:

a) the balance sheet at 30 June 2013 - whereby the loss of over one-third of share capital was ascertained, with steps taken under article 2446 of the Italian Civil Code (make-up of losses through the use of reserves and reduction of the share capital) - is allegedly wrong because (i) "it had been prepared improperly, on the wrong assumptions and statement that the company was a going concern" (page 37 of the summons) and (ii) the going concern basis of accounting allegedly entailed the wrong "valuation of the individual assets by the Directors, thus affecting in a substantial manner the overall value attributed to company";

b) the misstatement of the balance sheet at 30 June 2013 should result in voidance of the resolution with which the steps under article 2446 of the Italian Civil Code were taken;

c) the dilution of its own equity interest, after the plaintiff's failure to exercise its rights – due to the "misgivings created by the balance sheet at 30 June 2013, regarding which it never received any clarification" - would justify the challenge to the resolution approving the capital increase;

d) there is an alleged "functional link" between the resolution with which the capital increase was approved and that whereby the steps under article 2446 of the Italian Civil Code were taken, with the consequence that the flaws (nullity) of the first resolution undermine the validity of the second, by triggering a domino effect that determined the nullity of the resolution to approve the capital increase (plaintiff has no complaint about this resolution in and of itself).

With an entry of appearance and statement of defence filed on 3 June 2014, Alitalia requested the Court to reject the plaintiff's claims as inadmissible, non-actionable and otherwise baseless. The parties exchanged their briefs under article 183, paragraph 6, of the civil procedure code.

Challenge of resolutions adopted at the Extraordinary and Ordinary General Meetings of shareholders held on 25 July 2014 and 8 August 2014

With a writ of summons served on 3 October 2014, G&C Holding, a shareholder, initiated legal proceedings against Alitalia in the Court of Rome, section specializing in company law, to:

(i) determine and declare null and void the resolutions adopted by the body of shareholders at the Extraordinary General Meeting held on 25 July 2014, as well as the resolution adopted by the body of shareholders at the General Meeting held on 25 July 2014 to approve the financial statements for the year ended 31 December 2013 and to carry forward the loss for the year then ended;

(ii) determine and declare null and void the resolutions adopted by the body of shareholders at the General Meeting held on 8 August 2014 "*to approve and, for all intents and purposes, authorise the overall strategic transaction with Etihad (the "Transaction");*

2) *to approve and, for all intents and purposes, authorise the connected debt restructuring, as described above and the form of Poste Italiane's participation via a debt instrument to be issued by Midco;*

3) *to approve and, for all intents and purposes, authorise:*

(i.) *the Company's contribution of its airline business unit to Nuova Alitalia; and*

(ii.) *the Company's subsequent contribution to MidCo of its equity interest in Nuova Alitalia resulting from the above contribution,*

with regard to both contributions, authorising the Board of Directors, and/or endorsing their actions, to appoint an independent expert to prepare the reports required by art. 2343-ter, paragraph 2-bis of the Italian Civil Code".

(iii) determine and declare null and void the resolutions adopted by the body of shareholders at the Extraordinary General Meeting held on 8 August 2014.

Alitalia has yet to file its own entry of appearance.

Also, G&C Holding S.r.l. filed a complaint under article 2378, paragraphs 3 and 4, of the civil procedure code, which was served on 14 November 2014, requesting the Court to order the stay of the challenged resolutions adopted on 15 July and 8 August 2014.

The complaint was dismissed by the Court with a decision dated 3 January 2015.

<u>Writ of summons served on 5 December 2014</u>

With a writ of summons served on 5 December 2014, G&C Holding initiated legal proceedings against Messrs Passera, Micciché, Colaninno and Sabelli as well as Intesa San Paolo and Alitalia, with the last two liable for the activities of their officers, pursuant to article 2049 of the Italian Civil Code.

The plaintiff requested the defendant – "*jointly and severally or each according to their individual responsibilities*" – to pay damages in the estimated amount of €65 million, which reflects the alleged amount of the plaintiff's investment in Alitalia, inclusive of a sum accounting for "*the return on equity*".

The plaintiff's claims are based on the fact that its investment was predicated on a business plan that "*misstated the real value of the assets involved in the transaction*". Evidence of the alleged misstatement is the acquisition of Air One, which took place for sums that were higher than those provided for under the so-called "Fenice Plan".

The company has yet to file its own entry of appearance.

<u>*Proceedings initiated by AF-KLM*</u>

On 11 April 2014 Air France-KLM S.A., a shareholder, served a writ of summons on Alitalia for proceedings initiated in the Court of Rome, section specializing in company law, with a request to appear at the hearing scheduled for 23 July 2015, eventually postponed until 16 September 2015, in connection with the following claims:

1) <u>as the main plea</u>:
   (a) to determine the invalidity of the resolution adopted by Alitalia's shareholders at the Extraordinary General Meeting held on 13 January 2014, whereby the board members were reduced from 19 to a number varying between 7 and 19, for violating article 2376 of the Italian Civil Code and article 13.3 of the articles of association; and consequently
   (b) to void said shareholder resolution;
2) <u>alternatively</u>, to determine and declare that Alitalia's current articles of association, especially article 15, must be interpreted in such a way as to acknowledge the right of category B shareholders, with at least 5% of share capital, who submit a slate of candidates to appoint at least one member of the board of directors, regardless of the number of board members.

Also for this dispute, considering the in-depth knowledge of the questions at issue, the Chairman and the CEO retained the firm of Bonelli Erede Pappalardo as Alitalia's counsel.

Alitalia filed its entry of appearance to have the plaintiff's claim rejected as inadmissible and/or non-actionable and otherwise baseless.

The parties exchanged their briefs under article 183, paragraph 6 of the Italian Civil Code.

Schedules

Analysis of equity (Article 2427 – 7-*bis* of the Italian Civil Code)

The information required by article 2427, paragraph 7-*bis* of the Italian Civil Code, indicating the individual components of equity with reference to their origin, possible use and potential for distribution, as well as any uses in previous years, is provided in the following schedule:

USES OF EQUITY

€000

Description	31 December 2014	Possible uses	Portion available	Summary of uses made in the previous three years: To cover losses	Summary of uses made in the previous three years: For other reasons
SHARE CAPITAL	357.545			407.678	
SHARE PREMIUM RESERVE	752.417	A-B-C	680.908	501.156	
SUBSCRIBED SHARES FOR CAPITAL INCREASES (shareholders' capital contributions)					
LEGAL RESERVE	0				
OTHER RESERVES:					
2.- Loss coverage reserve				23	
3.- Capital contribution for conversion of convertible bonds	0				
4.- Foreign currency translation reserve	(3.292)				
6.- Other	545				
RETAINED EARNINGS/(ACCUMULATED LOSSES)	(621.991)			(736.908)	
NET PROFIT/(LOSS) FOR THE PERIOD	(578.280)				
LOSS COVERED DURING THE YEAR				(171.949)	
Total equity	**(93.056)**		**680.908**	**(0)**	**0**
Non-distributable portion			**0**		
Remaining distributable portion			**680.908**		

Key:

A. to increase capital;

B. to cover losses;

C. for shareholder distributions

Breakdown of revenue, receivables and payables by geographical area (Article 2427 – 10 and 6 of the Italian Civil Code)

As required by article 2427, paragraphs 10 and 6 of the Italian Civil Code, the tables below provide a breakdown of revenue from sales and services, receivables and payables by geographical area:

Breakdown of revenue by geographic area (point of sales)

€000	2014						2013					
Revenue from services	Italy	Europe	Americas	Far East	Other	Total	Italy	Europe	Americas	Far East	Other	Total
Revenue from:												
Passengers	1.351.125	538.959	637.977	239.312	2.340	2.769.713	1.402.613	600.754	691.823	251.957	1.294	2.948.441
Cargo	56.541	2.669	16.635	19.173	765	95.783	60.970	3.248	15.674	18.652	898	99.442
Mail	2.192	466	800	399	56	3.913	1.143	292	811	590	93	2.929
Other	0	0	0	0	180.677	180.677	24.430	816	2.105	1.181	202.412	230.945
Total revenue from traffic	1.409.858	542.095	655.411	258.884	183.838	**3.050.086**	1.489.156	605.110	710.413	272.381	204.698	**3.281.757**
Other services	0	0	0	0	128.571	128.571	31.096	518	2.567	471	86.779	121.430
Total other services	0	0	0	0	128.571	**128.571**	0	0	0	0	86.779	**121.430**
Revenue from sales	0	0	0	0	1.938	1.938	0	0	0	0	2.700	2.700
Total revenue	**1.409.858**	**542.095**	**655.411**	**258.884**	**314.347**	**3.180.595**	**1.489.156**	**605.110**	**710.413**	**272.381**	**294.176**	**3.405.887**

Breakdown of receivables by geographic area

€000	ITALY	EUROPE	AMERICAS	FAR EAST	OTHER	at 31 December 2014	ITALY	EUROPE	AMERICAS	FAR EAST	OTHER	at 31 December 2013
customers	52.014	11.564	27.931	3.700	660	95.869	48.131	6.759	32.301	1.014	3.887	92.092
airlines	6.826	34.068	4.203	208	696	46.001	22.719	33.427	332	246	66	56.790
travel agents	37.542	14.808	5.588	14.046	8.149	80.133	65.497	15.482	26.496	155	12.658	120.288
subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0
associates	0	0	0	0	0	0	0	0	0	0	0	0
parents	0	0	0	0	0	0	0	0	0	0	0	0
tax assets	14.204	2	2	0	0	14.208	20.838	1	0	0	0	20.839
deferred tax assets	35.468	0	0	0	0	35.468	29.540	0	0	0	0	29.540
other receivables	85.835	42.223	4.723	118	3.724	136.623	71.380	24.061	676	12	1.868	97.998
total	**231.889**	**102.665**	**42.447**	**18.072**	**13.229**	**408.302**	**258.106**	**79.730**	**59.805**	**1.427**	**18.479**	**417.547**

Breakdown of payables by geographic area

€000	ITALY	EUROPE	AMERICAS	FAR EAST	OTHER	at 31 December 2014	ITALY	EUROPE	AMERICAS	FAR EAST	OTHER	at 31 December 2013
Convertible bonds	33.276					33.276	63.867					63.867
Lease liabilities (OIC 17)	4.642	0	0	0	0	4.642	7.244	0	0	0	0	7.244
bank borrowings	207.369	377.967	0	0	0	585.336	262.765	507.272	0	0	0	770.037
other borrowings	75.000					75.000	159.561	0				159.561
advances	2.921	0	0	0	0	2.921	3.235	0	0	0	0	3.235
trade payables	514.911	32.022	9.060	2.139	4.217	562.349	557.666	36.114	16.998	1.388	2.799	614.965
airlines	39.851	823	8.359	813	208	50.054	12.852	1.574	381	504	69	15.380
travel agents	10.056	5.041	2.370	4.956	1.681	24.104	12.551	3.768	2.868	2.896	1.326	23.409
tax liabilities	33.616	0	0	0	0	33.616	49.674	0	0	0	0	49.674
social security contributions payable	19.502	0	0	0	0	19.502	56.943	0	0	0	0	56.943
Prepaid tickets	223.371	0	0	0	0	223.371	281.832	0	0	0	0	281.832
Sundry payables	44.509	890	4.100	108	3.059	52.666	69.459	11.970	1.027	576	189	83.221
Total payables	**1.209.024**	**416.743**	**23.889**	**8.016**	**9.165**	**1.666.837**	**1.537.649**	**560.698**	**21.274**	**5.364**	**4.383**	**2.129.368**

Information on the fair value of financial instruments (Article 2427-*bis*)

As at 31 December 2014, the Group had the following derivative contracts in place merely for hedging purposes.

Hedges of fuel price risk:

The Group has entered into swap contracts to manage the price risk related to jet fuel purchases.

To calculate the fair value of these derivatives, account was taken of Brent forward prices as quoted by primary external information providers. This valuation showed fair value losses of €198,345,000.

As at 31 December 2014, these derivative contracts were tested, and found to be effective, in accordance with IAS 39. The test was performed through a regression analysis of Brent prices underlying the derivative contracts and jet fuel prices.

Instrument	Purpose	Expiry	Notional value*	Underlying risk	FV 31 December 2014 **	Underlying asset or liability	Outcome of effectiveness test	Underlying product	Underlying quantity (jet fuel:MT/brent:bbl)
FORWARD TRANSACTIONS	hedge	monthly from Jan to Dec 2015	EUR 629.350.472 USD 764.094.408	price of jet fuel	EUR (198.345.498)	purchases of jet fuel	100%	jet fuel	858.309

Foreign currency hedges:

The derivative contracts shown in the table below were entered into to hedge exchange rate risk and record overall fair value gains of €47,391,000.

Particularly, attention is called to:

- options qualifying as cash flow hedges for fuel purchases, where payments in euros indexed to the dollar;
- options qualifying as cash flow hedges for sales in the United Kingdom and Japan;
- options qualifying as cash flow hedges for the dollar proceeds from the sale of certain aircraft to Air Berlin;
- cross currency swaps hedging payments of principal and interest on dollar-denominated loans.

The fair value of derivatives is calculated through the use of software using pricing models of proven and well-known reliability.

The derivative contracts was tested successfully for effectiveness, as required by IAS 39, by applying the dollar-offset method on a period-by-period and cumulative basis.

Instrument	Purpose	Expiry	Notional value*	Underlying risk	FV 31 December 2014 **	Underlying asset or liability	Outcome of effectiveness test
SYNTHETIC US$ FORWARD	hedge	monthly from Jan to Dec 2015	EUR 276.904.841 USD 364.258.000	€/USD exchange rate	EUR 22.010.046	euro indexed to dollar for fuel payments	-100%
US$ FORWARD ***	hedge	Feb-May 2015	EUR 190.476.190 USD 240.000.000	€/USD exchange rate	EUR (6.989.571)	collection of proceeds of sale of 14 A320s	-100%
GBP FORWARD	hedge	monthly from Jan to Dec 2015	EUR 15.095.874 GBP 12.000.000	€/GBP exchange rate	EUR (254.559)	proceeds from UK sales	-100%
JPY COLLAR	hedge	monthly from Jan to Dec 2015	EUR 51.520.737 JPY 7.200.000.000	€/JPY exchange rate	EUR 2.246.308	proceeds from Japanese sales	-100%
CROSS CURRENCY SWAP	hedge	Sept 2019	EUR 31.417.629 USD 44.675.868	€/USD exchange rate	EUR 5.268.002	principal and interest on US$ loans to APC no. 10	-100%
CROSS CURRENCY SWAP	hedge	Nov 2016	EUR 81.050.759 USD 115.254.179	€/USD exchange rate	EUR 14.691.334	principal and interest on US$ loan to APC no. 12	-104%
CROSS CURRENCY SWAP	hedge	Jul 2017	EUR 15.749.219 USD 22.187.500	€/USD exchange rate	EUR 2.601.329	principal and interest on US$ loan to APC no. 12	-100%
CROSS CURRENCY SWAP	hedge	Jul 2017	EUR 9.481.559 USD 13.625.000	€/USD exchange rate	EUR 1.811.293	principal and interest on US$ loan to APC no. 12	-100%
CROSS CURRENCY SWAP ***	hedge	Jul 2017	EUR 20.318.232 USD 26.742.857	€/USD exchange rate	EUR 1.789.307	principal and interest on US$ loan to APC no. 12	-100%
CROSS CURRENCY SWAP	hedge	Jul 2017	EUR 15.866.609 USD 21.041.186	€/USD exchange rate	EUR 1.507.915	principal and interest on US$ loan to APC no. 12	-100%
CROSS CURRENCY SWAP	hedge	Jul 2017	EUR 16.112.770 USD 21.041.667	€/USD exchange rate	EUR 1.229.708	principal and interest on US$ loan to APC no. 12	-100%
CROSS CURRENCY SWAP	hedge	Jul 2017	EUR 15.880.503 USD 21.041.667	€/USD exchange rate	EUR 1.479.963	principal and interest on US$ loan to APC no. 12	-100%
				TOTAL	**EUR 47.391.076**		

Interest rate hedges:

The derivative contract shown in the table below was entered into to mitigate the interest rate risk associated with a floating-rate loan obtained by APC 1. More specifically, this is an interest rate swap which is used to hedge 50% of the interest payments on the above loan.

As at 31 December 2014, the derivative has generated a fair value loss of €403,000. This derivative contract was tested for effectiveness, as required by IAS 39, by applying the dollar-offset method on a period-by-period and cumulative basis, without showing any degree of ineffectiveness.

Instrument	Purpose	Expiry	Notional value*	Underlying risk	FV 31 December 2014 **	Underlying asset or liability	Outcome of effectiveness test
IRS	hedge	oct 2018	EUR 4.766.303	interest rate	EUR (402.873)	interest payable on 50% of outstanding APC no. 1 mortage	-100%

Group Tax Position

CURRENT (IRES AND IRAP) AND DEFERRED TAXATION

The year under review marked the end, and subsequent renewal, of the tax consolidation arrangement for the 2012-2014 period. Under this arrangement, several Group companies elected, via specific agreements, to pay taxes on a Group-wide basis, under articles 117-129 of Presidential Decree no. 917 of 22 December 1986 and Ministerial Decree no. 344/2004.

Based on the above, the subsidiaries that joined the scheme are: Air One, Cai First, Cai Second, Alitalia Cityliner and Alitalia Loyalty which, since it was established in 2013, has joined the consolidation arrangement for the three-year period 2013-2015.

The participating companies transfer the amounts of taxes payable to the consolidating company (Compagnia Aerea Italiana S.p.A., formerly Alitalia – Compagnia Aerea Italiana S.p.A.), which in turn combines all taxable amounts and determines the Group's tax liability. The tax losses of participants in the arrangement will be offset against the taxable amounts of the other participants.

The ability to pay taxes on a combined basis means that the companies settle all the differences with one another via the parent, Alitalia.

Total taxes for the year consist of current IRAP expense of €12,063,000, deferred tax income arising from IRAP amounting to approximately €5,927,000 and deferred tax expense arising from IRES of €1,547,000.

VAT

Pursuant to article 73 of Presidential Decree no. 633/1972, Compagnia Aerea Italiana S.p.A, Air One S.p.A., Cai First S.p.A., Cai Second S.p.A., Alitalia Cityliner S.p.A. and Alitalia Loyalty S.p.A.. elected to pay group VAT for fiscal year 2014. This election allowed each company to offset its credit and debit positions resulting from the periodic payments of VAT with the corresponding positions of the other companies participating in the procedure, by transferring to the parent, Alitalia, the task of determining the periodic VAT amount for the Group and to make the relevant payments.

As of 31 December 2014, Group VAT payable amounted to €87,000.

Tax expense of foreign branches

Regarding the taxes of Compagnia Aerea Italiana's foreign branches, attention is called to:

- Tax provisions were made in connection with the maintenance reserve, totalling €160,000;
- Foreign risk provisions amount to €174,000. With respect to this item, the sum of €290,000 was used for taxes in Argentina, which cannot be recovered.

Concerning the request for an extraordinary contribution of €1,700,000 required by the Greek government in 2011 from all foreign companies operating in that country, adopted as an exceptional measure to combat the economic crisis, the Company filed a legal challenge in the local courts, which rendered a decision in the Company's favour on 1 October 2014. On 4 February 2015, the Company was notified about an appeal submitted by the Greek Finance Ministry.

In the meantime, the parties are negotiating – in accordance with the agreement between the Government of the Greek Republic and the Government of the Republic of Italy – to settle the matter out of court.

<u>Tax litigation</u>

<u>Air One</u>

Air One's tax dispute is part of the so-called "Identified Litigation", with the exception of the litigation under l) and m) of the following section on potential tax liabilities.

The "Identified Litigation" consists of disputes with the tax authorities involving Air One prior to 31 December 2008, the date of Alitalia's acquisition of Air One, which are attributable to the Seller ("Toto") based on the Framework Agreement between the two companies on 11 December 2008.

This Agreement calls for the Seller to manage in a fully autonomous and independent manner all the "Identified Litigation" and provides also for the way the defence legal team should be appointed and how Alitalia should be reimbursed in case of loss.

However, in relation to the "Identified Litigation", the Directors – though mindful of the provisions of the Framework Agreement which attributes to the Seller ("Toto") responsibility for the management and any subsequent repayment of the sums in question – saw fit to adopt a prudent approach and to set aside the amount of the potential cost which was estimated, with support from counsel, to be €44 million. This decision was made in the light of Toto's effective and actual resistance to pay sums for similar situations (reimbursement of charges arising from tax disputes originating under the previous management, especially in relation to the Irish companies).

Regarding **<u>potential tax amounts receivable</u>**, the current situation is as follows:

The company initiated four (4) tax disputes with the Chieti Office to obtain the refund of VAT on boarding fees for the period between 1 August 2003 – 30 October 2008. The company obtained favourable decisions in the court of first instance and on appeal.

The tax authorities filed an appeal with the Court of Cassation, but the company filed adequate counter appeals. The Court of Cassation ruled:

a) with reference to the dispute for 2003-2004, the Court aligned its decision, no. 418 of 2015, with the views of the Public Prosecutor, and accepted the argument of the tax authorities, thereby ordering the company to reimburse the opposing party for its legal costs, in the amount of €10,260, as well as to pay court costs;
b) with reference to the dispute for 2005-2006, with decision no. 419 of 14 January 2015, the Court accepted the procedural exception raised by the company and declared non-actionable the authorities' appeal, ordering the tax authorities to reimburse €10,693,000 to the company and to refund legal expenses, in the amount of €10,260, as well as to pay court costs. The Public Prosecutor filed an appeal before the Court of Cassation, with a service of process to the company dated 24 February 2015, requesting it to overturn ruling no. 113/3/11, entered in court records by the Regional Tax Tribunal, section of Pescara, on 15 April 2011;

c) with reference to the proceedings started against the implied decision regarding applications for the refund of VAT on boarding fees for 2003 and 2007-2008, pending before the Court of Cassation as a result of the appeals filed by the tax authorities, the company filed a counter appeal and eventually filed its explanatory briefs. Hearings were set for 3 December 2013 and 22 April 2014. The Court of Cassation, with decisions no. 5362 of 2014 and 26180 of 2014, accepted the appeals of the tax authorities and pronounced boarding fees subject to VAT. Accordingly, it found that the company was not entitled to obtain a refund and ordered it, in relation to ruling no. 5362, to pay €3,000 in legal costs to the tax authorities and court costs – which the company did on 3 October 2014 - and, in relation to ruling no. 26180, to pay legal costs of €18,000, a sum that has not been paid to the tax authorities yet, as well as court costs.

Regarding **potential tax amounts payable**, attention is called to the following:

a) with reference to 1997, Air One was served with a tax assessment notice related to IRPEG and ILOR, which reflected a decrease in the reported tax loss for the fiscal period of reference without any implication in terms of higher tax payments or penalties. The challenge against this assessment notice was successful for the company, in both the first instance and on appeal. In October 2008, the tax authorities appealed to the Court of Cassation. With decision no. 413 of 14 January 2015, the Supreme Court accepted the exception raised by the tax authorities, found the tax authorities' appeal inadmissible and ordered it to refund all legal costs, totalling €6,500, and to pay court costs, totalling €200;

b) with reference to 1998, Air One was served with a tax assessment notice related to IRPEG, IRAP and VAT with a request to pay taxes of €530,000 and penalties and interest of €480,000. The challenge against this assessment notice was successful for the company, in both the first instance and on appeal. In October 2008 the tax authorities appealed to the Court of Cassation. During the hearing held on 22 April 2014, the Public Prosecutor requested the Court to accept the tax authorities' three main pleas and to accept the procedural exception for the inadmissibility of the fourth plea, submitted by the company;

c) with reference to 1999, Air One was served with a tax assessment notice related to IRPEG, IRAP and VAT with a request to pay taxes of €2,000,000 and penalties and interest of €2,480,000. The challenge against this assessment notice was successful for the company, in both the first instance and on appeal. In October 2008, the tax authorities appealed to the Court of Cassation. With decision no. 21679, entered in the Court records on 12 December 2014, the Supreme Court – deviating in part from the Public Prosecutor's opinion and accepting the company's procedural exception, declared inadmissible the non-deductibility for IRPEG and VAT purposes of the costs incurred by the company to implement new routes for passenger transportation services, accepting other pleas and quashing the challenged appeal ruling;

d) with reference to 2000, Air One was served with a tax assessment notice related to IRPEG, IRAP and VAT with a request to pay taxes of €6,600,000 and penalties and interest of €8,800,000. The challenge against this assessment notice was partially successful for the company, given that the court of first instance accepted all the please except that on the alleged failure to pay VAT on the disposal of two aircraft. This decision was upheld on appeal. Regarding this VAT assessment for 2000 – whose related amounts have already been paid – the company filed an appeal with the Court of Cassation while the tax authorities filed its own appeal against the decisions handed down by the court of first instance and on appeal. With decision no. 16221 of 2014, the Court of Cassation upheld the decision of the court of first instance, which was partially favourable to the company. As already noted above, Air One had already paid the amount due to the tax authorities;

e) with reference to 2001, Air One was served with a tax assessment notice related to IRPEG, IRAP and VAT with a request to pay taxes of €1,300,000 and penalties of €2,300,000. The challenge against this assessment notice was successful for the company, in both the first instance and on appeal. In fact, the decision of the Regional Tax Tribunal, entered in court records on 1 February 2010, upheld the annulment of the assessment. In January 2011, the tax authorities filed an appeal with the Court of Cassation while the company filed a counter appeal. The Supreme Court, with decision no. 414 of 14 January 2015, aligned with the Public Prosecutor's opinion, accepting the tax authorities' appeal and quashing the challenged appeal ruling;

f) with reference to 2002, Air One was served with a tax assessment notice related to IRPEG, IRAP and VAT with a request to pay taxes of €5,600,000 and penalties and interest of approximately €5,600,000. The challenge against this assessment notice was successful for the company, in both the first instance and on appeal. In fact, the decision of the Abruzzo Regional Tax Tribunal, entered in court records on 1 February 2010, upheld the annulment of the assessment. In January 2011, the tax authorities filed an appeal with the Court of Cassation while the company filed a counter appeal. The Supreme Court, with decision no. 415 of 14 January 2015, 415/2015, aligned with the Public Prosecutor's opinion, accepting the tax authorities' appeal and quashing the challenged appeal ruling;

g) with reference to 2002, Air One was served with a tax assessment notice related to VAT, with a request to pay taxes of €17,000,000, in connection with the alleged failure to pay VAT on a transaction involving the transfer of a business unit in December 2002. The company challenged the tax assessment and was successful in the court of first instance. In March 2010, the tax authorities appealed the decision before the Abruzzo Regional Tax Tribunal. On 22 March 2010, the Abruzzo Regional Tax Tribunal issued a decision that rejected the appeal and ordered the tax authorities to pay legal costs. The tax authorities in turn challenged this decision before the Court of Cassation while the company filed its own counter appeal. With a decision adopted on 14

January 2015, no. 421/2015, the Supreme Court accepted the tax authorities' argument and quashed the challenged appeal ruling;

h) with reference to 2002, Air One was served with a tax assessment notice related to VAT, with a request to pay approximately €495,000, in connection with certain late tax payments. The tax assessment was promptly challenged, considering that the violation fell within the scope of the tax amnesty under article 9 *bis* of Law no. 289/2002. The challenge was successful in both the first instance and on appeal and the tax assessment was overturned. In June 2012, the tax authorities filed an appeal before the Court of Cassation, with the company filing its own counter appeal and cross-appeal. By judgment of 14 January 2015, no. 420/2015, the Court found in favour of the tax authorities and rejected the company's cross-appeal, ordering the company to refund legal costs to the tax authorities, totalling €9,000, plus court costs;

i) with reference to 2003, Air One was served with a tax assessment notice related to IRPEG and VAT, with a request to pay approximately €7,900,000 in back taxes plus interest in connection with the allegedly improper offset of tax loss carryforwards indicated in the assessments under a) and b) above and the failure to charge VAT on boarding fees collected from 1 January to 31 July 2003. The company challenged this tax assessment successfully in the court of first instance. The tax authorities filed an appeal against this decision in October 2010 before the Abruzzo Regional Tax Tribunal which, on 12 April 2012, rejected it. In June 2013 the tax authorities appealed to the Court of Cassation. The company filed a cross-appeal. By judgment of 14 January 2015, no. 417/2015, the Court aligned with the Public Prosecutor's opinion and upheld the previous judgment regarding the taxation (for IRPEG purposes) of interest income and, for the other reasons, quashed the challenged appeal ruling.

j) with reference to 2003, Air One was served with a notice to pay VAT penalties of €660,000 in relation to the alleged failure to charge VAT on boarding fees collected from 1 January to 31 July 2003. The company challenged this tax assessment successfully in the court of first instance. The tax authorities filed an appeal against this decision in October 2010 before the Abruzzo Regional Tax Tribunal which, on 12 April 2012, rejected it. In June 2013 the tax authorities appealed to the Court of Cassation. The company filed a cross-appeal. By judgment of 12 December 2014, no. 26181, the Supreme Court found in favour of the tax authorities quashing the challenged appeal ruling.

k) with reference to 2004, Air One was served with a tax assessment notice related to IRES and IRAP, with a request to pay approximately €11,825,000 in relation to the company's failure to report €16,054,000 in revenue. The tax assessment was promptly challenged before the Provincial Tax Tribunal of L'Aquila, which found nearly entirely in favour of the company, by upholding the tax assessment in relation to the company's failure to report €71,000 in revenue. The Abruzzo Regional Directorate appealed the Court's decision and Air One filed a counter appeal and a cross-appeal, for the partial loss. On 17 April 2012, the Abruzzo Regional Tax

Tribunal upheld the ruling of the lower tribunal. On 14 December 2012, the tax authorities filed an appeal against this ruling – no. 46/05/12, entered in court records on 12 June 2012 – with the Court of Cassation. The company, for its part, filed promptly a cross-appeal. By judgment no. 416 of 14 January 2015, the Supreme Court upheld the appeal and dismissed the company's cross-appeal, thereby quashing the challenged ruling of the Regional Tax Tribunal.

l) with reference to 2007, Air One was served with a tax assessment notice related to IRAP and VAT, with a request to pay €2,320,000, in relation to the way IRAP was calculated and certain late VAT payments. The tax assessment was promptly challenged before the Provincial Tax Tribunal of L'Aquila, which found in favour of the company. On 4 October 2012, the Abruzzo Regional Directorate appealed against that ruling – no. 28/02/2012, issued on 31 December 2012 and filed in court records on 21 February 2012 – with the company filing its own counterclaim. On 8 April 2013 the Abruzzo Regional Tax Tribunal dismissed the tax authorities' appeal, upholding the ruling handed down by the court of first instance. At the time of writing, no appeal has been filed against this decision. Therefore, the Abruzzo Regional Tax Tribunal's decision no. 132/2/2013, entered in court records on 8 July 2013, is now *res judicata*.

m) with reference to 2011, Air One, in its capacity as acquiror of European Avia Service, was served with a notice of adjustment and payment of stamp duty with deed no. 20091T039330000/2009 (R.G.R. 23976/2011), whereby the tax authorities adjusted the selling price of the "Pulizia Aerei" business, which took place on 11 November 2009, between E.A.S. and National Airport Service S.p.A.. The tax authorities raised the value from €12,000 to a total of €212,000 (of which €185,000 for goodwill and €27,000 for capital equipment), involving the payment of an increase of €6,000 in stamp duty, in addition to penalties and interest of the same amount. On 19 December 2011, the company challenged the notice before the Provincial Tax Tribunal of Rome. To date, no hearing has been set.

Compagnia Aerea Italiana

Regarding Compagnia Aerea Italiana S.p.A., with reference to notice of adjustment and payment no. 20101T003730000, which was served in 2012, whereby the tax authorities adjusted the price of the business "*Attività di servizi di assistenza full handling presso l'aeroporto di Catania*" (Full handling services at Catania airport), in a transaction between Alitalia Compagnia Aerea Italiana S.p.A. and S.A.C. – Società Aeroporto Catania S.p.A.. The tax authorities raised the value from €10,000 to a total of €777,000, involving the payment of an increase of €23,000 in stamp duty, in addition to penalties and interest of €25,000. On 28 March 2012, the Company challenged the notice before the Provincial Tax Tribunal of Rome. On 20 November 2014 the above Provincial Tax Tribunal of Rome, with a joinder of the above claim and that submitted by S.A.C., entered decision no. 23764/61/14 in court records, upheld both and ordered the parties to pay for their own legal costs.

Accesses, inspections and audits of external organisations

Regarding **Air One**, with reference to the audit started on 30 October 2013 by the tax authorities in Rome, with respect to corporate income taxes, VAT ad other taxes for fiscal years 2010 and 2011 – eventually extended to the years 2006-2009, in relation to specific aspects of previous investigations - and completed on 1 April 2014 with the service of a tax audit report, the company filed specific defence briefs through the firm retained to represent it. The briefs were filed on 28 May 2014 with the Regional Directorate of Lazio and on 30 May 2014 with the Regional Directorate of Abruzzo.

Moreover, with reference to the same tax audit report, the company received the three tax assessments illustrated below on 29 August 2014, 3 September 2014 and 5 November 2014. The first two were issued by the Regional Directorate of Abruzzo and the third by the Regional Directorate of Lazio, particularly with respect to the payments from Bombardier Inc., a supplier:

- TAA030100026/2014, related to IRES and IRAP for 2007, with additional IRES and IRAP assessed for a total of €7.1 million, plus interest of €1.6 million and penalties of €7.1 million. The total amount of the tax assessment is €15.8 million.
- TAA030100024/2014, related to IRES and IRAP for 2006, with additional IRES and IRAP assessed for a total of €1.5 million, plus interest of €0.4 million and penalties of €1.5 million. The total amount of the tax assessment is approximately €3.4 million;
- TJB030300263/2014, related to IRES and IRAP for 2008, with additional IRES and IRAP assessed for a total of €0.12 million, plus interest of €0.03 million and penalties of €0.12 million. The total amount of the tax assessment is approximately €0.27 million.

With respect to assessments TAA030100026/2014 (for fiscal year 2007) and TAA030100024/2014 (for fiscal year 2006), the company submitted settlement proposals on 7 November 2014, and related briefs, and on 16 December 2014, starting discussions with the Regional Directorate of Abruzzo. On 28 January 2015, the company signed deeds no. TAAA30100003/2015 and no. TAAA30100004/2015 for the settlement of IRES, interest and penalties, for 2006 and 2007. The amount of the settlement totals €4,218,000, to be paid in 12 quarterly instalments. The first such instalment was paid on 10 February 2015, in accordance with the repayment schedule agreed with the above Directorate.

With respect to assessment TJB030300263/2014, for fiscal year 2008, the company submitted settlement proposals on 5 December 2014, starting discussions with the Regional Directorate of Lazio on 22 December 2014. Based also on this discussion, on 5 February 2015, the company submitted to the Regional Directorate in question – through the counsel retained to represent it – a request of nullification by internal review of the above tax assessment, highlighting its unlawfulness, given the penal irrelevance of the tax violation identified and, consequently, the inapplicability of the extension of the deadline to issue the tax assessment notice.

With reference to the same tax audit report, the company received on 24 December 2014 tax assessment no. TJB030300361/2014 issued by the Regional Directorate of Lazio, particularly with reference to the VAT regime applicable by the company to wet lease arrangements. The tax assessment required the company to pay VAT of €430,000, plus interest of €72,000 and penalties of

€538,000. The overall amount of the assessment is of approximately €1,040,000. Regarding this tax assessment, on 5 February the company submitted a settlement proposal to the Regional Directorate of Lazio.

As of 31 December 2014, regarding these payments, the company has set aside €10 million in provisions for risks, in view of the probable risk of loss on the basis of the opinion of a professional retained to represent the company.

For the fifteen **Irish companies** wholly owned by Compagnia Aerea Italiana S.p.A., on 13 May 2013 the tax authorities began a tax audit for the fiscal years 2002 to 2008 on tax residence.

This audit resulted from the seizure of documents at the offices of Alitalia on 7 November 2012 during a search carried out by the Prosecutor's Office in Rome at the request of magistrates in Catania in relation to a criminal investigation.

This audit was completed on 9 July 2013. The tax audit reports related to tax residence in Italy were served on Challey, Subho, APC11 and APC12 on 13 June 2013; APC, APC1, APC2 and APC3 on 27 June 2013 and APC4, APC5, APC6, APC7, APC8, APC9 and APC10 on 4 July 2013. The formal and substantive violations attributed to the companies related to IRES, IRAP and VAT. The companies began a discussion with the tax authorities before the issue of the relevant tax assessments.

At the end of those discussions, on 10 December 2013 the tax authorities and the companies agreed to draw up a Tax Audit report with the overall amount claimed by the tax authorities, setting out the following proposed settlements, totalling €38.4 million:

- IRPEG/IRES: tax assessment €6.2 million + penalties of €1.3 million
- IRAP: tax assessment €3.6 million + penalties of €0.7 million
- VAT: penalties of €9 million; regarding the tax, the tax deductible from the users of the aircraft could be deducted immediately from the tax payable;
- Withholdings: amount assessed €4.1 million + €2.2 million
- Legal interest €11.3 million.

On 16 December, the company submitted a settlement request on the basis of the above-mentioned tax audit report.

The Irish companies signed a settlement on the dates indicated below with payment of the sums indicated by the repayment schedules in the individual assessments:

1. 11 December 2013 : €0.3 million
2. 13 December 2013: €1.9 million
3. 19 December 2013: €2.2 million.

As of 31 December 2014, the balance of the amount due under the above settlement is approximately €15,056,000.

With reference to the tax residence issue for the Irish companies, which are currently wholly owned by Alitalia Società Aerea Italiana S.p.A., on 16 October 2014, the tax authorities notified the fifteen companies of the start of a tax audit for fiscal year 2009.

As at 31 December 2014, the Group has made provisions of €13,250,000, based on the opinion of the counsel who retained to represent the Company, in relation to the obligations laid down in the agreement with Etihad, particularly with respect to tax disputes prior to fiscal year 2015.

Lastly, on 19 February 2015, the tax authorities began a general audit of **CAI Second S.p.A.** relating to direct and indirect taxation for 2012. At the time of writing, there are no significant updates to report.

RECONCILIATION OF EFFECTIVE INCOME TAX EXPENSE AND TAX COMPUTED AT STATUTORY RATE (IRES)

Income before taxes	(715.292.824,12)	
Statutory tax rate (27.5%)		-
Temporary differences taxable in future fiscal years:	(128.093.705,47)	
Temporary differences deductible in future fiscal years:	682.349.592,41	
Reversal of temporary differences:	(178.766.622,76)	
Differences that will not reverse in future tax years:	183.935.456,98	
Taxable amount	(155.868.102,96)	
Current income tax expense for the period		

Reconciliation of effective income tax expense and tax computed at statutory rate (IRAP)

Difference between value of production and production costs assessable to IRAP		316.261.549,72	
Amounts not assessable to IRAP and differences that will not reverse in future fiscal years		93.553.418,66	
	Total	409.814.968,38	
	Statutory tax rate (tax rate 3.90%)		15.982.783,77
Reversal of temporary differences from previous years:			
	Total	66.914.588,28	
Temporary differences on future fiscal years:			
	Total	(218.903.921,21)	
Taxable amount		257.825.635,46	
Current income tax expense for the period at effective tax rate			12.062.850,45

Business Purposes of Subsidiaries

ALITALIA SAI S.p.A (Fiumicino)

The company engages, directly or through subsidiaries and/or other entities and/or consortia, in the air transportation of passengers and cargo in Italy, between Italy and foreign countries and in foreign countries.

MidCo S.p.A.

The company is an investor in Alitalia – Società Aerea Italiana S.p.A. and manages such investment, through its owns business organization.

CAI FIRST S.p.A. (Fiumicino)

The company engages in air transportation services for passengers and cargo, directly or on behalf of third parties (operational since 13 January 2009).

CAI SECOND S.p.A. (Fiumicino)

The company engages in air transportation services for passengers and cargo, directly or on behalf of third parties (operational since 13 January 2009).

Air One S.p.A. – (Fiumicino)

The company engages in air transportation services for passengers and cargo, directly or on behalf of third parties in Italy and between Italy and foreign countries.

Alitalia City Liner S.p.A. – Fiumicino

The company engages in air transportation services for passengers and cargo, directly or on behalf of third parties in Italy and between Italy and foreign countries.

Alitalia Loyalty S.p.A. - Fiumicino

The company engages in the development and management of Alitalia's loyalty business.

Challey Ltd – Ireland

The lease, purchase and sale of aircraft, helicopters, vehicles, engines and the related parts.

Aircraft Purchase Company Ltd - Ireland

The lease, purchase and sale of aircraft, helicopters, vehicles, engines and the related parts.

SubHo Ltd – Ireland

The lease, purchase and sale of aircraft, helicopters, vehicles, engines and the related parts.

Aircraft Purchase Company Ltd – Ireland Dublin (no. 12 of the companies marked from 1 to 12)

The lease, purchase and sale of aircraft, helicopters, vehicles, engines and the related parts.

Glossary

ACARS	A system used for ground-air communications.
ACMI	Aircraft, Crew, Maintenance & Insurance. A term normally used in wet lease contracts.
AEA	Association of European Airlines.
AFTKs	Available Freight Tonne Kilometres.
ALIS	Autonomic Logistics Information System (used to manage aircraft and crew, etc.)
APU	Auxiliary Power Unit: this supplies the electricity used to start up the aircraft engines and to power on board systems and lighting when the aircraft is on the ground.
AR	Average revenue – Total revenue divided by the number of passengers
ARCO	An IT system used for managing reservations.
ASKs	Available Seat Kilometres.
Assaereo	The National Association of Airlines and Air Transport Operators (*Associazione Nazionale Vettori e Operatori del Trasporto Aereo*) - set up in 1997, this body is a member of *Confindustria* (the Confederation of Italian Industry) and is the trade association that has represented airlines and air transport operators since July 1999.
Assaeroporti	Italian Association of Airport Operators – established in 1967 it represents the 45 largest airport operators in Italy.
ATA	Air Transport Association - founded in 1936, it represents the major US airlines.
ATKs	Available Tonne Kilometres.
Average employees on the payroll	The average number of staff employed during the year (or period).
Belly	The part of an aircraft used to transport cargo.
BLOCK hours	The total flight time, including the aircraft's movements on the ground.
Block space	The purchase, in return for payment of a fee, of capacity (seats or cargo space) on another carrier's aircraft, to be used to sell transport services.
BRS	An IT system used for the management and reconciliation of baggage.
BSP	Billing and Settlement Plan, a centralised system for managing sales that simplifies relations between the travel agencies and the airlines.
Cabin crew	Flight attendants responsible for looking after the needs of passengers.
Cabin factor	The ratio of seats occupied to seats available.
Capability	The skills, resources, qualifications and know-how needed to operate.
Capacity Provider	The carrier providing aircraft and crew under wet lease contracts.
CASS	Cargo Accounts Settlement Systems, an IT system for managing the billing process and simplifying financial relations between airlines and shipping agents.
Catchment Area	Potential market.
Catering	On board provision of food and beverages.
CCAL	The Company's Collective Labour Agreement.
CCL	The National Collective Labour Agreement.
CERs	CERs (Certified Emission Reductions) are a type of emissions unit, or carbon credit, issued via the Clean Development Mechanism to entities who have developed highly energy efficient industrial technologies or projects that use renewable energy in developing countries that have not been admitted to the emissions trading system. A CER credit grants the right to issue the equivalent of one tonne of CO_2.
Chapter 11	US form of bankruptcy offering a company protection from its creditors.

Charter flights	Flights, other than scheduled, operated under charter agreements with a single customer – generally a tour operator, a travel agency, an association, a company or other entity – who charters the entire aircraft (this must be over 12 seats), on an irregular or occasional basis, normally to meet infrequent or seasonal demands.
Check-in	A series of ground procedures (ticket and document checks, baggage inspection and baggage drop, etc.) that passengers must undergo before travelling by plane.
COA	Certificate of Airworthiness issued by ENAC, the Italian Civil Aviation Authority. This certifies that the airline possesses the professional expertise and organisational structure needed to ensure that its aircraft operate safely in providing the airline services specific in the certificate.
Code sharing	An agreement between two carriers under which a certain flight, operated with the aircraft of one of the two parties (the "operating carrier") and also sold by the other (the "marketing carrier"), is assigned the trademark, IATA code and flight number of both airlines.
Convertible bond issue	This type of bond allows the holders, in accordance with the terms established at the time of issue, to convert their bonds into the issuer's equity, waiving their rights as creditors of the company and becoming equity investors.
Core business	A company's main area of business.
CRS	Computer Reservation System.
D.B.C.	Denied Boarding Compensation, paid to passengers who are refused permission to board an aircraft.
Domestic flights	Flights within Italy.
Dry lease	Lease of the aircraft alone.
EBITDA	Earnings Before Interest, Taxes, Depreciation, Amortization.
EBITDAR	Earnings Before Interest, Taxes, Depreciation, Amortization and Rentals.
ENAC	Italy's Civil Aviation Authority.
ENAV	Italy's Air Traffic Control Authority.
ETS	The EU ETS (European Emissions Trading Scheme) is a scheme that commits European businesses to cut their greenhouse gas emissions by purchasing allowances.
EU	European Union.
EUA	European Union Allowances (EUAs) are emission allowances that can be traded by businesses and airlines in order to comply with the Kyoto Protocol (ETS - Emissions Trading Scheme)
EUROCONTROL	European Organization for the Safety Air Navigation, an international organisation whose role is to standardise and integrate European air traffic control services by creating a single Air Traffic Management – ATM system for civil and military use.
FAA	Federal Aviation Authority (USA).
Feed traffic	Traffic from feeder airports directed to a hub airport, from which passengers can connect to international and intercontinental flights.
Fifth freedom rights	The Chicago Convention of 1944 (ratified by Italy by Law Decree no. 616 of 1948) defined the "five freedoms of the air". The fifth freedom grants the airline of one country the right to land in a different country and pick up passengers, mail and cargo to be transported to any third country, in addition to the right to unload passengers, mail and cargo from any third country in that same different country. This enables foreign airlines to land at Italian airports, unload and pick up passengers, mail or cargo and depart for any other country.

Finance lease	A method of purchasing an aircraft financed by third parties, to whom rent is paid over a fixed period of time. At the end of the lease term the asset can normally be purchased outright.
Flight crew	The members of the aircrew responsible for flying the aircraft (pilots).
Frequent flyer	Someone who flies regularly.
FTE	Full Time Equivalent **–** the number of staff employed during the period calculated on the basis of the working hours of a permanent employee. The use of the FTE measure makes it possible to compare the number of part-time or full-time staff employed on a consistent basis.
FTKs	Freight Tonne Kilometres – Cargo transported measured in tonnes per kilometre.
Fuel Surcharge	A surcharge added to the price of airline tickets to cover the additional costs resulting from increase in the price of fuel.
Galley	The area of the aircraft used by cabin crew.
GDS	Global Distribution System, an IT system for managing airline reservations, but also hotel, car rental and other types of reservation.
Go Show	A passenger who arrives at the gate without a reservation.
GPS	Global Positioning System.
GRAMS	An IT system used in managing ramp operations (also UFIS)
Gross operating margin	This indicates the profit or loss from the company's ordinary activities. It represents the value of production from ordinary activities after deducting the cost of external materials and services and staff costs.
Grounding	The withdrawal of aircraft from service.
GSA	General Sales Agent.
Handling	The group of services provided by a company operating at the airport and consisting in ground assistance for passengers, baggage, cargo and aircraft.
Hub	A hub airport, generally located at the heart of a network of feeder airports channelling traffic to the hub. Such a system is used by airlines to centralise and coordinate a high number of arriving and departing flights at one airport, according to a "wave" mechanism that concentrates flights in certain time bands (normally from 4 to 8 over the course of a day, depending on the airport) and offering a large network of connecting flights. All airline alliances currently compete with each other globally for control of intercontinental passenger and cargo traffic, using their respective hub and spoke systems. These are used to connect short- and long-haul flights, channelling short-haul traffic from the so-called catchment areas to connect with other ongoing medium/long-haul flights.
IAS	International Accounting Standards.
IATA	International Air Transport Association.
ICAO	The International Civil Aviation Organisation, the leading authority overseeing the regulation of the global airline industry.
IFRS	International Financial Reporting Standards.
Intercontinental flights	Flights leaving Italy for destinations outside Europe and the Mediterranean area.
Interlining	An agreement under which an airline accepts passengers with tickets issued by another airline on to its aircraft.
International flights	Flights leaving Italy for destinations within Europe and the Mediterranean area.
INVENTORY	A tool for managing different fare classes.
Load factor	A measure of the capacity utilisation of the services operated by a carrier, expressed as the ratio of RPK to ASK and/or TKT to TKO.

Narrow Body	Aircraft with one aisle, normally used for short- and medium-haul flights.
Net Invested Capital	This consists of the value of fixed assets, less the short-term portion of non-current financial assets, working capital and provisions for post-employment benefits.
Network	A network of connections operated by an airline.
No Show	A passenger who has made a reservation, but does not turn up at the gate.
OGEU	Official Gazette of the European Union.
Operating base	The designated base for each crew member, from which the crew member usually begins and ends their period of service or a series of periods of service and in which, under normal conditions, the operator is not responsible for providing board and lodging for the relevant crew members.
Operating lease	The lease of an aircraft for a fixed period of time in return for the payment of rent. At the end of the lease term ownership of the aircraft reverts to the original owner.
Operating result	The operating result represents earnings before interest, extraordinary items and tax. It consists of the gross operating margin plus amortization, depreciation, other adjustments, provisions for risks and charges and the balance of other income and expenses.
Outsourcing	The process by which a company transfers certain activities previously carried out in-house to an external provider, resulting in the direct purchase of the related goods or services from the provider.
PAX	Passengers.
Phase in	An aircraft’s entry into a fleet.
Phase out	An aircraft’s withdrawal from a fleet.
Point-to-point	Flights serving a specific connection between two airports and not feeding traffic into other connecting flights.
Prorate Manual	Establishes the terms on which passengers are exchanged under interlining agreements.
RASK	Total revenue divided by ASK.
RATK	Revenue per Available Tonne Kilometre.
RPKs	Revenue Passenger Kilometres.
SAT	A system for managing transits (also VOR)
Scheduled flights	Flights operated with such frequency and regularity that they constitute a systematic series of flights with the following characteristics: pre-established times; repeated provision of the service between the same two or more points or areas; the possibility to make reservations in advance by using booking systems.
Seat Share	Market share in terms of seats offered.
Service Provider	A company that provides ancillary services to airlines (e.g. handling, wet lease).
Slot	Period of time granted to an airline at an airport for the takeoff or landing of a certain flight.
SPA	Special Prorate Agreement – The agreement governing the prorated allocation of fares between airlines under an interlining agreement.
STICK hours	The flight time from take-off to landing.
Sub-holding	A company controlled by a parent that in turn holds interests in other subsidiaries.
Taxi	This phase consists of the movement of the aircraft on the ground from the apron to the runway.
Taxiing	The movement of an aircraft on the ground at an airport, during take-off and landing and on the taxiways.
TCV	Ticket Credit Voucher – cash compensation offered to passengers in the event of disruption to their flight.

TFTKs	Total Freight Tonne Kilometres – Freight transported in terms of tonnes per km on aircraft and all cargo flights, excluding post.
TKO	Tonne Kilometres Offered – Measures the capacity offered by a carrier (conversion of ASK into weight/distance, using conventional rates of conversion).
TKT	Tonne Kilometres Transported – Measures the traffic transported by a carrier (conversion of RPK into weight/distance, using conventional rates of conversion).
TFEU	**Treaty on the Functioning of the European Union (TFEU)** is, alongside the Treaty of the European Union (the TEU), one of the key treaties for the European Union (EU). Together they form the basis for the primary law of the EU. In its 358 articles, the TFEU details how the various EU bodies function and establishes their roles and responsibilities.
UFIS	An IT system for managing ramp operations (also GRAMS)
VOR	A system for managing transits (also SAT)
Wet lease	An aircraft lease contract that also includes the flight and cabin crew, maintenance and insurance cover.
Wide Body	Aircraft with a number of aisles, normally used for long-haul flights.
Working capital	This consists of inventories, receivables and other trading assets, less payables, other trading liabilities and provisions.
Yield	The average revenue per unit transported based on the number of kilometres flown, expressed as the ratio of revenue/RPK and/or revenue/TKT.