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

To the Shareholders of
ALITALIA - COMPAGNIA AEREA ITALIANA S.p.A.

1. We have audited the consolidated financial statements of Alitalia - Compagnia Aerea Italiana S.p.A. ("Company") and subsidiaries ("Alitalia Group") as of December 31, 2013. 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 April 10, 2013.

3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Alitalia Group as of December 31, 2013, and of the results of its operations for the year then ended in accordance with the Italian law governing financial statements.

4. As more fully explained by the Directors in the section "Outlook and going concern considerations" in the report on operations, to which reference should be made for further information, the consolidated financial statements for the year ended December 31, 2013 report a loss of Euro 568.6 million, a negative net equity of Euro 27.2 million and net financial indebtedness of Euro 935.6 million. There is a risk of further losses and a continuing financial deficit noted by the Directors with regard to 2014, whilst the interim financial statements for the first quarter of 2014 show a loss for the period that has reduced the share capital by more than one third, putting the Company in the situation defined by art. 2446 of the Italian Civil Code.

   The above circumstances point to uncertainties sufficient to arouse significant doubts over the Alitalia Group's ability to continue operating as a going concern. In this regard, in addition to proposing a further capital increase, the Board of Directors have initiated a series of corporate actions with the aim of putting the Group on a sounder footing. This includes the proposed transaction involving Etihad Airways, which should, in the future, in the opinion of the Directors, restore the Group's financial position and ensure that it is able to operate as a going concern. With regard to this transaction, Etihad Airways sent the Company a letter dated June 1, 2014 which, in addition to giving an initial indication of the potential structure of the agreement, sets out the various conditions and criteria for their proposed investment in the Alitalia Group.

In this regard, the Company's Board of Directors, based on their assessment of this letter, and after consultation with their Advisors and the receipt of further clarification and information from the offeror, announced that it was in favour of proceeding with the transaction. As reported by the Directors, taken as a whole, the proposed conditions and the transactions to be structured and carried out are particularly numerous and complex and conclusion of the transaction is, in any event, subject to, among other things, the satisfaction of certain conditions relating to: *(i)* the principal shareholders, *(ii)* the banking system to which the Group is exposed, and *(iii)* the labour unions, in addition to compliance with the related regulations and legislation and clearance from the various national and European Authorities.

In particular, the principal shareholders will be required to provide indemnity from any contingent liabilities linked to certain disputes and cover any potential shortfall in cash flow with respect to the budget for 2014. In this regard, the Company has opened discussions with its existing principal shareholders, who are in principle willing to consider an equity commitment, if kept within a certain amount, in order to provide the above indemnity. In addition, the creditor banks will be required to accept an agreement essentially involving: *(i)* conversion of the so-called "Nuova Finanza", amounting to Euro 165 million, into equity instruments, *(ii)* conversion of a part of the so-called "Finanza Stabilizzata", amounting to approximately Euro 400 million, and forgiveness of the remaining amount, and *(iii)* provision of a line of credit totalling Euro 300 million to meet the requirements of the new Business Plan to be implemented by the new operating company once Etihad Airways has acquired an interest. In order to reach an agreement with its banks, the Company has met with them to present the offer received, together with the guidelines in the new Business Plan to be implemented under the future partnership with Etihad Airways. Whilst the debt restructuring agreement is subject to the condition precedent of concluding and executing the overall transaction with Etihad Airways, the Directors believe it is reasonable to expect a positive outcome of the above negotiations in view of the initial response in principle of most of the banks. In addition, the Company has initiated the necessary talks with the labour unions, aimed at obtaining their agreement to the proposed new structure and the related steps to be taken in terms of the number of employees and the related cost.
However, with reference to the various conditions contained in the letter from Etihad Airways, the interested parties have as yet to give any binding commitments.

The Directors are aware of the material uncertainties capable of arousing significant doubts over application of the going concern assumption and the Group's ability to continue to operate in the foreseeable future and based on the considerations more fully described in the report on operations, on the current state of negotiations and on the initial willingness, in principle, of the interested parties to meet the Group's needs (without prejudice to the conduct of all the relevant decision-making processes within each of the parties), the Directors, having conducted the appropriate controls, believe it reasonable to expect the Group to be able to continue operating and to conclude the strategic transaction with Etihad Airways. For these reasons, the Directors have prepared the consolidated financial statements for the year ended December 31, 2013 on a going concern basis, continuing to recognise the amounts accounted for under assets and without recognition of the further specific impairments or provisions that would otherwise be necessary.

In the opinion of the Directors, this decision – whilst based on a forecast formulated following a careful assessment of all the currently available information – may be placed in doubt by future developments, where the events reasonably foreseen by the Directors do not materialise, or where currently unknown aspects or circumstances with an unforeseeable impact, and that are incompatible with such events, may arise.

5. The Directors of Alitalia - 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 n. 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 Alitalia - Compagnia Aerea Italiana S.p.A. (the Alitalia Group) as of December 31, 2013.

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Falcone
Partner

Rome, Italy
June 14, 2014

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

Compagnia Aerea Italiana S.p.A.

Consolidated Financial Accounts 31 December 2013

Compagnia Aerea Italiana S.p.A.

Consolidated Financial Accounts 31 December 2013

Alitalia – Compagnia Aerea Italiana S.p.A.
Registered Office: Fiumicino (Roma) Piazza Almerico da Schio , pal. RPU
Share Capital:. Euro 341.095.182.00 fully paid
Revenue Code and Rome Company Register
Number 02500880121
Rome Economic and Administrative Index (R.E.A.) no.: 1225709
VAT no 02500880121

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Corporate Bodies

ALITALIA – COMPAGNIA AEREA ITALIANA S.P.A.
BOARD OF DIRECTORS (Shareholders meeting of 26.03.2012) (1)

First and Family Name	Title
Roberto Colaninno	Chairman of the Board of Directors
Gabriele Del Torchio	Chief Executive Officer (2)
Elio Cosimo Catania	Vice Chairman of the Board of Directors and Chairman's Substitute
Salvatore Mancuso	Vice Chairman of the Board of Directors
Philippe Calavia	Director
Cosimo Carbonelli d'Angelo	Director
Achille d'Avanzo	Director
Peter Frans Hartman	Director
Gioacchino Paolo Maria Ligresti	Director (3)
Davide Maccagnani	Director
Bruno Matheu	Director
Gaetano Micciché	Director
Ernesto Monti	Director (4)
Antonio Orsero	Director
Angelo Massimo Riva	Director
Jean-Cyril Spinetta	Director
Lino Bergonzi	Director
Maurizio Traglio	Director
Antonino Turicchi	Director

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ALITALIA – COMPAGNIA AEREA ITALIANA S.P.A.
BOARD OF DIRECTORS (Shareholders Meeting of 13.01.2014) (5)

First and Family Name	Title
Roberto Colaninno	Chairman of the Board of Directors
Gabriele Del Torchio	Vice Chairman and Chief Executive Officer
Fabio Cosmo Domenico Canè	Director
Ranieri De Marchis	Director
Paolo Luca Stanziani Ghedini	Director
Davide Maccagnani	Director
Amedeo Giovanni Maria Nodari	Director
Pierre Francois Riolacci	Director
Antonino Turicchi	Director
Mario Volpi	Director
Alessandro Zurzolo	Director

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ALITALIA – COMPAGNIA AEREA ITALIANA S.P.A.
STATUTORY AUDITING BOARD (Shareholders Meeting 20.04.2011) (6)

First and Family Name	Title
Giovanni Barbara	Chairman of the Auditing Board (Shareholders Meeting of 20.04.2011)
Giorgio Silva	Regular Auditor (Shareholders Meeting of 20.04.2011
Graziano Gianmichele Visentin	Regular Auditor (Shareholders Meeting of 20.04.2011
Tommaso Di Tanno	Regular Auditor (Shareholders Meeting of 20.04.2011)
Antonino Parisi	Regular Auditor (Shareholders Meeting of 20.04.2011)
Pietro Michele Villa	Alternate Auditor
Domenico Busetto	Alternate Auditor
Eugenio Graziani	Alternate Auditor

Note:

(1) The Governing Body had been appointed for financial years 2012 to 2014, namely until the date of the Shareholders Meeting convened for the adoption of the financial accounts closed at 31 Dec. 2014. The Steering Committee, formerly made up of 9 member, was suppressed following a decision made by the Shareholders in the Extraordinary Shareholders Meeting of 3 Jul. 2013.

(2) He was appointed Director by the Board of Directors in the Board Meeting of 18 Apr. 2013 and, subsequently, Chief Executive Officer with effect from 6 May 2013. He was confirmed in office as a member of the Board of Directors by the Shareholders Meeting of 29 Apr. 2013.

(3) Resigned with effect from 4 October 2013.

(4) Resigned with effect from 29 October 2013.

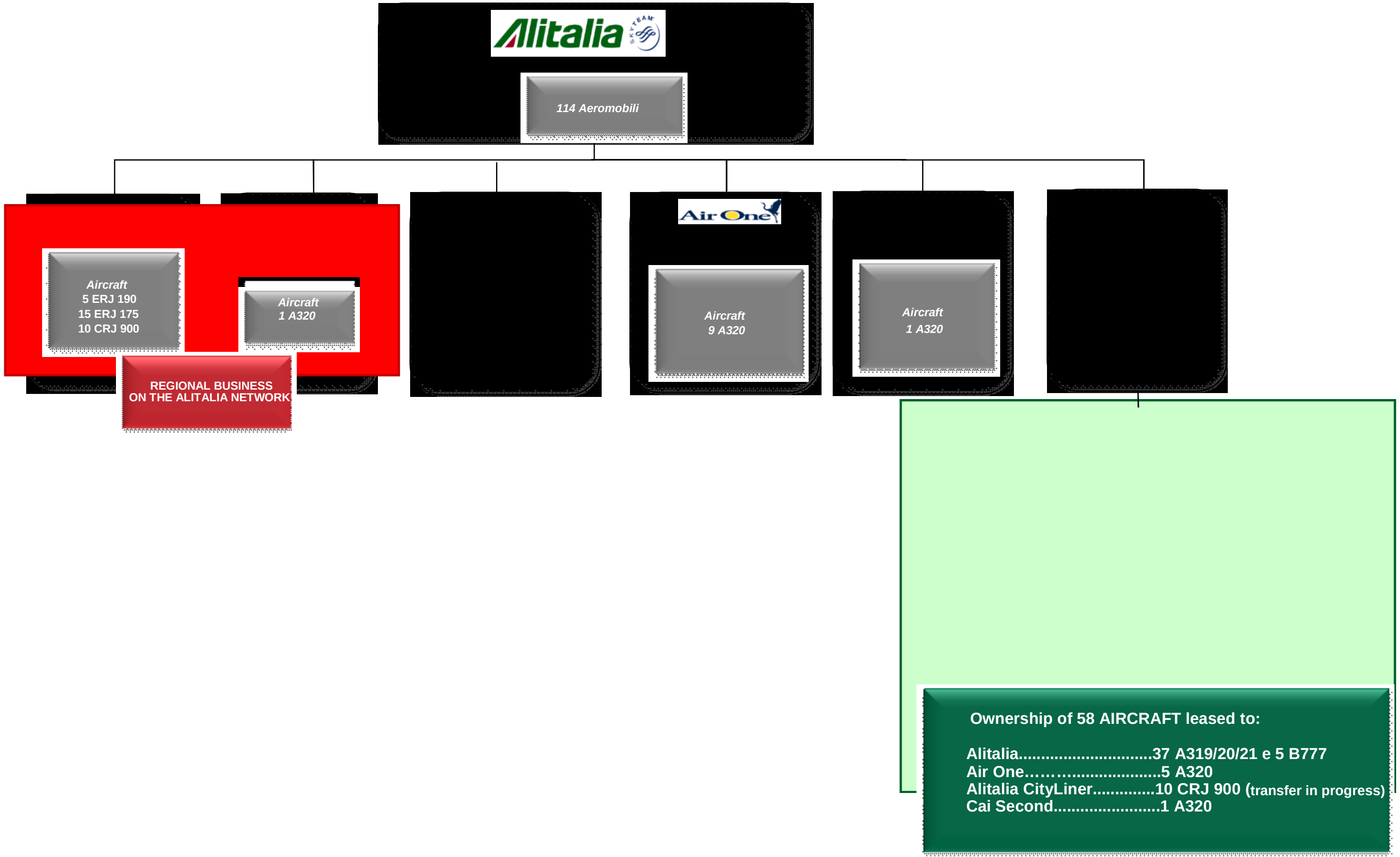
(5) The Shareholders Meeting of 13 Jan. 2014 acknowledged the irrevocable resignation – formalised in the Board of Directors Meeting of 20 Dec. 2013 – of the majority of the Directors of the Board with effect from the date of the Shareholders Meeting convened for the replacement of the Governing Body and resolved to *(i)* fix at 11 the number of the Company's Directors of the Board; *(ii)* fix the duration in office of the Board of Directors until the date of the Shareholders Meeting convened to adopt the financial accounts for financial year 2014, or until the date of the total or partial execution of a capital increase whose subscription had been reserved for a new industrial partner, in the event that the said subscription occurred earlier.

(6) The term of office shall last until the date of the Shareholders Meeting convened for the adoption of the financial accounts at 31 Dec. 2013.

DIRECTOR’S REPORT

Summary

Company Structure



Note: *Aircraft present in fleet at 31/12/2013*

Company performance

In 2013 Alitalia recorded an operating loss of M€ 414 and a net loss of M€ 557, both of which compare to equally negative results in the previous financial year – i.e. M€ 150 and M€ 225 respectively.

Likewise, during the year, a further gradual depletion of available cash was observed which – after the end of the positive effects of high seasonality in the summer months – caused obvious criticalities.

The situation created consequently implied a full revision of strategic assumptions for both Alitalia and the Alitalia Group, which was reflected in the Industrial Plan 2013-2016 approved on 3 July 2013 and built as a standalone element on four pillars: *(i)* redefinition of the offered short-to-medium haul routes in order to – *inter alia* – adapt the offer to the changed domestic market conditions; (*ii*) expansion of intercontinental flights; (*iii)* development of infrastructural partnerships and a higher focus on intermodal air-and-rail transport; (*iv*) enhancement of new opportunities arsing form the spin-off of the MilleMiglia frequent flyer programme (contributed to the new company Alitalia Loyalty).

The foregoing plan has also implied the need to finalise the strengthening the Company's assets through a specific financing project.

The preliminary results for July and August 2013 and the worsening expected for the second half of 2013 induced Alitalia's Management to revise the Industrial Plan.

Concurrently, financial difficulties exacerbated following the decision by a few banks to reduce a part of the credit facilities for an overall amount of around M€ 120.

For all of the foregoing reasons and in order to support the industrial development strategy contained in the Plan and subsequently retain the financial balance throughout the Plan duration, a revision of the financing project was introduced and formally approved by the Company's Board of Directors in their meeting of 11 October 2013.

The overall financing project, worth € 500 million, consisted in raising € 300 million by a capital increase to be offered in the form of an option to shareholders and € 200 million by new credit lines from the banking systems (in addition to the confirmation of the existing lines).
The capital increase up to the limit stated above – to be subscribed to by 31 December 2013 at the latest – was resolved on by the Shareholders in their Extraordinary Meeting of 14/15 October 2013.

On that same day, the Shareholders examined the financial position of the Parent Company Alitalia as on 30 June 2013, which implied that the circumstance envisaged by art. 2446 of the Civil Code (reduction of the share capital by more than one third for losses) had occurred. After acknowledging the situation, the Shareholders resolved to proceed with the full coverage of the losses accumulated as on 30 June 2013 by using reserves with a concurrent reduction of the share capital from 668,355,344 euros to 260,677,486.00 euros.

On 13 November 2013, given the persisting uncertainties associated with the negotiations for the overall financing project, the Board of Directors approved a further update to the Industrial Plan, based on a search for better efficiency in the management of operations and on the improvement of competitiveness on the market to be achieved by, *inter alia*, more decisive cost-cutting measures.

On 23 December 2013, the resolved capital increase was fully subscribed (and deposited) to equally by new shareholders such as Poste Italiane S.p.A. and Unicredit S.p.A. in addition to the subscriptions made by the existing shareholders including Intesa SanPaolo, IMMSI and Atlantia .

As on 31 December 2013 Alitalia's share capital amounted to € 270,677,486.00 fully paid in with a net equity of € 213.006.360.
In addition, following a partial conversion (in January 2014) of a part of the debenture loan subscribed to in February 2013, Alitalia's share capital amounted to € 341,095,182.00 fully paid in (as on the date of the compilation of this report).

In financial terms, cash flow for the period, net of liquidity injections made by the Shareholders, was negative for M€ 293, against an equally negative cash flow of M€ 261 recorded in financial year 2012.
On the other hand, by adding shareholders' contributions for M€ 401(capital increase of M€ 300 and convertible bonds, including interest of M€ 101) the total, cash flow for 2013 turns positive for M€ 108.
The better financial position was also favoured by the execution of an agreement with a few lending banks (Intesa San Paolo, Unicredit, Monte dei Paschi di Siena and Banca Popolare di Sondrio) intended for the stabilisation of the existing credit lines up to 30 June 2015 for an overall amount of around M€ 400, which helped mitigate the risk of revocation of those lines.

The strengthening of the financial position continued in line with the planned course of action equally in the first quarter of 2014, which – as commonly known – was strongly affected by the recurring low seasonality of the period.

In particular, on 3 February 2014 a new credit line worth 165 million euros was executed and disbursed and, in the first quarter, the Company also started a number of preliminary talks with other credit institutions in order to complete the financing project and extend it by a further 35 million euros. Creditworthiness evaluations are now in progress for which feedback is awaited. In addition, Alitalia is doing its utmost in order to recover restricted cash sums held abroad especially in Venezuela – with large amounts locked up locally by the competent authorities.
It is worth reporting that, limited to the holdings accrued in 2014, on 28 May 2014 an amount of 34.2 million USD was transferred from Venezuela.

The financial results of March were in line with the budget and Plan forecasts.

In any case, based on the most recent projections, the financial resources available and expected as of today's date seem insufficient to ensure that the Group will honour its obligations in the near future in the

absence of new non-recurring finance, despite the actions already initiated and completed or to be completed as of today's date as mentioned above.
Within this context, negotiations are currently under way between Alitalia and Etihad, which are designed to establish a sound industrial and corporate partnership.
After carrying out an intense technical fact-finding activity over the past few months, which included a due diligence analysis, on 1 June 2014 Etihad sent a letter containing the terms, conditions and criteria for its prospective investment in Alitalia, and further providing early information on the potential contents of an agreement.
This deal could mean a significant strategic alliance for Alitalia and create strong synergies for long term development in addition to stabilising the Company's financial situation in the near future (for further details, kindly refer to the following paragraph on corporate continuity).

As regards business, in 2013 optimisation interventions were introduced in offered capacity (ASK), which implied an overall 3.3% reduction, mainly in the domestic segment (-18.2%) with a small incidence also in the intercontinental segment (-2.3%) – affected by the changed allocation of routes to various network segments in accordance with route length.

Transported passengers amounted to about 19 million, i.e. down 5.4% from 2012, with an 11.9% fall on the domestic segment, an increase on the international segment (+4.8%) and a substantial stability on the intercontinental segment (-0.6%).

Alitalia's market share achieved 21.7%, or minus 0.9 p.p. vs. 2012, as a result of a reduction on the national segment to 48.6% during the year under review (-1.1 p.p.), and a substantial stability on the international-intercontinental segments i.e. 12.4%, roughly in line with the previous business year (-0.1 p.p.).

RPK saw a 1% shrinkage with a consequent improvement of the load factor to 75.4%, i.e. up. 1.7 p.p. (broken down into domestic 68.1%, international 72.7% and intercontinental 79.4%).

Given the described performance of transported passengers, which was only partially counterbalanced by an overall increase in the average revenue (+2.8% in total but with -4.5% on the domestic segment and -0.9% on the international segment), passenger traffic revenues were down 2.8% vs. the value recorded in 2012.
In particular, a fall was observed on the domestic segment (-15.8%) which went hand in hand with an increase on the international (+3.9%) and intercontinental (+3.4%) segments.
RASK (i.e. revenue per seat offered) saw a limited 0.6%increase in the period.

Alitalia's flights were operated by 98 aircraft (out of the total 114 aircraft in the fleet), of which 22 dedicated to long haul and 76 to medium haul. In the past financial year, the operating fleet consisted of 110 aircraft (out of 124 aircraft in total).

In 2013, Alitalia regularly operated 99.8% of flights (vs. 99.7% in 2012). The main causes for flight cancellations related to weather conditions, mainly in the first and last quarter – with impacts on the operating results for the full year.

Punctuality on departure was within 15 minutes in 84.5% of cases, meaning a 2.7 p.p. fall from the level of 2012, while punctuality on arrival saw a 1 p.p. fall from 85.9% in 2012 to 84.9% in the year under review.
Delays and cancellations were mainly due to weather conditions, the closing of a Fiumicino airport runway and difficulties experienced in the same airport during the summer period characterised by higher traffic flows.

If performance is compared with the main European competitors within the AEA, in 2013 Alitalia ranked 6th for on-time punctuality and 7th for punctuality within 15 minutes on departure, and 5th for punctuality within 15 minutes of the scheduled time on arrival.

Operational Outlook and company continuity

The financial crisis affecting the Euro zone and, in particular, the countries in the Mediterranean Basin, including Italy, has continued to produce a highly negative impact on air transport in general and on the Group activities, already struggling to sustain the strong competitive pressure of the low cost airlines and the high speed railway. The negative results recorded by the Group have also been affected by the impact of extraordinary charges related to the elimination of some types of aircraft, the extraordinary allocation due to a fiscal check regarding the Group's Irish companies regarding the tax periods from 2002 to 2008, financial items mostly related to negative trends of some foreign currency items, and the decrease in other revenues.

In recent years Alitalia has in any case made important gains in terms of cost reduction, fleet renewal and improvement of operating performance, but the business strategy adopted in this difficult market context has not produced the desired results, with particular reference to the financial dynamics of Alitalia. The negative results recorded in the current year (loss for the year of €/mln 557) and in the previous year (€/mln 737) have reduced net equity; at 31 December 2013, this was €/mln 213 and at the corporate balance sheet level of €/mln 213.0. The result, among other things, was a situation of financial tension requiring extraordinary financing during the year. At 31 December 2013 net consolidated financial indebtedness was €/mln 213.

We refer in particular to the financial measures started in 2013 and completed in the year 2014, for a total amount of €/mln 560, following the results of a new Business Plan for 2014/16, drawn up in the first half of the year and finally updated on 13 November 2013 In particular:

- in February / March 2013 some Shareholders underwrote a convertible bond issue for a total amount of €/mln 95;
- on 23 December 2013 the share capital increase of €/mln 300 was concluded, with the consequent bolstering of Company and Group equity and with the entry of new shareholders (for more details on the share capital increase see the paragraph entitled "Share capital transactions");
- on 4 February 2014 further credit lines of €/mln 165 (so-called New Financing) were obtained.

Moreover, within the afore-mentioned measures, the existing credit lines were consolidated up to 30 June 2015, for an amount of approximately €/mln 400 (so-called Stabilized Financing). Finally, the bond issue was converted into capital for €/mln 70.

The operation to continue the assets strengthening of the Company and the rebalancing of its financial structure was not sufficient, however. The Business Plan for 2014/2016 (and. November **2013) already** forecasted additional financial requirements for the early months of 2015 due to seasonal changes in liquidity. In addition there as a market scenario with persistent weakness and significant uncertainty, involving events such as: (*i*) the worsening of sales in the last period of 2013; (*ii*) the maintenance by the Venezuelan Government of restrictions on the transfer of cash deriving from local sales and the consequent decision by the company to suspend flights to and from Caracas until the situation is clearer; (*iii*) the need of

for further allocations regarding the afore-mentioned cash items blocked in Venezuela; (*iv*) the unilateral change in the terms and conditions of payment by some important suppliers; (*v*) the failure to cancel flyover tax over Russian territory; (*vi*) the startup of new routes (approximately 300 per week) at Fiumicino Airport by low cost carriers previously not present, basically overlapping the Alitalia routes at the same airport (with consequent reduction of reservations and higher tariff pressure).
The Board of Directors of the Company – in the light of all this and of evaluations of the budget forecasts of budget for the year 2014 – has undertaken careful monitoring of economic and financial expectations

The analyses made show a concrete risk – basically due to the unexpected events mentioned above - of a worsening of the economic result for the year 2014, together with cash outflows involving an overall financial deficit during the current year. In particular, accounting results for the first quarter show a balance sheet loss for the period such that the share capital would be reduced by over one third, with the consequent occurrence of the circumstances stated in Art. 2446 of the Civil Code.
The above-mentioned forecasts, without adequate corrective measures, which have already been identified by the Company, imply uncertainty producing significant doubts as to the capacity of the Group business to operate on a continuous basis.

In particular, the Company has identified, is implementing and has agreed to pursue series of initiatives to develop the business in order to ensure conditions of structural balance, also by a major strategic operation such as the proposed transaction with Etihad Airways.
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In particular, the initiatives to guarantee the coverage of the financial requirements have been identified by management, involving corrective actions on some planned expenditure as well as the convening of the general meeting to discuss an increase in the share capital with the purpose of (besides integrating the amount pursuant to Art. 2446 of the Civil Code): (*i*) implementing the operation with Etihad Airways which, in the future, will allow the financial and equity rebalancing of the Group, thus enabling it, as long as there are the conditions identified in the negotiations currently under way with the stakeholders and Etihad Airways itself, to operate on a stable basis with company continuity; alternatively or also at the same time (*ii*) to cover the requirements forecast without the latter operation, or for the time functional and necessary for its definition.

Besides the capital increase mentioned, among other things the following is planned: the sale of some aircraft operating on short and medium range routes being rationalized (starting from the fourth quarter 2014); a new round of talks with the Venezuelan government for the recovery of the amounts owed; negotiations with the suppliers (for the return to the previous conditions of payment) and with the main lessors (for the redefinition of fees for the use of the leased fleet); the negotiation of trade union agreements for the structural reduction of the number of employees and of the relative cost.

More generally, we can mention the negotiations between the Group and Etihad. On June 1, the latter, after conducting the required specialized studies in previous months, also by extensive due diligence, sent a letter providing an initial indication on the potential structure of the agreement, states the conditions and criteria for the proposed Etihad investment. At the same time as the sending of this letter, Etihad and Alitalia issued a joint press release (available on the website www.alitalia.it) in which both the parties say they are confident a to the positive conclusion of the operation.

This operation would constitute an important strategic alliance for the Group, and could create solid long term development synergies, while also allowing for the economic, financial, industrial and strategic stabilization of the Group in the foreseeable future.

The Board of Directors of the Company, at the meeting of 6 June 2014, on the basis of the evaluation of the letter and also taking into account the indications of the advisors, integrated by further clarification and information from the offering party, voted in favour of continuing the operation, deeming it appropriate both for strategic industrial development lasting over time and for safeguarding the continuity of the Group and of the overall corporate assets. In the same decision, the Board of Directors confirmed full powers to the Chairman and CEO to pursue negotiations and define all the details of the agreement, and to launch the operation by signing a contract between the parties, though as is the practice still subject to a number of conditions, by the end of July 2014.

A key factor of the operation with Etihad is the creation of a new company which would be appointed to undertake the Group air transport business. The current Alitalia CAI would thus take on the role (already stated in the statute) of Holding Company. Etihad on its part would make an overall cash investment in the new company of approximately 560 million, for which it would acquire a minority and not a controlling stake (or joint control) of the national carrier, thus remaining within the European limits on the entry of foreign operators; it would also acquire a controlling stake in Alitalia Loyalty s.p.a.. The positive and definitive conclusion of the agreement is in any case subordinated, among other things, to the occurrence of some conditions involving: (i) the major shareholders, (ii) the banking system to which the Group is indebted, (iii) the trade unions, and with respect to the rules stated in national and European laws and authorities.

In particular, the major shareholders must ensure, within preset limits:

- the indemnity for eventual potential liabilities related to disputes (not regarding normal operational management) regarding events occurring up to the date of the agreement and not within the sphere of the new operational company
- the coverage of any negative results of the cash flow situation with respect to forecasts made in the 2014 Budget approved on 10 February 2014.

In this regard, the Company has started contacts with the current major shareholders, which have expressed, though still informally, their overall willingness to undertake an equity commitment, within preset amounts, to guarantee the above-mentioned points.

On the date of the present report, the shareholders contacted have not yet expressed this willingness formally in writing.

Moreover, the creditor banks must complete an agreement which basically provides for:

- the conversion in equity of the "New Financing";
- the partial conversion of the so-called "Stabilized Financing", and for the remaining part the renunciation of the relative financial debt;
- the granting of a credit line of €/mln 300, to support of the requirements of the new Business Plan that will guide the new operational company once Etihad has entered the share capital.

In order to reach agreement with the banks, the Company has met with the banks, presenting them the above-mentioned offer and the guidelines of the new Business Plan drawn up by Etihad. Although it is obvious that the financial restructuring agreement will be conditioned, subject to suspension, by the conclusion and execution of the overall operation with Etihad, the positive outcome of this negotiation is deemed to be by the Directors, considering the preliminary general orientation expressed by most of the banks in accepting the measures.

On the date of the present report, the banks contacted have yet formalized the above-mentioned willingness in writing.

Finally, the necessary talks with the trade unions have already started. In order to obtain their assent to the new structure proposed, and to the relative measures in terms of the number of employees and the relative cost.
On the date of the present report, the negotiations previously started are continuing and there have been no critical issues likely to hinder the possible undertaking of the operation.

All of the conditions forecast and the operations to be planned and implemented are quite complex. The directors are aware of the persistent financial and economic imbalance of the group, shown - despite the extraordinary measures of 2013 – by the negative results accumulated in the years and the financial forecasts showing that it was impossible for Alitalia to pursue its operations without major new resources. On the other hand the directors are convinced that the proposed strategic operation with Etihad, and the complex set of structural measures for recapitalization, financial debt restructuring and of redefinition of the human capital required by the new Business Plan with Etih**ad**, are able to ensure a structural and long term balance for the Group.

While being aware of the existence of significant uncertainty factors causing doubts over corporate continuity and on the capacity of the Group to continue its operations in the foreseeable future, on the basis of the negotiations now under way and of the preliminary willingness shown by the main stakeholders and trade unions to support the needs of the Group (without prejudice to all the relevant internal decision making processes in each of these parties), and after making suitable verifications, the directors believe that there is a reasonable expectation that the Company and the Group can continue their business and conclude the strategic agreement with Etihad, which, as mentioned, would ensure the structural and long term balance. The Directors have thus drawn up the consolidated financial statements ending at 31 December 2013 with the assumption of business continuity, maintaining the values recorded under assets and without making the further specific devaluations and allocations which would otherwise have been required.

This decision – though the result of a forecast formulated on the basis of a careful assessment of all the information currently available - could be contradicted by the facts should the events deemed probable fail to occur or should there be facts or circumstances incompatible with the same, not known today or in any case having an impact which cannot currently be evaluated.

The Directors will thus conduct constant monitoring on the development of the factors considered, in order to take the most suitable corrective measures should this be justified.

Macroeconomic Scenario

The growth of world economy and trade, which continued at a moderate pace throughout 2013, slightly weakened[1] in the early months of 2014 but the more recent projections of the International Monetary Fund expect such weakness to be temporary with a recovery likely to occur during the year.

Global GDP in 2013 increased 3% from the previous year and the more recent estimates point to a 3.6% growth in 2014. However, risk factors persist – including international tensions following the geopolitical crisis between Russia and Ukraine - which might trigger an aggravation of global financial conditions.

In Q4 2013, GDP in the USA slowed down to 2.6% on an annual basis (from 4.1% in Q3) despite the strengthening of consumptions and net exports, which was however counterbalanced by the dynamics of stocks; as a whole, in 2013, GDP grew by 1.9%.

In Japan, GDP in 2013 nudged up to +1.5%. The reduction of taxation on corporate incomes drew investments and employment levels up. The most recent figures for Q1 2014 seem to reflect an acceleration in economy supported by a temporary increase in consumptions especially for durables, but the GDP 2014 estimate remains at +1.4%.

In 2013, growth continued in emerging economies (a 2013 GDP as a whole equal to +4.7%) although it showed signs of a slowdown at the end of the year. In the first quarter 2014, China saw a slowdown of investments (2013 GDP at +7,7%; 2014 estimate at +7.5%) and the weak economic cycle of Russia is starting to undergo the effect of geopolitical tensions with Ukraine (2013 GDP at +1.3% with the same value recorded for the 2014 revised estimate). In Brazil (2013 GDP at +2.3%; 2014 estimate at +1.8%) and India (2013 GDP at +4,4%; 2014 estimate at +5.4%), the confidence of enterprises is indicative of a recovery of industrial production.

The Euro area remains extremely fragile and the most recent figures show 2013 GDP to be as a whole on the decline (-0.5%). In the fourth quarter, GDP recovered in the area although at varying levels from country to country, propped up by foreign trade and investment expenditure at a time of substantially stable household consumptions. The German economy benefited from an upswing of exports and investment expenditure; in France all demand components grew, while in Italy the first positive variation was recorded after nine consecutive quarters of recession.
Equally in Q1 2014, available indicators suggest a growth in activity in the Euro area, although no significant acceleration was observed and the most recent estimates suggest an overall recovery in the current year (+1.2%).

[1] Bank of Italy - *Bollettino Economico*, issue no.2 / 2014 (April)

In 2013, the European currency strengthened 3.2% against the dollar, from 1.29 to 1.33 USD/Eur. In Q1 2014, the appreciation of the euro against the dollar continued although at a slower pace, with a concurrent depreciation against the yen and the pound sterling.

In Q4 2013, the Italian GDP returned to growth although to a moderate extent (+0.1% over the previous period; 2013 GDP at -1.9%) after a recessionary period that had started in summer 2011. Foreign demand was mainly behind this growth at a time when imports had shrunk. Investment expenditure also began to grow again and the fall in household consumptions that was going on since 2011 substantially came to a halt. Labour market conditions remained difficult and the unemployment rate rose steadily in 2013 to 12.6% in Q4 with further rises expected in the first half of 2014. However, as shown by the available indicators, in the first three months of the current year, the slow growth of GDP seems to have continued with the early signs of improvement in domestic demand and enterprises' and households' confidence while inflation has gone down.

Traffic

Reference Context

World

In 2013 the overall air transport industry expanded despite the high oil costs and the global slowdown in economic growth. In terms of RPK, IATA[2] reported a 5.2% increase, which developed parallelly with a 4.8% capacity increase. Premium traffic grew 4.2% vs. the previous year and economy grew 3.5%[3].

The continued improvement of efficiency in the industry and traffic performance resulted in net profits of 12.9 billion dollars[4] in 2013 (4.13 dollars per passenger), however the profit margin remained limited to 1.8% with fuel costs amounting to 31% of the overall airline expenditure. In 2013 the average price of crude oil (Brent) per barrel was equal to 108.8$.

For 2014, a 5.8% increase in transported passengers is estimated but a slower growth in emerging economies and the geopolitical crisis between Russia and Ukraine - with consequent pressure put on oil costs - induced IATA to revise its estimated net profits down – although these are expected to increase to 18.7 billion dollars based on the most recent projections (vs. 19.7 billion dollars previously estimated).

Europe

The IATA 2013 data for Europe suggest a 3.8% increase in traffic (RPK) to be considered against a growth in offered capacity (ASK) of 2.7%. Net profits are estimated to be equal to 1.2 billion dollars, with an EBIT margin of 1.1%, in 2013 and to 3.1 billion, with an EBIT margin of 1.9%, in 2014. IATA, however, reported that the EBIT margin of Europe is now only above that of Africa, owing to high costs and taxes and the burdensome regulatory system characterising the industry.

Italy

In 2013, passenger traffic in Italy [5] saw a 0.6% fall from the previous year. In the domestic segment, in particular, the fall was equal to -6.2%, while on the international segment a growth of +1.4% was recorded.

Among the main airports, Fiumicino and Malpensa saw a drop in domestic traffic of -8% and -15.4% respectively. On the other hand, the international segment recorded a +0.6% growth on the Fiumicino airport and a substantial stability on Malpensa.

In the other bases operated by the Alitalia Group the situation was found to be substantially similar (in the domestic segment, Naples -14.1%, Venice -7.2%, Catania -0.4%, Turin -15,3% and Linate -3.2%).

Considering the full network including international traffic, only Venice (+2.6%) and Catania (+2%) improved over 2012; while all the remaining airports experienced a drop in traffic , i.e. Fiumicino -2.2%, Malpensa -3.1%, Linate -2.1%, Naples -6.9% and Turin -10.7%.

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[2] IATA – Air Passenger Market Analysis – December 2013
[3] IATA – Premium traffic monitor - December 2013
[4] IATA – Financial Forecast - March 2014
[5] Assoaeroporti / Enac 2013

Network

For domestic routes, Italy's difficult economic situation, which went hand in hand with ongoing fierce competition from low cost carriers and the high speed train, has required a further optimisation of the capacity offered by the Alitalia

In addition to the capacity cuts on the full network, a few non-profitable routes were cancelled, i.e. Crotone from Rome and Milan, Rome-Ancona and various by-pass connections (from Venice to Naples, Bari and Lamezia Terme, from Genoa to Naples and Trieste and from Catania to Florence and Trieste).

On Sardinia, in compliance with the 'territorial continuity' call for proposals, which came into force in late October, Alitalia is now operating the routes it was awarded, i.e. Cagliari from Rome and Milan and Alghero from Milan.

Another fact worth noting is the start-up of links to Comiso from Milan Linate, with two weekly frequencies operated since 8 December.

For international routes, the capacity investments started in 2012 were confirmed (these included Rome – Tiblisi operated since July 2012, Rome – Zurich, operated since October 2012, Rome – Yerevan and Rome – Abu Dhabi, operated since December). A new Rome-Prague link has also been opened and, since late March, Alitalia has been operating 7 new international destinations characterised by a high business and leisure traffic demand with departures from Rome Fiumicino. These include:

- Bilbao (Spain) operated since 27 March with two weekly frequencies;
- Copenhagen (Denmark) operated since 27 March with three weekly frequencies;
- Krakow (Poland) operated since 25 March with three weekly frequencies;
- Yekaterinburg (Russia) operated since 26 March with three weekly frequencies;
- Montpellier (France) operated since 28 March with two weekly frequencies;
- Oran (Algeria) operated since 26 March with three weekly frequencies; and
- Podgorica (Montenegro) operated since 1 June with three weekly frequencies.

Moreover, at the end of June, Alitalia inaugurated 2 new seasonal destinations:

- Antalya (Turkey) operated since 23 June with a weekly frequency; and
- Djerba (Tunisia) operated since 29 June with two weekly frequencies;

Concurrently, in the course of the year, capacity optimisation actions were also implemented, mainly during winter months, to reflect the usual fall in demand and the context of economic and financial crisis, which was particularly strong in the European market and in the business traffic segment.

As regards the intercontinental segment, since 14 January 2013, a Rome – Fortaleza flight was started with 2 weekly frequencies operated by B777s until March – and then taken over by A330 aircraft in the months of April and May 2013.

Weekly frequencies were also increased on the Rome – Rio de Janeiro route (from 5 to 6) and on the Rome – Osaka route (from the original 4 frequencies operated by B777s to 5 frequencies operated by A330s).

In Q1 2013, the Rome – Beijing route was cancelled – similarly, in May 2013, the Rome – New York Newark route was replaced by an additional flight on the Rome New York JFK route.

The Rome-Los Angeles and the Rome-Chicago routes – originally suspended in the 2012 winter season – have been resumed since May.

Passenger Business

Alitalia Passenger Traffic - full network

Variations in 2013 vs. 2012

		Domestic	International	Intercontintental	Full NETWORK
Passengers	Δ.%	-11.9%	4.8%	-0,6%	**-5,4%**
Offered Cap. (ASK)	Δ.%	-18.2%	7.0%	-2,3%	**-3,3%**
Traffic (RPK)	Δ.%	-13.6%	7,3%	-0,6%	**-1,0%**
Load Factor	Δ.pp	3.62	0,2	1,4	**1,7**
Average Revenue	Δ.%	-4.5%	-0,9%	4,0%	**2.8%**
Total Revenues	Δ.%	-15.8%	3,9%	3,4%	**-2.8%**
RASK	Δ.%	2.9%	-2,9%	5,8%	**0.6%**

In 2013 Alitalia transported around19 milioni passengers, a decrease of 5,4% in respect to 2012.
In terms of RPK, instead, an indicator based on route length, a decrease of 1% was observed together with a 3,3% reduction in offered capacity (ASK), which resulted in an improvement of load factor of 1.7 percentage points to 75.4%.
Alitalia's market share was equal to 21.7%, down 0.9 percentage points in respect to. 2012, as a result of the fall observed in 2013 on the domestic segment (-1.1 p.p.) to 48.6% both on the international and intercontinental segment (-0.1 p.p.), or 12.4%.

Overall passenger traffic revenues fell by 2.8% due to a drop in the domestic segment (-15.8%) compensated, in part by a growth in the International segment (+3.9%) and in the intercontinental segment. (+3.4%)

Domestic Segment

10.2 million passengers were transported on the domestic down 11.9% compared to 2012.
Load factor improved (+3.6 p.p.) to 68.1% following the rationalisation of offered capacity (ASK -18.2%), which was more than proportional in comparison with the fall in traffic (RPK -13.6%).

Revenues on the domestic network decreased 15.8% in respect to 2012 as a result of the observed reduction in transported passenger numbers as mentioned above, and a 4.5% drop in average revenue.

Revenue per seat offered (RASK) was substantially up by 2.9% as a result of the above capacity-rationalisation actions.
Performance continued to be negatively influenced by the persistence of a particularly critical economic scenario with a consequent general downswing in both leisure and business traffic combined with increasingly fierce competition from low cost carriers (Ryanair started operations on Fiumicino in December 2013) and from the high speed train operators: the growth of services offered by the NTV national network now favours stronger competition between the two operators (NTV and Trenitalia) with a consequent further pressure on prices especially for corporate services.

Focus on Fiumicino – Linate

On the Fiumicino – Linate route, offered capacity was reduced by 19.8% following the need to reflect the current performance of air transport demand which, as said above, was impacted by the competitive pressure from the high speed train offers (Trenitalia's FrecciaRossa and NTV's Italo).
As from March, after the Antitrust Authority's decision[6] to assign a few slots to the low cost carrier Easy Jet, 8 Alitalia flights were cancelled on this route. The UK airline started its service on 25 March, which by 8 April had reached full operation. Those circumstances required further optimisation action in the following months, with an additional 4 flight pairs cancelled in October.
A 9.5% fall in traffic (RPK), below the level of offered capacity, determined a 6.5 p.p. increase in load factor (to 57.2%).
As a whole, revenues on the Fiumicino-Linate route were 25.9% lower than those of 2012, plausibly as a result of a 21 € reduction in average revenue (-18.2%) and a fall in traffic as described above.

A final development worth noting was a 7 € increase per route in airport charges on Linate and Malpensa in October 2012 and a 5 € rise per route in the Palermo airport charges. Since 9 March 2013, flights departing from Fiumicino have also undergone a 8.22 € increase in airport charges. **Since July 2013, a further 2€**

[6] In short, the Italian Antitrust Authority (AGCM) contended that Alitalia had a monopoly on the Linate – Rome route; on 25 October 2012 they notified their decision to assign 4 slot pairs to EasyJet (for further details see the Financial Accounts of the Alitalia Group at 31 Dec. 2012).

increase has been applied on all Italian airports. Alitalia obviously avoided shifting the increased charges to the price of tickets charged to its consumers.

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International Segment

Alitalia Passenger Traffic - International Segment

Variations in 2013 vs. 2012

		EU Europe	Non-EU Europe	North Africa	Middle East	**International**
Passengers	Δ.%	1.9%	13.9%	6.6%	8.1%	4.8%
Offered Cap. (ASK)	Δ.%	-3.7%	23.4%	5.8%	29%	7%
Traffic (RPK)	Δ.%	1.8%	16.9%	3.5%	17.6%	7.3%
Load Factor	Δ.pp	4.1	-4	-1.4	-6.8	0.2
Average Revenue	Δ.%	0.9%	-6.2%	-12.2%	6%	-0.9%
Total Revenues	Δ.%	2.9%	6.8%	-6.3%	14.6%	3.9%
RASK	Δ.%	6.8%	-13.4%	-11.4%	-11.2%	-2.9%

Transported passengers on the international segment amounted tomore than 6.6 million an increase of 4.8% in respect to 2012.

Against an increase in offered capacity (ASK) of 7%, traffic (RPK) growth of 7.3% was recorded, consequently the load factor was 72.7% was virtually unchanged compared with 2012 (+0.2%)

In order to boost volumes, two mass-market promotional initiatives were launched in Italy in January and March (with positive effects on bookings made in the two following months).

The use of fare offers for specific customer segments or fares customised to targeted customer clusters was also increased. In order to encourage sales on traffic segments characterised by a lower level of Alitalia's ownership, an innovative offer for young people aged below 26 at an extremely low price was launched in June. Since October, this initiative has also been extended to households.

Average revenue on the international segment fell by 0.9%, which combined with previously described traffic trend resulted in a 3.9% rise in revenues.

Intercontinental Segment

Alitalia Passenger Traffic - Intercontinental Segment

Variations in 2013- vs. 2012

	North America	Central America	South America	West Africa	Far East	**Intercontinental**
Passengers	0.5%	7.3%	2.7%	-4.6%	-8%	-0.6%
Offered Cap, (ASK)	-1.7%	3.9%	2.8%	-5.3%	-9.4%	-2.3%
Traffic (RPK)	0.3%	7.3%	1.8%	-4%	-6.2%	-0.6%
Load Factor	1.6	2.6	-0.9	1	2.6	1.4
Average Revenue	6.1%	45.1%	7%	4%	-11.8%	4%
Total Revenues	6.6%	55.7%	9.9%	-0.8%	-18.9%	3.4%
RASK	8.4%	49.9%	6.8%	4.8%	-10.5%	5.8%

Transported passengers on the international segment were over 2 million, virtually unchanged (-o.6%) in respect to 2012.

However, the decreased traffic (RPK) was limited to 0.6 % and was consequently below the reduced capacity level, and resulted in a 1.4 p.p. load factor rise to 79.4%.

In comparison with 2012, positive developments in quantitative terms included the performance of a few foreign markets such as Venezuela (+18%), which however posed currency problems related to the actual collection of earnings from sales, Canada (+12%), Argentina (+9%), Brazil (+5%) and Japan (3%).

Italian and US markets saw a slight decline of 1 and 3% respectively.

As regards load factor in the three travel classes, 2013 saw a generalised improvement over the previous year (Classica 84.6% or +1.2 p.p.; Classica Plus 56.7% or +14,8 p.p.; and Magnifica 58.4% or +2.2 p.p.).

The incidence of high-yield classes (Magnifica, Classica Plus and premium-value economy products) was 14.9%, up 3.6 p.p.

Against the described performance of transported passengers, the overall increase in average revenue (+4.0%, with a single reduction observed in the Far East caused by the depreciation of yen), was behind the growth of total revenues vs. 2012 of +3.4% (+M€ 35). RASK improved by +5.8%.

The growth in average revenue was driven by the synergic use of the price lever and a strategic allocation of space to specific fare products. In particular, among the initiatives developed in 2013, the following are worth noting:

- price increase and limitation of access to low and medium yielding fares in the Economy segment in the period of the year characterised by a leisure-demand peak;
- targeted actions towards specific traffic segments with a special attention paid to the high-spending segment;
- limitation of access to low-yielding fare products in markets whose purchase profile was characterised by more late bookings vs. the previous year;
- an accurate selection of demand in markets with marked negative currency dynamics.

In addition, in order to support volumes, promotions were launched on Classica Plus and Magnifica, and, in order to remedy unsold capacity, upgrades from economy to business were made in a targeted and focused manner.

In order to support price sensitive demand, in low-season periods and/or on specific occasions, promotional actions were developed with different characteristics depending on the targeted market.
In the Italian market, the following are worth noting:

- a March promotion with a special impact on the pre-summer period,
- a September promotion to sustain volumes in the pre-Christmas period, and
- a December promotion to boost traffic in the first quarter 2014.

Cargo Business

65,457 tonnes of goods and mail were transported, which meant a 4.7% increase vs. 2012 (TKT +3.9%), against a 2.8% increase in offered capacity (TKO), with a consequent 0.6 p.p. rise in load factor (currently at 50.0%).
Yield was found to be appreciably on the decline (-7.3%) following the capacity surplus available worldwide, the depreciation of the yen against the euro and the aggravation of macroeconomic crisis in the Euro area.

In this context, revenues from cargo transport (goods and mail) fell 3% vs. 2012. The severe weakness of the North America and Far East markets was partially set off by a good performance of Italian exports.

In market-share terms, as recently reported by IATA, Alitalia has now achieved 6.8%, a percentage substantially in line with the previous period, with intercontinental destinations currently served to the extent of 22%.

The postal night flight service is now operated by Alitalia on behalf of Mistral Air, a wholly controlled subsidiary of the Poste Italiane Group. 2013 revenues from this services amounted to 3.9 M€, down 34% vs. 2012 as a result of Mistral Air's decision to operate a few routes by its own offered capacity.

Alitalia also operated 23 flights, mainly for the transport of banknotes on behalf of the Bank of Italy, Banque de France Fabrication des Billets, Oesterreichische Nationalbank and Real Casa de la Moneda, and also transported (by 7 cargo flights) the ballot papers from France, the UK, Argentina, Venezuela, Brazil and North America on behalf of the Italian Foreign Ministry during the general elections of February 2013. The total charter revenues in 2013 amounted to around 2M€, slightly below the level of the previous year.

As a whole cargo revenues, equal to M€ 108 in 2013 (goods, daily/nighttime flights and cargo charter flights), were 5% below the level of 2012.

Financial Position, Performance and Cash Flow

Reclassified Consolidated Balance Sheet

Alitalia - Compagnia Aerea Italiana S.p.A.

RECLASSIFIED INCOME STATEMENT

(Euro/thousand)

	31.12.2013	31.12.2012	Changes
A - Revenues	**3,287,065**	**3,521,960**	**(234,895)**
- of which airline passengers	*2,635,632*	*2,710,713*	*(75,082)*
Increases in fixed assets from internal works	**18,676**	**49,369**	**(30,693)**
Contribution for airline operation account	3,752	3,022	730
B - "Typical" value of production	**3,309,493**	**3,574,351**	**(264,858)**
Consumption of materials and external services	(2,900,892)	(3,046,857)	145,965
C- Added value	**408,601**	**527,494**	**(118,893)**
Cost of labour	(656,092)	(709,717)	53,625
D - Gross operating margin	**(247,491)**	**(182,223)**	**(65,268)**
Other allocations for adjustments	(76,311)	(6,340)	(69,971)
Allocations to risks and liabilities funds	(9,712)	(12,241)	2,530
Balance of sundry income and charges	14,382	161,656	(147,274)
E - EBITDA	**(319,132)**	**(39,149)**	**(279,983)**
Depreciation and amortization	(95,080)	(110,615)	15,535
F - Operating result (EBIT)	**(414,211)**	**(149,764)**	**(264,448)**
Financial income and charges	(47,237)	(24,136)	(23,100)
Adjustments in value of financial assets	(182,387)	0	(182,387)
G- Result before extraordinary items and tax	**(643,835)**	**(173,900)**	**(469,935)**
Extraordinary income and charges	76,472	(35,233)	111,705
H - Result before tax	**(567,363)**	**(209,134)**	**(358,229)**
Income tax for the year	10,276	(15,996)	26,272
I - Profit (loss) for the year	**(557,087)**	**(225,130)**	**(331,957)**

The financial accounts closed at 31 December 2013 recorded an operating loss of M€ 414, which compares with an operating loss of M€ 150 at the end of 2012.

The overall worsening of M€ 264 in the **operating result** is mainly attributable to reduced revenues for M€ 235 (chiefly revenues from passengers and passenger charters, fees on booking changes, the absorption of flight coupons no longer to be used for their expiry or for the application of fares subject to restrictions, the revision of code-share agreements executed with the subsidiaries Alitalia CityLiner, CAI First and CAI Second, the amounts paid to the subsidiary Alitalia Loyalty for miles earned by Millemiglia customers on tickets purchased and flown in accordance with the terms and conditions prescribed in the Millemiglia programme regulations, net of the amounts recognised by Alitalia for reward tickets on Alitalia flights), sundry net revenues for M€ 147, a decrease in investments from internal work worth M€ 31 and also a higher rectified provision of M€ 70. A partial set-off came from the reduced consumption of materials and external services of M€ 146, a reduction in labour cost of M€ 54, reduced depreciation and amortisation to the extent of M€ 16 and appropriations to provisions for liabilities and charges and other appropriations by way of working capital adjustment for M€ 4 in total.

As for **net result**, the loss amounted to M€ 557, or M€ 332 above the level recorded at 31 December 2012 (-M€ 225).

Below are details on the main P&L items:

Revenues were equal to M€ 3,287, of which 87% related to traffic, showing a M€ 235 fall (-7%) from the previous year;

- passenger traffic revenues worth M€ 2,636 were down M€ 75 (- 3%) mainly ascribable to the reduced transported passenger numbers or -5.4% (chiefly on the domestic segment with -11.9% and, to a much lesser extent, on the intercontinental segment with -0.6%, whereas the international segment grew 4.8%); the lower passenger traffic revenues were partially set off by increased average revenue (+2.8%);
- other revenues were down M€ 160 as a whole, and included:

  other passenger revenues for M€ 72, mainly resulting from reduced fees earned on booking changes (-M€ 12), the reduced absorption of flight coupons no longer to be used for their expiry and for the application of fares subject to time restrictions when the time limit was exceeded (-M€ 17), the renegotiations occurred on the transatlantic joint venture (-M€ 12), the revision of code-share agreements currently in force with the subsidiaries Alitalia CityLiner, CAI First and CAI Second (-M€ 15), and the amounts paid to the subsidiary Alitalia Loyalty for miles earned by Millemiglia customers on tickets purchased and flown in accordance with the terms and conditions prescribed in the Millemiglia programme regulations, net of the amounts recognised by Alitalia Loyalty for miles redeemed by customers for reward tickets on Alitalia flights (-M€ 22), partially compensated for by the absorption of the sums set aside on the Millemiglia provision (+M€ 7);

- revenues from partnerships related to the Millemiglia programme for M€ 38, following the contribution of the "Mille Miglia" business line to Alitalia Loyalty;
- revenues from passenger charters for M€ 21.5, as a result of reduced operations (-28% in terms of flight hours vs. 2012);
- revenues from cargo worth M€ 4 (-3.6% vs. 2012), due to the reduced traffic with the markets of North America and the Middle East – partially set off by the favourable performance of exports from Italy;
- aircraft rentals and leases to the Companies of the Group for M€ 7;
- joint operations with other carriers for passenger traffic for M€ 6;
- revenues from airport handling for M€ 7;
- nighttime postal flights for M€ 2, as a result of the reduced operations on behalf of Mistral Air;

Investment surplus from internal work was equal to M€ 19 (vs. M€ 49 as on 31 December 2012) and related to the amount capitalised mainly for alterations/improvements on owned and third-party aircraft, such as engine shop visits, overhauls and undercarriage maintenance (M€ 11) as well as to the cost of the internal personnel used in software development activities (M€ 4), fleet maintenance (M€ 2) and training in new activities/products (M€ 1). In the previous period, M€ 40 had inter alia been capitalised for the reconfiguration of the B777 cabin.

Contributions for the operation of air routes (territorial continuity regime), which are indicative of the subsidies received for the operation of air transport services on routes subject to public-service obligations, were equal to M€ 4 and, therefore, substantially in line with the level recorded in the previous year.

As a result, the **Core Business Production Value** was equal to M€ 3,309, i.e. down M€ 265 (-7%) from the previous year.

Costs for the consumption of materials and external services were equal to M€ 2,901, meaning a M€ 146 reduction (-5%) from the level measured at 31 December 2012; below is a breakdown of this variation:

- reduced consumption of technical materials and maintenance costs incurred for the fleet to the extent of M€ 49; in further detail, the main part of this item included reduced consumptions and purchases of technical materials for M€ 45 chiefly as a result of the availability in the previous year of the materials related to the reconfiguration of B777 aircraft cabins (-M€ 41 which amount was however set off as it was capitalised under investment surplus for internal work), plus reduced maintenance costs for M€ 20 in total resulting from the capitalisation – with special reference to the A319, A320 and A321 aircraft types – of the maintenance costs for C/2C checks and shop visits on other mechanical components such as thrust reversers and air inlets (-M€ 17); such variations were counterbalanced by the effect of higher appropriations to the technical area provision as a result of the increased number of leased aircraft within the fleet in comparison with 31 December 2012 (+M€ 12 net of efficiencies achieved on a few contracts with primary maintenance service providers) as well as of the higher costs of line maintenance pools following the outsourcing of component maintenance (+M€ 2);

- reduced fuel costs for M€ 45 (inclusive of reduced revenues related to price and exchange-rate hedges executed for M€ 59), following the reduced flight operations and the decreased prices vs. 31 Dec. 2013.
- reduced sales expenses for M€ 11, attributable to the reduced promotional initiatives (-M€ 9), booking and call-centre services (-M€ 1), achieved through the efficiency improvement actions introduced for these items, as well as to the lower commission on passenger sales (-M€ 1,5), all partially set off by the higher advertising and promotional sales expenses (+M€ 0.5);
- reduced expenses related to traffic and airport handling for M€ 7 in total, more specifically handling (-M€ 26) and overflight charges (-M€ 3) were counterbalanced by higher airport charges (+M€ 22 connected to increased fares); significantly, ATC costs remained substantially stable as a result of the set-off effect between higher prices and the above-mentioned reduction of operations;
- reduced expenses on other services to the extent of M€ 26, correlated to the lower costs of professional and advisory services (-M€ 2), information and telecommunication (-M€ 7), ancillary staff costs such as transport, hotel accommodation and training (-M€ 6), and maintenance and shop visits performed on electronic equipment, vehicles, machinery and plants (-M€ 6), insurance costs (-M€ 1) and miscellaneous services and goods such as consumables and costs of operation manuals (-M€ 5);
- reduced costs for using third-party properties for a total of M€ 9 broken down mainly into lower block space costs and rentals payable to the Group Companies (-M€ 39), partially set off by higher fleet-lease fees (+M€ 33), following the phase-in of new aircraft in 2013 such as 2 Embraer 175s and 2 A319s and following the new contract signed with the subsidiary APC12 for B777 aircraft.

As a consequence of the developments described above, the airline's **Added Value** was positive for M€ 409, i.e. down M€ 119 from the previous year.

Labour costs, equal to M€ 656, decreased M€ 54; this decrease was largely ascribable to the lower volumes of the 'average salaried workforce', hereinafter ASW (i.e. minus 864 resources, from 11,688 as on 31 December 2012 to 10,824 as on 31 December 2013), following the outsourcing of services on the London airport, the Bari airport and the catering area (-203 units), the introduction of 'rotating-basis' benefit payments from the Extraordinary Redundancy Fund (*CIGS*) for cabin crews pursuant to the agreement signed in December 2012 (-191 ASW units), the job sharing agreement for ground handling personnel in force since June 2013 (-265 ASW units), the transfer of personnel to the new company Alitalia Loyalty (-20 ASW units) , the reduction in variable costs connected to flight operations and finally the reduction in costs related to restrictions introduced in the incentive policy; these reductions were partially set off by worsened unit costs for the seniority mechanism applied to crews (M€ 4.8) and by the spill-over effects on career levels and wage increases for the ground personnel operating in Italy (M€ 3.2).

As a result, the **gross operating margin** was negative for M€ 247, or M€ 65 worse than the level measured at the end of the previous year.

Other **appropriations by way of adjustment**, for M€ 76, corresponded to sums set aside for uncollectable commercial receivables

- of a share of goodwill, referring to the assets transferred to Alitalia in 2009 in relation to the partial demerger of Air One that, in turn, had acquired its subsidiary European Avia Service (EAS).

  This write down of M€ 72 arose as a result of the weakness recorded upon performing an impairment test as regards the sensitivity "load factor" confirmed by the first results of the second quarter of 2014.
- of some trade receivables of M€ 4, vs. a balance of M/€ 6 at 31 December 2013

Compared to the previous financial year an overall negative variance of M/€ 70 was recorded.

Appropriations to provisions for liabilities and charges, equal to M€ 10, were down M€ 2 from the level of 2012, and pertained to litigation risks with airport suppliers for M€ 1, to foreign transport litigations for M€ 2 (largely related to disputes initiated by IATA agents in Israel against the commission policies applied by foreign airlines operating locally), regulatory/transport disputes for M€ 3, labour disputes for M€ 1 and miscellaneous civil-law cases for M€ 4;

The balance of **net sundry revenues and costs** was positive for M€ 14, with a M€ 147 reduction (from M€ 161 at the end of the previous year) as broken down below:

- M€ 16 worth of revenues arising from the agreements concluded with primary industrial and commercial partners (the major of which were Amadeus for the IT management of the booking software, Messier Services for maintenance, SEA Handling for airport handling and Telecom for telephone traffic).

  As on 31 December 2012, the same item amounted to M€ 130 and mainly included revenues from the agreements signed with Air France, Bedek and Atitech for maintenance, Payback for a customer loyalty programme, Abramo and Almaviva for call-centre service, GH for handling, Darwin Airlines for code-share agreements, and finally revenues from the transfer of slots on the London airport to British Airways, Delta and Virgin Air.
- M€ 28 worth of net positive differences arising from appropriations of previous years;
- M€ 21 worth of miscellaneous taxes, mainly an appropriation for the regional IRESA tax;
- M€ 13 worth of the absorption of miscellaneous risk provisions following the settlement agreement concluded with the Rome airport managing company Aeroporti di Roma;
- M€ 22 worth of miscellaneous costs, mainly related to the catering service, the subsidiary Alitalia CityLiner, lease fees paid on CRJ900 aircraft for M€ 13 (following the agreement whereby Cityliner kept the lease contract for these aircraft types in place to avoid the losses that would have been incurred by Alitalia for failure to observe the guarantees it had issued to the lenders of the lessor companies), the appropriation of provisions to cover the cost of non-free-of-charge CO2 allowances associated with the ETS – Emissions Trading Scheme (M€ 3), and various membership fees and operation manuals (M€ 4).

As a result, **EBITDA** was negative for M€ 319, or down M€ 280 from the level of 31 December 2012.

EBIT, with due account taken of amortisation and depreciation for M€ 95 (vs. M€ 111 as on 31 December 2012), exhibited a loss of M€ 414, which compares to an equally negative EBIT of M€ 150 recorded at 31 December 2012.

Net financial costs were negative for M€ 47 (vs. M€ 24 as on 31 December 2012), i.e. a M€ 23 worsening broken down as follows:

- M€ 4 worth of the increase in interest payable on borrowings from financial institutions, mainly due to the higher use of credit lines and a 0.65 point interest rate worsening (from 3.27% of 2012 to 3.92% of 2013) on medium to short term indebtedness;
- M€ 22 worth of the unfavourable foreign exchange effect related to the balance sheet items of 2013 and those still open and adjusted to the exchange rates of 31 December 2013;
- M€ 6 worth of interest accrued as on 31 December 2013 on the convertible debenture loan granted by the shareholders in February 2013, with no such item recorded in the previous period;
- M€ 9 worth of revenues arising from bonuses on fuel options – none of which had been recorded in the previous period.

Financial-asset value adjustments – not recognised as on 31 December 2012 – were negative for M€ 182, following the write-down of equity held in the subsidiaries Air One (M€ 112) and Alitalia CityLiner (M€ 35) introduced on the basis of findings of the performed impairment test, the coverage of losses recorded by the company CAI First (M€ 32 in line with the resolution adopted in the company's Extraordinary Shareholders Meeting of 19 April 2013), the total write-down (M€ 0.4) of the value of interest held in AMS Holding S.r.l., and the appropriation of a provision (M€ 2) for the coverage of this company's losses.

Net extraordinary revenues were equal to M€ 76, or up M€ 112 from the level at 31 Dec. 2012; mainly referring to::

- M€ 150 worth of a capital gain arising from the contribution of the "Mille Miglia" business line to Alitalia Loyalty);
- €/mln 62 prudentially set aside for the possible risks on liquid funds with time restrictions as regards transfers, basically related to Venezuela;
- professional fees totalling €/mln 3, concerning the arbitration with the Toto Group, the dispute with Wind Jet, as well as the costs for severance payments made to some outgoing managers.
- as settlement of contingent liabilities of €/mln 2 for maintenance, handling and fuel costs relating to previous financial years;

Income taxes recorded a net positive balance of M€ 10 (vs. -M€ 16 in the previous year), ascribable to the current taxes levied in Italy i.e. IRAP or regional business tax (M€ 9), the assessment of advance IRAP (M€ 2), net of the positive effect of the tax relief (M€ 17) which contributed to set off the IRES levied on the subsidiaries against the losses accrued in the period by the Parent Company.

As a consequence of the above, the **net result** at 31 December 2013 was equal to a loss of M€ 557, against a loss of M€ 225 recorded at the end of 2012.

Reclassified Consolidated Asset Structure

Alitalia - Compagnia Aerea Italiana S.p.A.

RECLASSIFIED NET EQUITY
(Euro/thousand)

		31.12.2013	31.12.2012	Changes
A-	**Fixed assets**			
	Intangible assets	363,826	403,155	(39,329)
	Tangible asset	257,010	323,731	(66,721)
	Financial assets:			
	• Shareholdings	361,764	363,840	(2,076)
	• Other	386,436	347,542	38,894
		1,369,036	**1,438,269**	**(69,233)**
B-	**Operating capital**			
	Stocks	56,249	65,063	(8,814)
	Trade receivables	271,875	332,073	(60,198)
	Other assets	136,333	140,756	(4,423)
	Trade payables	(730,324)	(610,227)	(120,097)
	Funds for risks and charges	(238,145)	(218,473)	(19,672)
	Other liabilities	(429,401)	(402,752)	(26,648)
		(933,413)	**(693,560)**	**(239,853)**
C-	**Capital invested, with deduction of liabilities for the year (A+B)**	**435,623**	**744,708**	**(309,085)**
D-	**Employee severance pay**	**(10,046)**	**(10,535)**	**489**
E-	**Capitale invested, with deduction of liabilities for the year and severance pay (C-D)**	**425,577**	**734,173**	**(308,596)**
	covered by:			
F-	**Own capital**			
	Paid-in share capital	270,677	668,355	(397,678)
	Reserves and items carried forward	327,467	(10,599)	338,066
	Profit (loss) for the year (*)	(385,138)	(225,130)	(160,008)
		213,006	**432,626**	**(219,620)**
G-	**M/l term financial debt**	**53,803**	**34,739**	**19,064**
H-	**Net short term financial debt**			
	(Net liquid assets)			
	• short term financial debt	473,412	521,415	(48,003)
	• short term liquid assets and financial credit	(314,643)	(254,607)	(60,036)
		158,769	**266,808**	**(108,039)**
	NET FINANCIAL POSITION (G + H)	**212,572**	**301,547**	**(88,975)**
I-	**TOTAL, AS IN E (F+G+H)**	**425,577**	**734,173**	**(308,596)**

(*)	Loss covered during the year	171,949
	Profit (loss) for the year	(557,087)

Alitalia's Invested Capital, with due deduction made of net liabilities for the year and severance pays, was equal to M€ 426, against M€ 734 as on 31 December 2012.

Net fixed assets were down M€ 69, i.e. from M€ 1,438 at the close of the previous financial year to M€ 1,369 at 31 December 2013.

In further detail, the following is worth noting.

Intangible Fixed Assets, equal to M€ 364, decreased M€ 39 mainly as a result of:

- the write-down of goodwill by €/mln 72 following the findings of the impairment test relating to the sensitivity "load factor" confirmed by the first results of the second quarter of 2014
- the amortisation charges for the financial year of €/mln 57;
- investments worth M€ 80 in total and, more specifically:
  - ✓ maintenance on third party aircraft for M€ 50, such as shop visits on engines (M€ 19), C-2C checks (M€ 13), checks on airframe (M€ 7), thrust reversers and air inlets (M€ 3), undercarriage maintenance (M€ 3), miscellaneous shop visits/alterations and painting operations (M€ 5);
  - ✓ acquisition of licences and software developments for M€ 19, including e.g. the Linkage program for bookings and ticketing (M€ 5), Microsoft and VM-Ware licences (M€ 3), CRM software and Web Restyling in 2013 (M€ 3), the labour cost of internal personnel used in the development, implementation and commissioning activities for the software (M€ 4), and miscellaneous software under development (M€ 3);
  - ✓ current improvements on third-party fleets for M€ 8;
  - ✓ improvements on third-party immovable properties, such as agencies and offices for M€ 2;
- ✓ a positive reclassification from the item 'tangible fixed assets', for M€ 8 in total, of the amount previously capitalised under such item and relating to improvements on third-party fleets, civil works and installations;

Tangible Fixed Assets amounted to M€ 257, i.e. down M€ 67 mainly as a result of the following:

- M€ 38 worth of depreciation charges for the year;
- M€ 43 (net of the depreciation provision) worth of the transfer of 1 B777 aircraft to the Irish company APC12;
- M€ 8 worth of the sale/decommissioning of rotables;
- M€ 14 worth of a net negative reclassification mainly related to the other subitems of intangible fixed assets, improvements on third-party fleets, civil works and installations for M€ 8, further reclassifications related to tangible fixed assets for M€ 3, and to miscellaneous inventory adjustments and amounts carried over from technical material stocks M€ 2; the remaining amount of M€ 1 relates to the return to Alitalia of the residual amount paid by the Company in 2011 for an option on the purchase of fleet from Embraer, Empresa Brasileira de Aeronautica, which transaction was no longer finalised;

- M€ 31 worth of the capitalisation of maintenance performed on owned aircraft and engines in relation to the purchase of a CF6-80 spare engine (M€ 15), the purchase of spare parts (M€ 6), cyclical maintenance on airframes, APUs and undercarriages, components such as thrust reversers and air inlets (M€ 8) and finally advances on maintenance in progress as on 31 December 2013 (M€ 2);
- M€ 4 worth of advances on work in progress – such as upgrades of fire-prevention systems and expansion of the hardware infrastructure;

Financial Fixed Assets, equal to M€ 748, recorded an increase of M€ 37 vs. 31 Dec. 2012. The variation is broken down below:

- a net decrease in equity holdings for M€ 2 related to:
  - ✓ the write-down of the value of equity held in Air One for M€ 112 and Alitalia CityLiner for M€ 35 following the findings of the conducted impairment test;
  - ✓ coverage of losses in CAI First for M€ 32 in total by using capital contributions worth M€ 28 and by partially using the share premium reserve to the extent of M€ 4, as resolved on in the Company's Extraordinary Shareholders Meeting of 19 April 2013.
  - ✓ the contribution of the "Mille Miglia" business line to Alitalia Loyalty wroth M€ 150;
  - ✓ capital contributions to CAI First for M€ 3,5, Airone for M€ 20 and Alitalia CityLiner for M€ 5, made in March, May and November 2013 respectively;
  - ✓ the write-down of the value of interest held in AMS Holding S.r.l. for M€ 2; in the balance sheet at 31 May, this company had recorded a negative net equity of M€ 2.2, corresponding to the circumstance envisaged by art. 2447 of the Italian Civil Code.

    At 31 December 2013, on the basis of the available results, Alitalia also set aside a provision for costs incurred on investees equal to M€ 2, which was reduced M€ 0,5 as on the same date as a result of the payments, for a total of M€ 1.2, made in compliance with the Memorandum of Understanding signed with EAT, i.e. the other shareholders of AMS Holding S.r.l. (the shareholders controlling the latter company being Alitalia, EAT and Iniziativa Prima S.r.l.). It is also worth noting that, in the second half of 2013, AMS S.p.A., an operating company wholly controlled by Iniziativa Prima S.r.l., filed a request for a voluntary arrangement with creditors on a going concern basis, the outcomes of which will impact on the future developments of this company and its related shares.

    In this context, with reference to the contract for the maintenance of CFM-56 engines for A320 aircraft (legacy aircraft and parts) – signed between Alitalia and AMS S.p.A. in 2010, it is worth noting that, as AMS S.p.A. is not in a position to complete the contracted work for lack of the required materials, the Engines Agreement dated 2010 was amended for each single engine with the further provision that Alitalia should take up the procurement of the materials either directly or through third parties including IAI Bedek.

- Increase of medium to long term receivables worth M€ 85 resulting from maintenance reserve receivables – of which a refund from lessors is expected (M€ 83) – as well as from guarantee deposits (M€ 2);
- decreases, to an extent of M€ 24, related to the collection of maintenance reserve receivables (M€ 10), the refund of guarantee deposits (M€ 5) and a reduction in receivables from subsidiaries (M€ 9);
- a fall of M€ 3 for losses recorded on maintenance reserve receivables (which was however totally counterbalanced by a reduction of maintenance costs for the same amount).
- a decrease for the unfavourable foreign exchange effect arising from the alignments to the year-end exchange rates for M€ 13.

Working Capital exhibited a negative balance of M€ 933, against an equally negative balance of M€ 694 at the end of 2012.
Below is a description of the factors that most contributed to the negative variation of M€ 237.

- **inventory**, equal to M€ 56, was down M€ 9 from the value recorded on 31 December 2012, ascribable to a M€ 10 reduction in assets meant for sale, following sales of MD80/MD82 aircraft, of a spare engine and of B767 rotables made during the year (whose residual values had been reclassified to this item as they related to aircraft to be phased out), as well as to M€ 1 worth of miscellaneous materials; a partial set-off was made possible by a M€ 2 increase in technical materials;

- **trade receivables** were equal to M€ 272, i.e. down M€ 60 from the previous year as a result of reduced receivables from airlines for M€ 48, which basically included reduced receivables from Delta Airlines and Virgin for amounts collected against the transfer of slots on the London airport; reduced receivables from subsidiaries worth M€ 18 and reduced advances paid to the extent of M€ 3 with regard to fuel supplies; a partial compensation came from an increase in receivables from customers for higher credit-card sales (M€ 5) and from travel agents for their sales yet to be collected as on 31 December 2013 (M€ 3);
- **other assets**, for M€ 136, recorded an overall decrease of M€ 4 ascribable to lower receivables from miscellaneous debtors for M€ 7, i.e. mainly lower revenues from Millemiglia Commercial Partnerships following the contribution of the “Mille Miglia” business line to the subsidiary Alitalia Loyalty and the reduction of prepaid expenses for M€ 3, partially counterbalanced by higher tax credits worth M€ 4, i.e. advances paid on IRAP and advance taxes for M€ 2;
- **trade payables,** equal to M€ 730, were up M€ 120, mainly as a result of increased payables to subsidiaries for M€ 50 and to suppliers for M€ 67 – which were in turn partially compensated for by reduced exposure towards airlines to the extent of M€ 9 and towards travel agents to the extent of M€ 1;

- **provisions for liabilities and charges**, equal to M€ 238, experienced a net growth of M€ 20 vs. 31 December 2012, broken down into:

  - a higher value of the technical area provision for M€ 56, resulting from the balance between increases for the period worth M€ 98, an unfavourable foreign exchange effect for the alignment to the year-end exchange rates (M€ 9) and the utilisation/absorption of this provision (M€ 33);
  - a provision set aside for the coverage of losses incurred on investees to the extent of M€ 0,5, i.e. a commitment for the coverage of losses incurred by the company AMS Holding, as already specified under "Financial Fixed Assets" hereof - to which reference is also made hereunder;
  - a decrease of M€ 22 in the MilleMiglia frequent flyer programme provision, following the closing of the old MilleMiglia programme on 31 December 2012. It is hereby recalled that the programme regulations provided for customers' opportunity to covert their earned miles into flight coupons until 30 June 2013 – as a result, the decrease is related to the balance between redemptions and earnings for the period; by contrast, the new Mille Miglia programme started on 1 Jan. 2013 is managed by the newly established Alitalia Loyalty to which Alitalia contributed the frequent flier programme business line.
  - a net reduction in the miscellaneous risk provision for M€ 15, ascribable to the following:
    - M€ 13 worth of the absorption of the amount set aside in the previous years for litigation risks with the suppliers of the ground area, following the settlement agreement concluded between the Parent Company and Aeroporti di Roma;
    - M€ 9 worth of the utilisation of the amounts set aside in the past financial years for costs related to the phase-out of MD80, B767 and CRJ aircraft;
    - M€ 2 worth of the use of the risk provision for regulatory and transport disputes in Italy;
    - M€ 1 worth of foreign transport disputes;
    - appropriations made during the year worth M€ 10 in total – these related to risk assessment on transport disputes in Italy and regulatory disputes (M€ 3), transport disputes abroad (M€ 1.5), labour disputes (M€ 1), disputes with suppliers (M€ 1) and civil liability actions (M€ 3.5);

  With regard to the assessments made by the Company on other litigations for which no appropriation was deemed necessary, the following are worth noting – for further details kindly refer to part D of the Notes to the Financial Accounts:

  - the risk of losing the overall disputes with Wind Jet was appraised as remote by the Company's legal advisors with regard a global sum claimed from the counterparty of around M€ 260; in the light of the applicable legislation, therefore, no provision was deemed necessary in such respect;
  - the risk of losing the case with regard to the counterclaim of M€ 120 filed by Toto and Ap Fleet against a claim for damages for M€ 150 for fraudulent solicitation to execute the contract for the acquisition of the block of shares in Air One, is deemed possible at least in part - for this reason, equally in the light of the applicable legislation – reference is made herein to this risk although, similarly to the above case, the Company did not find it appropriate to set aside a provision in such respect.

- **other liabilities**, equal to M€ 429, increased M€ 27 from the level recorded on 31 December 2012; the increase was mainly ascribable to increased payables to welfare institutions for M€ 26 and miscellaneous creditors for M€ 7 (these mainly included the regional IRESA tax and fines and penalties due to Air France and Messier Bugatti), all of which were partially compensated for by reduced payables to employees for M€ 7, and prepaid ticket payables (unearned revenues) for M€ 1.

The Employees' Severance Pay Fund posted a value of M€ 10, which was in line with the value recorded at the end of the previous year.

The item Own Capital was equal to M€ 213, i.e. down M€ 220 from the level as on 31 December 2012, which was due to:

- a net loss recorded during the year for M€ 557;
- a recapitalisation worth M€ 300 approved in the Extraordinary Shareholders Meeting of 14/15 October 2013;
- a conversion, to the extent of M€ 37, of portions of the convertible debenture loan resolved in Extraordinary Shareholders Meeting of 22 February 2013;

For further details on the capital transactions, kindly refer to the paragraph hereof titled "Share Capital Transactions", as well to the Notes to the Financial Accounts.

Net Financial Position was negative for M€ 213, as broken down below:

- **medium to long term financial indebtedness** was equal to M€ 54 which, compared to the level at 31 December 2012, was up M€ 19; in further detail M€ 31 related to the convertible debenture loan approved in the Extraordinary Shareholders Meeting of Alitalia -Compagnia Aerea Italiana on 22 February 2013, and was partially compensated for to the extent of M€ 12 by repayments made during the year;

- **short term** (i.e. 12 month max**.) financial debts** were equal to M€ 473 (of which M€ 13 pertained to the fleet), meaning a fall of M€ 48 from the value recorded at 31 December 2012.

- **short term financial resources and credits** were equal to M€ 315, growing M€ 60 in comparison with the previous financial year – the growth was attributable to a higher amount of bank deposits for M€ 6, increased financial credits due from subsidiaries for M€ 34, a reclassification of current portions of financial credits and guarantee deposits for M€ 7, and a net increase in deposits subject to time restrictions on transfers for M€ 12.

  As on 31 December 2013, bank deposits subject to restrictions amounted to a total of M€ 48 (net of the provision for bad debts for M€ 64) and pertained to Venezuela for M€ 40, Iran for M€ 4, Algeria for M€ 2 and Libya for M€ 2.

Cash Flow Statement

Alitalia - Compagnia Aerea Italiana

FLOW STATEMENT

		31.12.2013	31.12.2012
A.	**Net initial liquidity (initial net short term financial debt)**	**(266,808)**	**(5,575)**
B.	**Cash flow from operating activity**		
	Profit (Loss) for the year	(557,087)	(225,130)
	Depreciation and amortization	95,080	110,615
	Surplus or loss from disposal of assets	(148,441)	(5,655)
	(Revaluation) or devaluation of assets	265,367	22,142
	Change in operating capital	239,853	(149,160)
	Net change in severance pay fund	(489)	(190)
		(105,717)	**(247,378)**
C.	**Cash flow from the activity of investment in fixed assets**		
	Investment in fixed assets:		
	• intangible	(79,865)	(29,927)
	• tangible	(37,811)	(82,314)
	• financial	(264,980)	(126,667)
	Realization price or reimbursement value of asset	239,880	238,882
		(142,776)	**(26)**
D.	**Cash flow from financing**		
	Borrowing from shareholders	63,867	0
	Borrowing	-	16,302
	Loan repayments	(11,978)	(53,218)
	Increase of share capital and reserves	337,467	0
	Reclassification of current quotas of m/l borrowing	(32,824)	23,087
		356,532	**(13,829)**
E.	**Cash flow for period**	**108,039**	**(261,233)**
F.	**Net final liquidity (final short term financial debt)**	**(158,769)**	**(266,808)**

In the course of the financial year 2013 the Company's financial operation showed a positive cash flow of M€ 108, which as on 31 December 2013 resulted in a net short-term financial debt of M€ 159.

In further detail:

- **cash flow from operating activities** was unfavourable for M€ 106, mainly as a result of the net loss of M€ 557 recorded during the year and the net capital gains worth M€ 148 mainly related to the contribution of the "Mille Miglia" business line to Alitalia Loyalty; this was counterbalanced by a positive variation in the working capital for M€ 240, amortisation and depreciation for the year worth M€ 95 and net write-down of fixed assets worth M€ 265 (represented by the previously mentioned write-down of equity holdings to the extent of M€ 181, goodwill for M€ 72 and the alignment of financial receivables to the year-end exchange rates to the extent of M€ 12) ;

- **cash flow from the disposal/acquisition of fixed assets**, included acquisitions for a total of M€ 383 and disposals for M€ 240.

Acquisitions consisted of:

- investment in intangible fixed assets for a total of M€ 80, specifically fleet for M€ 58 (maintenance on aircraft, engines and third-party fleet improvements), acquisition of licences and software development services for M€ 19, construction of buildings and installations for M€ 2;

- investments in tangible fixed assets for M€ 38 in total, specifically fleet for M€ 31 (of which M€ 15 for a purchase of a CF6-80 spare engine, M€ 6 for the purchase of spare parts, M€ 8 for cyclical maintenance on airframes, APUs and undercarriages, components such as thrust reversers and air inlets, and M€ 2 for advances on maintenance in progress as on 31 December 2013); the remaining amount of M€ 7 related to purchases of equipment and other goods, (mainly electronic equipment) and work in progress on other systems (among which work for upgrading fire prevention systems and the safety of buildings) ;

- investments in financial fixed assets for M€ 265 in total, with special regard to the acquisition of interest in Alitalia Loyalty after the contribution to it of the "Mille Miglia" business line (M€ 150), to payments by way of equity acquisitions into such companies as Alitalia CityLiner (M€ 5), CAI First (M€ 3.5) and Airone (M€ 20), to the increase of medium to long term maintenance reserve receivables, of which a refund is expected from lessors (M€ 83) and to guarantee deposits (M€ 2);

Disposals for M€ 240 mainly consisted of the following:

- M€ 53 worth of disposals in the fleet including the transfer of a B777 aircraft to the Irish company APC12 (M€ 43) and the sale/decommissioning of rotables (M€ 9);

- M€ 24 in total worth of refunds on maintenance reserve receivables following any performed maintenance (M€ 9), refunds of guarantee deposits (M€ 6) and reduced receivables from subsidiaries (M€ 9);
- M€ 2 worth of net reclassifications of tangible fixed assets relating to credit notes received for costs previously recognised among fixed assets;
- M€ 7 worth of higher amounts for the reclassification of current portions of medium to long term financial receivables and guarantee deposits.
- M€ 148 worth of net capital gains earned following the said contribution of the “Mille Miglia” business line to Alitalia Loyalty.
- M€ 3 worth of losses on maintenance reserve receivables (however fully counterbalanced by a reduction in maintenance costs for the same amount).

- **Cash flow from financing activities** was positive for M€ 357 - broken down as follows:
  - M€ 337 was associated as to € 300 with the said capital increase, and as for the remaining part of M€ 37 with the portion of the debenture loan - approved in Shareholders Meeting of Alitalia-Compagnia Aerea Italiana on 22 February 2013 – which was converted into capital transactions as on 31 December 2013;
  - M€ 64 worth of the residual debenture loan subscribed to and paid in financial year 2013 but yet to be converted as on 31 December 2013 (a further amount of M€ 33, it will be recalled, was converted in January 2014);
  - M€ 45 in total worth of repayments made during the year of medium to long term loans (M€ 12);
  - M€ 33 worth of the reclassification of the current portions of shot term financial payables (M€ 33).

Customers

Regularity

In 2013 Alitalia regularly operated 99.8% of its flights (99.7 in 2012). The main cause of cancellation was related to weather conditions and was concentrated mainly in the first and last quarter of the year with impact on the operating results for the whole year.

Punctuality

Punctuality on departure within 15 minutes was 84.5%, which shows a drop of 2.7 percentage points in respect to that calculated in 2012, while the punctuality on arrival showed a fall of 1 percentage point (from 85.9% in 2012 to 84.9% for the year in question).
Comparing this performance with the main European competitors participating in AEA, according to the latest data up until the month of November, Alitalia is in 7th position both for "on time" punctuality in departure and for departure within 15 minutes, while it is in 5th position for arrival within 15 minutes or the forecasted arrival time.

In the first half of the year, weather was as a whole inconstant, with reduced operations on Italian and European airports due to heavy wind, snow or ice and a consequent increase in the issues associated with the complex reorganisation of ground and flight operations, a rise in consequential delays and a general deterioration of punctuality results.

As a further complication, one of the Fiumicino airport runways was closed for renovation works – initially from 3 April to the end of May, although later the date was postponed to 12 June, which significantly limited regularity of operations.

During the summer period, high passenger volumes put strong pressure on airport operations, especially in the main Roman airport, with slowdowns caused by insufficient ramp equipment (luggage transport and loading, push-back tractors, Cobus systems), insufficient personnel for special assistance to passengers and congestions at check-in desks and security checkpoints.

On 27 October, at the start of the winter season – the Fiumicino rehubbing project officially started for a massive redefinition of traffic flows in order to increase volumes, provide stability to the network and improve the use of aircraft and crews with important efficiencies to be achieved in the maintenance process, a more suited distribution of activities in the ground area during the day, and an improvement in the personnel shifts of the Rome base.

Improvements were achieved in maintenance processes and in ground handling activities.

With regard to the Rome Fiumicino – Milan Linate route, flight regularity was equal to 99.5% (vs. 99.1% in the previous year) and punctuality (within 15 minutes) was equal to 94% on departure and 91.6% on arrival (vs. 95% and 92.4% respectively in the previous period).

Fleet

Alitalia Aircraft

Alitalia - FLEET			
Type of aircraft	*at 31 12 2013*	*at 31 12 2012*	variations
B777	10	10	0
A330	12	12	0
LONG HAUL	***22***	***22***	**0**
A319	22	20	2
A320	45	46	-1
A321	9	22	-13
MEDIUM HAUL	***76***	***88***	**-12**
TOT Operating Fleet	***98***	***110***	**-12**
Other Aircraft in Fleet	*at 31 12 2013*	*at 31 12 2012*	variations
B767	0	2	-2
A320	1	0	1
A321	13	0	13
MD80	2	12	-10
TOT Other Aircraft in Fleet	***16***	***14***	**2**
TOTAL FLEET	*114*	*124*	**-10**
Of which WHOLLY owned by Alitalia	*9*	*20*	-11

Alitalia's operating fleet at 31 December consisted of a total of 114 aircraft, 98 in service of which 22 dedicated to long haul and 78 to medium haul,.

As of 31 December two MD80 (a type already excluded from the operating fleet) and one A320 in leasing (aircraft which on 29 September made an emergency landing at Fiumicino airport due to the failure of the right hand undercarriage) were momentarily out of service. In a context of transitional, connected to the redefinition of the network structure and of the use of the aircraft, 13 A321 airplanes were out of service as of 31.12.2013.

In 2013 two leased A319 and two leased B767joined the fleet, 10 MD80s owned by Alitalia (a type of aircraft already out of service) and the A320 previously mentioned, in leasing left the fleet. Finally, it is noted that a B777 owned by Alitalia was transferred to APC12, the Irish company of the Group and at 31.12.2013 is shown as leased out.

Safety

The accident-prevention and flight-safety programmes of the companies of the Alitalia Group are fully compliant to the applicable regulatory requirements and standards (SARP Standards And Recommended Practices of ICAO, Regulations and Directives issued by the European Commission, and ENAC's national regulations), and the IATA standards.

In 2013, a programme for upgrading an analysis tool (SDS® software)was completed. The software is used for the prior detection of potential hazardous areas and for related risk analysis.

The plan for a gradual upgrade of the respective Safety Management Systems of the Group's companies has continued in accordance with the EU Regulation 2012/965[7], on new technical requirements and administrative procedures related to commercial air transport operations.

In particular, specific tasks and responsibilities were defined for the Safety Action Groups set up within the Flight Operations, Maintenance and Ground Handling areas- In particular those groups will take care of peculiar risk factors in the respective areas under their responsibility.

During the year under review, the National Agency for Flight Safety (ANSV) opened a technical enquiry following the incident on flight AZ063 of the A320 family arriving from Madrid on 29 September 2013.

The investigations conducted by the ANSV and the competent Judicial Authority are still in progress, but the early evidence shows that the incident was attributable to a defect in the design of an hydraulic actuator of the landing gear system and in the definition of regular maintenance checks on that component (both under the manufacturer's responsibilities) which checks, at the time of the incident, could not promptly identify the malfunction. The involvement of the airline in the incident dynamics was merely passive. Alitalia immediately initiated further appraisals and assessments in order to ensure the safety of the full A320 fleet.

Trends of safety performance indicators

The FDM (Flight Data Monitoring) Program shows that, during the year under review, deviations from the operating standards fell by about 6% vs. the previous year.

In particular, the downward trend of safety reports from the Flight Operations, Maintenance and Ground Handling areas continued – these take the form of a MOR (Mandatory Occurrence Report) to the Italian authority for air navigation. The number of reports per 1000 flights was down to 1.98 vs. 2.13 in 2012 (- 8 %).

A final fact worth reporting is an improvement in the SAFA (Safety Audit of Foreign Aircraft) indicator as a result of an extensive programme of additional checks and improvement actions on all aircraft in the fleet. The SAFA programme was initiated a few years ago by the European Union and involves ramp controls on aircraft arriving from non-EU countries; the SAFA indicator is calculated for each aircraft operator as a function of findings of checks made.

[7] The regulation 965/2012 will come into force on 28 October 2014

Safety management regulations

On 29 January 2014. European Regulation no. 83/2014 laying down standard Flight Time Limitations (FTL) for crews was published. Duty time limitations have so far been governed by national legislation. Regulation 83/2014 will come into force on 16 February 2016; the coming into effect of standards governing long haul flights may be postponed by a further year at the respective regulatory authority's discretion in each member state.

The new standards will introduce single flight-time limitations for air crews, thereby avoiding distortions associated with the diversity of the current national legislations. For specific crew duty times (e.g. night flights), the new Regulation imposes more restrictive limitations than the current ones.

On 24 April 2014, EU Regulation 376/2014 was published on the reporting, analysis and follow-up of occurrences in civil aviation (with regard to flight safety); the regulation replaces Directive 2003/42 and shall come into force in November 2015 with new, more stringent obligations imposed on operators in view of the analysis and implementation of corrective actions following safety-related occurrences.

Human Resources

Alitalia 31 December Headcount	2013	2012	delta
Executives	54.0	72.0	- 18.0
Middle Managers/Clerks	5,550.0	5,652.0	- 102.0
Workers	2,492.0	2,473.0	19.0
total GROUND	*8,096.0*	*8,197.0*	*- 101.0*
Pilots	1,486.0	1,482.0	4.0
Cabin Attendants	3,625.0	3,594.0	31.0
total CREWS	*5,111.0*	*5,076.0*	*35.0*
TOTAL	13,207.0	13,273.0	- 66.0

Alitalia January - December Average Salaried Work	rce2013	2012	delta
Executives	58.9	73.4	- 14.5
Middle Managers /Clerks	4,510.9	4,891.0	- 380.0
Workers	2,216.0	2,374.0	158.0
total GROUND	*6,785.8*	*7,338.4*	*- 552.5*
Pilots	1,398.5	1,462.7	64.3
Cabin Attendants	2,639.6	2,887.1	247.5
Total CREWS	*4,038.0*	*4,349.9*	*311.8*
TOTAL	10,823.9	11,688.2	- 864.4

Personnel

As on 31 December 2013, Alitalia had a headcount of 13,207 units, of whom 12,350 employed by an open-term contract (-28 in respect to. 31 December 2012) and 857 by a closed term contract (-38 in respect to December 2012), with a total decrease of 66 units in respect to the level at 31 December 2012.

That variation reflects a 101-unit decrease of the ground staff (specifically 65 open-term units and 36 closed-term units) and a 35 increase in crew members (specifically a 37 open-term-unit increase – i.e. returns to previous jobs – and a 2 closed-term-unit reduction).

Also to point out is the part time personnel at year's end were 3,836 units compared to 3,585 at 31 December 2012 (+ 251 resources, of which +38 for ground staff and + 213 for crew members).

As far as the average paid workforce is concerned, in 2013 there were 10,824 resources with a drop of 864 units in respect to 2012 (11,688).

The reduction is mainly attributable to the launch both of CIGS, a rotation system of cabin attendant personnel, with a signed agreement as of December 2012,and for job sharing of Ground Personnel and the outsourcing of services at London airport, Bari airport and the catering area and for personnel merged into the new company Alitalia Loyalty (-20 units in average paid workforce terms)

Industrial relations and Safety at Work

The round of talks held with the workers' unions during 2013 was centred on general union topics as well as on management issues related to matters of collective interest for each of the staff categories working in the company (cockpit, cabin and ground staff) in an objectively difficult business context. All the parties concerned met at a negotiating table held in December at the Italian Ministry for Infrastructure and Transport in order to identify useful measures meant to cope with the crisis of a sector deemed strategic and identify suitable mechanisms for an equitable regulatory system for air transport.

In addition, in the same month of December, the Chief Executive Officer presented to the participating unions and professional associations the Company's Industrial Plan that forms part of a structural cost-cutting programme designed to recover competitiveness, increase productivity and remove and/or reduce no longer economically sustainable activities without overlooking a context dominated by low cost carriers that benefit from more favourable tax, welfare and regulatory systems in comparison with Alitalia.

As a general trend with regard to relations with the unions, negotiations are continuing with the respective general secretariats of the involved Union Associations (CGIL, CISL, UIL and UGL) in view of the definition of standardised contractual terms and conditions for the air transport – to be used as exclusive reference for the industry – through the definition of specific standards applicable to various industry actors (carriers, operators, airport managers, handlers and caterers) – and as single instrument for the management of the full production chain of air transport. The above negotiations culminated in the signature of the General Part of a new National Collective Agreement on 2 August 2013. In order to draft the Specific Part of the Agreement, a timetable of future meetings was circulated. In particular, in the second week of December, at the headquarters of the Carriers' Association Assaereo, talks with the unions were resumed for the drafting of such Specific Part of the Agreement – union representatives from the three staff categories working in the company were present (cockpit, cabin and ground staff).

Consistently with the plan guidelines and strategic approach and with due account taken of the current economic crises and recession in the air transport industry as well as of the specific situation of Alitalia, on 6 June 2013, the Company – assisted by Assaereo – signed an agreement with the individual associations that are members of the Confederation of Unions for the security of current employment levels, and agreed on the initiation of a "job-sharing for employment security" programme involving around 2,375 resources working in the Sales, Ground, HQ and Maintenance areas. Such measure relied on a forecast 21% reduction in the number of working hours and was introduced for a period of 24 months running from 10 June 2013 to 9 June 2015.

On 27 June 2013, following the talks held with the national secretariats of the associations concerned (Filt-Cgil, Fit-Cisl, Uiltrasporti and Ugltrasporti), an agreement for converting the current Special Fund for Air Transport into a Job-Sharing Fund was signed with all of the union associations having founded such Fund (including professional associations). Such conversion was in accordance with the recent labour market reform.

A few recent regulatory provisions removed the above term for the conversion of the Fund, which means that the date for such conversion is now undefined – however its current source of financing has been confirmed.

With regard to management aspects, training courses for cockpit staff were defined by a union agreement signed on 7 March 2013 to meet specific technical and organisational needs of the Fleet Plan. Such initiatives, based on the forecast use of 170 further pilots who followed an internal retraining course, were financed by an allocated sum of 5.3 M€.

Among the other topics discussed with the unions was the re-hubbing process within the Alitalia Group and, with special reference to the subsidiary company Alitalia Cityliner, in view of the forecast operations and consistently with organisational requirements, the related allocation of crews to the various service bases. In addition, multiple topics of interest for this staff category were discussed including, for instance, age limits for cockpit staff to reflect the recent welfare reform, the application of regulations on duty and service limits,

safety monitoring systems such as the FDM (Flight Data Monitoring), peripheral bases, FAD and the Alis system.
As regards cabin staff, pursuant to the agreement signed on 22 December 2012, unemployment benefits from the Extraordinary Redundancy Fund (*Cassa Integrazione Guadagni Straordinaria, CIGS*) were applied on a rotational basis for up to 50,000 days maximum (which number was achieved as early as in November). It is also worth noting that in the talks held with regard to this staff category, among the subjects discussed were the terms for personnel transfers in connection with the re-hubbing process within the Alitalia Group as well as issues related to places of rest reserved for the staff.
In the context of negotiations related to the ground staff, negotiations in the Ground area concentrated on the themes of versatility (multifunctional staff) and flexibility in the assignment of seasonal leaves and days off. In the context of the maintenance area, on the other hand, talks concentrated on the themes of base transfers and productivity.
In September, in addition, in the context of a negotiation with national union associations, a discussion was held on the new size of the maintenance area (for it to be consistent with the re-hubbing process) and on the process for the sale of the maintenance businesses at the airports of Lametia Terme, Reggio Calabria and Brindisi, with the consequent need for the personnel employed to find new jobs.
Another event worth noting is the signature on 10 September 2013 of a number of union agreements on training plans for around 340 employees belonging to the ground personnel. Such interventions will help the company obtain financing for the training of this personnel to the tune of 0.250 M€.
With regard to supplementary pension schemes, in the period under review, a merger occurred between the pension funds of cockpit and cabin staff (Previvolo for pilots and Fondav for cabin attendants), which, following an authorisation from the Regulatory Authority on Pension Funds (COVIP), were merged into Fondaereo. Following the merger, in March 2013, elections started for the appointment of delegates in the General Meeting of Members of Fondaereo, with the counting of votes made on 22 April and, in June, after taking office, the General Meeting of Members appointed the members of the Board of Directors and of the Auditing Board.
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With regard to strike actions organised in the course of 2013, a few strikes with a negligible impact on operations were organised by minor unions and professional associations – including those not officially recognised. With special reference to September and November, the Company obtained a positive reaction from the confederal unions and professional associations representing the cockpit and cabin staff for them to postpone the announced strikes.
In 2013 strike hours were 2,701 in total (-38% vs. 2012 when a total of 4,361 hours was recorded).
As regards safety at work, in 2013 the existing Safety and Health Management System (SGSL) was updated; the related manual and procedures signed by the employers were also updated. These included the required customisation of the IT platform for personnel data management and its adaptation to reflect the reorganisation of the Company. Further updates were introduced in the Risk Assessment Documents (DVR) on various corporate aspects with special regard to the occurred process and/or organisational changes with regard to safety at work as well as in the Interference Risk Assessment Documents (DUVRI) for subcontracted or outsourced services. With regard to the evaluation of risks connected with ‘work-related stress’, specific Risk Assessment Documents were drafted, signed by the employers and produced to the

workers' safety representatives. The effectiveness of the Group's Safety and Health Management System was confirmed with significant and constant improvements in the overall workplace safety organisation and management. In the period under review, in particular, a constant reduction in the number of injuries (down 21% from 417 to 330) and days lost (down 16% from 7,003 to 5,880) was observed. The current levels are therefore below the already excellent results recorded in the course of 2012.

On 26 February 2014, the Company's Management ratified a number of union agreements signed on 13 February 2014 with all officially recognised union and professional associations with regard to CIGS unemployment benefits on a rotational basis for ground personnel and scheme of "job-sharing for security of employment" for the crews of the Alitalia Group companies.

The ministerial agreement reached envisaged the involvement within Alitalia of 2,313 workers from the Corporate and Sales areas; 731 workers from the Ground Handling staff of Fiumicino; 121 workers from the Ground Handling staff of other national branches; and 1,314 workers from the Maintenance area.

For cockpit and cabin staff, an agreement was reached on the use of the instrument of "job-sharing for security of employment" (*solidarietà difensiva*) with effect from 1 March 2014, for a 24 month period with the possibility of renewal in order to prevent layoffs for 801 FTE (Full Time Equivalent) workers of which 280 pilots and 508 cabin attendants of Alitalia,

The resources involved in the job-sharing arrangement will be 4,946 in total – corresponding to the full headcount of crews employed by the above companies.

The signature of the above agreement was instrumental in overcoming the job-sharing arrangements previously in place for ground personnel and the CIGS unemployment benefits on a rotational basis for cabin attendants.

Relations with companies within the Group

The amounts payable or receivable from subsidiaries, either directly or indirectly, as shown in the financial statements at 31 December 2013, are as follows:

Trade and other:

	at 31.12.2013		at 31.12.2012	
(€ thousand) Company	Receivable	Payable	Receivable	Payable
Direct subsidiaries				
Cai First S.p.a.		8,714		3,532
Cai Second S.p.a.		17,988		5,035
Air One S.p.a.		25,743		33,624
Alitalia Cityliner S.p.a.		13,566		11,838
Irish companies (Challey and APC 1-12)		34,874	7,134	
Alitalia Loyalty S.p.a.		23,510		
Total trade amounts	**0**	**124,394**	**7,134**	**54,029**
TRADE BALANCES		**124,394**		**46,895**

Financial:

	at 31.12.2013		at 31.12.2012	
(€ thousand) Company	Receivable	Payable	Receivable	Payable
Direct subsidiaries				
Short-term :				
Cai First S.p.a.		13,894	-	10,544
Cai Second S.p.a.		17,271	-	10,607
Air One S.p.a.	14,811		14,807	
Alitalia Cityliner S.p.a.	31,355		8,336	
Irish companies (Challey and APC 1-12)	174,883		164,103	
Alitalia Loyalty S.p.a.		15,325		
Total short term	**221,049**	**46,491**	**187,247**	**21,151**
Direct subsidiares				
Medium and long-term::				
Challey and APC 1-12	68,235		76,967	
Collateral deposits to Irish companies	30,000		30,000	
Total medium and long-term	**98,235**	**0**	**106,967**	**0**
TOTAL FINANCIAL	**319,284**	**46,491**	**294,214**	**21,151**
FINANCIAL BALANCES	**272,793**		**273,063**	

The transactions between the Parent company and its subsidiaries, all being part of the ordinary management, mainly relate to the rent and lease of aircrafts, selling costs, support to airport operations, maintenance service, airport and administrative/tax/corporate assistance; these are all regulated by contract terms established by reference to market prices, i.e. at arm's length and in the interest of the Group.

The amounts receivable are not guaranteed and will be paid in cash. No guarantee was either received or granted for trade and other balances, and no bad debt provisions were made for amounts receivable from subsidiaries.

The following table shows the amounts receivable for transactions entered into with other related companies of the Group.

CAI FIRST S.p.a.	**2013**	**2012**
Alitalia Revenues		
Airccraft "wet lease"	15,982	21,003
Fleet rental	3,362	4,846
Passenger commissions and bookings	4,352	5,076
Ground support and assistance services	8,693	10,573
Staff training	56	53
Line technical assistance and fleet maintenance	1,072	1,162
Admin., tax and corporate support	100	100
Sundry services (on-board, navigation support)	2,377	2,548
Seconded staff	1,956	2,850
Positive differences arising and sundry income	80	211
Financial income		141
Total	**38,030**	**48,564**
Alitalia Costs		
Aircraft "wet lease"	5,740	11,137
Technical material		
Seconded staff		30
Positive differences arising and sundry charges	4	123
Financial charges	17	2
Total	**5,762**	**11,293**

CAI SECOND S.p.a.	2013	2012
Alitalia Revenues		
Aircraft "wet lease"	21,148	24,817
Fleet rental	1,656	1,656
Passenger commissions and bookings	6,706	6,788
Ground support and assistance services	12,569	13,141
Staff training	14	5
Line technical assistance and fleet maintenance	1,283	1,187
Admin., tax and corporate support	50	50
Sundry services (on-board, navigation support)	2,813	2,778
Seconded staff	2,181	2,559
Positive differences arising and sundry income	141	97
Financial income		186
Total	**48,561**	**53,262**
Alitalia Costs		
Aircraft "wet lease"	3,658	5,291
Positive differences arising and sundry charges	8	131
Seconded staff		0
Financial charges	18	1
Total	**3,684**	**5,423**

AIR ONE S.p.a	2013	2012
Alitalia Revenues		
Aircraft "wet lease"	15,624	27,653
Fleet rental	18,297	17,833
Passenger commissions and bookings	4,665	5,924
Ground operations assistance	2,330	2,909
Seconded staff	21,630	21,211
Staff training	244	168
Line technical assistance and fleet maintenance	5,581	6,021
Admin., tax and corporate support and other	500	500
MilleMiglia airline partnership revenues		62
Sundry services (on-board, navigation support)	3,254	4,395
Sale of technical material		
Positive differences arising and sundry income	1,302	4,535
Financial income	278	168
Total	**73,706**	**91,379**
Alitalia Costs		
Aircraft "wet lease"	8,260	4,519
Block Space	49,323	85,119
Purchase of technical material		
Positive differences arising and sundry charges	356	239
Total	**57,940**	**89,876**

ALITALIA CITYLINER S.p.a.	2013	2012
Alitalia Revenues		
Aircraft "wet lease"	8,462	9,265
Fleet rental	44,069	28,739
Passenger commissions and bookings	2,060	1,955
Line technical assistance and fleet maintenance	9,786	10,112
Ground operations assistance	4,536	4,431
Seconded staff	3,385	3,944
Admin., tax and corporate support	78	78
Support to flight operations and on-board services	3,109	2,568
Staff training	216	241
Positive differences arising and sundry income	293	736
Financial income	603	49
Total	**76,596**	**62,119**
Alitalia Costs		
Aircraft "wet lease"	80,592	84,655
Sundry services	20	130
Positive differences arising and sundry charges	13,174	158
Financial charges		5
Total	**93,786**	**84,948**

CHALLEY and APC (APC1/APC12)	2013	2012
Alitalia Revenues		
Sundry income		6.939
Seconded staff	5	
Financial income	6,678	11,087
Total	**6,683**	**18,026**
Alitalia Costs		
Operating leases yy/mm	135,508	121,551
Total	**135,508**	**121,551**

ALITALIA LOYALTY S.p.A.	2013	2012
Ricavi Alitalia		
Redemption attiva MilleMiglia	6,459	
Supporto amministrativo, fiscale e societario	179	
Servizi di call center	685	
Servizi informatici	867	
Servizi generali	151	
Totale	**8,341**	**0**
Costi Alitalia		
Management & service fee	2,011	
Accrual passivo MilleMiglia	28,727	
Oneri finanziari	6	
Totale	**30,745**	**0**

Other Information

National Scenario

Public Service Obligations

Ref. Sardinia

With regard to the public service obligations imposed on the routes from and to Sardinia following the publication of Public Procurement Notices on the Official Journal of the European Union of 26, 27 and 28 June 2013, Alitalia was provisionally awarded the following routes for four years starting from 27 October 2013:

Alghero - Milan Linate - for an annual consideration of €3,099,734,00 including VAT;

Cagliari – Rome Fiumicino - for an annual consideration of €13,901,178.05 including VAT;

Cagliari – Milan Linate - for an annual consideration of €15,510,968.00 including VAT.

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As no air carrier accepted to provide the public service without consideration for the Alghero - Bologna and Alghero Turin routes, by a Decree issued by the Italian Ministry for Infrastructure and Transport (no. 468 of 27/12/2013, published on the Official Journal of the Italian Republic no. 9 of 13/01/2014) the ministerial decree no. 36 of 29 December 2005 imposing public service obligations was amended.

As a results, the provisions of the above decree are now no longer in effect limited to the obligations on the Alghero-Torino and Alghero-Bologna routes which, as a result, may now be operated on a free-market basis. The same applies to the Cagliari-Florence and Cagliari-Palermo routes for which, pursuant to art.16 par. 11 of Regulation (EC) 1008/2008, public service obligations are deemed to have expired as no scheduled air services have been operated in a period of 12 months on those routes.

By a decree of the Italian Ministry of Infrastructure and Transport dated 14 March 2014, published on the Official Journal of the Italian Republic no. 74 of 29 March 2014, the Italian authorities imposed public service obligations on scheduled air services provided on the routes Alghero-Bologna and vice versa, Alghero-Torino and v.v., Cagliari-Bologna and v.v., Cagliari-Napoli and v.v., Cagliari-Turin and v.v., Cagliari-Verona and v.v., Olbia-Bologna and v.v., and Olbia-Verona and v.v.

Public services obligations will come into full effect from 26 October 2014.

In case of a public procurement procedure, the right to operate rotes on an exclusive basis against payment of a consideration shall be granted for four years.

Ref. Calabria

By Ministerial Decree no. 40 of 12 February 2014, published in the Official Journal of the Italian Republic no. 48 of 27 Feb. 2014, Ministerial Decree no. 108 of 23 March 2011 (Off. Jour. no. 91 of 20 April 2011) ceased to be in effect. The Decree was titled "Imposition of Public Service Obligations on the air routes Reggio Calabria - Milan Malpensa and vice versa, Reggio Calabria - Pisa San Giusto and v.v., Reggio Calabria – Turin Caselle and v.v.".

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By Ministerial Decree no. 414 of 20 November 2013, published in the Official Journal of the Italian Republic – General Series - no. 294 of 16 December 2013, the Italian authorities imposed public service obligations on the routes Crotone - Milan Linate and vice versa and Crotone - Rome Fiumicino and v.v.
The European Union published in the EJEU series C no. 56 of 27 February 2014 a few informative notes from the Commission on two notices of competitive public tenders for the operation of the air transport services on the public-service air routes named above.
The deadline for the submission of proposals was fixed at 28 April 2014.
Obligations will come into full effect on 30 June 2014.
Alitalia decided not to participate in the tender procedure.

Ref. Sicily

By Ministerial Decree no. 5 of 15 January 2014, published in the Official Journal of the Italian Republic – General Series - no. 34 of 11 February 2014, the Italian authorities imposed public service obligations on the routes between the Pantelleria and Lampedusa islands with Palermo, Trapani and Catania.

The European Union published in the EJEU series C no. 42 of 13 February 2014 a few informative note from the Commission with regard to a notice of a competitive pubic tender for the operation of scheduled air transport services on the public-service air routes named above.

The deadline for the submission of proposals was fixed at 14 April 2014.
The maximum amount of the consideration, inclusive of a reasonable profit margin for the awarding of air transport services on the routes Pantelleria – Trapani and vice versa, Pantelleria – Palermo and v.v., Lampedusa – Palermo and v.v. and Lampedusa – Catania and v.v. is equal to € 30,707,382.00 (thirty million seven hundred and seven thousand three hundred and eighty-two/00) net of VAT for the three years of service, or a fraction thereof prorated to the actual period of service.

Alitalia submitted its proposal on 11 April 2014 and was awarded the routes in question on an exclusive basis for three years running from 1 July 2014.

<u>Decree-Law no. 145</u>
On 23 December 2013 the Decree-Law no. 145 named “Destinazione Italia” was published on the Official Journal of the Italian Republic no. 300. Art. 13 of the decree titled “Urgent provisions on EXPO 2015, public works and air transport” is particularly worth noting as the following measures are envisaged:
extension of social benefits (i.e. social ‘safety nets’) to the air transport staff, reduction of tax wedge for crews (pilots and cabin attendants), avoidance of double taxation (airport charges) for passengers in transit, obligation of transparency in the payment of contributions (subsidies) in favour of air carriers by local public agencies or airport managing bodies, and regional tax on aircraft noise.

On 21 February 2014 LAW no. 9 of 21 Febrruary 2014 for the conversion into law of the foregoing decree was published in the Official Journal of the Italian Republic no. 43 under the heading: “Conversion into law, with amendments, of decree-law no. 145 of 23 December 2013 on urgent interventions for the implementation of the plan “Destinazione Italia”, which introduces limitations to electricity and gas rates, a reduction in automobile civil liability insurance premiums, measure for the globalisation, development and digitalisation of enterprises, and measures for the construction of public projects and for EXPO 2015”.

Regional tax on aircraft noise

The application within the regional territory of the new tax on aircraft noise, which has so far been made on the basis of differentiated criteria and for purposes differing from those of the measure instituting the tax, has given rise to unsustainable situations, such as the Latium Regional Government’s imposition on air carriers of a surcharge of 55 million euros per annum since last 1 May for the Roman airports only.

Air carriers have long requested a standardised application of the tax, pending which only a few regional governments including Veneto and Lombardy, among others, decided to suspend the application of the tax to avoid putting excessive pressure on air transport operators.

Art. 13 par. 15-bis of law no. 9 of 21 February 2014 (“Destinazione Italia”) has now transposed the contents of the filed complaint and provides that “in order to avoid competition distortions between airports and promote the attractiveness of the Italian airport system, with special regard to the events associated with the EXPO 2015, in defining the amount of the regional tax on civil aircraft noise (IRESA), as per articles 90 *et seq.* of law no. 342 of 21 November 2000, a maximum limit of 0.50 euros was fixed for the parameters to calculate the IRESA tax. Subject to the maximum value above, the extent of the tax shall be revised by taking account of further criteria in the discrimination between daily and nighttime flights, as well as of the spatial planning peculiarities of the geographical areas neighbouring individual airports”.

The terms for the application of the new provisions still have to be disclosed.

The Latium Regional Cabinet (*giunta regionale*), in its Meeting of 15 April, resolved to file an appeal before the Italian Constitutional Court against the “Destinazione Italia” decree limited to the parts containing the definition of a maximum limit for the parameters used for the calculation of the IRESA tax.

Tourist tax

By a letter dated 20 December 2013, the Italian Air Carriers’ Association Assaereo reiterated their request previously made to the Italian Transport Minister and the Chairman of ANCI (Italian Municipalities’ Association) to enforce a tax exemption for airlines – limited to crews and ground personnel spending their nights outside the city of residence for service reasons and to the passengers of delayed or misdirected flights or, in the alternative, an appreciable reduction in the tourist tax payable to the Municipalities and collected by the local collection offices.

The ground behind this request was the strategic significance of the aviation industry for making local territories accessible to tourists and the consequent use of aircraft as a powerful means of transport to significantly increase the number of tourists subject to the same tourist tax.

National Airport System Plan

The proposal for one such Plan for the rationalisation of the Italian Airport system still has to be approved by the *Conferenza Stato-Regioni* (a joint consultative body with representatives from the central government and regions).

By a formal disclosure made by Minister Lupi to the Italian Cabinet last 17 January, an approval procedure for the plan was formally initiated with eleven identified strategic airports (including Fiumicino, Malpensa and Venice) and another 26 airports of national interest.

Landing tax for minor islands

Bill of law no. 1322, “Provisions with regard to regions, local transport, electoral constituencies, natural disasters and local health corporations”, approved by the Italian Senate last 27 March 2014 and currently examined by the Italian Chamber of Deputies, under art. 11, applies a minor islands landing tax to air carriers.

If the bill becomes law, the following will happen:

1 – a tax would be levied whose maximum value would have a 10% impact on the fare prescribed by the public service tender notices, significantly change air ticket pricing and consequently prevent carriers from participating in the tender procedure;

2 – additional direct costs would be imposed on the carriers, as a shift of the tax to passengers remains difficult since Municipalities are free to change the tax duration, levying method, conditions for exemption and methods of measurement even several times during a year.

A lobbying activity through Assaereo is now in progress to avoid the enactment of the new law.

Local marketing

Ref. Calabria

In June 2013 the Calabria regional government published an invitation to the expression of interest for national and foreign airlines and/or advertising agencies owned by national and foreign airlines in the context of a negotiated procedure for the development and implementation of promotional and communication initiatives intended to support and implement tourist flows having Calabria as destination.

The value of each project proposals has been fixed at €150,000.00 (including VAT) per route.

Alitalia could only propose to the regional government the routes it already operates. As the invitation prioritised the introduction of new routes, the Proposal Evaluation Committee excluded Alitalia from candidates eligible for funding with the following motivation: "the airline Alitalia failed to submit projects envisaging the institution of new routes from and to Calabria, as a result, the proposed projects are declared noncompliant to the requirements of the invitation".

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Alitalia also failed to win a negotiated procedure opened on 23 December by the Calabria Regional government for the selection of owners and/or concessionaires of advertising spaces owned by national and foreign airlines interested in developing a Promotion and Communication project designed to encourage tourist flows towards Calabria and support marketing policies for tourism in Calabria.

Ref. Abruzzo

Following the publication in February 2014 by the Abruzzo airport manager SAGA (Società Abruzzese Gestione Aeroporto S.p.A.) of an invitation to the expression of interest for the selection of national or international airlines ensuring the development of passenger traffic in the Abruzzo airport, on 10 April 2014 Alitalia submitted a commercial proposal for the route Linate-Pescara and v.v. The results of the procedure still have to be disclosed.

<u>Contribution for the functioning of the Transport Regulatory Authority</u>

The Italian Prime Minister's decree of 12 February 2014 approved the enforcement of resolution no. 10/2014 of 23 January 2014 issued by the Transport Regulatory Authority on the "Early definition of a percentage of the contribution payable for year 2014 by infrastructure operators and regulated service providers, terms for collection and notification of relevant data to the Authority".

The contribution is owed by air transport operators on the basis of a turnover value, as shown in the most recently adopted financial accounts, in excess of M€ 80 for year 2014; in the first phase of implementation, the contribution is equal to 0.4 per thousand of turnover and is to be paid on 30 April 2014 at the latest.

All of the Group's companies concerned fulfilled this legal requirement.

<u>Alghero-Fiumicino</u>

With respect to the route Alghero-Fiumicino and v.v., it is hereby informed that Alitalia operated the route on a public service basis without a consideration until 26 Oct. 2013.

From 27 October 2013 the route was assigned to New Livingston, however the Sardinia Region revoked the assignment to the airline for breach of contract and simultaneously assigned it to Alitalia as the runner-up.

Alitalia, which started selling tickets on this route on 29 Apr. 2014, was expected to take over New Livingston on the date of the first Rome Fiumicino-Alghero evening flight (4 May 2014). However on 30 April 2014 Livingston filed an action with the Latium Regional Administrative Court (*TAR Lazio*), which immediately granted, by a presiding judge's ruling, a stay of execution on the revocation decision, and referred the case to an interlocutory hearing scheduled on 15 May 2014 for a more in-depth examination.

As a result, Alitalia cancelled the flights scheduled on the route in question and either rerouted passengers having already booked their flights via Milano Linate or refunded its issued tickets.

On 29 May the Regional Administrative Court (TAR - Tribunale Amminstrativo Regionale) upheld the decision taken by the Region confirming the order revoking the assignment of the Alghero-Rome route of territorial continuity to New Livingston. Thus Alitalia will have to take over the aforesaid route.

Also the Council of State rejected the request for stay of execution.

The Company is now waiting for the full hearing set for 17 June.

EU Scenario

New EU-USA agreements on Passenger Name Records

The midterm revision of the European Agreements on Passenger Name Records (PNRs) with the United States still has to be completed. In addition, negotiations are in progress for an European Agreement on PNRs with Canada as well.

Airport Package

On 16 April 2013 the European Parliament approved the text of a Proposal for a Regulation on ground handling services at EU airports that repeals Directive 96/67/CE.

The amended proposal envisages that three ground handlers as a minimum (vs. the current two) shall provide handling services to airlines in airports with more than 15 million passengers and/or 200,000 tonnes of goods per annum. If the new standards are approved by the European Council and the Commission, they will apply to 21 EU airports. Further developments are awaited.

ETS (Emission Trading Scheme)

Background

On 16 October 2013, the European Commission submitted a proposal for a revision of Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading in the EU.

The Proposal came right after the date of the ICAO General Assembly of last 4 October and has been met with astonishment and concern by the majority of the international stakeholders concerned, including the AEA (Association of European Airlines) and the IATA (International Air Transport Association).

More specifically, the Proposal was said to undermine the efforts made within the ICAO General Assembly to seek a global solution for the industry on the ETS issue, and to fail to fulfil its intended purposes.

More specifically, although the Commission's wording reduced the impact of the provisions on non-EU air transport operators, after the introduction of a "stop the clock" safeguard (suspension of time-limits), non-EU carriers will again be included in the ETS scheme with effect from 2014, through the unilateral application of an Air Space Model, which disregards the principle of mutual consent sanctioned by the ICAO Resolution A38/18 with respect to regional Market Based Measures – i.e. art. 16a: "States, when designing new and implementing existing MBMs for International aviation should engage in constructive bilateral and/or multilateral consultations and negotiations with other States to reach an agreement".

As if it was not enough, stands have been taken, in addition to the stand mentioned above, that are strongly objected to by Third Countries, which also entails the risk of retaliations against European Carriers and ultimately frustrates the efforts so far made to combat climatic change and concurrently promote a sustainable growth in the aviation industry.

It is also worth adding that the Proposal failed to take a view on a few issues found crucial by carriers (e.g. limits on the use of CER and ERU emission credits) and to consequently remedy significant inequalities, such as that which – in the assignment of free-of-charge allowances (calculation of a benchmark) – currently penalises airlines such as Alitalia and Meridiana having powerful national networks, whose routes are on average short, to a higher extent than it does for airlines with networks typically extending outside Europe.

Further developments

As recommended by the Industry, which initiated an intense lobbying activity, on 3 April 2014 the Members of the European Parliament (MEPs) decided that the EU legislation on CO2 emission allowances for the aviation sector would only pertain to flights within the EEA (European Economic Area) until the beginning of 2017 and that only after that date would it apply to all flights from and to the EU. In the approved text the MEPs also requested the Member States to report on how proceeds from the auction sale of allowances were spent.

As a result, on 30 April 2014 OJEU L129 published EU Regulation 421/2014 of the European Parliament and of the Council of 16 April 2014 amending Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, in view of the implementation by 2020 of an international agreement applying a single global market-based measure to international aviation emissions.

Passenger rights

The European Commission is currently revising EC Regulation 261 of 2004 on passenger rights.

The carriers fear the introduction of more stringent provisions on damages and assistance due to passengers in the event of denied boarding or delayed flight, restrictions on the no-show policy that presently allows airlines to cancel the connection flight of those passengers that fail to show up for the preceding flight of the scheduled route, a limitation of the exceptional circumstances that exclude the liability of the carrier in the event of delay or cancellation.

The order was voted by the European Parliament at the second reading last February, partly accepting the proposals made by the industry, and it is not expected to be finalised by the end of the year.

Carriers are continuing an intense lobbying activity through the IATA and the AEA in order to limit the extremely onerous effects of the revised legislation on the industry,

Package Travel Directive

On 13 March 2014 the European Parliament in plenary session adopted the text of a Proposal from the European Commission on package holidays.

The Commission proposed new measures to raise the level of protection for tourists booking holidays of this type, including the obligation to provide customers with any information required before signing a travel contract and to assime liability in the provision of all services, as well as the passenger’s right to be repatriated if the tour operator goes bankrupt.

The reform is intended to adapt the Directive to the digital era and to protect consumers by increasing transparency and strengthening protection in the event of any problems.

However it introduces particularly onerous provisions for the aviation industry.

Airport noise restrictions

Last 16 April 2014 the legislative procedure for the introduction of measures to limit airport noise was completed with an approval by the European Parliament.

The new measures are yet to be published on the OJEU and will expectedly come into force two years after the publication, i.e. around mid 2016.
With the enactment of this new legislation national and local authorities will have to decide on operation restrictions to mitigate noise impact in such a way as to reflect the characteristics of each airport.

Non-EU Scenario

Passenger data communication

Non-EU Scenario

Outside the EU, countries that requested passengers' API and/or PNR data include the UAE, Brazil and Russia (in the latter case the request – limited to PNR details – was rejected by European carriers).
For the United Arab Emirates, Alitalia started sending API data last 7 November; for Russia, Alitalia started sending API data, for passengers and crews only, on 1 December.
Carriers have long been asking the European Commission to draft a final version of a Directive for Member States to operate in a clear legal framework and cope with the continued proliferation of requests from Third Countries. However, for the time being, nothing has progressed at the European Parliament although a dialogue has started with the industry on these aspects.

Among the other non-EU countries, Canada has announced its intention to introduce an interactive programme for API data transmission, similarly to what the USA has already done.
Further developments are awaited.

Security Management Policies

Air Security

Air security, meant as a set of measures and resources for the prevention and remediation of illicit interferences affecting civil aviation (air transport and airports), is ensured by a system of international rules based on the Chicago Convention (1944) establishing the International Civil Aviation Organisation (ICAO), the highest regulatory authority for the world aviation industry. Ensuring the security of flights and transported passengers at national level is a primary objective of the National Civil Aviation Authority ENAC.
Alitalia had continuously considered and applied the provisions of regulatory reforms at national and international level with special reference to the European and US regulatory frameworks. In so doing, it regularly assesses the impact of legislation on its operations and does its utmost to comply with any regulatory requirements. To that end, it presented an Airline Security Programme to the Civil Aviation Authority, which was also circulated internally based on a "need to know" logic and suitably updated in accordance with the provisions of the recent ENAC circular letter SEC04.

Asset Security

The Asset Security function is designed to implement actions for the protection of corporate assets (integrated video surveillance systems, access and intrusion-prevention controls) and for the ongoing prevention of fraudulent events (identification of root causes and introduction of corrective actions to be implemented). Another task fulfilled by this function is to provide corporate information to the Judicial Authority. the Criminal Police and any agency authorised to request information (passenger lists, bookings, etc.).

IT Security

Pursuant to legislative decree 196/03 (Privacy Code), and in order to fulfil the requirements of the resolution adopted on November 2008 by the Data Protection Commissioner, data extractions were made from the IT control system and audits were initiated on log-ins made by users with System Administrator (SA) credentials who access target systems on the basis of the following principles:

- consistency/matching of SAs to the credentials prescribed by the respective appointment letters;
- check on the total number of SAs;
- traceability of SA profiles to actual users;
- use of special user profiles;
- criticalities/risks of non-compliance with the SA requirements prescribed by the Data Commissioner.

Based on the recent findings, the appointed staff were assessed as to the need to alter or not alter their status, and any staff needing appointments were identified; a list of names is available in a dedicated IT Security section of the corporate intranet.

Equally in the area of compliance, a plan of activities for an assessment of systems security was implemented (a Vulnerability Assessment and a Penetration Test for the corporate infrastructure – i.e. the internal and public networks – plus checks on the security of the Airline’s major internet and intranet sites).

With regard to Best Practices, a process was initiated for certification in accordance with the PCI DSS (Payment Card Industry Data Security Standards).

Privacy

As commonly known, pursuant to Decree-Law no. 5/2012, corporate Data Controllers are no longer under the obligation to draft the Security Policy Document (*Documento Programmatico di Sicurezza*) prescribed by the Privacy Code. As a result, in order to be eligible for the simplified procedure granted by the legislator, Alitalia and the Group companies decided not to proceed with the drafting of a document summing up any processed data.

Nonetheless, through the action of the organisation unit on Antitrust, Regulatory Activities and Privacy (a privacy unit instituted by the "*Ordine di Servizio*" i.e. administrative order no. 24/09 of 23 June 2009) who worked jointly the IT Security department, business activities and databases impacting on the processing of personal data were monitored and the main related compliance actions were implemented. Relations with the Data Commissioner were also accurately managed through preventive communications, whenever appropriate or needed, and by meeting any received request for information.

In relation to the privacy model of Alitalia and the Group companies please note that:

Alitalia's core business consists in the operation, either directly and/or through its investees and /or other bodies and/or consortia, of scheduled air traffic and air routes for the carriage of persons or goods in Italy, or between Italy and foreign countries or between different foreign countries, and any related activities. This business is complex and requires the processing of personal, sensitive and judicial data of various classes of persons such as, e.g., employees, customers, suppliers, advisors, partners, etc. on various levels, in a variety of fashions and on a large scale.

Alitalia also wholly controls the share capital in the following companies: CAI First S.p.A., CAI Second S.p.A., Air One S.p.A., Alitalia CityLiner S.p.A and more recently Alitalia Loyalty S.p.A., which was incorporated on 22 January 2013 , as a private limited company (S.r.l.) (and has been operating since 25 January) following a unilateral initiative of the company Alitalia. On 29 July 2013 Alitalia Loyalty's legal status was changed into S.p.A. (public limited joint-stock company).

With regard to the organisation of the privacy model in the complex organisational processes of the Group, functions and activities performed by all of the foregoing Group companies have been centralised into Alitalia. For this reason, considering a subsidiary structure highly integrated with Alitalia, all subsidiaries except Alitalia Loyalty (by virtue of its higher autonomy from the parent company as prescribed by its articles) delegated the processing of data under their control to Alitalia, each by signing a separate service contract.

As for Alitalia Loyalty, its main purpose is the management and development of customer loyalty programmes on behalf of the Alitalia Group companies, as Joint Controller ("*co-titolare*") of the personal data of the loyalty and frequent flier programme subscribers and as co-promoter of Alitalia's Frequent Flier Programme (Mille Miglia). Considering its implication on the processing of the personal data of the Mille Miglia Programme subscribers, the privacy model of this Newco was illustrated to the Personal Data Commissioner on 21 January 2013. On 30 January 2014 Alitalia and Alitalia Loyalty requested an authorisation to provide customers with simplified disclosures (either through the web or by email) on their joint control of personal data and the Programme. In addition the electronic notice to be served by Alitalia on the Italian Privacy Data Commissioner was recently supplemented by making express mention of the joint controller status of Alitalia S.p.A. and Alitalia Loyalty S.p.A., and the first formal notice of Alitalia Loyalty was also served. Such notices, to be served pursuant to art. 37 of the privacy code, mainly concern the processing of data by electronic means in order to define the personal details and profiles of data subjects or analyse their consumption habits or choices – in which case the notification of any joint controllers is required.

Recently, the notices as per art 37 of Alitalia and Alitalia Loyalty were also supplemented by two new notices to report their joint control of data of Mille Miglia members having also subscribed to the Payback Programme, following the implementation of an agreement for joint participation in the Payback Loyalty Programme.

With regard to the powers of monitoring, analysis and initiative for the proper management of personal data processing, these powers are vested in the Data Owners ("*responsabili del trattamento*" in the meaning of art. 29 of the privacy code) within Alitalia.

Following the changes in the corporate organisation structure introduced in 2013, most of the Data Owners' appointments made pursuant to the "Privacy" administrative order no. 9 of 2012 no longer reflect the new structure. As a result, new appointment letters were sent together with relevant instructions from the Alitalia's Chief Executive Officer, acting in his capacity as Data Controller, to the deputy managers and managers directly reporting to him (first reports), as well as to the Auditing, Security and IT Service managers.

In addition the signatory and representation powers delegated on 2 October 2013 are such that the foregoing managers are also entitled to appoint data processors outside the Company for the processing of data on behalf or in the interest of Alitalia.

Environmental management policies

The national environmental protection legislation (Legislative Decree no. 152 of 3 April 2006 as subsequently amended, titled "Environmental Measures") governs all aspects associated with environment protection and also contemplates terms and conditions for the locally competent public agencies to issue the authorisations required for the management of corporate activities.

In particular, the management of the various environmental issues arising in the context of corporate activities is entrusted to an internal team who, pursuant to the applicable legislation and authorisations, implement the necessary actions.

In particular the process involves the management of inspections performed by the competent public bodies or agencies (Regional Environment Protection Agency, Local Health Corporation, etc.) to assess compliance with environmental legislation or issue/renew any authorisations. Environmental inspections may consist in document and/or technical reviews.

Below is a short list of declarations that Alitalia flies to the competent environment protection bodies together with the relevant regulatory references:

ELECTRICITY CONSUMPTION DECLARATION

To fulfil the obligations prescribed by the Consolidated Act on Excise Duties (Legislative Decree no. 504 of 26 Oct. 1995) i.e. the filing of a "Declaration of annual electricity consumptions", Alitalia electronically files (through the ICT system of the Customs Agency) the required annual declaration of its consumptions.

"FIRE" DECLARATION

Pursuant to art. 19 of Law no. 10 of 9 Jan. 1991 "On energy use and conservation", primary-source consumptions of all Alitalia sites are monitored, measured and filed to FIRE (Italian Federation for a Rational Use of Energy).

INES/PRTR DECLARATION (Galvanic Station)

Pursuant to Legislative Decree no. 59 of 18 Feb. 2005, "Implementation of Directive 96/61/EC concerning Integrated Pollution Prevention and Control (IPPC)" with special regard to its galvanic station, Alitalia files the INES/PRTR declaration within the meaning of art. 12, par 1 of the same decree.

For its own operations and/or production activities, the Alitalia Group has obtained from the competent bodies and agencies the necessary authorisation for its environmental protection activities (gaseous emissions to the atmosphere, disposal of industrial wastewater, operation of the Galvanic Station and Thermal Station).

With regard to waste management, please note that, for the processes currently in place, Alitalia is not required to obtain any specific provincial and/or regional authorisation and is merely required to observe nay applicable regulations and/or instructions (e.g. from the Customs Authority). However the Group is under the obligation to comply with the provisions of Legislative Decree 152/2006 part IV on waste management and depollution of polluted sites.

With regard to waste disposal and recycling, Alitalia uses an external contractor and performs regular document reviews by inspections or other forms of access to documentation (to check compliance with the administrative requirements of Legislative Decree 152/06 on waste traceability) and by technical audits with a concurrent check on the compliance to legal limits of the emissions generated by its Purification Plant, Thermal Station, and fume exhaust vents (about 70 in the Fiumicino technical area).

Financial risk management policies

Credit risk

Qualitative Information

A credit risk is meant both as a potential loss due to customer breaches (commercial credit risk) and as a counterparty risk associated with the negotiation of other financial activities.

The commercial credit risk originates from the passenger and goods carriage core business and may be considered very limited given the typical settlement practice of the aviation industry.

More specifically:

- tickets are issued to ordinary customers against the an advance or credit-card payment; as for institutional customers (public administration), the risk is very low;

- risk exposure towards travel agents is secured by bonds lodged with the IATA for a value normally equal to the agent's three-month average sales;
- exposure towards other airlines is mainly managed by a clearing house.

The credit implying the highest risk is credit from "sundry debtors", i.e. credit for non-aviation services, which however accounts for 19% of commercial exposure, as shown in the table below:

Catagories of Trade Credits	Nominal value 31.12.2013	Devaluation fund	Net accounting value 31.12.2013	% exposure by type of trade credits
- Ordinary customers	90,723	(1,533)	89,190	27%
- Airline companies	56,553	(711)	55,842	17%
- Agents	123,613	(3,324)	120,289	37%
- Subsidiaries/collegated/parent companies	461	0	461	0%
- Associated companies	0	0	0	
- Various Debtors	66,298	(5,791)	60,506	19%
- Insurance companies	159	0	159	0%
TOTAL TRADE CREDITS	**337,806**	**(11,360)**	**326,446**	**100%**

Alitalia manages its credit risk by coordinating activities implying deferments of payment granted to third parties (with the relevant maximum exposures allowed), credit collection methods, claims management and finally requests for guarantees.

Quantitative Information

Below is an ageing analysis performed on receivables from various classes of customers, divided by the time ranges used internally for credit monitoring as on 31 Dec. 2013; attention is also called to the provision for loss in value and to the total amount of receivables yet to fall due as on 31 Dec. 2013.

31.12.2013 *Thousand euro*	Customer categories	Nominal value 31.12.2013	Not expired	Expired	Devaluation fund	Expiry dates in number of days			
						< 90	91-180	181-360	>360
		a+b	a	b					
TRADE CREDITS	**Customers**								
	- Ordinary customers	90,723	44,955	45,768	(1,533)	18,377	18,458	4,100	4,834
	- Airline companies	56,553	54,878	1,675	(711)	436	189	100	950
	- Agentis	123,613	119,743	3,870	(3,324)				3,870
	- Subsidiaries/collegated/parent companies	461	461	0					
	Other credits								
	Associated companies	0	0	0					
	- Other debtors	66,298	47,165	19,133	(5,791)	5,106	2,510	5,053	6,463
	- Insurance companies	159	159	0					
	TOTAL	**337,806**	**267,360**	**70,446**	**(11,360)**	**23,919**	**21,158**	**9,253**	**16,117**
FINANCIAL CREDITS	**At short term**								
	Towards third parties	19,821	19,821	0					
	vs Subsidiaries/collegated/parent/associated companies	221,049	221,049	0					
	Total	**240,870**	**240,870**	**0**		**0**	**0**	**0**	**0**
	At medium/long- term								
	Towards third parties	288,201	288,201	0					
	vs Subsidiaries/collegated/parent/associated companies	98,235	98,235	0					
	Total	**386,436**	**386,436**	**0**		**0**	**0**	**0**	**0**
	TOTAL	**627,306**	**627,306**	**0**		**0**	**0**	**0**	**0**

Liquidity risk

Qualitative Information

The liquidity risk is intended as the likely inability to meet payment commitments related to financial liabilities.

Such peculiar risk derives from the cyclical nature of the aviation industry and is closely monitored by Alitalia and managed through a prudent approach, in line with the practice of the major airlines, which involves the permanent availability of immediately collectable cash if the current cash holdings and credit lines so permit.

Quantitative Information

Financial liabilities are differentiated herein by contractual maturity dates on the basis of six time ranges which substantially reflect internal reporting requirements.

The following table lists Alitalia's financial obligations by time ranges as on 31 Dec. 2013; reference is made to the closest date on which the Company may be required to meet the obligation.

In particular, by "total payment by maturity date" is meant:

- for financial payables, the payment of capital portions on the residual borrowed amount at the end of the financial year in accordance with the contractual sinking plans;
- for commercial payables and miscellaneous debts, the payment of the book value of such debts as on 31 Dec. 2013 in accordance with the terms of payments applied to each type of debt.

Further theories used for analysis, listed by item are indicated in the notes below the chart.

31.12.2013		**within 1 year**	**from 1 to 5 years**	**More than 5 years**
Thousand Euro				
Short-term liabilities	**Financial debts:**			
	Equity bonds	32,911	30,956	
	Towards banks	221,775		
	To other financers	159,467		
	Vs subsidiaries/collegated/parent companies	46,491		
	Trade debts:			
	Fornitori	563,516	189	
	Acconti	3,235		
	Compagnie di navigazione aerea	15,120		
	Agenti di viaggio	23,409		
	Vs subsidiaries/collegated/parent companies	124,855		
	Other debts:			
	Biglietti prepagati	281,832		
	Consociate	0		
	Istituti previdenza	53,859	738	
	Debiti Tributari	10,784		
	Altri debiti	76,014		
Liabilities at medium/long-term	**Indebtedness at medium/long-term:**			
	Towards third parties	12,768	22,847	
	Towardes /collegate/controllanti/consociate	0		
TOTAL REPAYMENT AT MATURITY		**1,626,036**	**54,730**	**0**

Market Risks

Alitalia is exposed to financial risks generated, in order of importance, by variations in fuel price, exchange rates and rates of interest. The Company measures, manages and monitors risks in a centralised manner, on the basis of a *strategy* whereby the Board of Directors empowers the Chief Executive Officer and the Chief Finance Officer to fulfil all required formalities, either personally or through special attorneys, for executing the hedges approved from time to time. Within the current credit line limits and with due account taken of the available cash holdings within the Group, this strategy is designed to ensure that budget levels are met by promptly managing any unexpected variations in the above risk factors and related impacts on cost and revenue forecasts in the Group plans. All transactions are executed with banks and financial institutions with high credit standing.

I. Commodity price risk

Qualitative Information

The main source of financial risk for the Alitalia is the commodity price risk on jet fuel supplies.

The price risk is defined as *the risk that any oil and jet fuel price rises may entail a significant increase in fuel costs above the target levels forecast in the budget and/or financial plan, which may not be compensated for through fare increases based on the applicable “fuel surcharge” policy.*

Quantitative Information

To appraise the commodity price risk, a sensitivity analysis was performed on the current derivative instruments as on 31 Dec. 2013. To that end, four variation scenarios were assumed for the spot price of ICE Brent (the commodity underlying derivatives) as on 31 Dec. 2013, i.e. +/- 10% and +/- 20% respectively.

Scenario	Fair Value 31.12.13 (*)	Fair Value new scenario 31.12.13	Delta
ICE Brent spot +20%	€ 21,030,331	€ 94,165,216	€ 73,134,886
ICE Brent spot +10%	€ 21,030,331	€ 57,597,773	€ 36,567,443
ICE Brent spot -10%	€ 21,030,331	-€ 15,537,112	-€ 36,567,443
ICE Brent spot -20%	€ 21,030,331	-€ 52,104,555	-€ 73,134,886

(*) Calculated on Bloomberg curve

I. CO2 Allowance Purchase Price Risk

Alitalia executed hedges against the price risk inherent in the purchase of certificates for CO2 allowances, in accordance with the applicable legislation.

II. Exchange rate risk

Qualitative Information

Alitalia intends by "exchange rate risk" the risk that any unfavourable exchange rate variations may entail significantly lower revenues and/or higher costs in comparison with the target values forecast in the budget and/or plan and any related updates.

Exposure to exchange rate risk originates from proceeds and outlays associated with revenues, costs and borrowings denominated in (or indexed to) currencies other than the euro. In order of importance, these currencies are the USD, the Japanese yen and the pound sterling.

Amounts at risk are (mainly) related to jet fuel costs denominated in/indexed to US dollars, and revenues from sales in currencies other than the euro.

Quantitative Information

No sensitivity analysis on the exchange date risk associated with the residual payables on loans executed in currencies other than the euro was performed as on 31 Dec. 2013, since, on the closing date, they were hedged by derivative financial instruments.

Nevertheless, a sensitivity analysis was performed on the current derivatives as on 31 Dec. 2013 to hedge against any expected payment flows in dollars for fuel purchases. To that end, given the implicit volatility at year one of the euro/dollar exchange rate of 31 Dec. 2013, four scenarios of variation in the reference spot exchange rate as on 31 Dec. 2013 were assumed, i.e. +/- 5% +/- 10%.and +/- 15% respectively.

Spot	Spot Change	Value Ccy1
EUR USD		
1.5860	+15%	(72,383,150)
1.5170	+10%	(53,755,374)
1.4481	+5%	(33,616,354)
1.3791	**+0%**	**(12,314,076)**
1.3101	-5%	9,888,206
1.2412	-10%	35,701,214
1.1722	-15%	65,866,834

Interest rate risk

Qualitative Information

Interest rate risk exposure is dependent on the dynamics of the Net Financial Position (PFN), which is for the time being negative. In that case, "interest rate risk" is considered as the risk that any rises in interest rates may entail significant increases in financial costs, above the levels forecast in the plans of the Company, which may arise out of variable-rate borrowings, net of any liquidity invested in transaction indexed to the same rate of interest.
Borrowings were made in the form of variable rate loans.

Quantitative Information
To appraise the interest risk, an analysis was performed on the average financial exposure as on 31 Dec. 2013, equal to 601 million euros, in order to check the impact of financial costs on the profit and loss account caused by a variation in the rates of interest.

The method followed consisted in assuming two scenarios, a bearish and a bullish scenario for the average interest rate of loans: Both scenarios were applied to the average amount of financial payables differentiated by type of loan. The assumed scenarios of variation in the reference interest rates (Euribor, Libor) were +/- 75 basis points (b.p.) and +/- 100 b.p. respectively.
The results of the analysis are summed up below:

Analysis of variations in the average rate of Alitalia CAI SpA medium term borrowings					
rate	4.52%	4.77%	5.5%	6.27%	6.52%
costs	2,246,023	2,370,263	**2,742,983**	3,115,704	3,239,944
Rate delta	-1.00%	-0.75%		0.75%	1.00%
Costs delta	-496,960	-372,720		372,720	496,960

Other corporate information

Postponement of the deadline for the adoption of 2013 financial accounts
The meeting of the Board of directors of Alitalia of 18 March [2014?] resolved to postpone the date of the approval of the 2013 financial statements to within 180 days of the end of the financial year pursuant to art. 2364, paragraph 2, of the Civil Code and art. 23.2 of the By-laws.
In this respect it is worth noting that Alitalia prepares the consolidated financial statements and this is a ground for postponing the deadline. However, the Board resolved upon the postponement also on substantial grounds since the potential establishment of an industrial partnership with Etihad, on the one hand will lead to the adoption of a new Business Plan shared by the parties, that also takes account, inter alia, of the integration of the two networks and, on the other hand – and as a result of the new plan – it could

cause a change in Alitalia's organizational model and perhaps also a different role of the secondary carriers and the other Group companies.

These changes could, in turn, cause different valuations of the intangibles that are directly related to them, such as goodwill and the valuation of investments.

Share capital transactions

<u>*Shareholder loan*</u>

The Extraordinary Shareholders Meeting of Alitalia held on 22 Feb. 2013 resolved as follows:

"1. *to issue a subordinate debenture loan convertible into newly issued shares of the Company in the same class as those held by each shareholder on the date on which the conditions precedent for the conversion apply and entitling them to the same rights as those of shares outstanding on that date; the subscription to the loan shall be offered to shareholders proportionately to the shares held for a period of 30 (thirty) days pursuant to art. 2441, par 2, of the Italian Civil Code with the following characteristics:*

- maximum overall amount: 150,000,000.00 (one hundred fifty million/00) euros divided into a maximum number of 150,000,000 debentures with a nominal value of 1.00 (one/00) euro each, represented by certificates registered in the name of the holder;

- issue price: a par price, as the subscription price is 1.00 (one/00) euro per debenture;

- yield as on the date of issue (included): the yield for each debenture shall be equal to an annual gross interest rate (without capitalisation) of 8% (eight percent);;

2. *to approve the text of the loan regulations* (deliberate omission)*, which reports all other characteristics of the loan, including the terms of payment and repayment, the repayment date, the conversion ratio, the terms and methods of conversion, which text amends the original regulations with regard to (i) the minimum threshold, now fixed at 95,000,000.00 euros, as well as (ii) all the provisions of the regulations related to such amendment and any and all consequential provisions;*

3. *remove the reference made to the nominal value of the shares and therefore amend art. 5.1 first paragraph of the Articles as follows: "The share capital shall amount to 668,355,344.00 euros, divided into 501,266,508 ordinary shares and 167,088,836 special class B shares, all with an undefined nominal value.";*

4. with due account taken of the terms for the accrual of interest as per the regulations attached hereto, to increase the share capital resulting from the conversion by 190,000,000.00 euros maximum through the issue of shares in the same class as that of shares held by each debenture holder opting for the conversion, and by a number of shares that will result from the application of the conversion ratio specified in the regulations attached hereto".

25 March 2013 was the date of expiry of the option term for all of Alitalia's shareholders wishing to subscribe to the convertible debenture loan resolved by the Shareholders Meeting of 22 February 2013 (art. 1.2. of the Loan Regulation). Below is the situation of subscriptions as on 26 March 2013:

	Option	Additional payment	Amount

Subscription

1	Fire Spa	€ 15,936,881.00		**€ 15,936,881.00**
2	Intesa SanPaolo Spa	€ 13,283,572.00	€ 704,769.00	**€ 13,988,341.00**
3	Atlantia Spa	€ 13,280,887.00		**€ 13,280,887.00**
4	Immsi Spa	€ 10,624,893.00	€ 281,930.00	**€ 10,906,823.00**
5	Pirelli & C Spa	€ 2,656,910.00		**€ 2,656,910.00**
6	Macca Srl	€ 2,125,833.00		**€ 2,125,833.00**
7	Aura Holding Spa	€ 1,991,995.00		**€ 1,991,995.00**
8	Marcegaglia Spa	€ 1,328,913.00		**€ 1,328,913.00**
9	Loris Fontana & C. Sapa	€ 1,327,997.00		**€ 1,327,997.00**
10	I2 Capital Portfolio Spa	€ 1,327,997.00		**€ 1,327,997.00**
11	Ottobre 2008 Srl	€ 1,729,434.00		**€ 1,729,434.00**
12	Air France KLM	€ 23,750,000.00		**€ 23,750,000.00**
13	G&C Holding Srl	€ 4,647,989.00		**€ 4,647,989.00**
	TOTAL	**€ 94,013,301.00**	**€ 986,699.00**	**€ 95,000,000.00**

Pursuant to art. 3.3. of the Loan Regulation, the Agent Bank repaid in favour early subscribers (Intesa SanPaolo S.p.A. e Immsi S.p.a.) the amounts exceeding the Minimum Threshold of 95,000,000 euros paid to the Service Account by the end of the offer term. In particular, on 3 April 2013, the Agent Bank transferred to Immsi the amount of 1,328,070 euros and to Intesa SanPaolo the amount of 3,319,919 euros.

At the time of subscribing to the loan, Immsi S.p.A., Intesa SanPaolo S.p.A., Macca S.r.l. and I2 Capital Portfolio S.p.A. requested to exercise their right of pre-emption on any debentures left unsubscribed (art. 1.3. of the Loan Regulation).

The table below shows the allocation of the unsubscribed portion:

Convertible deb. loan value	€ 150,000,000			
Subsciptions at 26.03.2013	€ 95,000,000			
Unsubscribed portion	€ 55,000,000			
Holder	**Subscribed Portion**	**Amount %**	**Allocated Unsubscribed Portion**	**Allocated Unsubscribed Portion (rounded No.)**
ISP	€ 13,283,572.00	48.55%	€ 26,700,847.28	€ 26,700,847.00
Immsi	€ 10,624,893.00	38.83%	€ 21,356,728.85	€ 21,356,728.00
I2 Capital Portfolio	€ 1,327,997.00	4.85%	€ 2,669,360.70	€ 2,669,360.00
Macca	€ 2,125,833.00	7.77%	€ 4,273,063.17	€ 4,273,063.00
Total	**€ 27,362,295.00**	**100%**	**€ 55,000,000.00**	**€ 54,999,998.00**
Rounding up/down				€ 2.00

By a letter of 18 April 2013, Alitalia invited the shareholders Immsi S.p.A., Intesa SanPaolo S.p.A., Macca S.r.l. e I2 Capital Portfolio S.p.A. to exercise their right of pre-emption on the debentures left unsubscribed within 10 days of that date.

None of the shareholders above exercised such right.

Interventions on the capital

On 3 July 2013, the Shareholders Meeting acknowledged that *(i)* the Company's balance sheet as on 31 March 2013 showed a loss which, combined with the losses carried forward from the previous business years, determined the circumstance under art. 2446 of the Italian Civil Code; *(ii)* a new Business Plan 2013-2016 was being prepared with a focus on a significant growth of revenues, and resolved, on the basis of the reasonable assumption of a going concern and despite the significant uncertainties already illustrated in the Financial Report 2012 and recalled in the Balance Sheet report of 31 March 2013, to temporarily postpone any decision, while reserving the right to constantly and attentively monitor the financial position and performance of the Company and, if need be, to convene a new Shareholders Meeting, if urgent interventions from the Shareholders should be needed.

On the same 3 July 2013, the Board of Directors approved the new industrial plan 20132016 structured into four legs: ***(i)*** redefinition of the short and medium haul offers in order to, *inter alia*, reflect the changed conditions of the domestic market; (***ii***) development of intercontinental operations; (***iii)*** development of infrastructural partnerships and a higher focus on intermodal air/rail transport; and (***iv***) development of new opportunities arising from the spin-off of Millemiglia (Alitalia Loyalty).

The new Industrial Plan also envisaged the need to complete the asset strengthening intervention (commenced in February 2013 with the debenture loan) through the procurement of new finance by the end of 2013 to the extent of at least 300 million euros.

After defining the industrial intervention, the Board of Directors – helped by a primary financial advisor, Banca Leonardo – initiated a financing intervention designed to provide the Company with the necessary finance to implement the new Industrial plan without overlooking the need to ensure financial balance for the full duration of the same Plan.

In its initial configuration the devised financing project envisaged in a nutshell:

- a corporate asset strengthening intervention for a total of 155 million euros by placing with the shareholders a residual part of the convertible debenture loan worth 55 million euro and by a capital increase worth 100 million euros;
- the grant of new loans worth around 300 million in total and the confirmation of the existing credit lines for around 400/500 million euros.

However, operating performance in the first half of the year and the preliminary results of July and August 2013 induced the Alitalia Management to revise the Industrial Plan in a more prudent fashion with due account taken of the forecast worsening of results in the second half of 2013. The revised Plan was then approved by the Board of Directors on 4 Oct. 2013 on the basis of the guidelines previously adopted in the Meeting of 26 Sep. 2013.

The revision of the Industrial Plan also implied a corresponding revision of the financing project, whose final version adopted by the Board of Directors on 11 Oct. 2013 envisaged: *(i)* a capital increase worth 300 million euros in total to be offered to shareholders in the form of options; (*ii)* new credit lines from the banking system for a total amount of 200 million euros (in addition to the confirmation of the existing lines).

in order to ensure the implementation of the financing project, the Alitalia Management also decided to consider, prior to its final approval, the possibility to receive support from third parties interested in taking part in it in the context of a transaction to be executed on market terms.

In the light of the performance of the Airline’s current trading – attributable to, among other things, the persisting state of uncertainty associated with the negotiations for the overall financing project designed to meet the Plan requirements (capital increase, retention of the existing credit lines and new credit lines) – on 13 November, the Board of Directors approved a further update to the Plan previously adopted on 3 July and subsequently amended on 4 October.

On 14 October 2013, Alitalia's Board of Directors – after acknowledging the fairness opinion given on 11 Oct. 2013 by Crédit Suisse in compliance with art. 8.5(ii) of the Debenture Loan Regulation, whereby the advisor appraised an Airline equity value as varying within a range of 0 to 150 million euros – resolved:

(a) to assess the pre-money equity value of the Company – for the purpose of determining the issue price of shares in the future capital increase (to be decided and approved by the Company's Shareholders Meeting) and the conversion ratio for convertible shares to be issued pursuant to clauses 8.1(b), 8.4, 8.5(ii) and 10(a) of the Convertible Loan Regulation – at an overall amount of 50 million;

(b) to supplement the proposal for a resolution formalised by the Board of Directors on 1 Oct. 2013 and attached to the "Explanatory Report" of the Directors as follows:

(i) issue price of each share: 0.04488 euros;

(ii) maximum number of shares to be issued: 6,684,491,980;

(iii) maximum overall contribution to the capital increase: 300,000,000.0624 of which 10 million to be allocated to 'authorised capital' and the remaining 290,000,000.0624 to be allocated to 'share premium reserve';

it being understood that the Chairman and the Chief Executive Officer were empowered to submit the above supplements to the Shareholders in the course of their Meeting as an addendum to the proposal for a resolution (already submitted to the Shareholders Meeting and attached to the "Explanatory Report" above) for any consequent or related aspects;

(c) to approve a table showing the options to which shareholders were entitled, not merely as shareholders but also as convertible debenture loan subscribers, which options had been calculated in accordance with the conversion ratio (determined on the basis of the equity value detailed above) and with any interest theretofore accrued on the debentures (this table is reported below);

(d) to approve terms and conditions for the commitments to subscribe to be assumed by Poste Italiane, Intesa Sanpaolo and Unicredit as well as the terms and conditions of the "bridge to equity" funding;

(e) to empower the Chairman and the Chief Executive Officer to act either jointly or separately in order to fulfil, either directly or by special attorneys, any suited or required formalities to implement the resolutions adopted by the Board of Directors including, by way of example, the power to negotiate and execute all deeds and contracts required or appropriate for the fulfilment of the commitments to subscribe to be assumed by Poste Italiane, Intesa Sanpaolo and Unicredit and for the "bridge to equity" funding to be disbursed by Intesa Sanpaolo and Unicredit.

Subsequently, the Shareholders Meeting of Alitalia held on 14 and 15 October 2013 – after examining the financial results of the Company as on 30 June 2013, showing a loss of € 171,948,963.00 which, combined with the loss for 2012 (€ 225,129,566.00) and with the losses carried forward from the previous years (€ 511,778,167.00) amounted, net of reserves, to an overall loss of € 407,677,858.00 and, consequently, to more than one third of the share capital – resolved:

- to approve, pursuant to, *inter alia*, art. 2446 of the Italian Civil Code, the financial accounts at 30 June 2013 of Alitalia - Compagnia Aerea Italiana S.p.A. inclusive of the attached explanatory notes from the Directors and observations from the Auditing Board;
- to proceed with the full coverage of the loss for the first half of 2013 of 171,948,963.00 euros, of the loss for 2012 of 225,129,566.00 euros and of the losses carried forward from the previous financial years of 511,778,167.00 euros, for a total amount of 908,856,696.00 euros (as evidenced in the Company's balance sheet at 30 June 2013) by the use of reserves to the extent of 501,178,838.00 euros (as reported in the balance sheet at 30 June 2013) and by reducing the share capital from 668,355,344 euros to 260,677,486.00 euros;

The following was also resolved:

- out of a total maximum amount of 300,000,000.0624 euros, to increase the share capital by 10,000,000.00 euros maximum with a share premium of 290,000,000.0624 euros maximum through the issue of 6,684,491,980 shares maximum, of which 5,013,368,985 ordinary shares maximum and 1,671,122,995 special class B shares maximum, to be offered to shareholders in the form of a purchase option, and to fix at 0.04488 euros the issue price of each share, to be respectively allocated to 'authorised capital' and 'share premium' proportionately to the overall amount of the capital increase and of the share premium;
- to establish that the contribution was "indivisible" for no less than 240,000,000.00 in total and "divisible" (i.e. subscribable limited to subscriptions received) up to the maximum amount defined by the Shareholders Meeting, and that the option was reserved for shareholders and, among shareholders, also convertible debenture holders, assuming that all of their held convertible debentures were converted, pursuant to clause 10(a) of the "*Regulations on the subordinated convertible debenture loan of Alitalia - Compagnia Aerea Italiana S.p.A.*".
- it was also understood that, in accordance with clause 6.6 of the Company's Articles of Association, any ordinary shares that should be left unsubscribed by the persons meeting the eligibility criteria fixed by clause 6.5 of the Articles would automatically convert into special class-B shares and, conversely, any special class-B shares subscribed by persons not meeting those eligibility criteria would automatically convert to ordinary shares;
- to fix the deadline for the share capital increase subscription at 31 December 2013 pursuant to article 2439, par. 2, of the Italian Civil Code;
- to amend clause 5 of the Articles, and add a fifth paragraph worded as follows: "*5.5 - In their Meeting of 14 and 15 October 2013, the shareholders resolved to increase the share capital up to an overall "indivisible" capital contribution of no less than 240,000,000.00 with the opportunity to increase it by a further "divisible" portion in excess of such amount (i.e. subscribable limited to the amount of received subscriptions) against payment of a consideration for a maximum nominal amount of 10,000,000.00 euros with a maximum share premium of 290,000,000.0624 euros, by issue of 6,684,491,980 shares*

maximum, of which 5,013,368,985 ordinary shares and 1,671,122,995 special Class B shares, to be offered to shareholders in the form of a purchase option at the issue price of 0.04488 euros each to be respectively appropriated to 'authorised share capital' and to 'share premium reserve' proportionately to the overall amount of the capital increase and of the share premium under item (1) of the resolution, with a deadline for share capital increase subscription fixed at 31 December 2013 pursuant to art. 2439, par 2 of the Italian Civil Code".

Following the filing, on 15 Oct. 2013, of the option offer for the capital increase resolved by the Shareholders Meeting of 14/15 Oct. 2013 with the competent Company Register, the Shareholders were informed of their right to subscribe – at the above issue price and with effect from 16 Oct. 2013, for a thirty-day period as prescribed by art. 2441, par. 2 of the Italian Civil Code, which was later extended to 27 Nov. 2013 by a resolution of the Board of Directors on 13 November 2013 – a maximum number of shares resulting from the capital increase, proportionately to their held shares in the Company, also with due account take of any convertible debentures subscribed to by each shareholder on the basis of the relevant conversion ratio.

At the end of the option period expired on 27 November 2013, the capital increase had been subscribed to for a total value of 86,417,060.03 euros.

On the expiry of the term for the exercise of the option, an offer was made to the shareholders having reserved the right to exercise the pre-emption right (prescribed by art. 2441, par. 3 of the Italian Civil Code) on any unsubscribed shares; these shareholders included, in particular: Finanziaria di Partecipazioni e Investimenti S.p.A for 56,187,306 shares maximum, Macca S.r.l. for 535,000,000 shares maximum, and Ottobre 2008 S.r.l. for 5,907,944,044 shares maximum. More specifically, the above Shareholders were offered to subscribe, by 6 December 2013, the shares of the capital increase left unsubscribed, namely 4,758,978,169 shares, of which 3,087,855,174 ordinary shares and 1,671,122,995 special Class B shares at a unit issue price of 0.04488 each.

At the end of the period for the exercise of the right of pre-emption, the capital increase had been subscribed to for a further amount of 8,521,686.27 euros.

Following the expiry of the term for the exercise of the right of pre-emption, further subscriptions were received from Immsi S.p.A. (334,224,598 shares), Ottobre 2008 S.r.l. (1,364,862 shares) and Odissea S.p.A. (334,224,599 shares) for an overall value of 30,061,254.97 euros.

The table below shows the capital increase theretofore subscribed to by shareholders and third parties other than the guarantor banks and Poste:

Shareholder	Subscribed Shares by Option exercise	Subscribed Shares by Pre-empion exercise	Other Subscribed shares	Amount
Atlantia S.p.A.	579,322,638			26,000,000.00
Immsi S.p.A.	289,661,319		*334,224,598*	13,000,000.00 *14,999,999.96*
Intesa Sanpaolo S.p.A.	474,598,930			21,299,999.98
Macca s.r.l.	134,321,903	*133,689,839*		6,028,367.00 *6,000,000.00*
Ottobre 2008 s.r.l.	109,275,210		*1,364,862*	4,904,271.43 *61,255.01*
Marcegalia	34,000,000			1,525,920.00
Pirelli	167,878,268			7,534,376.67
Fin. di Par. e Inv.	32,939,254	*56,187,306*		1,478,313.72 *2,521,686.29*
Aura Holding	33,500,000			1,503, 480.00
I2 Capital Portfolio	50,289,662			2,257,000.03
Loris Fontana	19,726,637			885,331.47
Odissea spa			*334,224,599*	*15,000,000.00*
Total	**1,925,513,821**	**189,877,145**	**669,814,059**	Rights of option 86,417,060.30 Pre-emption 8,521,686.27 Other subscritions 30,061,254.97 **125,000,001.56**

Against the subscriptions made as detailed above, the guarantor banks Intesa SanPaolo and Unicredit concurrently paid to Alitalia an overall amount of 94,938,746.57 euros in the form of a "bridge to equity" pursuant to the agreements signed 18 October 2013.

On 23 December 2013, the capital increase resolved by the Extraordinary Shareholders Meeting of Alitalia - Compagnia Aerea Italiana S.p.A. on 14/15 Oct. 2013 was completed with the payment by Poste Italiane S.p.A. of the full issue price of its 1,671,122,994 subscribed shares for 74,999,999.97 euros in total, and with the subscription and concurrent payment by Intesa Sanpaolo and Unicredit of the remaining 2,228,163,960 shares left unsubscribed for an overall value of 99,999,998.53, following their assumed commitment to subscribe by way of security.

Through the filing with the competent Company Register of the certificate under art. 2444 of the Italian Civil Code, the capital increase was executed on 23 December 2013. Consequently, from 23 December 2013 to

10 January 2014 (for the reasons illustrated below), the Company's share capital amounted to 270,677,486.00 euros fully paid in.

The percentages of participation in the share capital as on 23 December 2013 are listed in the Table below:

SHARE CAPITAL AS ON 23.12.2013 (EXCLUDING THE CONVERSION OF THE DEBENTURE LOAN)

Share Capital:	**€ 270,677,486.00**
Ordinary Shares:	**7,185,758,487**
Special Class B Shares:	**167,088,836**
Total Shares:	**7,352,847,323**

Shareholder	**Number of shares**	**% sul Capital ([8])**
Acqua Marcia Finanziaria	11,838,402	0,16%
Air France - KLM	167,088,836	2,27%
Atlantia	638,498,318	8,68%
Aura Holding	42,375,740	0,57%
Equinocse	25,447,299	0,34%
Fin. Part. e Inv.	100,964,962	1,37%
Fire	71,009,999	0,96%
Fondiaria SAI	29,589,882	0,40%
G&C Holding	20,710,059	0,28%
GFMC	11,834,320	0,16%
I2 Capital Portfolio	56,206,822	0,76%
IMMSI	671,227,278	9,12%
Intesa Sanpaolo	1,647,868,554	22,41%
Loris Fontana e C.	25,643,797	0,34%
Macca Srl	277,483,825	3,77%
Marcegaglia	39,921,243	0,54%
Odissea	334,224,599	4,54%
Ottobre 2008	118,345,918	1,60%
Pirelli & C.	179,716,670	2,44%
Poste Italiane	1,671,122,994	22,72%
Solido Holding	17,752,050	0,24%
T.H. S.A.	35,502,959	0,48%
Toto	35,514,220	0,48%
Unicredit	1,114,081,980	15,15%
Vitrociset	8,876,597	0,12%
	7,352,847,323	100%

[8] Rounded up or down to the second decimal.

The capital increase resolved by the Extraordinary Shareholders Meeting of the Company entailed the enforcement of the conversion right contemplated by art. 8.1(b) of the Regulation governing the convertible debenture loan whose issue had been resolved by the Extraordinary Shareholders Meeting of 22 Feb. 2013. Debenture holders could therefore exercise their conversion right until 10 Jan. 2014, i.e. the tenth “Working Day” (in the meaning of art. 2.5 of the said Regulation) following the date of execution of the capital increase (23 December 2013).

By 31 December 2013 the following eligible persons had exercised their right to convert their held debentures and consequently subscribed to a number of conversion shares determined through a formula specified by art. 8.4 of the Regulation: the shareholders Air France-KLM SA, G&C Holding S.r.l., Macca S.r.l., Aura Holding S.p.A., Loris Fontana & C. and I2 Capital Portfolio S.p.A.
In the following days (until 10 January 2014), the said conversion right was also exercised by the shareholders IMMSI S.p.A., FIRE S.p.A., Pirelli S.p.A. and Marcegaglia S.p.A.

Through the filing with the competent Company Register of the certificates under art. 2420 *bis* and 2444 of the Italian Civil Code, the capital increase related to the conversion of the convertible debenture bond was executed and came into effect on 11 January 2014, which brought the share capital to 341,095,182.00 euros fully paid in.
The table below sums up the situation of conversions as on 10 January 2014 and the shareholding structure as on 11 January 2014 and as on the date hereof.

Analysis of the Shareholding Structure

	Prior to Cap. Incr. & deb. Loan		Deb.Loan in March		Cap. Incr.		Deb. Loan Conversion (at 10 January 2014)				After Cap. Incr. & Deb. Loan Conv.C	
Shareholders	# of shares	%	Paid in	%	Paid in	# of new sh.	Interest	Premium	Conversion Value	# of conv. sh.	# Tot. of shares	%
Poste Italiane	-	-	-	-	75,000,000	1,671,122,994	-	-	-	-	1,671,122,994	19.48%
Intesa Sanpaolo SpA	59,187,644	8.86%	13,988,341	14.72%	71,299,999	1,588,680,910	-	-	-	-	1,647,868,554	19.21%
Unicredit	-	-	-	-	49,999,999	1,114,081,980	-	-	-	-	1,114,081,980	12.99%
IMMSI SpA	47,341,361	7.08%	10,906,823	11.48%	28,000,000	623,885,917	743,457	3,495,084	15,145,364	202,449,697	873,676,975	10.19%
Atlantia SpA	59,175,680	8.85%	13,280,887	13.98%	26,000,000	579,322,638	-	-	-	-	638,498,318	7.44%
AF - KLM	167,088,836	25.00%	23,750,000	25.00%	-	-	1,561,644	7,593,493	32,905,137	439,846,483	606,935,319	7.08%
Fire SpA	71,009,999	10.62%	15,936,881	16.78%	-	-	1,100,300	5,111,154	22,148,335	296,059,160	367,069,159	4.28%
Odissea Srl	-	-	-	-	15,000,000	334,224,599	-	-	-	-	334,224,599	3.90%
Macca Srl	9,472,083	1.42%	2,125,833	2.24%	12,028,367	268,011,742	140,247	679,824	2,945,904	39,378,209	316,862,034	3.69%
Pirelli & C. SpA	11,838,402	1.77%	2,656,910	2.80%	7,534,377	167,878,268	185,183	852,628	3,694,721	49,387,729	229,104,399	2.67%
Ottobre 2008 Srl	7,705,846	1.15%	1,729,434	1.82%	4,965,526	110,640,072	-	-	-	-	118,345,918	1.38%
G. & C. Holding Srl	20,710,059	3.10%	4,647,989	4.89%	-	-	287,284	1,480,582	6,415,855	85,761,417	106,471,476	1.24%
Finanziaria di Part. e Invest SpA	11,838,402	1.77%	-	-	4,000,000	89,126,560	-	-	-	-	100,964,962	1.18%
Aura Holding SpA	8,875,740	1.33%	1,991,995	2.10%	1,503,480	33,500,000	130,980	636,893	2,759,868	36,891,452	79,267,192	0.92%
Marcegaglia SpA	5,921,243	0.89%	1,328,913	1.40%	1,525,920	34,000,000	92,041	426,286	1,847,240	24,692,255	64,613,498	0.75%
I2 Capital Partners SpA	-	-	-	-	2,257,000	50,289,662	-	-	-	-	50,289,662	0.59%
Loris Fontana & C. Sapa	5,917,160	0.89%	1,327,997	1.40%	885,331	19,726,637	87,611	424,683	1,840,291	24,599,366	50,243,163	0.59%
Toto SpA	35,514,220	5.31%	-	-	-	-	-	-	-	-	35,514,220	0.41%
TH SA	35,502,959	5.31%	-	-	-	-	-	-	-	-	35,502,959	0.41%
I2 Capital Portfolio SpA	5,917,160	0.89%	1,327,997	1.40%	-	-	87,611	424,683	1,840,291	24,599,366	30,516,526	0.36%
Fondiaria - Sai SpA	29,589,882	4.43%	-	-	-	-	-	-	-	-	29,589,882	0.35%
Equinocse Sarl	25,447,299	3.81%	-	-	-	-	-	-	-	-	25,447,299	0.30%
Solido Holding SpA	17,752,050	2.66%	-	-	-	-	-	-	-	-	17,752,050	0.21%
Acqua Marcia Finanziaria SpA	11,838,402	1.77%	-	-	-	-	-	-	-	-	11,838,402	0.14%
GFMC Srl	11,834,320	1.77%	-	-	-	-	-	-	-	-	11,834,320	0.14%
Vitrociset SpA	8,876,597	1.33%	-	-	-	-	-	-	-	-	8,876,597	0.10%
Total	**668,355,344**	**100.00%**	**95,000,000**	**100.00%**	**300,000,000**	**6,684,491,979**	**4,416,358**	**21,125,309**	**91,543,005**	**1,223,665,134**	**8,576,512,457**	**100.00%**

Note: After the capital increase and before the debenture loan conversion, the overall number of shares held by ISP and Ottobre 2008 was equal to 1,766,214,472 corresponding to a participating interest of 20.71%

<u>Governance model</u>

The Alitalia governance model is a traditional one with a Shareholders Meeting fulfilling the functions prescribed by the applicable statutory law, a governing body (Board of Directors) in charge of corporate management and a controlling body (Auditing Board). Accounts are audited by an independent auditing firm.

Shareholders Meeting

As provided for by the law, a Shareholders Meeting may be ordinary and extraordinary and may also be convened either in or outside the registered office within the Italian territory.
An updated list of Shareholders is reported under the paragraph "*Interventions on the capital*".

Board of Directors

On 25 February 2013 Mr. Andrea Ragnetti resigned from the office of Director of the Board and Chief Executive Officer of Alitalia with immediate effect.
On 18 April 2013, Alitalia's Board resolved to appoint Mr. Gabriele Del Torchio Director of Alitalia, pursuant to art. 2386, paragraph one of the Italian Civil Code and clause 15.7 of the Articles of Association for the full duration of the Board of Directors subject to the confirmation of his office by the Shareholders Meeting, which was formalised on 29 April 2013.
On 18 April 2013 the Board of Directors resolved to appoint Mr. Del Torchio Chief Executive Officer of the Company with effect from 6 May 2013.

By a notice dated 2 October 2013, Mr. Gioacchino Paolo Maria Ligresti resigned from the office of Director of the Board of Alitalia with immediate effect.

By a notice dated 29 October Mr. Ernesto Monti resigned from the office of Director of the Board of Alitalia with immediate effect.

As a result, on 31 December 2013, the Board of Directors was made up of the following members: Roberto Colaninno (Chairman), Gabriele Del Torchio (Chief Executive Officer), Elio Cosimo Catania (Vice Chairman and Chairman's Substitute), Salvatore Mancuso (Vice Chairman), Angelo Massimo Riva, Gaetano Miccichè, Lino Bergonzi, Antonino Turicchi, Davide Maccagnani, Cosimo Carbonelli d'Angelo, Achille D'Avanzo, Maurizio Traglio, Jean-Cyril Spinetta, Peter Frans Hartman, Bruno Matheu, Antonio Orsero and Philippe Calavia.

Subsequently, the Shareholders Meeting of 13 January 2014 – considering that the majority of Directors of the Board had formally resigned in the Board Meeting of 20 December 2013 with effect from the date of the Shareholders Meeting convened for the replacement of the members of the Board of Directors – resolved on:

- a composition of the Board of Directors of 11 members;
- a duration in office of the Board until the date of the Shareholders Meeting convened to adopt the financial accounts for 2014 or, if called earlier, until the partial or total execution of a capital increase whose subscription was reserved for a new industrial partner;
- the following appointments of Directors of the Board: Roberto Colaninno, Gabriele Del Torchio, Fabio Cosmo Canè, Amedeo Giovanni Maria Nodari, Ranieri De Marchis, Paolo Luca Stanziani Ghedini, Davide Maccagnani, Pierre Francois Riolacci, Antonino Turicchi, Mario Volpi and Alessandro Zurzolo;
- a gross annual Director's fee of 5,000.00 for each Director for a total gross annual amount of 55,000 euros plus the refund of any expenses incurred by them during the fulfilment of their duties with effect from 13 January 2014, subject to any further remunerations to be decided by the Board of Directors for the Chairman and for the Director that the Board would appoint to the office of Chief Executive Officer on the ground of their fulfilment of special duties;
- the appointment of the Director Roberto Colaninno to the office of Chairman of the Board of Directors of Alitalia S.p.A..

On 13 January 2014 the Board of Directors appointed the Director Gabriele Del Torchio to the office of Vice Chairman and Chief Executive Officer of the Company.

As a result, as of the date hereof, the Board of Directors is made up of the following members: Roberto Colaninno (Chairman), Gabriele Del Torchio (Vice Chairman and Chief Executive Officer), Fabio Cosmo Canè, Amedeo Giovanni Maria Nodari, Ranieri De Marchis, Paolo Luca Stanziani Ghedini, Davide Maccagnani, Pierre Francois Riolacci, Antonino Turicchi, Mario Volpi and Alessandro Zurzolo.

Steering Committee

On 25 February 2013, Mr. Ragnetti, following his resignation from the office of Director of the Board, was also removed from the office of member of the Steering Committee.

Mr. Gabriele Del Torchio, on the date of his appointment as Chief Executive Officer of the Company with effect from 6 May 2013, automatically became member of the Steering Committee of Alitalia pursuant to clause 21.1 (ii) of the Articles of Association.

As a result, as on 6 May 2013, Alitalia's Steering Committee included the following members: Roberto Colaninno (Chairman), Gabriele Del Torchio (Chief Executive Officer), Ernesto Monti, Gaetano Miccichè, Angelo Massimo Riva, Elio Cosimo Catania, Antonino Turicchi, Jean-Cyril Spinetta and Bruno Matheu.

Following the amendments made to the Articles of Association, as decided by the Shareholders Meeting held on 3 July 2013, the Steering Committee was suppressed.

Statutory Auditing Board

The Statutory Auditing Board consists of 5 Regular Auditors and 3 Alternate Auditors.

The ordinary Shareholders Meeting of 20 April 2011 resolved to appoint – until the date of the Shareholders Meeting convened for the adoption of financial accounts at 31 December 2013 – Mr. Giovanni Barbara to the office of Chairman of the Auditing Board, and Prof. Tommaso Di Tanno, Mr. Antonino Parisi, Mr. Giorgio Silva and Mr. Graziano Gianmichele Visentin to the offices of Regular Auditors.

Shareholders also appointed Mr. Domenico Busetto, Mr. Eugenio Graziani and Mr. Pietro Michele Villa to the offices of Alternate Auditors.

The extraordinary Shareholders Meeting of 18 February 2014 resolved to amend clause 22.1. of the Articles of Association to the effect of instituting an Auditing Board made up of 3 (three) regular auditors and 2 (two) alternate auditors, duly appointed and serving in accordance with the applicable laws. The Auditing Board's term of office is for 3 (three) financial years until the date of the adoption of the financial accounts for year three of their term of office.

The introduced amendments have not implied the termination of the current Auditing Board, who will continue to hold office in the current composition (i.e. with five regular auditors) until the formal date of expiry of their term of office and also continue to fulfil their functions until the date of the Auditing Board that will be appointed on the expiry of the term of the current Auditing Board.

Independent auditing firm

The Shareholders in their ordinary Meeting of 20 April 2011, following a motivated proposal from the Auditing Board, resolved to entrust Deloitte & Touche S.p.A. with the task of auditing the corporate accounts until the date of the Shareholders Meeting to be convened for the adoption of the financial accounts at 31 Dec. 2013.

The Company's and the Group's Consolidated Financial Accounts at 2012

On 29 April 2013, the Shareholders Meeting adopted the financial accounts of the Company at 31 December 2012, and resolved to carry forward the loss for the year of 225,129,556 euros.

They also acknowledged that the Board of Directors of Alitalia, in their Meeting of 25 February 2013, had drafted and approved the Directors' Report and the consolidated financial accounts at 31 Dec. 2012.

Balance sheet at 31 March 2013

On 3 July 2013, the Shareholders Meeting acknowledged that *(i)* the Company's balance sheet as on 31 March 2013 showed a loss which, combined with the losses carried forward from the previous business years, determined the circumstance under art. 2446 of the Italian Civil Code, as the accumulated loss as on that date (K€ 738,196), net of reserves (K€ 501,179), was equal to K€ 237.017 and consequently exceeded by K€ 12.9 the limit provided for by the law; and that (ii) a new Business Plan 2013-2016 was being prepared with a focus on a significant growth of revenues, and resolved, on the basis of the reasonable assumption of a going concern and despite the significant uncertainties already illustrated in the Financial Report 2012 and recalled in the Balance Sheet report of 31 March 2013, to temporarily postpone any decision, while reserving the right to constantly and attentively monitor the financial position and performance of the Company and, if need be, to convene a new Shareholders Meeting, if urgent interventions from the Shareholders should be needed.

Midyear report at 30 June 2013

On 26 September 2013 the Board of Directors resolved to approve the consolidated midyear report at 30 June 2013, which showed a loss for the period of 294,141,000 euros.

The above resolution was passed with due account taken of the contents of the midyear report, in particular:
"*In the context described above, however, uncertainties exist which may raise significant doubts on the Group's ability to continue to operate on the assumption of corporate continuity. In particular, such significant uncertainties are mainly related to the Group's financial position and performance and the successful outcome of all initiatives embarked on (with due account taken of the recent estimates of the closing results for 2013 which are worse than those contained in the Industrial Plan).*
Nonetheless, through the actions initiated to overcome the difficult financial position and performance of the Group, provided that the objectives of the new Industrial Plan are as a whole achieved, that the shareholders are willing to support the Company's action and that a comprehensive financing project is defined and implemented (see the paragraph "Outlook"), the Directors reasonably believe that the Group has adequate resources to continue to operate in the foreseeable future. For these reasons, the midyear consolidated financial accounts were compiled on the assumption of corporate continuity, while keeping the recognised asset values unchanged and without proceeding with further write-downs and appropriations of cost provisions, which would otherwise apply in the prospect of discontinuity".

Balance sheet at 30 June 2013

Kindly refer to the account given above about the Shareholders Meeting of Alitalia held on 14/15 October 2013

Capital contributions

In favour of CAI First S.p.A.

As part of the continuous monitoring of the financial position and performance of the Group companies and considering the accumulated loss of CAI First S.p.A. as on 28 Feb. 2013, Alitalia paid in favour of this company a capital contribution of 3,500,000.00 (three million five thousand) euros with value as on 25 March 2013 in the context of the Group's centralised cash management system.

It is also worth reporting that, on 10 April 2014, the Parent Company Alitalia paid a capital contribution worth M€ 2 to Cai First.

In favour of Air One S.p.A.

On 14 May 2013 the Board of Directors of Airone S.p.A. acknowledged that, as on 31 March 2013, the company had recorded a loss for the period of 14,606,684 euros and a net equity (after such loss) of 26,978,889 euros, which determined the circumstance under art. 2446 of the Italian Civil Code. As a result, as mentioned in the Report on the company's financial position drafted in accordance with art. 2446 of the Italian Civil Code, they decided to request from the Sole Shareholder Alitalia a contribution of around 20 million euros, with due account taken of the company's financial position and the most recent projections for the full year, of the need to ensure corporate continuity and the operational and industrial turnaround of the company yet to be completed.
In their remarks on the Directors' Report, the Auditing Board in turn observed as follows:
"*Given the lack of clear signs of a sustainable and constant recovery of the company's financial and market positions, the Auditing Board hereby shares the view of the Board of Directors, and finds an injection of liquidity from the Sole Shareholder Alitalia indispensable to achieve a Net Equity level ensuring business continuity.*
All of the foregoing with the proviso that the review of the Strategic Plan 2013-2016 at Group level may produce strategic initiatives in support of the company's profit margins in view of its continuity, without which the asset position may be such as to determine the further worsening of Net Equity".
For the above reasons, Alitalia paid a capital contribution of 20 million euros in favour of Airone with value as on 27 May 2013 in the context of the Group's centralised cash management system, and the Shareholders Meeting of Air One held on the next day acknowledged that such contribution had been paid and that the circumstance under art. 2446 of the Italian Civil Code no longer applied.

It is also worth reporting that, on 16 April 2014 and on 16 May 2014, Alitalia paid two capital contributions of M€ 20 and M€ 18 respectively to Airone.

In favour Alitalia CityLiner S.p.A.

As part of the continuous monitoring of the financial position and performance of the Group companies and considering the accumulated loss of Alitalia CityLiner S.p.A. as on 31 October 2013, Alitalia paid in favour of this company a capital contribution of 5,000,000.00 (five million) euros with value as on 29 November 2013 in the context of the Group's centralised cash management system.

Pledge on the shares of Alitalia Loyalty S.p.A.

It is hereby informed that on 3 February 2014 the Parent Company Alitalia pledged, for a value of K€ 500, its 500,000 ordinary shares held in Alitalia Loyalty in favour of Unicredit, Intesa San Paolo and Banca Monte Paschi di Siena pursuant to a loan agreement executed on the same date between the Parent Company and the above credit institutions.

Restraints on Reserves prescribed by the Articles of Association

The current Articles of Association provide for no restraints on the availability and allocation of Reserves.

Recent amendments to the Articles of Association

The extraordinary Shareholders Meeting held on 13 January 2013 resolved to amend clauses 7, 8.1, 8.2, 8.3, 8.7, 8.8, 11.9, 13, 15.1, 15.2 and 15.3 of the Articles of Association for the following reasons.

The Articles envisaged a very high and invariable number of members of the Board of Directors (19), which was justified at the time of the Company's entry into operation for its original shareholding structure and the context in which it operated but, however, deprived the Shareholders of any discretionary power on the numeric composition of the Board.

The Articles were consequently amended to the effect of giving the Shareholders Meeting the power to decide from time to time the number of Directors at the time of their appointment, which would better reflect the Company's changed characteristics and operating context, within a flexible range of 7 minimum to 19 maximum Directors, and the implied opportunity to appoint a Board with a smaller number of members, well below the original 19.

The other approved amendments to the Articles, on the other hand, more closely reflected the shareholding structure of Alitalia following the capital increase. More specifically, a group of shareholders were not willing or were not in a position to subscribe to the capital increase and consequently saw their participation drop significantly in percentage terms, whereas another group of shareholders acquired significant participating interests as they contributed to most of the Company's recapitalisation.

In this changed context, it was therefore appropriate to "deregulate" the trading of shares between shareholders by limiting pre-emption rights (and consequently, purchase options arising out of the change of control of a single shareholder) to transfers to third parties only (i.e. the acquisition of control over a shareholder by third parties), with would either directly or indirectly permit “internal” transfers that are currently prevented by pre-emption rights but in the future would enable minority shareholders in particular to divest their held equities. This “deregulation” however has been effected parallelly with the introduction of disclosure obligations, whereby each shareholder is required to notify the Company of any held equities and any executed Shareholders’ Agreement in order to ensure the utmost transparency in the shareholding structure.

Equally with that in mind, the provision of a qualified 80% majority for the adoption of Shareholders’ resolutions on special amendments to the Articles or on a capital increase without right of option was also removed, which was also meant to encourage shareholders to coordinate freely in order to reach majorities in the context of Shareholders Meetings and pass resolutions that are vital for corporate continuity in spite of a higher fragmentation of the shareholding structure that would otherwise make the achievement of an 80% quorum difficult. Concurrently, the rationale behind this change was to avoid that so high a quorum could encourage the deliberate set-up of “blocking minorities”, even for personal advantages, which might hamper the ongoing development of the Company.

The last area on which Shareholders intervened through the introduced changes was the definition of “parties acting jointly with the Offeror” which is now relevant for the application of the rules on the “Compulsory Takeover Offer” prescribed by the Articles” and specifically by clause 11.

Finally, the “lock-up” provisions – no longer applicable since 28 October 2013 – and other related provisions were removed from the Articles.

The Shareholders Meeting of 18 February 2013 resolved to amend clauses 6 *bis*, 7.3, 8, 11 and 22. In particular they resolved on:

- the removal of clause 8.7 of the Articles providing for the Shareholders’ right to purchase equities held by Shareholders having undergone a “change of control”, with additional amendments added in order to adapt the Articles accordingly (clauses 6.3*bis* and 7.3(c);

- the removal of the full clause 11 of the Articles providing for and governing a similar case as that of a “compulsory takeover offer”, which imposed on Shareholders having exceeded the threshold of 50 percent of the capital with voting right the obligation to purchase the equities of all other shareholders;

- the removal of the first paragraph of clause 7.3(d) of the Articles providing that “*the shareholders signing a relevant shareholders’ agreement for the purposes of clause 11 shall give the Company the disclosures and declarations prescribed by art. 2341*-ter *of the Italian Civil Code*”;

- the amendment of clause 22.1 of the Articles to the effect of reducing the number of Auditing Board members from the original 5 regular auditors and 3 alternate auditors to the current 3 and 2 respectively.

Model 231 and Ethical Code

Law Decree no. 231 of 8 June 2001

Through Law Decree no. 231 of 8 June 2001 and subsequent amendments and integrations (hereafter also "L.D." or "Decree"), the Italian legal system provided that a company can be held liable – and therefore called to appear before a criminal court – if some of its officers commit certain offences; offences that are expressly laid down in the Decree and that, nonetheless, must have been committed in the interest or to the benefit of the Company. This liability amounts to administrative monetary sanctions and sometimes interdictory sanctions; interdiction that, in severe cases, may also affect the performance of business operations. However, the provisions state that the liability of the company, despite the presence of an offence laid down by the Law Decree, may not arise if (in brief) the company in question has effectively adopted suitable measures to prevent that such an offence be committed as specifically indicated in the same Decree. The effective implementation of such measures, basically consisting in specific organizational, management and control models must also be guaranteed by a Supervisory Body entrusted with autonomous powers of initiative and control.

Attention should also be drawn to the fact that the adoption and effective implementation of an Organization, Management and Control Model not only represents a circumstance that exempts the company from liability, but also enables the internal control system to be managed more effectively, also favouring the consolidation of a corporate culture that enhances the importance of the principles of transparency and fairness, ethical conduct and compliance with the rules also to the benefit of the Company's image and greater trust by the passengers and all the subjects with which the Company entertains relationships.

In this background, the Company has adopted its own Organization, Management and Control Model pursuant to Law Decree no. 231 of June 2001 (hereafter also as the "Model").

Through the Model, the Company basically intends to affirm and spread a corporate culture inspired by:

- legality, transparency, ethical conduct, fairness and compliance with the rules, also reiterating that, in line with the principles adopted by it, no illegal conduct may be considered as allowed, also if committed in the interest or to the benefit of the Company;
- control, that must be exercised in all the decision-making and operational phases of the business activity, fully aware of the risks arising from the possible perpetration of crimes.

The aforesaid goals are achieved through a coherent system of principles, organizational, management and control procedures embodied by the Model.

The main objectives of the Model are:

- to raise the awareness of the subjects that collaborate with the Company (employees, consultants, suppliers, etc.) under various titles, asking them, within the scope of the activities carried out in the interest of the Company, to adopt correct and transparent behaviour, in line with the ethical values by which the Company is inspired to pursue its company object and such as to prevent the risk of perpetrating the crimes laid down in the Decree;

- to stimulate awareness of the aforesaid subjects of the possibility of being exposed to disciplinary and/or contractual consequences, as well as criminal and administrative sanctions in the case they violate the rules imposed by the Company;
- to establish and/or strengthen controls that allow the Company to prevent or act timely to prevent the perpetration of offences by top officers and individuals reporting to and/or supervised by them;
- to enable the Company, by monitoring risky activity areas, to act timely to prevent or oppose the committing of crimes and impose sanctions in the event of conduct that is at odds with the Model;
- to guarantee the Company integrity, by adopting the measures expressly set out in art. 6 of the Decree;
- to improve the effectiveness and transparency in the management of business activities;
- to make the potential author of the crime fully aware of the fact that perpetrating a crime is firmly condemned and contrary – not only to legal regulations – but also to the ethical principles established by the Company and its interest, also when it seems that the latter could apparently benefit from it.

The internal control and risk management system currently in place was defined considering the following control standards:

- general control standards, applicable to all Sensitive Activities taken into consideration;
- specific control standards*,* applicable to each of the Sensitive Activities for which they are identified.

The general control standards are summarized below:

- existence of formalised procedures;
- traceability and possibility of ex-post verification of transactions through adequate supporting documentation/IT equipment as well as objectification of choices;
- segregation of duties;
- existence of a system of powers in line with the assigned organizational responsibilities;
- Ethical Code: all the Sensitive activities are carried out in accordance with the principles set out in the Ethical Code of the Alitalia Group.

The violation of the provisions contained in the Model and the Ethical Code entail – according to what is specified in more detail therein – the application of fines or, at any rate, the adoption of measures also regardless of the perpetration of a crime as well as the unfolding of the criminal proceedings possibly initiated by the Judicial Authority and their outcome. And this, also considering that the obligation to comply with the aforesaid provisions also means fulfilling the duties of loyalty, fairness and diligence that derive from the judicial relationships established by the Company with both internal and external subjects.

In relation to the above, it is deemed useful to draw attention to the chapter on the general part of the Model that regulates the requisites and duties of the Supervisory Body, specifically highlighting for all employees the obligation to communicate to the latter any fact or circumstance encountered in the performance of their activities and which is worth reporting pursuant to Law Decree 231/2001.

The Company's partners, consultants and other external recipients of the Model are requested to immediately inform the Supervisory Body in case they receive, either directly or indirectly, by an employee/representative of the Company such a request to envisage behaviour that might entail a violation of the Model.

Any information or warning can be reported to the Supervisory Body.

Reports of different behaviour filed with the Supervisory Body are guaranteed by confidentiality, without prejudice to legal obligations. The management of reports is dealt with in the procedure called "Reports concerning the Organization, Management and Control Model".

All group companies have agreed, while waiting to adopt their own Model, to ensure the prevention of offences by being inspired by the same control principles laid down in the Alitalia Model.

Air One S.p.A., Alitalia CityLiner S.p.A., C.A.I. FIRST S.p.A. and C.A.I. SECOND S.p.A. have each adopted their own Model that reflects the the same goals and principles as those of Alitalia.

Ethical Code

The Ethical Code, which contains the principles and values having wider scope than those deriving by the need to abide by the legal regulations is strictly correlated to the Model as it integrates a further control standard (representing a set of values and principles that must be complied with when carrying out all sensitive activities). The activity of all the people operating within the Company or having relationships with it must comply with such principles and values as concerns all business activities and vis-à-vis third parties.

In fact, the Company is convinced that to establish and maintain a trust relationship with its stakeholders, it is important to constantly abide by the legal regulations but fully aware of the fact that such rules may not be sufficient and that therefore must be supported by a complex set of general and specific ethical principles that are appropriate to guide behaviour as well as individual and collective choices to effectively pursue the interest concerned.

The values that underpin the Ethical Code of the Alitalia Group are as follows: (i) lawfulness; (ii) confidentiality; (iii) honesty and fairness; (iv) enhancement and integrity of individuals; (v) client care and satisfaction; (vi) corporate social responsibility (vii); transparency.

The general principles of the Ethical Code concern: (i) la gestione in modo efficiente delle attività; (ii) la predisposizione di dati contabili, finanziari e gestionali accurati e completi; (iii) la protezione dei beni aziendali; (iv) il rispetto delle leggi e delle procedure aziendali.

The set of values and principles laid down in the Code inspire the activity of all those operating within the Company, taking account of the importance of roles, the complexity of functions and responsibilities assigned to them to pursue the objectives of the Company.

All the Group companies have passed a resolution to adopt the values of Alitalia's Ethical Code.

Representatives and signatories

According to the resolution passed by the Board of directors:

- In addition to the powers conferred by the law and the By-laws, the Chairman has the widest powers to represent the company and sign on its behalf, also in Court, including any power to sign and make transactions through the bank current accounts and bank deposits of the Company. The Chairman, in agreement with the Managing Director, is also entrusted with the coordination and supervision of the relationships with the media as regards institutional communications and the handling of relationships with regulators, regulatory bodies or associations as regards the management of Company's affairs. The Chairman is also responsible for the care and development of international strategic alliances with the Company, liaising, in the performance of these functions, with the Managing Director who is in charge of the operating management of these functions;

- In addition to having the widest powers to comply with legal regulations, the Managing Director, has management powers associated with all the actions linked to the operating management of the Company and, in this respect, powers, within specified limits, inter alia, to purchase and sell assets and carry out financial transactions. In certain cases, the powers are exercised by joint signature. The powers conferred upon the Managing Director also include the power to legally represent the company and sign on its behalf.

Considering the ordinary business operations, the Company has also conferred upon the Management, as part of the responsibilities assigned, the powers to represent the company and sign on its behalf to carry out deeds concerning specific subjects and within specified amount limits. Top Management and Officers that hold positions governed by the aeronautics law are also entrusted with the necessary authorizations and powers to guarantee compliance with currently applicable legal regulations.

The powers to represent and sign on behalf of Alitalia have also been assigned to the Country Manager (for the purpose of powers, these include Station Managers) who, as regards foreign offices, must exercise these powers by joint signature with the local Administration Officer. The Country Managers of foreign offices are also conferred the necessary powers to guarantee compliance with currently applicable legal regulations.

The powers to represent Alitalia conferred upon the Management also include authorizations with regard to deeds carried out by subsidiaries; this in relation to activities for which it is deemed necessary or appropriate that the commitment towards a third party be formalized by Alitalia even if to the benefit of the subsidiaries.

This provision is based on the contracts that regulate the support provided by Alitalia to its subsidiaries by reference to both functions traditionally defined as corporate and those considered to be more strictly operational, such as fleet maintenance and overhauling, flight operations, handling. All the above is dealt with in the Organization, Management and Control Models pursuant to Law Decree no. 231 of 8 June 2001 adopted by Alitalia and subsidiaries by resolution passed by the respective Management Bodies.

More specifically, as regards aeronautics law, Alitalia conferred upon the Accountable Manager all the necessary powers to ensure that all operating and maintenance activities can be funded and carried out according to the standards provided in the legal regulations governing the matter.

As regards health&safety in the workplace, Alitalia has also identified employers pursuant to Law Decree no. 81 of 9 April 2008.

In line with the integrated work management and safety system adopted by the Company in accordance with both the provisions of Model 231 and art. 30 of Law Decree 81/2008, authorizations of functions were granted by employers in more complex areas as well as further authorizations of specific functions by the delegates, by conferring the related powers required by the legal regulation. In the remaining areas, directives were issued to the Officers in charge of Organizational Units that, though not envisaging the conferring of spending powers, can guarantee compliance with all legal requirements.

Research and Development

No Research and Development activities falling in the category specified by Accounting Principle no. 24 of the National Council of Certified Accountants (*CNDCeR*) were performed by the Company in the period under review.

Other highlights occurred during the year and after 31 December 2013

No further highlights are worth noting in addition to those fully illustrated in the other paragraphs of the Directors Report and the Notes to the Financial Accounts.

ALITALIA FINANCIAL STATEMENTS at 31 December 2013

Accounting statements

BALANCE SHEET

ASSETS			31.12.2013				31.12.2012	
A) DUE FROM SHAREHOLDERS FOR OUTSTANDING PAYMENTS			0	0			0	0
B) FIXED ASSETS								
I.INTANGIBLE FIXED ASSETS								
1.- Establishment and expansion costs			289,052				9,081,058	
2.- Research, development and advertising costs								
3.- Industrial patents and intellectual property rights			24,103,586				17,484,252	
5.- Goodwill			215,610,751				306,653,310	
6.- Work in progress and advances			26,216,149				6,144,728	
7.- Other s			97,606,473	363,826,011			63,791,585	403,154,934
II.TANGIBLE FIXED ASSETS								
1.- Land and buildings			0				0	
2.- Plant and machinery								
a) Fleet		220,448,075				275,098,150		
b) Others		4,159,026	224,607,101			4,879,166	279,977,316	
3.- Industrial and commercial equipments			9,382,754				9,285,687	
4.- Other tangible fixed assets			11,300,382				12,607,508	
5.- Work in progress and advances			11,719,815	257,010,052			21,860,988	323,731,499
III.FINANCIAL FIXED ASSETS								
1.- Equity holdings in:								
a) subsidiary companies		359,522,362				361,228,796		
b) associated companies		0				0		
c) parent companies		0				0		
d) other companies		2,242,023	361,764,385			2,611,401	363,840,197	
2.- Receiivables	(*)				(*)			
a) due from subsidiary companies	0	98,234,990			0	106,966,946		
d) due from others	12,296,341	300,496,897	398,731,887	760,496,272	5,566,804	246,141,856	353,108,801	716,948,999
Total assets				1,381,332,335				1,443,835,432
C) WORKING CAPITAL								
I.INVENTORY								
1.- Technical materials and other consumables			54,273,786				53,156,197	
6.- Assets available for sale			1,974,822	56,248,609			11,906,888	65,063,085
II.RECEIVABLES	(**)				(**)			
1.- Due from clientsi								
a) Customers	1,265,000	89,189,975				83,797,278		
b) Airline Companies	22,937,618	55,841,510			25,874,327	103,670,445		
c) Travel Agents		120,288,501	265,319,986			117,229,438	304,697,161	
2.- due from subsidiary companies			221,509,913				205,413,291	
3.- due from associated companies			0				0	
4bis.- tax credits			14,493,408				10,331,955	
4ter – tax advances			26,376,351				24,371,655	
5.- due from others								
c) Other receivables	16,404,875	79,059,704	79,059,704	606,759,361	6,730,066	88,387,890	88,387,890	633,201,952
	40,607,493				32,604,393			
IV.LIQUIDITY								
1.- Bank and postal deposits			73.234.623				54,929,958	
2.- Cheques			0				0	
3.- Cash and cash equivalents			538,715	73,773,338			516,039	55,445,997
Total working capital				736,781,308				753,711,034
D) Accrued income and prepaid epenses				30,022,184				33,221,876
Totale assets				2,148,135,827				2,230,768,341

(*) Amounts receivable by the end of the next financial year
(**) Amounts receivable after the end of the next financial year

LIABILITIES				31.12.2013				31.12.2012
A) NET EQUITY								
I.ISSUED SHARE CAPITAL				270,677,486				668,355,344
II.SHARE PREMIUM RESERVE				290,000,000				501,156,108
III.REVALUATION RESERVES				0				0
IV.LEGAL RESERVE				0				0
VII.OTHER RESERVES								
Payments for subscriptions to debenture conversion shares			37,467,189				22,730	
Loss coverage reserve			0	37,467,189			0	22,730
VIII.PROFIT (LOSS) CARRIED FORWARD				0				(511,778,167)
IX.PROFIT (LOSS) FOR THE YEAR								
- Loss settled over the financial year				171,948,963				
- Profit (loss) for the year				(557,087,278)				(225,129,566)
				213,006,360				432,626,449
B) PROVISIONS FOR LIABILITIES AND CHARGES								
2.- for taxes, including deferred taxes			0				0	
3.- others								
a) provisions for discount coupons & competitions			0				21,667,258	
b) technical area provisione			219,755,188				163,776,260	
c) sundry provisions			18,389,845	238,145,033			33,029,870	218,473,389
C) EMPLOYEES' SEVERANCE PAY FUND				10,045,575				10,534,929
D) PAYABLES	(**)				(**)			
2.- Convertible bonds	30,956,271		63,867,002		0		0	
4.- Due to banks	22,846,527		257,389,296		34,739,061		377,131,834	
5.- Due to other lenders			159,467,493				157,871,532	
6.- Advances			3,234,733				709,851	
7.- Due to suppliers								
a) Suppliers	189,077	563,704,871			634,913	496,553,590		
b) Airline Companies		15,120,026				23,917,027		
c) Travel Agents		23,409,202	602,234,098			23,984,707	544,455,324	
9.- Payables due to subsidiary companies			171,345,689				86,212,598	
10.- Payables due to associated companies			0				0	
11.-Payables due to parent companies			0				0	
12.- Tax debts			10,784,134				10,625,978	
13.- Payables due to welfare and social Security institutions	738,190		54,597,371				28,619,327	
14.- Other payables								
a) Prepaid tickets		281,832,141				282,945,123		
b) Other payables		76,013,685	357,845,827	1,680,765,643		75,372,640	358,317,764	1,563,944,208
	54,730,064				35,373,974			
E) ACCRUED EXPENSES AND DEFERRED INCOME				6,173,216				5,189,366
Total liabilities				2,148,135,827				2,230,768,341

(**) Amounts payable after the end of the next financial year

INTERIM ACCOUNTS

	31.12.2013		31.12.2012	
1. - PERSONAL GUARANTEES		**366,045,402**		**484,056,153**
2. - COLLATERALS				
3. - PURCHASE AND SALE COMMITMENTS :				
a) Purchase commitments				
for miscellaneous service procurement	1,388,547,477		123,421,206	
for contractual obligations	647,400			
For derivative contracts	926,479,762	**2,315,674,638**	903,328,683	**1,026,749,889**
b) Sales commitments				
for sales of fleet				
for sales of other materials	2,446,391	**2,446,391**	8,270,930	**8,270,930**
b) Others				
4. - OTHER INTERIM ACCOUNTS				
a) Third-party properties held on deposit or under lease	3,189,083,734		3,660,513,070	
b) Own properties held by third parties	731,472,984		772,432,147	
c) Risks	100,492,000		99,471,000	
d) Guarantees received from third parties	1,243,671		2,100,129	
e) 3rd-party guarantees securing the Company obligations	151,419,806	**4,173,712,196**	135,105,165	**4,669,621,510**
TOTAL		**6,857,878,627**		**6,188,698,482**

PROFIT AND LOSS ACCOUNT

	31.12.2013			31.12.2012		
A) PRODUCTION VALUE						
1.- Revenues from sales and services			3,287,064,795			3,521,959,808
2.- Variations in the inventory of materials in progress			0			0
3.- Variations in work in progress of other companies			0			0
4.- Internal work capitalised			18,676,258			49,369,230
5.- Other operating revenues						
a) investment grants		3,751,795			3,021,994	
b) capital gains on disposals		2,712,412			2,026,697	
c) others		126,577,375	133,041,582		241,611,422	246,660,113
Total			**3,438,782,635**			**3,817,989,151**
B) PRODUCTION COSTS						
6.- For technical materials, fuels and other consumables and goods			(987,326,933)			(1,074,090,969)
7.- For services			(1,242,493,411)			(1,287,240,781)
8.- For using third-party properties			(672,188,888)			(681,168,652)
9.- For employees						
a) wages		(500,441,980)			(541,886,996)	
b) social charges		(111,522,156)			(118,477,551)	
c) severance pays		(26,677,289)			(27,444,088)	
d) old-age pensions and similar benefits		(5,174,725)			(5,168,948)	
e) other costs		(12,276,132)	(656,092,282)		(16,739,770)	(709,717,353)
10.- Amortisation, depreciation and write-downs						
a) amortisation of intangible fixed assets		(57,443,831)			(48,570,281)	
b) depreciation of tangible fixed assets		(37,636,105)			(62,044,729)	
c) other write-downs of fixed assets		(72,291,044)			0	
d) write-downs of current receivables and of liquidity		(4,019,639)	(171,390,619)		(6,339,926)	(116,954,937)
11.- Variations in the inventory of technical materials and other consumables			1,117,589			(4,356,287)
12.- Provision for risks			(9,711,765)			(12,241,401)
13.- Other provisions			0			0
14.- Other operating costs			(114,907,809)			(81,982,572)
Total			**(3,852,994,119)**			**(3,967,752,951)**
Difference between production value and costs			*(414,211,484)*			*(149,763,800)*
C) FINANCIAL REVENUES AND COSTS						
15.- Difference between production value and costs			0			0
16.- Other financial revenues						
a) non-current receivables						
. subsidiary companies	2,791,734			3,614,821		
. others	3,857	2,795,592		10,675	3,625,495	
d) sundry financial revenues						
. interest and commisions from subsidiary companies	4,767,402			8,016,257		
. interest and commissions from other entities & sundry costs	11,426,266	16,193,668	18,989,259	1,944,205	9,960,462	13,585,958
17.- Interest and other financial costs						
a) interest and commissions payable to subsidiary companies		(42,100)			(8,198)	
d) interest and commissions payable to other entities & sundry costs		(28,978,807)	(29,020,907)		(22,124,898)	(22,133,096)
17bis.- Currency translation gains or losses			(37,204,860)			(15,589,141)
Total financial revenues and costs			**(47,236,508)**			**(24,136,279)**
			(461,447,991)			*(173,900,079)*
D) FINANCIAL ASSET ADJUSTMENTS						
18.- Write-ups			0			0
19.- Write-downs						
a) of shareholding		(182,387,347)	(182,387,347)		0	0
Total adjustments			**(182,387,347)**			**0**
E) NON-RECURRING REVENUES AND COSTS						
20.- Revenues						
a) capital gains on disposals		332,240			9,256,047	
b) plusvalenze da conferimento		150,000,000				
c) sopravvenienze attive		5,971,509			2,352,987	
d) other revenues		2,336,464	158,640,213		8,088,924	19,697,959
21.- Costs						
a) capital losses on disposals		(3,080,767)			(3,554,898)	
b) taxes relative to the previous year		(250,624)			(374,275)	
c) extraordinary losses and write downs of assets		(8,129,427)			(2,794,942)	
d) other costs		(70,707,353)	(82,168,172)		(48,207,280)	(54,931,395)
Total non-recurring revenues			**76,472,041**			**(35,233,437)**
Pre-tax result			*(567,363,297)*			*(209,133,516)*
22.- Current, deferred and advance Income taxes for the year,			10,276,019			(15,996,050)
23.- Profit (loss) for the year			**(557,087,278)**			**(225,129,566)**

Notes to the financial statements

Part A – Alitalia activity, statements and valuation criteria

Alitalia – Compagnia Aerea Italiana S.p.A.'s company object is the provision of airline flights and connections for the transport of passengers and cargo.

Format and contents of accounting statements

The financial statements at 31 December 2013 comprise the balance sheet, income statement and the notes and were drawn up in accordance with the provisions of the Italian Civil Code.
The balance sheet and the income statement prepared according to the format prescribed by art. 2424 and 2425 of the Civil Code respectively, are stated in Euros, without decimals, in line with art. 2423, paragraph 5 of the Civil Code. The Notes are drawn up in thousands of Euros.

Accounting principles

The accounting principles adopted to prepare the annual financial statements are those provided by the Civil Code, that is prudence, accrual, going-concern and substance-over-form principles. These principles are interpreted and integrated with those recommended by the Italian National Accounting Board (*Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri*) (endorsed by CONSOB), the Italian Accounting Standard Authority (OIC – *Organismo Italiano di Contabilità*) and, failing these, the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board where applicable.

Alitalia closed the 2013 financial year with a net loss which highlights that the current result has worsened compared to the previous year.

The financial statements, based on the grounds broadly disclosed in the chapter of the Report called "Business Continuity", which is fully referred to here, were drawn up on a going concern basis, without changing any asset value and making further write-downs and provisions for charges that would be necessary in the event that the company was no longer a going concern.

In accordance with art. 2423 bis, paragraph 1 of the Civil Code, only the profits realised by the year end were indicated and any risks and losses for the year were taken into account, regardless of the date of collection or payment as well as of the risks and losses incurred in the year, even if they became known after the financial year end. Finally, all heterogeneous items included under each heading have been separately valued.

The true and fair view of the balance sheet and income statement was guaranteed without having to make departures from the aforesaid principles, as no exceptional incompatibility cases occurred that require the application of the provisions of art. 2423, paragraph 4 of the Civil Code.

Valuation Criteria

Below is a description of major valuation criteria applied to these yearly consolidated accounts.

INTANGIBLE FIXED ASSETS

These are entered at acquisition cost inclusive of directly chargeable ancillary costs.
Values are systematically amortised in each accounting period for fixed assets whose use is limited in time by amortisation charges that reflect the residual utilisation of the fixed asset.
If, irrespective of the charged amortisation, an impairment is recorded, the fixed asset is correspondingly written down. If, in the subsequent accounting periods, the grounds for the write-down no longer apply, the original value - adjusted by the mere amortisation charges - is reinstated (i.e. impairment reversal).

Costs spread over several financial years

These are entered on the Assets side with the consent of the internal Auditing Board and are subject to amortisation within a period not exceeding five years.

- ***Establishment and expansion costs***

  These mainly relate to costs incurred during the start-up of new operations and consist of counselling costs, taxes and other expenses associated with the pre-operation phase (i.e. start-up costs) that Alitalia incurred chiefly in relation to the acquisition of assets of the “Alitalia Group under extraordinary administration.

- ***Goodwill***

Goodwill is recorded under fixed assets when it is acquired for valuable consideration.
Amortisation is systematically made on a straight-line basis over a period not exceeding five years.
Longer periods are also envisaged, which however do not exceed twenty years, when it is presumed that the useful life of goodwill is longer than five years; in such an event, the Notes to the financial accounts will illustrate the specific reasons underlying the adoption of a period of amortisation in excess of the five-year limit.
Periodically, an analysis of the recoverable value of goodwill is made by means of an impairment test

Other intangible assets

- Patents

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

- Improvement works on third-party properties

The costs incurred for improvement works and improvement expenses on property rented or leased by the company (including those under financial lease) are capitalised and recognised under intangible fixed assets, if the improvements and the improvement expenses are not separable from the property (or may not have autonomous functionality); otherwise they are recorded under “Tangible fixed assets” in their appropriate asset class.

Costs capitalised on third-party properties are amortised over the residual duration of the lease contract (including any renewals) or the residual ‘useful life’ of the incurred expense item, whichever is shorter.

In particular the following are capitalised:

- changes and improvements – other than heavy maintenance on aircraft and engines – performed on leased aircraft;
- changes and improvements made on third-party buildings and real estate properties.

TANGIBLE FIXED ASSETS

Tangible fixed assets are entered at acquisition cost, to be written up, if need be, in compliance with special legal provisions, net of any write-downs for impairments. The overall cost recognised includes directly chargeable additional costs and expenses for improvements, renovations and alterations.

For fixed assets whose use is limited in time, this item is systematically depreciated in each financial year by depreciation charges that reflect the asset technical and economic duration and residual utilisation.

The value of a tangible fixed asset that can be depreciated is equal to its initially recorded value net of the presumable residual value at the end of its useful life. The latter is defined by the OIC 16 standard as the estimate of the amount that Alitalia expects to recover from the disposal of the asset, net of removal costs, and must be periodically updated after having been estimated at the time of preparing the depreciation scheme based on the prices that are realisable in the market through the disposal of similar tangible fixed assets in relation to their technical characteristics as well as to the utilisation process they have undergone.

If, irrespective of the recognised depreciation, an impairment is recorded, the fixed asset is correspondingly written down. If, in the subsequent financial years, the grounds for the write-down no longer apply, the original value - adjusted by the mere depreciation charges - is reinstated (i.e. impairment reversal).

Plant, machinery, equipment and other tangible fixed assets

Alitalia considers, as the residual value of aircraft and engines, an amount equal to a percentage of their initial historic cost, in line with the aviation industry practice; more precisely, the percentage adopted for B777, A319, A320 and A321 aircraft is 10%.

By useful life is meant the time during which an asset is presumably available for use by the Company.

Costs related to heavy maintenance on owned aircraft (D-checks and IL inspections), engines (shop visits and APU checks) and owned undercarriages are depreciated in accordance with their useful life, i.e. normally the time intervening between two checks.
Scheduled-maintenance costs are recorded in full in the P&L.

Costs relative to phase-outs of owned or third-party aircraft are booked in the P&L in the financial year in which the aircraft are phased out.

If the individual components of a complex tangible asset have different useful lives, they are recorded separately in order to be depreciated consistently with their duration ("component approach").

More specifically, aircraft – as typically complex types of "machinery" – have been broken down into the following components:

- airframe;
- heavy maintenance on airframe (D-check and IL inspection);
- heavy maintenance on airframe (C and 2C inspections)
- overhauls on thrust reversers;
- heavy maintenance on air inlets;
- engine;
- heavy maintenance on engine (shop visit);
- APU (auxiliary power unit) check; and
- undercarriage maintenance.

Tangible assets are systematically depreciated in each financial year on a straight-line basis in accordance with technical/economic depreciation rates determined in relation to their useful life.
More specifically, for the fleet, whose depreciation is in line with the practice used in the aviation industry, the following parameters apply:

Useful life of aircraft components (number of years)							
Family	Airframe	ILO Cyclical Check	Undercarriage Maintenance	Engines	Thrust Reversers and Air Inlets	Shop visits	APUs
B777	20	8	10	20		5	5
A319, A320 e A321	20	6	10	20	6	5	5

Aircraft interior fitting is depreciated over 12 years

Rotable components and spare engines

Rotable components refers to aircraft spare parts (stock) of significant value that, after a previous use, may be repaired and reused.
Alitalia capitalizes rotable components and spare engines and depreciates them for a useful life that takes into account the permanence of the family in the fleet for the aircraft concerned (either owned or leased).

For other tangible assets the following useful lives are used:

Asset class	Useful life (in years)
Machinary	7-10
Flight simulator	10
Equipment	5-10
Test benches	10
Furniture fittings and office equipment	8,5
Computers	5
Motor vehicles for civil use	4
Internal tran sport vehicles	5-10
Communication systems	5

Variations in estimates

During the year Alitalia, based on specific evaluations made by the Engineering Area, following clear evidence and not in opposition to international guidelines for the industry, revised the estimated useful life of the airframe and engines of the aircraft families A319, A320 e A321. Following such estimate variation, the useful life of the airframe and engines was extended from 18 to 20 years, which implied a beneficial effect on the profit and loss account of K€ 14,068 in terms of reduced depreciation and gross of the tax effect.

With effect from 2013, the Company opted for the capitalisation – with special reference to aircraft families A319, A320 and A321, A330 and Boeing 777 – of a few types of cyclical maintenance (C/2C inspections) which were previously booked under costs for the year in full at the time of the maintenance event, which implied a net benefit of K€ 11,123 gross of the tax effect.

Such new approach originates from the recognised and undisputed usefulness of maintenance tasks over a several years, consistently with the scheduled maintenance plans, and is substantiated by the new documentation compiled by aircraft vendors (for the families above), which certifies an extension of useful life following the above types of maintenance; in particular, the above maintenance events have a 2-year useful life on average.

During 2013, the Company also introduced another estimate variation in order to mirror the capitalisation of a few cyclical maintenance tasks on a few mechanical parts which were previously booked in the P&L at the time of the maintenance event; in addition to complying with the recent guidelines of the international aviation authorities, which envisage an official useful life for the above maintenance events, they also reflect the multiannual useful life of such events, as can be inferred from the historic experience gained by the Company.

In further detail, these parts include thrust reversers, i.e. mechanical components for a prompt deceleration of the aircraft during landing, and air inlets, i.e, mechanical parts installed on the front wall of the engines and designed to limit ice formation. For both of the above components, a useful life of 6 years was defined, with a net benefit of K€ 2,136 gross of the tax effect.

Finally, during the year, the Company also extended the useful life of a few types of non-fleet assets; these estimate variations were substantiated by appraisals made by the relevant corporate functions and result from an accurate analysis of the company's operations. This change drove depreciation down K€ 3,824 gross of tax effect.

FINANCIAL FIXED ASSETS

Current securities and equity holdings

These are entered at acquisition cost – to be written down in case of any impairment. If, at a later date, the grounds for the write-down no longer apply, the value is reinstated to initial cost (i.e. impairment reversal.

Financial credits and guarantee deposits

These are entered at their nominal value or at the presumable realisation/redemption value, if the latter is lower.

Maintenance reserve receivables

A lease contract may include the payment of an additional maintenance reserve charge through which the lessee secures the lessor against the credit risk that would arise if the lessee fails to perform the contractually required maintenance on the asset during the contract duration and, in any case, prior to the return of the aircraft/engine on the contract expiry.

The maintenance reserve charge is paid to the lessor in the form of an additional amount calculated in relation to the aircraft/engine flight hours.

Impairments ("Impairment test")

The recoverability of the value of tangible, intangible and financial assets is verified in accordance with the OIC principles 16, 24 and 20. Such national principles do not prescribe an analytic process for the calculation of asset impairments as is done in the international principle IAS 36, to which national principles however make reference, since it is also deemed applicable to companies having adopted the Italian accounting principles. In addition, the OIC Document "Impairment and Goodwill, Application no. 2" provides a few recommendations to be considered in conducting an impairment test pursuant to IAS 36.

At each balance sheet date, Alitalia verifies if there is evidence of potential impairment losses of its tangible, intangible and financial assets. Should such evidence exist, the impairment test is performed to verify the recoverability of the net book values of the assets referred to above.

More specifically, the Company estimates the realisable value (identified as the use value equal to the sum of the present value of future cash flows generated on a continuous basis and compares it with the net book value. If the realisable value is lower than the net book value, the latter must be written down to the realisable value. In this case the impairment loss is booked in the income statement at the balance sheet date.

Alitalia verified the recoverability of the net book value of the Net Invested Capital (NIC) shown in the financial statements at 31 December 2013; moreover, it verified the recoverability of the investments in Air One, Challey, CityLiner, CAI First, CAI Second and Alitalia Loyalty.

In determining the realisable value of the investments and Net Invested Capital of Alitalia S.p.A., the Directors referred to the Business Plans drawn up for the 2014-2016 period, of the single companies, subject to Impairment test, updated with the new macroeconomic scenarios and the conditions of the sector in which these companies operate; specific calculations relating to the company's economic and financial outlook were also used.

In more detail, to calculate the realisable value of the net invested capital of Alitalia S.p.A., the calculation of the net present value of the cash flows used a discount rate that reflects the current market valuations of the cost of money and that takes account of the specific risks to which the activity is exposed; the after-tax discount rate used (WACC) is 9.18%.

In addition, to estimate the recoverable value of investments, the calculation of the net present value of the cash flows took account of an after-tax discount rate (WACC) of:

- 9.18% for the investments in Air One, Cityliner, CAI First and CAI Second;
- 751% for the investment in Challey;
- 8.83% for the investment in Alitalia Loyalty.

Lastly, Alitalia calculated the final value using a growth rate of 0.25%.

As regards the estimate of the realisable value of the Net Invested Capital of Alitalia S.p.A., the test did not reveal any impairment losses. Notwithstanding the above, after establishing the weakness of the impairment test with regard to the sensitivity "load factor" that was confirmed by the first results of the second quarter of 2014, an impairment loss of € 71,870 thousand was reported which is attributable to the goodwill arising from the extraordinary transaction represented by the partial spin-off of Air One in Alitalia, which took place in November 2009.
Excluding the results of that write-down, given that the realisable value is established by estimates, Alitalia has also conducted sensitivity analyses changing the basic assumptions of the impairment test and, more specifically, the variables the mostly affect the realisable value. The sensitivity analysis performed using the basic scenario, the G rate being equal (0.25%), did not highlight impairment losses also considering a WACC of 9.50% (risk-neutral WACC).

Moreover, Alitalia performed a sensitivity analysis on different scenarios, generated by changing some of the specific parameters of the 2014-2016 Business Plan (i.e. fuel costs, *load factor* and exchange rate). Here below is the extent of the change made in such parameters used for the sensitivity analyses. The scenarios described below consider a WACC of 9.18% and a growth (G) rate of 0.25%;

- fuel costs: incremento del 3% rispetto ai valori di Piano, per tutti gli anni dal 2014 al 2016;
- *load factor*: diminuzione pari a 1 punto percentuale per tutti gli anni dal 2014 al 2016;
- tasso di cambio €/$: peggioramento del 3%, per tutti gli anni dal 2014 al 2016;

All the three scenarios considered above give rise to significant impairment losses, that will be closely monitored by Management, also throughout the year.

On the contrary, as regards the impairment test on the carrying value of investments, the following impairment loss situations emerged:

- Investment in Airone S.p.A.: impairment loss of € 112,376.20 thousand
- Investment in Alitalia CityLiner S.p.A.: impairment loss of € 35,637.60 thousand

No impairment losses emerged with regard to all the other values submitted to the test.

Also on this occasion Alitalia performed a further sensitivity analysis on the value of its investments in Airone, CityLiner CAI First and CAI Second, changing the cost of fuel and the load factor originally used in the Plans. Here below is the extent of change in such parameters used for the sensitivity analysis. The scenario described below considers a WACC of 9,18%.0,25% and a growth (G) rate of 0.25%;

- fuel costs: 3% increase on the values in the Plan, for all the years from 2014 to 2016;
- *load factor:* a 1% reduction for all the years from 2014 to 2016;

As regards CAI First and CAI Second these scenarios do not give rise to impairment losses, whilst losses of this kind indicated earlier on for Airone and CityLiner increase further upon the occurrence of the aforesaid changes.

In general, it is worth noting that the sensitivity analyses shown above fail to take account of any corrective management actions, on different parameters, that the management might undertake in the event of a change in scenario compared to the results of the Plan and/or Budget. In particular, by way of an example, higher fuel costs might be partly passed on to the tariffs.
As concerns the investments in Challey and Alitalia Loyalty, Alitalia performed a sensitivity analysis changing the discount rate (WACC).
The risk-neutral WACC for Challey and Alitalia Loyalty is 7.53% and 15.77% respectively.

It is worth noting that the meeting of the Board of directors of 6 June 2014 acknowledged the results of the impairment test performed on that date on the accounting data of Alitalia at 31 December 2013.
The further in-depth analyses requested in this phase with regard to the weakness of certain variables subject to sensitivity analysis, more specifically the load factor, caused the write-down of the goodwill referred to above.

Inventory

Inventory, i.e. stocks of spare parts and miscellaneous materials, are recorded by similar material/component classes at the lower value between the cost of the part or material and its replacement cost.
The cost is calculated through the weighted average cost method.

- Assets available for sale

This inventory item also includes assets available for sale; more specifically, the lasting nature of tangible fixed assets is not intrinsic in the asset but rather in their use; as a result if, following a resolution of the Board of Directors or of the Steering Committee, such assets as aircraft are no longer meant to be in the Company’s possession in the long term, they are classified separately from tangible fixed assets and booked under the above sub-item of working capital; consequently, on the date when a changed use of an asset is decided, depreciation charges are not longer calculated and such asset is recognised at cost less depreciation or at its estimated realisable value, whichever is lower.

Receivables

Receivables under working capital are recognised at their estimated realisable value, which corresponds to the difference between their nominal value and any value adjustment that is recorded under the "provision for loss in value" (provision for doubtful accounts), which adjustment is directly applied to reduce the receivable item to which it relates.

Cash and cash equivalents

Liquidity is initially assessed and subsequently recognised at nominal value; for doubtful accounts, the net estimated realisable value is shown.

This item includes:

- cash and equivalents on hand, recognised at nominal value;
- "cash in transit", i.e. cash that is being transferred as on the financial reporting date from the Alitalia branch offices to its head office; this cash sub-item is recognised at nominal value;
- bank deposits, postal deposits and cheques, which are assimilated to claims and are therefore recognised in accordance with the general principle of their estimated realisable value;
- funds held abroad and subject to restrictions on transfer, which are equally recognised at their estimated realisable value.

Employees' severance pay fund

A severance pay fund is allocated in order to cover the full liabilities accrued towards employees in compliance with the applicable statutory legislation and any applicable collective labour agreements or workforce agreements. Where applicable, the individual severance pay funds of Alitalia reflect any changes introduced by the applicable laws.

Provisions for liabilities and charges

Provisions for liabilities and charges are set aside to cover any specific losses or liabilities certainly or probably existing at the date of closing the accounts, but still undefined, at that time, as to the amount or date of occurrence.

Such provisions are entered based on a realistic estimate of the loss or liability in order to fulfil specific requirements, while bearing in mind the applicable costs at the date of closing the accounts as well as any and all known, documentable and verifiable cost increases to be incurred.

Provision for the Millemiglia frequent flyer programme

In order to cover the costs that the Company estimates will be incurred in order to fulfil its contractual commitment to provide benefits to the programme subscribers, a specific provision is set aside for discounts and competitions.
Such provision is adequate when it covers all costs to be predictably incurred in relation to the current contractual commitments.
Appropriations to and drawdowns from this provision are recorded according to the principle of the prevalence of the substance over form applied to revenues from traffic.

Technical area provision

The provision is recorded in order to cover sizeable maintenance costs occurring periodically, after a given number of years or after a certain amount of hours of operation extending over several years on aircraft held under a financial or operating lease contract.
In particular, when, pursuant to a lease contract, the Company is required to perform a number of maintenance tasks during the contract duration (cyclical maintenance), for accounting purposes, it is required to give evidence of such obligation through the registration in its accounts of a suitable provision related to such maintenance.
Based on the accrual principle, similar appropriations are intended to spread over multiple financial years the cost of maintenance which is made at a given point in time in a financial year but actually relates to the use of the asset equally in the financial years preceding that in which maintenance is made.
At each financial reporting date, the estimate of the sum set aside by way of technical area provision shall be reviewed and updated whenever the conditions underlying its registration have changed.
Appropriations to and drawdowns from this provision are recorded according to the principle of the prevalence of the substance over form applied to costs for maintenance services.

Payables

Payables are recorded at their nominal value.
Unearned revenue with regard to prepaid tickets is representative of the Company's exposure towards third parties for air transport service yet to be rendered.

Accruals and deferrals

Accrual and deferral items record any amounts of costs and revenues involving two or more financial years, in compliance with the accrual principle.
These items measure revenues and charges which accrue before or after they manifest themselves in monetary and/or documented form; they are independent of the date of payment or collection of their related

revenues or charges, which necessarily need to involve two or more financial years and be apportionable in time.

Derivative hedging instruments

Alitalia uses derivative hedging instruments for commodity, currency-exchange and interest-rate risk management.

A financial instrument is considered to have a hedging function when:

a) the Company intends to execute a hedging transaction;

b) there is a high degree of correlation between the technical and financial characteristics (maturity, interest rate, etc.) of the hedged assets/liabilities and those of the hedging contract;

c) the conditions under paragraphs a) and b) above are substantiated by the Company's internal documental evidence.

Hedging derivatives are recognised consistently with the hedged assets, liabilities or commitments; consequently, the derivative is booked under interim accounts at its notional value.

Variations in the realised portions of derivatives are booked in the P&L; variations in unrealised portions are only booked in the P&L when the hedged risk occurs and produces its effects on the P&L.

If the Company revokes the designation of a derivative as an effective hedging instrument and subsequently proceeds with its sale, the recognition of the hedging transaction will cease prospectively, i.e. amounts previously recognised will remain booked until the forecast hedged transaction occurs or is reasonably expected not to occur again; in that case, in accordance with the International Accounting Principles, the replacement or rollover of a hedging instrument is not an expiration or termination, if that replacement or rollover is part of the documented hedging strategy of the Company.

Items denominated in a foreign currency or exposed to an exchange rate risk

Receivables and payables originally denominated in a foreign currency are booked at the exchange rate prevailing when they occurred and are brought into line with the current exchange rates on the date of closing the financial accounts.

In particular, current (i.e. non-fixed) assets and liabilities and capitalised financial receivables and payables are entered at the spot exchange rate in force on the date of the financial year close. Profits and losses arising from the translation of the foregoing assets and liabilities are respectively credited and charged to the Profit and Loss Account under item 17 bis, "Currency translation gains or losses".

Any net gains resulting from adjustments to end-of-period exchange rates of items denominated in a foreign currency and contributing to the result for the period are entered, limited to the part not absorbed by any operating loss, under a non-distributable reserve until the time of subsequent realisation.

Fixed assets denominated in a foreign currency are entered at the exchange rate applicable at the time of their acquisition or at any lower rate on the date of the financial year close only if a negative variation determined an impairment in such fixed items.

Recognition of revenues

Revenues from air transport services are entered in the P&L at the time in which passenger or cargo carriage occurs.

Revenues from sales are recognised when goods are shipped and the has transferred any significant risks and benefits associated with the ownership of goods to the purchaser.

Dividends are recognised when the shareholders' right to receive their payment is recognised.

The item "Internal work capitalised" records costs wholly incurred by the Company which are mainly associated with its personnel and give rise to the booking of tangible and intangible fixed assets on the asset side of the Balance Sheet; in particular, the Company also enters under this item training and qualification courses for the internal staff, if such costs are related to the implementation of corporate turnaround and reorganisation processes bearing a significant impact on its production and trade structure or also designed to achieve future economic benefits and remedy the current difficulties encountered by the Company.

The Company books under "Other revenues" the non-recurring amounts recognised by third parties for the primary role played by Alitalia in their industrial segment; such amounts are considered certain, given their unconditional, mandatory, irrevocable and contractually defined nature.

Greenhouse gas emission allowances

The costs associated with the obligation to surrender emission allowances on instruction by the competent national regulatory authority are recognised on an accrual basis and entered under "Other operating costs" in the financial year in which the obligation accrues, proportionately to greenhouse gas emissions produced in that financial year and at the market value of emission allowances as on the financial reporting date.

Non-recurring revenues and costs

Any revenues and costs directly attributable to the phase-out of full aircraft families as a consequence or corporate turnarounds or the 'closing' of a full production line are booked under non-recurring items.

Taxes

Recognised taxes include income taxes for the period, and, where the relevant conditions are met, deferred taxes (recorded under "provision for taxes") or tax advances (recorded under the working capital subitem "receivables").

In the latter respect, it should be noted that, as contemplated in the CNDCeR accounting principle no. 25, tax advances are only recorded if their recovery on future taxable income is reasonably certain.

Interim accounts

Interim accounts are recorded as follows:

Personal guarantees:

Guarantees are booked in favour of subsidiary companies and third parties at an amount equal to the residual outstanding amount in case of loans or at the value corresponding to the actual commitment in case of other obligations.

Purchase and sale commitments:

They are entered based on contracts in force as on the date of closing the accounts, or, where contracts have partially been performed, limited to their residual part.

Other interim accounts:

- collateral or personal guarantees received are recorded at the amount corresponding to the actual commitment;
- third-party properties held by the company are entered at their current value;
- properties received under lease are entered at the nominal amount of the lease fees yet to be paid increased by redemption value;
- properties owned by the company and held by third parties are entered at their net book value;
- third-party guarantees securing the company debts or other obligations are entered at the amount corresponding to the actual commitment.

Part B – Balance Sheet Information

Below is an analysis of the asset values of the Alitalia balance sheet at 31 December 2013

ASSETS:

A) ***DUE FROM SHAREHOLDERS FOR OUTSTANDING PAYMENTS*** – this item was equal to zero in both periods under comparison.

B) **B)** ***FIXED ASSETS*** were as a whole equal to K€ **1,381,332** and show a net reduction of K€ **62.503** at the end of the previous financial year. Below is a breakdown of this item:

I) ***INTANGIBLE FIXED ASSETS*** amounted to K€ 363.826, with a decrease of K€ 39.329 in rispect to 31 December 2012; the table below shows a further breakdown of this item

INTANGIBLE FIXED ASSETS	**Machinery and expansion costs**	**Concession, licences & trademarks**	**Fixed assets in progress & advance payments**	**Start-up costs**	**Other**	**Total**
Book value at 31/12/2012	**9,081**	**17,484**	**6,145**	**306,653**	**63,792**	**403,155**
of which : Cost	*44,005*	*23,663*	*6,145*	*382,624*	*102,737*	*559,174*
Amortisation to date	*(34,924)*	*(6,178)*	*0*	*(75,971)*	*(38,946)*	*(156,019)*
Cost at 1 January 2013	**44,005**	**23,663**	**6,145**	**382,624**	**102,737**	**559,174**
Increases		4,874	22,185		52,805	79,864
Reclassifications		5,208	(2,113)		8,025	11,120
Decreases					(717)	(717)
Cost writedowns				(71,870)	(421)	(72,291)
Cost at 31 December 2013	**44,005**	**33,745**	**26,216**	**310,754**	**162,429**	**577,149**
Amortisation at 31/12/2012	**(34,924)**	**(6,178)**	**0**	**(75,971)**	**(38,946)**	**(156,019)**
Amortisation for the year	(8,792)	(3,463)		(19,172)	(26,016)	(57,443)
Decreases in provisions					138	138
Amortisation at 31/12/2013	**(43,716)**	**(9,641)**	**0**	**(95,143)**	**(64,824)**	**(213,324)**
Book value at 31/12/2013	**289**	**24,104**	**26,216**	**215.611**	**97,606**	**363,826**

In further detail:

1. **Establishment and expansion costs**, equal to K€ 289, recorded a net drop of K€ 8,792 attributable to the amortisation charges for the period.

   This items mainly for the start-up of its scheduled air transport operations, such as consultancy, notarial expenses, industrial advisor fees and costs of market analyses and surveys in 2009. These costs were all entered with the Auditing Board’s consent.

3. **Industrial patents and intellectual property rights**, for K€/24.104, increased by a net amount of K €/ 6.620, mainly due to:

- the increase arising from the capitalisation of licences and software development totalling € 4,874 thousand, relating to the Microsoft licences (€ 2,265 thousand), VM-Ware licence (€ 302 thousand), CRM software (Customer Relationship Management) of € 395 thousand and Restyle Alitalia.com of € 226 thousand, as well as other software development projects (€ 1,686 thousand),
- a positive reclassification from the item Work in progress and advances under “Intangible fixed assets”, for K€/ 5.208, specifically consisting of developing work for CRM software (K€/ 2.763), In Fleet Entertainment (K€/ 518), production-area dashboard software (K€/ 371) and other software, including Archimede and new developments on AMOS (K€ 1,556)
- amortisation charges for the period K€/ 3.463.

5. **Goodwill**, equal to K€ 215.611 showes a reduction of K€ 91.043 from the level at 31 Dec. 2012 as a consequence of, to the extent of K€ 71.870 the write-down of this item following the unsatisfactory result of the impairment test on load factor sensitivity, as confirmed by the preliminary results for the second half of 2014 and, to the extent of K€ 19.172, the amortisation charges for the period equal the residual value resulting from the following subitems

- K€ 206,438 worth of the partial carve-out of Airone’s assets and their acquisition by Alitalia on 16 November 2009, fully described in the financial accounts of the Company and the Group at 31 Dec. 2009, reference to which is hereby made;

- K€ 9.173 worth of the merger difference arising from the acquisition by and merger into Air One of the subsidiary European Avia Service on the same date;;

Considering the peculiar characteristics of the aviation industry, goodwill is amortised over twenty years, which corresponds to four business cycles (a cycle in the aviation sector lasts five years on average), i.e. the estimated time required for recovering the amount.

6. **Work in progress** and advances amounted to K€ 26.216, showing an increase of K€ 20.071. That variation is mainly ascribable to the new investments worth K€ 22.185, in total and related to the capitalisation of:
   - software projects in the process of being implemented (K€ 10,322, among which the Linkage project for K€ 5.009, a web restyling project in 2013 for K€ 2.190 and other software projects for K€ 3,123);
   - cost on internal personnel used for new product activities, mainly IT area € 3,657 thousand;
   - improvements on third party fleets €/mgl 8.206.

The above amounts were partially set off against a reclassification to item *Industrial patents and intellectual property rights* for the concluded software development projects worth K€ 4,690, to item “*Other intangible* *fixed assets"* worth K€ 229 and other reclassifications worth € 68 thousand, as well as the amount included in Other fleet works in progress under tangible fixed assets of € 2,873 thousand**.**

7. **Others** worth €/mgl 97.606, have contributed to a growth of €/mgl 33.815 in respect to 31 december 2012, as a result of:
   - total investments for the period of € 52,806 thousand, of which € 50,116 thousand relate to maintenance on third-party fleet such as shop visits on engines (€ 19,474 thousand), Check C - 2C overhaul (€ 13,458 thousand), P modifications on engines (€ 1,707 thousand), overhaul of Thrust Reverser components and air intakes (€ 2,620 thousand), cell tests (€ 6,899 thousand), maintenance on landing gear (€ 2,847 thousand), and other improvements (€ 3,110 thousand); further increases concerned leasehold improvements of assets such as agencies and offices of € 2,111 thousand;
   - a positive reclassification of the item "Work in progress" of tangible fixed assets of € 8,025 thousand, relating to cell tests (€ 2,440 thousand), shop visit of engines (€ 2,597 thousand), improvements to third-party aircrafts (€ 1.172 thousand) as well as civil engineering works and plants for offices and agencies (€ 1,816 thousand);
   - depreciation charges for the year of € 26,016 thousand.

II) TANGIBLE FIXED ASSETS were equal to K€ **257.010, showing a decrease of K€ 66.721 compared to** the previous financial year, as broken down in the table below:

TANGIBLE FIXED ASSETS	Fleet	Other plant & machinery items	Industrial & commercial equipment	Other tangible assets	Work in progress and advances	Total
Cost at 31/12/2012	**374,327**	**9,355**	**13,785**	**32,339**	**21,861**	**451,667**
Accumulated depreciation at 31/12/2012	**(99,229)**	**(4,476)**	**(4,499)**	**(19,732)**	**-**	**(127,936)**
Net book value at 31/12/2012	**275,098**	**4,879**	**9,286**	**12,608**	**21,861**	**323,731**
Cost at 1 January 2013	**374,327**	**9,355**	**13,785**	**32,339**	**21,861**	**451,667**
Increases	28,283	375	633	1,649	6,873	37,813
Reclassifications	120	49	1.543	1.263	(17.014)	(14.039)
Debits	(70,919)	(2)	(1,270)	(58)		(72,249)
Write-downs						-
Costo al 31 dicembre 2013	**331,811**	**9,777**	**14,691**	**35,193**	**11,720**	**403,192**
Amortisation at 31/12/2012	**(99,229)**	**(4,476)**	**(4,499)**	**(19,732)**	**0**	**(127,936)**
Amortisation for the period	(30,663)	(1,143)	(1,611)	(4,219)		(37,636)
Debit fund	18,137	1	802	58		18,998
Reclassifications	392					392
Amortisation at 31/12/2013	**(111,363)**	**(5,618)**	**(5,308)**	**(23,893)**	**0**	**(146,182)**
Net book value at 31/12/2013	**220,448**	**4,159**	**9,383**	**11,300**	**11,720**	**257,010**

Di seguito si analizzano, per singola categoria, le principali movimentazioni intervenute nel corso dell'esercizio 2013:

2. **Plant and machinery**, equal to € 224,607 thousand, fell considerably by € 55,370 thousand due to the following changes:
   - ✓ € 54,650 decrease relating to the fleet, mainly as a result of:
     - € 30,663 thousand depreciation charges for the year;
     - € 52,782 thousand reduction associated with the sale of a B777 I-DISA brand aircraft to the Irish company APC12 (€ 43,486 thousand) and the sale/obsolescence of rolling stock (€ 8,668 thousand);
     - € 28,283 thousand capitalisation of maintenance work on own aircrafts and engines concerning the purchase of a CF6-80 spare engine costing € 14,688 thousand, spare parts for € 5,656 thousand, cyclical overhauls of cells, apu [??] and landing gear for € € 7,654 and, finally, the overhaul of Thrust Reverse components and air intakes for € 265 thousand;
     - net negative reclassifications of € 512 thousand;
   - ✓ Net reduction of € 720 thousand relating to other plant as a result of the depreciation charges for the year (€ 1,143 thousand), partly offset by increases in investments (€ 375 thousand).

   Please note that, in order to secure the bank loans granted, mortgage guarantees were issued on the following aircraft owned by the **Company:**

Family	Number of Mortgaged Aircraft
A-321	1
A-320	4
A-319	1
B777	1
Totale	**7**

3. **Industrial and commercial equipment** amounting to € 9,382 thousand, highlighted a € 97 thousand increase mainly represented by:
   - new purchases (€ 633 thousand) and reclassifications from "Fixed assets in progress and advance payments" (€ 1,422 thousand) and "Assets held for sale" (€ 121 thousand);
   - € 1,611 thousand decrease for depreciation charges for the year;
   - net decrease of € 468 thousand principally related to the disposal of test benches.

4. **Other assets** amount to € 11,300 thousand and show a reduction of € 1,307 compared to 31 December 2012.

This reduction is comprised of the following:

- a € 30,663 thousand decrease for depreciation charges for the year;
- a € 1,649 thousand increase for new purchases of computer tablets for the Marketing Revenue and Network Department, to be used for Entertainment services on board of aircrafts and for the server capacity expansion;
- positive reclassification of "Fixed assets in progress and advance payments" of € 1,263 thousand mostly attributable to large part of the equipment for the Datawarehouse infrastructure and the supply of hardware for the wireless infrastructure of the Amos project for the warehouses and the hangar based in Fiumicino.

5. "**Fixed assets in progress and advance payments**" totalled € 11,720 thousand, reporting a reduction of € 10,141 thousand related to:

- the total reclassification of € 17.014 thousand, mainly to the item "Other intangible fixed assets", for improvements and sundry overhauls of third party fleet of € 8,933 thousand and the other intangible asset items of € 2,086 thousand; further reclassifications relate to tangible fixed assets of € 2,702 thousand, as well as € 1,922 thousand to sundry adjustments to Inventories, giros from technical stock and others; the remaining balance of € 1,371 thousand instead relates to the reimbursement to Alitalia of the balance of the amount paid by the latter in 2011 for the option to purchase of a fleet from Embraer, Empresa Brasileira de Aeronautica; this transaction was never finalised;
- a € 6,873 thousand increase relating to advances for maintenance still under way at the balance sheet date on aircrafts and engines for € 2,015 and other work in progress, totalling € 4,857 thousand.

III) FINANCIAL FIXED ASSETS, had a value of K€ 760.496, an increase on the previous year of K€ 43.547, as detailed below:

1. ***Investments,*** amounting to € 361,764 thousand, highlight a reduction of € 2,076 thousand as follows:

a) **Investments in subsidiaries**, amounting to € 359,522 thousand, showed a reduction of € 1,706 thousand attributable to:

- The write-down in the value of the investment in Air One of € 112,376 and Alitalia CityLiner of € 35,367 thousand following the results of the impairment test.
- the making up of the losses of CAI First totalling € 32,463 thousand, through contributions for future capital increases of € 28,100 thousand and the partial use of the share premium account of € 4,363 thousand, as resolved by the Extraordinary Shareholders' Meeting of 19 April 2013.
- the transfer of the "Mille Miglia" business unit to Alitalia Loyalty for € 150,000 thousand;

- The payments for future capital increases to the companies CAI First of € 3,500 thousand, Airone of €20,000 thousand and Alitalia CityLiner of € 5,000 thousand, made in March, May and November 2013 respectively.

At 31 December 2013 the balance comprised:

Investments in subsidiaries ***amounts in €'000***	**Air One S.p.A.**	**Challey Ltd**	**Alitalia CityLiner S.p.A.**	**C.A.I. FIRST S.p.A.**	**C.A.I. SECOND S.p.A.**	**Alitalia Loyalty**	**Total**
Location	*Fiumicino (RM)*	*Dublin*	*Fiumicino (RM)*	*Fiumicino (RM)*	*Fiumicino (RM)*	*Fiumicino (RM)*	
Ownership percentage	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	
Balance at 31/12/2012	**155,440**	**90,087**	**55,362**	**31,720**	**28,620**	**0**	**361,229**
Purchases/subscriptions						**150,000**	**150,000**
Payments towards investments	**20,000**		**5,000**	**3,500**			**28,500**
Write-downs	**(112,376)**		**(35,368)**	**(32,463)**			**(180,207)**
Balance at 31/12/2013	**63,064**	**90,087**	**24,994**	**2,757**	**28,620**	**150,000**	**359,522**

d) Investments in other companies of € 2,242 thousand registered a negative change of € 369 thousand compared to the previous financial year, fully due to the complete write-down of the value of the investment in AMS Holding s.r.l.

On 31 Dec. 2013, based on the available financial data, Alitalia also set aside a provision for investees' costs of K€ 1,812, which was then reduced to K**€ 585** on the same date for the payment of K€ 1,223 made pursuant to the Memorandum of Understanding signed with the other owner EAT which, jointly with another partner **Iniziativa Prima S.r.l.** makes up the ownership with **Alitalia di AMS Holding S.r.l.**

In the second half of 2013 AMS S.p.A., an operating company wholly controlled by Iniziativa Prima S.r.l., applied for a preliminary arrangement with creditors on a going-concern basis, whose outcomes will be decisive for the future of the company and the participating interests in its capital.

In that context, with regard to the contract for the maintenance of CFM-56 engines for A320 legacy aircraft signed between Alitalia and AMS S.p.A. in 2010, as AMS S.p.A. is not in a position to complete the contracted services for lack of the required materials, the Engines Agreement signed in 2010 was amended for each engine to the effect of stipulating that Alitalia shall procure materials either directly or through third parties including IAI Bedek.

As of 31 December 2013 they were made up in the following way:

Investments in other companies amounst in €	**SITA SC**	**SITA Group Foundation**	**Atitech S.p.A.**	**AMS Holding S.r.L.**	**CICA Terminal Equipment Corporation**	**WHEEL TUG PLC**	**Total**
Location	*Bruxelles*	*Amsterdam*	*Naples*	*Rome*	*Chicago*	*Gibraltar*	
Ownership percentage	*1.48%*	*1.12%*	*15%*	*15%*	*3%*		
Balance at 31/12/2012	**92**	**308,027**	**1,875,002**	**369,378**	**58,901**	**1**	**2,611,401**
Purchases/subscriptions							**0**
Write-downs				**(369,378)**			**(369,378)**
Disposals							
Payments towards investments							
Balance at 31/12/2013	**92**	**308,027**	**1,875,002**	**0**	**58,901**	**1**	**2,242,023**

2. **Financial receivables** of € 398,732 thousand, showed a net increase of € 45,623 thousand compared to 31 December 2012; the main changes are highlighted in the following table:

Financial fixed assets	**31.12.2012**	**Disbursem.**	**Repaym.**	**Adjustment for currency conversion**	**Bad debts**	**Reclassif.**	**31.12.2013**
a) Receivables from subsidiaries							
Collateral deposits	30,000						30,000
Financial receivables	76,967		(8,732)				68,235
Total receivables from subsidiaries	**106,967**	**-**	**(8,732)**	**-**		**-**	**98,235**
a) Receivables from others							
Collateral deposits	65,357	2,002	(5,431)	(2,347)		(484)	59,097
Financial rec. for maintenance reserve	179,280	83,193	(9,489)	(10,152)	(2,844)		239,988
Other financial receivables	1,505	62	(153)	(3)			1,412
Total receivables from others	**246,142**	**85,257**	**(15,073)**	**(12,502)**	**(2,844)**	**(484)**	**300,497**
Total	**353,109**	**85,257**	**(23,805)**	**(12,502)**	**(2,844)**	**(484)**	**398,732**

More specifically:

a) **Receivables from subsidiaries** of € 98,235 thousand showed a net reduction of € 8,732 thousand, linked to the reimbursements made in the financial year.

b) **Other receivables** of € 300,497 thousand (of which € 12,296 thousand due within one year) highlighted a net increase of € 54,355 thousand which is mainly attributable to:

- ✓ Increase of € 85,257 thousand for new disbursements made in the period, mainly relating to the receivables for maintenance reserve of € 83,193 thousand and € 2,002 to the receivables for collateral deposits;
- ✓ The reimbursements received in the year of € 15,073 thousand mainly due to € 9,489 thousands for the recovery of maintenance reserve receivables linked to maintenance performed in 2013, as well as € 5,431 reimbursement of collateral deposits;

- ✓ the reduction of € 12,502 thousand relates to the conversion of foreign currency balances at the exchange rates ruling at the year end;
- ✓ the decrease of € 2,844 thousand for bad debts incurred in the period with regard to receivables for maintenance reserve (nonetheless fully offset by an equal reduction in maintenance charges).

C) CURRENT ASSETS amounting to € 756,849 thousand increased by € 3,138 thousand compared to 31 December 2012, and comprise:

I) INVENTORIES amounting to € 56,249 decreased by € 8,814 and are made up as follows:

Inventories	**31.12.2013**	**31.12.2012**	**Change**
Technical material and other consumables			
- Spare parts and technical stock	48,856	46,992	1,864
- Sundry material	5,418	6,164	(746)
	54,274	**53,156**	**1,118**
Assets held for sale			
- MD80	1,074	4,627	(3,553)
- CRJ900	901	901	0
- B767	0	6,379	(6,379)
	1,975	**11,907**	**(9,932)**
Total	**56,249**	**65,063**	**(8,814)**

The negative variation of K€ **8.814** resulted from a reduction in assets available for sale of K€ **9.932,** as a result of sales made during the year of MD80/MD82 aircraft, a spare engine and rotables for B767 aircraft (whose residual values had originally been reclassified to this item as they related to aircraft in the process of being phased out), that reduction, together with reduced material stocks for in-flight services worth K€ 746, was only partially counterbalanced by an increase in technical materials worth **K€ 1.864** (following the use of the depreciation provision motivated by the sale of spares from aircraft under phase-out).

***II) RECEIVABLES on 31 December 2013 had a value of* K€ 606.759, a drop compared to the previous year of K€ 26.443.**

They can be broken down as follows:

1. **Trade receivables** amounting to € 265,320 thousand (of which € 24,203 thousand due after more than one year), thus reporting a net reduction of € 39,377 thousand that can be analysed as follows:

RECEIVABLES:	31.12.2013	31.12.2012	Change
Trade:			
Ordinary customers	90,723	84,544	6,179
Provision for bad debts	(1,533)	(747)	(786)
Airlines	56,553	104,242	(47,689)
Provision for bad debts	(711)	(572)	(139)
Travel agents	123,612	120,004	3,608
Provision for bad debts	(3,324)	(2,774)	(550)
Total	**265,320**	**304,697**	**(39,377)**

These decreases are mainly ascribable to:

- lower amounts due from Airlines for K**€ 47.828,** mainly related to the reduction in the receivable from Delta Airlines and Virgin for the amount received for the sale of slots at London airports; at 31 December 2013 the item collected amounts deriving from signing bonuses of € 31,329 thousand of which € 22,938 thousand due after more than one year.
- the increase in trade receivables of € 5,393 thousand, mainly for higher sales through credit cards;
- the increase in receivables from travel agents of € 3,058 for higher sales not yet collected;

Against the full (or partial) amount of the foregoing receivables deemed uncollectible, we highlight an adjustment provision which was appropriated of which the overall amount as on 31 December was equal to K€ **5.568.**

2. **Receivables from subsidiaries** of € 221,510 thousand highlighted and increase of € 16,097 thousand analysed as follows:

RECEIVABLES:	31.12.2013	31.12.2012	Change
Subsidiaries			
Trade receivables:			
- Irish companies	461	18,167	(17,706)
Total trade receivables	**461**	**18,167**	**(17,706)**
Financial receivables:			
- AIR ONE S.p.A.	14,811	14,807	4
- CAI First S.p.A.			0
- CAI Second S.p.A.			0
- Cityliner S.p.A.	31,355	8,336	23,019
- Società Irlandesi	174,883	164,103	10,780
Total financial receivables	**221,049**	**187,246**	**33,803**
Total	**221,510**	**205,413**	**16,097**

The reduction in trade receivables of € 17,706 thousand is attributable to the collection of the balance of receivables at 31 December 2012 following the sale of a B777 aircraft to the company APC12.

On the other hand, financial receivables increased by € 33,803 thousand mostly as a result of what matured on the centralised treasury towards Alitalia CityLiner and Challey.

4bis. Tax credits, amounting to € 14,493 thousand, increased by € 4,161 thousand, mainly due to IRAP tax paid in advance.

4ter. Advance tax payments amounting to € 26,376 thousand increased by € 2,005 thousand compared to 31 December 2012.

5. Receivables **due from others** amounted to K€ **79.060** (of which K€ 16,405 due after the end of the financial year), i.e. down K€ **9.328,** from the previous year, as shown in the table below:

RECEIVABLES:	**31.12.2013**	**31.12.2012**	**Change**
Others:			
Sundry debtors	66,298	73,585	(7,287)
Insurance companies	159	38	121
Staff accounts	4,776	3,924	852
Advances to suppliers	6,094	9,209	(3,115)
Short-term financial receivables	7,525	6,348	1,177
Provision for bad debts	(5,680)	(4,611)	(1,069)
Provision for late payment interest	(112)	(105)	(7)
Total	**79,060**	**88,388**	**(9,328)**

This change is mainly attributable to the following events:

- reduction in other receivables of € 7,287 mainly due to lower receivables for revenues from Millemiglia Commercial Partnerships following the sale of the "MilleMiglia" business unit to the subsidiary Alitalia Loyalty (€ 7,645 thousand), less balances to settle (€ 3,988 thousand), and lower amounts to be collected from INPS (€ 2,617 thousand), partly offset by higher receivables to be collected for signing bonuses (€ 4,465 thousand), for advertisements (€ 859 thousand) and for recovery of charges from subsidiaries (€ 494 thousand);

  At 31 December 2013 the item contained amounts relating to the signing bonuses of € 22,027 thousand of which € 10,586 thousand due after more than one year based on the terms of the contract;
- reduction in advances to suppliers of € 3,115 thousand, mainly relating to fuel;
- higher receivables from personnel of € 852 thousand, mainly for advances granted;

Against the full (or partial) amount of the foregoing receivables deemed uncollectible, an adjustment provision was appropriated whose overall amount as on 31 December 2013 was equal to K€ **5.792.**

IV) LIQUID ASSETS, amounting to € 73,773 thousand increased by € 18,327 thousand analysed as follows:

LIQUID ASSETS	31.12.2013	31.12.2012	Change
Bank and postal deposits	25,636	19,291	6,345
Cash and other liquid assets on hand	539	516	23
Bank deposits subject to restrictions	112,007	40,461	71,546
Provision for write-down of liquid assets	(64,409)	(4,822)	(59,587)
Totale	**73,773**	**55,446**	**18,327**

Bank deposits subject to restriction are shown in the table below before the write-down provision:

BANK DEPOSITS SUBJECT TO RESTRICTIONS	31.12.2013	31.12.2012	Change
Iran	8.402	9.644	(1.242)
Venezuela	100.347	24.510	75.837
Libya	1.281	3.773	(2.492)
Algeria	1.977	2.534	(557)
Total	**112.007**	**40.461**	**71.546**

Per le giacenze di cassa presenti in Venezuela ed in Iran è in essere il fondo svalutazione disponibilità liquide rispettivamente per €/mgl 60.208 e per €/mgl 4.201, al fine di adeguare il valore nominale di tali disponibilità liquide al valore di presumibile realizzo a seguito delle restrizioni d'uso alle quali gli stessi sono soggetti.

E) ACCRUED INCOME AND PREPAID EXPENSES amounted to K€ **30.022,** thus increasing K€ 2,871 in comparison with 31 Dec. 2012, as detailed in the table below:

PREPAID EXPENSES AND ACCRUED INCOME	31.12.2013	31.12.2012	Change
staff	1,822	1,855	(33)
leasehold assets	18,698	22,375	(3,677)
services	9,008	6,988	2,020
other	494	2,004	(1,510)
Total	**30,022**	**33,222**	**(3,200)**

Please note that no amounts were recognised with a duration in excess of five years.

NET EQUITY AND LIABILITIES:

A) NET EQUITY amounting to € 213,006 thousand, comprises the following items:

I. SHARE CAPITAL amounting to € 270,677, at 31 December 2013 was represented by no. 7,185,758,487 ordinary shares and no. 167,088,836 special Class B shares, all with no par value as resolved by the Extraordinary Shareholders' Meeting of 22 February 2013; it is fully paid up and, compared to the balance shown in the financial statements at 31 December 2012, it showed a net decrease of € 397,678 thousand related to the resolution passed by the Extraordinary Shareholders' Meeting of 14/15 October 2013 which decided to (i) fully make up the loss reported at 30 June 2013 and all the losses carried forward totalling € 908,857 thousand partly using the share capital for € 407,678 thousand (moving from € 668,355 thousand registered at 31 December 2012 to € 260,677 thousand), and existing reserves for a total of € 501,179 thousand, as well as (ii) increase the share capital by € 10,000 thousand.

II. The item **SHARE PREMIUM RESERVE** was K€ 290,000, down K€ 211,156 from the level at 31 Dec. 2012. This variation is ascribable to the utilisation of the reserve value as on the end of the previous financial year to the extent of K€ 501,156 for the full coverage of losses, as already disclosed in the comment on the previous item, and for setting aside a new share premium reserve of K€ 290,000, pursuant to the resolution adopted by the extraordinary Shareholders Meeting of 14/15 October 2013.

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For more details on changes in share capital please refer to the specific paragraph of the report called "Share capital changes".

It is however worth noting that, on the date the exercise of the rights to convert the convertible debenture loan resolved by the Extraordinary Shareholders' Meeting of 22 February 2013 into shares was completed and the debentures converted into shares (option to exercise the rights had been extended to 10 January 2014) the share capital was € 341,095,182.

The following table shows variations on shares per shareholder from 1 Jan. to 31 Dec. 2013:

Alitalia - Compagnia Aerea Italiana S.p.A.			2013			
N.	Company	No. of shares 31.12.2012	Change in 2013	No. of shares 31.12.2013	Type of share	Amount %
1	Poste Italiane		1,671,122,994	1,671,122,994	O	**22.728%**
2	Intesa Sanpaolo S.p.A.	59,187,644.00	1,588,680,910	1,647,868,554	O	**22.411%**
3	Unicredit		1,114,081,980	1,114,081,980	O	**15.152%**
4	IMMSI S.p.A.	47,341,361.00	623,885,917	671,227,278	O	**9.129%**
5	Atlantia S.p.A.	59,175,680.00	579,322,638	638,498,318	O	**8.684%**
6	Odissea		334,224,599	334,224,599	O	**4.546%**
7	Macca S.r.l.	9,472,083.00	268,011,742	277,483,825	O	**3.774%**
8	Pirelli & C. S.p.A.	11,838,402.00	167,878,268	179,716,670	O	**2.444%**
9	Air France - KLM S.A.	167,088,836.00	-	167,088,836	B	**2.272%**
10	Ottobre 2008 S.r.l.	7,705,846.00	110,640,072	118,345,918	O	**1.610%**
11	Finanziaria di Partecipazioni e Investimenti S.p.A.	11,838,402.00	89,126,560	100,964,962	O	**1.373%**
12	FIRE S.p.A.	71,009,999.00	-	71,009,999	O	**0.966%**
13	I2 Capital Portfolio S.p.A.	5,917,160.00	50,289,662	56,206,822	O	**0.764%**
14	Aura Holding S.p.A.	8,875,740.00	33,500,000	42,375,740	O	**0.576%**
15	Marcegaglia S.p.A.	5,921,243.00	34,000,000	39,921,243	O	**0.543%**
16	Toto S.p.A.	35,514,220.00	-	35,514,220	O	**0.483%**
17	T.H. S.A.	35,502,959.00	-	35,502,959	O	**0.483%**
18	Fondiaria - SAI S.p.A.	29,589,882.00	-	29,589,882	O	**0.402%**
19	Loris Fontana & C. S.a.p.A.	5,917,160.00	19,726,637	25,643,797	O	**0.349%**
20	Equinocse S.A.R.L.	25,447,299.00	-	25,447,299	O	**0.346%**
21	G. & C. Holding S.r.l.	20,710,059.00	-	20,710,059	O	**0.282%**
22	Solido Holding S.p.A.	17,752,050.00	-	17,752,050	O	**0.241%**
23	Acqua Marcia Finanziaria SpA	11,838,402.00	-	11,838,402	O	**0.161%**
24	GFMC S.r.l.	11,834,320.00	-	11,834,320	O	**0.161%**
25	Vitrociset S.p.A.	8,876,597.00	-	8,876,597	O	**0.121%**
				-		
	TOTALE	**668,355,344.00**	**6,684,491,979**	**7,352,847,323**		**100.00%**
			di cui:	***5,704,978,769***	*O*	*ordinary shares*
				167,088,836	*B*	*category B shares*

VII. OTHER RESERVES, amounting to € 37,467 thousand, relate to the Reserve for conversion that was set up following the partial conversion into ordinary shares of the convertible debenture loan issued as per resolution passed by the Extraordinary Shareholders' Meeting of 22 February 2013.

As the Regulations provide that the conversion rights can be exercised until 10 January 2014, the debentures converted at 31 December 2013 have not yet been recorded as share capital in these financial statements, but booked in the specific reserve.

At 11 January 2014, after filing the statements pursuant to art. 2420 bis and 2444 of the Civil Code with the competent Companies' Register Office, the amounts contained in the aforesaid reserve were recorded in "share capital".

In the previous financial year the amounts were equal to € 23 thousand and related to the Reserve to cover losses, set up following the resolution passed by the Shareholders' Meeting of 26 August 2008, which in 2012 was fully used up to make up prior years' losses, as already commented in the notes of other items of net equity.

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VIII. LOSSES CARRIED FORWARD had a nil balance due to the making up of € 736,908 thousand losses relating to losses accumulated at 31.12.2012, as resolved by the Extraordinary Shareholders' Meeting of 14/15 October 2013 .

IX. LOSS FOR THE PERIOD was a final balance of K€ 557.087; net of the coverage for the consumptive loss of K€ 171.949 at 30 June 2013, as decided by the Shareholders Meeting of Alitalia on 14/15 October 2013; the loss for the period was down to K€ 385.138 which compares to an equally negative result of K€ 225.130 recorded al 31 December 2012.

X. The changes in Net equity during the year are shown in the table below:**:**

PROSPETTO DELLE VARIAZIONI DI PATRIMONIO NETTO

Thousand euros	**Share Capital**	**Share premium reserve**	**Profit & losses carried forward**	**Profit & losses Of the year**	**Payments for subscription to debenture conversion shares**	**Reserve to cover losses**	**Total**
Balance at 31 December 2010	**668,355**	**501,156**	**(377,462)**	**(72,788)**		**23**	**719,285**
Distribution of profits and losses			(72,788)	72,788			0
Result for the year				**(61,529)**			(61,529)
Balance at 31 December 2011	**668,355**	**501,156**	**(450,250)**	**(61,529)**		**23**	**657,756**
Distribution of profits and losses			(61,529)	61,529			0
Result for the year				**(225,130)**			(225,130)
Balance at 31 December 2012	**668,355**	**501,156**	**(511,779)**	**(225,130)**		**23**	**432,626**
Distribution of profits and losses			(225,130)	225,130			0
Loss covering fund	(407,678)	(501,156)	736,909	171,949		(23)	0
Shareholders subscription	10,000	290,000			37,467		337,467
Result for the year				**(557,087)**			(557,087)
Balance at 31 December 2013	**270,677**	**290,000**	**0**	**(385,138)**	**37,467**	**0**	**213,006**

B) **PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES**, amounting to € 238,145 thousand increased by € 19,672 thousand compared to the previous financial year and are represented by:

euro/mgl

PROVISIONS FOR LIABILITIES AND CAHRGES	31.12.2012	Appropriator to profit & loss ccount	Currency adjustment	Direct prov. utilisator	Riclassific	Absorbations	31.12.2013
2. Provision for taxes, including deferred t.							
3. Other provisions:							
a) Disc. coup.& frequent flyer programme	**21,667**	**1,941**		**(5,184)**	**(1,941)**	**(16,483)**	**0**
b) Technical area provision	**163,776**	**98,176**	**(9,181)**	**(8,720)**		**(24,296)**	**219,755**
c) Sundry provisions							
- Coverage of investees' losses	**0**	**1,812**		**(1,223)**			**589**
- Miscellaneous risks :							
. Civil litigations	1,992	3,555				(356)	5,191
. Disputes with suppliers	13,865	972			44	(13,204)	1,677
. Labour disputes	1,017	689		(196)			1,510
. Labour disputes abroad	1,910						1,910
. Transport disputes abroad	2,500	1,497		(893)			3,104
. Tax disputes abroad	368	100					468
. Transport & regulatory disputes	1,800	2,928		(1,954)			2,774
. Fleet phase-out	9,578	440		(8,851)			1,167
- Total fund for liabilities and various risks	**33,030**	**10,181**	**0**	**(11,894)**	**44**	**(13,560)**	**17,801**
Total other funds	**33,030**	**11,993**	**0**	**(13,117)**	**44**	**(13,560)**	**18,390**
Total fund for liabilities and charges	**218,473**	**112,110**	**(9,181)**	**(27,021)**	**(1,897)**	**(54,339)**	**238,145**

In further detail:

2. **Provision for taxes, including deferred taxes was zero in both the periods in comparison.**

3. **Other provisions**, amounting to € 238,145 thousand increased by € 19,672 compared to 31 December 2012 and are analysed as follows:

   - **Provision for competitions and award programs**, had a nil balance due to the closure, at 31 December 2012, of the MilleMiglia award program compared to a balance of € 21,667 in the previous financial year. It is worth noting that the regulation of the competition provided that customers could convert the miles earned into free ticket until 30 June 2013 therefore the reduction of € 21,667 thousand is related to the balance of pmiles used and earned in the period; the new MilleMiglia program launche on 1 January 2013 is instead managed by Alitalia Loyalty a newly set-up company to which Alitalia transferred the related business unit;

   - the **technical area provision**, which includes the provisions made for maintenance required by third-party aircraft amounted to € 219,755 thousand, reporting an increase of € 55,979 thousand compared to the balance at the end of the 2012c financial year;

   - **Other provisions**, equal to € 18,390 thousand, decreased by € 14,640 thousand. They can be broken down as follows:
     - A **provision for the coverage of investees' losses** worth K€ 589, which corresponds to the commitment assumed by Alitalia to cover the losses of AMS Holding, as already described in the comments on item "Equity holdings" of these Notes, reference to which is hereby made

- **Provisions for miscellaneous** risks, in the amount of K€ 17.801, which were down K€ 15.229, as a result of the following:
  - absorption of previous provisions for K€ 13.560, relative mainly to an amount appropriated in the previous years for litigations with handling service providers, following the settlement agreement concluded with the company Aeroporti di Roma;
  - the provision of € 10,181 thousand relating to the dispute risks: ground area airport suppliers (€ 621 thousand), regulatory/transportation claims (€ 2,928 thousand), foreign transport claims (€ 1,497 thousand), civil litigations (€ 3,555 thousand), labour litigations (€ 689 thousand) and for charges associated with the phase-out of 6 A321 aircrafts (€ 440 thousand);
  - total use of € 11,894 thousand previously provided for regulatory and transport risks (€ 1,954), foreign transport claims (€ 893 thousand), labour litigations (€ 196 thousand) and for the phase-out of MD80 and B767 aircrafts (€ 8,851 thousand).
    Please note that the use of the provisions concerning the phase-out of aircrafts must be evaluated in conjunction with what was highlighted in the note on "Inventories", sub-heading "assets held for sale", that should be referred to;

The following is worth noting following, the evaluations made by the Directors with the assistance of, *inter alia*, the defence counsels engaged for other disputes for which no provision was deemed necessary (for further details, kindly refer to Part D of these Notes):

- the risk of an unfavourable pronouncement in the dispute with Wind Jet, with a sought remedy of around M€ 260 in total, was appraised by the Company' legal advisors as remote, which made any appropriations in such respect unnecessary on the basis of the applied accounting principles;
- the risk of an unfavourable pronouncement with respect to the counterclaim for M€ 120 filed by Toto and Ap Fleet, for damages worth M€ 150 on the ground of fraudulent solicitation to execute the agreement for the acquisition of Air One's block of shares, was deemed possible; for this reason, always relying on the applied accounting principles, mention is made herein to that risk, although, as said above, the Directors decided not to make any appropriations in such respect on the basis of the opinion issued by their legal advisors and defence counsels;

C) PROVISION FOR SEVERANCE INDEMNITIES, amounting to € 10,046 thousand, fell by € 489 thousand compared to the previous financial year and represents the amount due to the staff employed by the company at 31 December 2013, less any advances paid and in accordance with the provisions of Finance Act no. 296 of 27 December 2006.

D) PAYABLES amounted to € 1,680,766 thousand, an increase of € 116,821 thousand, as shown in the table below:

Payables	31.12.2013	31.12.2012	change
Convertible debentures	63,867	0	63,867
Payables to banks	257,389	377,132	(119,743)
Payables to other financial backers	159,467	157,871	1,596
Advances received	3,235	710	2,525
Trade payables	602,234	544,455	57,779
Payables to subsidiaries	171,346	86,213	85,133
Tax payables	10,784	10,626	158
Payables to welfare and social sec. institutions	54,597	28,619	25,978
Other payables :			
Prepaid tickets	281,832	282,945	(1,113)
Sundry payables:	76,014	75,373	641
Total Other payables	357,846	358,318	(472)
Total	**1,680,765**	**1,563,944**	**116,821**

In greater detail:

2. **Convertible bonds**, not present at 31 December 2012, were equal to K€ 63,867 (of which K€**30.956** payable by the end of the next financial year) and related to the issue of a convertible debenture loan resolved on by Alitalia's extraordinary Shareholders Meeting on 22 Feb. 2013. Of this value, the amount of K€ 6,334 was representative of interest payable accrued as on 31 Dec. 2013, calculated by applying an annual rate of 8%. In January 2014, of the debentures, a total of K€ 32,950, inclusive of interest was converted to share capital.

4. Payables due **to banks** decreased K€ 257,389, of which K€ 22,846 payable by the end of the next financial year showing a decrease of K€ 119,743, as shown in the following table:

Payables to banks	31.12.2013	31.12.2012	change
a) medium/long-term			
- due within one year	12,768	12,853	(85)
- due after more than one year	22,846	34,739	(11,893)
Total medium/long-term payables	**35,614**	**47,592**	**(11,978)**
a) short-term	221,775	329,540	(107,765)
Total	**257,389**	**377,132**	**(119,743)**

Medium/long-term payables of € 35,614 thousand (of which € 12,768 thousand due within one year) decreased by € 11,978 thousand as a result of the repayments made in the year.

As regards further information on the rates of the financial indebtedness and the risks associated with the changes in such rates, please refer to the note "Information on risks and uncertainties" contained in this Report.

Interest expense incurred in 2013 amount to € 18,987 thousand.

Alitalia has loan contracts in place which are included under financial payables which contain financial clauses requiring compliance with certain financial statement ratios and parameters (so-called covenants).
At 31 December 2013, the aforesaid parameters were not complied with for two loan contracts of € 107 million included in financial payables and, as a result, the financing company is granted the right to withdraw.

As regards the loan in place with SACE (€ 70 million), guaranteed by a mortgage on 4 A321 aircrafts, on 3 February 2014 the notice waiving the right to withdraw was obtained and, as a result, the company is not required to repay the loan in advance.

As concerns the loan contract with San Paolo/BPER Group, Alitalia has undertaken the necessary actions to avoid the early repayment of the loan, obtaining the availability of the banks also subject to a number of claims that are still pending.

Finally, please note that, in February 2014, in order to secure a further cash funding of M€ 150 in total granted by Istituto San Paolo, Unicredit and Monte dei Paschi di Siena, a pledge was executed on the brands and shares of Alitalia Loyalty. This agreement also contains covenants whose parameters will be assessed on an annual basis.

5. **Payables to other financial backers,** amounting to € 159,467 thousand, increased by € 1,596 thousand. They relate to loans granted by non-bank entities for “recourse factoring" transactions.

6. **Advances received**, amounting to € 3,235 thousand, increased by € 2,525 thousand and mainly relate to advances received by the Public Administration for tickets not yet issued at 31 December 2013.

7. **Trade payables** amounting to € 602,234 thousand increased by € 57,779 compared to 31 December 2012, as shown in the following table:

Trade payables	**31.12.2013**	**31.12.2012**	**change**
Sundry suppliers	563,705	496,554	67,151
Airlines	15,120	23,917	(8,797)
Travel agents	23,409	23,984	(575)
Total	**602,234**	**544,455**	**57,779**

The higher exposure is mainly related to payables to Italian and foreign suppliers for K€ 67,151, set off against lower payables to airlines for K€ 8,797 and to travel agents for K€ 575.

9. Payables to subsidiaries, amounting to € 171,346 thousand increased by € 85,133 thousand compared to the previous financial year, and are analysed as follows:

PAYABLES:	31.12.2013	31.12.2012	change
Subsidiaries			
Trade:			
- AIR ONE S.p.A.	25,743	33,624	(7,881)
- CAI First S.p.A.	8,713	3,532	5,181
- CAI Second S.p.A.	17,988	5,035	12,953
- Alitalia Loyalty	23,510	0	23,510
- CITYLINER S.p.A.	13,566	11,838	1,728
- Irish companies	35,335	11,033	24,302
Total trade payables	**124,855**	**65,062**	**59,793**
Financial payables:			
- Alitalia Loyalty	15,325	0	15,325
- CAI First S.p.A.	13,895	10,544	3,351
- CAI Second S.p.A.	17,271	10,607	6,664
Total financial payables	**46,491**	**21,151**	**25,340**
Total	**171,346**	**86,213**	**85,133**

12. Tax payables amounting to € 10,784 thousand increased by € 158 thousand compared to 31 December 2012.

13. The item **Due to welfare and social security institutions**, equal to K€ 54,597, exhibited a K€ 25,978, increase, mainly ascribable to higher payables to INPS (National Social Security Institute) for liabilities (+K€/mgl 23,401 following the payment by instalments of previous debts), to INAIL (+K€ 2,128) and to supplementary welfare and pension schemes (+K€ 1,615), partially counterbalanced by lower social charges for holidays accrued but not taken, and for end-of-year and summer-holiday bonuses (-K€ 1,016).

14. Other payables, for an overall amount of €K 357,846, exhibited a drop of K€ 472 as broken down below:

Other payables	31.12.2013	31.12.2012	change
Prepaid tickets	281,832	282,945	(1,113)
Insurance companies	2,564	1,989	575
Staff	27,576	34,874	(7,298)
Third-party collateral deposits	395	864	(469)
Sundry creditors	45,479	37,646	7,833
Total	**357,846**	**358,318**	**(472)**

The above variation is fundamentally ascribable to the following factors:

- Lower payables to staff of € 7,298 thousand mainly represented by remuneration due and holiday leave accrued and not taken;
- lower payables for prepaid tickets worth K€ 1,113;
- increase in sundry creditors of € 7,833 thousand, mainly related to the IRESA regional tax (€ 14,615 thousand) as well as fines and sanctions due to Air France and Messier Bugatti, partly offset by lower charges for non-free CO2 quotas associated with the ETS – Emissions Trading Scheme - (€ 3,341 thousand), and lower provisions for concession fees and charges relating to payments made on behalf of subsidiaries.

E) **ACCRUED EXPENSES AND DEFERRED INCOME** amounting to € 6,173 thousand increased by € 984 as follows:

Accrued expenses and deferred income	**31.12.2013**	**31.12.2012**	**change**
Accrued expenses	440	859	(419)
Deferred income	5,733	4,330	1,403
Totale	**6,173**	**5,189**	**984**

It is worth noting that of the balance, € 87 thousand is due after more than 5 years.

INTERIM ACCOUNTS

As on 31 December 2013 **interim accounts** amounted to K€ 6,857,879 , i.e. up K€ 669,180 vs. 31 December 2012.

In detail:

1. **personal guarantees granted** amount to € 366,045 thousand and refer to patronage letters and personal guarantees given to the Irish subsidiaries (€ 336,689 thousand), Air One (€ 13,044 thousand), CAI Second (€ 9,993 thousand) and CAI First (€ 6,319 thousand). These decreased by € 118,011 compared to the previous financial year.

3. **Commitments for purchases and sales**, amounting to € 2,318,121 thousand, increased by € 1,283,100 thousand compared to the previous financial year. These refer to:
   - purchase commitments K**€** 1,388,547 in total), assumed towards third parties for maintenance to be performed on aircraft and engines (K€ 1,372,090 mainly towards Air France**),** improvements on premises and installations (K€ 8,922), in-flight services (K€ 4,840) and cargo area supplies (K€ 66), a capital increase in the investee Atitech

(K€ 1,875) and the residual commitment assumed by Alitalia to pay a contribution to AMS Holding S.r.l. (K€ 755);

- ✓ new derivative contracts to hedge against the risk associated with fluctuations in the EUR/US$ exchange rate affecting the payments for fuel costs fixed in US dollars and, to a lesser extent, in the EUR/GBP/JPY exchange rate for currency risk on sales made in Great Britain and Japan, of € 581,281 thousand and new hedging transactions to mitigate the risk of changes in fuel costs of € 345,198 thousand;
- ✓ transactions relating to hedging CO2 emission quotas of € 647 thousand.
- ✓ Commitments for sales of € 2,446 thousand relating to the sale of technical material to third parties.

4. The item other interim accounts, equal to K€ 4,173,712 was down K€ 495,909 vs. 31 December 2012.

In detail:

- **third party properties held on deposit or under lease** recorded a value of K€ 3,189,084 and consisted of leased assets such as aircraft (K€ 3,112,857), spares, aviation material stocks and flight-simulator components (K€ 69,907 real estate properties (K€ 830) and rented vehicles (K€ 5,311); personal computers in leasing (K€ 150) and others (K€ 29).
In comparison with 31 Dec. 2012, a negative variation of K€ 471.429;

- **Own assets held by third parties**, amounting to € 731,473 thousand, mainly refer to aircrafts leased to subsidiaries, namely Alitalia CityLiner, C.A.I. FIRST, C.A.I. SECOND and Air One (€ 642,947 thousand), technical material stored and repaired by third parties (€ 88,488 thousand), as well as other assets leased to third parties (€ 37 thousand). At 31 December 2012 the balance was € 772,432 thousand;

- **risks** amounting to € 100,492 thousand refer to sanctions due in the event that Alitalia terminates the relationships with the suppliers concerned; the balance increased by € 1,021 compared to the previous financial year;

- **guarantees received from third parties** were equal to K€ 1,244 and are mainly ascribable to guarantees issued by travel agents; as on 31 December 2012 they were equal to K€ 2,100;

- third party guaranties securing the Company’s obligations, equal to K€ 151,420, increased K€ 16,315 from the level recorded in the previous financial year and related to guarantees issued by a few financial institution and insurers to secure the Group’s obligations with respect to its operations and towards the Inland Revenue following their acceptance of a dispute settlement with regard to the Group VAT.

The amount above also includes a bank guarantee worth K€ 9,426 issued by Banca Popolare di Sondrio to Air France in the interest of Alitalia**.**

Part C – Profit and Loss Account Information

The main items of the consolidated P&L are illustrated below:

A) VALUE OF PRODUCTION was K€ 3,438,783 thousand, thus decreased by K€ 379,207 thousand compared to the 2012 financial year (-10%). The balance is broken down as follows:

1. **Revenues from sales and services** of K€ 3,287,065 thousand decreased by K€ 234,895 thousand (-7%) and comprise:

a). **Revenues from services** of K€ 3,284,365 thousand (K€ 3,521,960 at the end of the previous financial year). They are basically represented by:

(1) **Revenues from traffic,** equal to K€ 2,933,056, with a drop of K€ 179,738 (- 6%), as shown in the table below:

	31.12.2013	**31.12.2012**	**Variations**
A.1 a) Revenues for services			
Traffic revenue:			
- Passengers	2,635,632	2,710,713	(75,081)
- Other passenger revenue	112,329	184,787	(72,458)
- Cargo	98,103	101,569	(3,466)
- Mail	2,929	2,801	128
- Positive result for associated activities	8,138	13,852	(5,714)
Total	**2,857,131**	**3,013,722**	**(156,591)**
Other traffic revenue:			
- Passenger charters	62,324	83,782	(21,458)
- Cargo charters	1,981	2,246	(265)
- Postal night flights	3,931	5,970	(2,039)
- Block space	7,689	7,074	615
Total	**75,925**	**99,072**	**(23,147)**
Total traffic revenue	***2,933,056***	***3,112,794***	**(179,738)**

Among the factors that contributed to generate the overall negative variation shown above are reductions in:

- ✓ revenues from passenger traffic for K€ 75,081 (-3%)%) vs. the previous period, attributable to a 5.4% fall in the number of transported passengers (mainly concentrated on the domestic segment, -11,9% and, to a much lesser extent, on the intercontinental segment, -0,6% whereas an increase was recorded on the international segment) (+4.8%), offset by the average revenue (+2.8%) mostly registered in the intercontinental sector (+4.0%), against a reduction in the international (-0,9%) and domestic sectors (-4,5%);

- ✓ other passenger revenues for K€ 72,458, mainly arising from the reduced fees collected on booking changes (-K€ 12,292), the reduced absorption of flight coupons no longer to be used for their expiry or for the application of fares subject to time restrictions, when the time limit was exceeded (-K€ 17,241 thousand), the renegotiations occurred with regard to the transatlantic joint venture (- € 11,730 thousand), the revision of the code sharing agreements in place with the subsidiaries of Alitalia CityLiner, CAI First and CAI Second (- € 15,395 thousand), as well as the amounts paid to the subsidiary Alitalia Loyalty for the miles earned by MilleMiglia customers in relation to air tickets purchased and used according to the terms and conditions set out in the regulations of the MilleMiglia program (- € 28,700 thousand); partly offset by higher revenues related to the amounts accrued in the MilleMiglia fund (+€/mgl 6.881), higher revenues attributable to distribution charges (+ € 9,294), as well as revenues deriving from amounts paid by the subsidiary Alitalia Loyalty in relation to the miles used by the MilleMiglia customers to obtain bonus seats on Alitalia flights (+ € 6,500 thousand);
- ✓ revenues from passenger charters of € 21,458 thousand due to lower activity;
- ✓ postal night flights of € 2,039 thousand for lower activity carried out for Mistral Air;
- ✓ joint activity with other carriers of € 5,714 thousand;
- ✓ cargo revenues of € 3,466 and cargo charters of € 265 thousand;

partly offset by the increase in:

- ✓ block space revenues of € 615 thousand;
- ✓ postal day flights of € 128 thousand;

(1) Revenues from other services were as a whole equal to K€ 351,309, a decrease of K€ 56,929 (- 14%) as broken down below:

	31.12.2013	31.12.2012	Change
Other services			
- Commission income	22,452	24,593	(2,141)
- Income from penalties and re-forwarding	9,556	10,819	(1,263)
- Other ancillary income	8,231	10,611	(2,380)
- Rental income	128,848	135,902	(7,054)
- Technical and line assistance	17,733	17,092	641
- Airport assistance	61,822	69,089	(7,267)
- Income for fleet maintenance	19,506	20,445	(939)
- Sundry services	56,842	58,301	(1,459)
- MilleMiglia airline partnership revenue	341	5,857	(5,516)
- MilleMiglia commercial partnership revenue	1,969	34,587	(32,618)
- Booking revenue	14,033	14,755	(722)
- Revenue from advertisements	9,976	6,187	3,789
Total Other services	***351,309***	***408,238***	**(56,929)**

The reduction relates to lower Millemiglia airline partnership revenue (-€ 38,134 thousand), resulting from the transfer of the "MilleMiglia" business unit to Loyalty, airport assistance (- € 7,267 thousand), commission income and passenger re-forwarding (- € 3,404 thousand) , other ancillary income (-€ 2,380 thousand) and lower rental income from rental of aircrafts to group companies (-€ 7,054 thousand); the reduction was partly offset by higher income from advertisements (+€ 3,789 thousand) as well as technical and line assistance (+€ 641 thousand);

b). **Revenues from sales** were equal to K€ 2,700 as a whole, or up K€ 1,772 from the previous year, mainly as a result of increased sales of technical materials.

4. **Increases in fixed assets for work performed internally** were € 18,676 thousand (€ 49,369 at 31 December 2012) of which € 10,535 thousand relate to the capitalisation of improvements on own and third-party aircrafts, such as improvements to engines, landing gear and overhauls, € 7,321 thousand to internal personnel employed in software development activities (€ 4,236 thousand), fleet maintenance (€ 2,361 thousand) and training on new activities/products (€ 723 thousand). The comparatives also include € 39,865 thousand capitalised for the new cabin layout for the B777 aircraft**..**

5. **Other operating revenues,** equal to K€ 133,042, were down K€ 113,618 as detailed below:

5. Other income and revenues	31.12.2013	31.12.2012	Change
.Positive changes in provisions	56,797	52,592	4,205
.Positive changes in passenger traffic	0	28,031	(28,031)
.Reversal of provision for contingencies	13,560	2,409	11,151
.Damages for breach of contracts	2,638	2,092	546
.Insurance claims	1,518	2,339	(821)
.Grants for route services	3,752	3,022	730
.Gains from fleet disposal	1,392	2,017	(625)
.Gains from disposal of other assets	1,320	10	1,310
.Third-party contributions	1,576	814	762
.Commercial allowance	22	3,922	(3,900)
. Withholdings for canteen and other employee expenses	553	689	(136)
.Sundry income	22,547	130,435	(107,888)
.Sundry recharges	27,367	18,288	9,079
Total Other income and revenues	***133,042***	***246,660***	**(113,618)**

The negative change of € 113,618 thousand is represented by:

- ✓ a reduction in sundry income of € 107,888 thousand mainly related to less ancillary income compared to the previous financial year; in the period under review, the item includes, inter alia, € 16,198 thousand revenues from agreements entered into with leading industrial and commercial partners (worthy of notice, among the major ones, are Amadeus for the IT management of the booking system, Messier Services for the maintenance and SEA for the handling). Note that at 31 December 2012 said revenue amounted to € 130,435 thousand and related to both the agreements finalised with Air France and Atitech for maintenance, Payback for a customer loyalty program, Abramo and Almaviva for the call center, GH for the handling, and the sale of a slot in London to British Airways and Virgin;
- ✓ lower positive differences arising from the passenger traffic and relating to prior years of € 28,031 thousand;
- ✓ lower compensations for damages from insurance companies of € 821 thousand;
- ✓ lower income for commercial allowances received of € 3,900 thousand;

partly offset as a result of:

- ✓ higher use of the provisions for sundry risks of € 11,151, mainly as a result of the settlement agreement
- ✓ higher recovery of sundry charges paid in the name and on behalf of the group companies of € 9,079 thousand (however neutralised by a same amount included in other operating charges;
- ✓ the increase in capital gains on the disposal of non-fleet assets (mainly from the maintenance area) of € 1,310 thousand;
- ✓ greater positive differences arising from amounts accrued in previous years of € 4,205 thousand;

- ✓ higher grants for route services (regime of territorial continuity) of € 730 thousand;

B) COST OF PRODUCTION was € 3,852,994 thousand, showing a reduction of € 114,759 (-2.9%), and included the following items:

6. Cost of raw, ancillary materials, consumables and goods for resale amounted to € 987,327 thousand, reporting a reduction of € 86,764 thousand (-8.1%) compared to the 2012 financial year, mainly attributable to lower fuel charges of € 44,781 thousand (including lower income from hedges on prices and exchange rates of € 59,241 thousand) mainly resulting from lower flights and price increases, partly offset by the unfavourable trend in the EUR/US$ exchange rate as well as lower purchases of technical material of € 41,983 thousand mostly due to the presence in the comparatives, of the materials for the reconfiguration of the cabins of the B777 aircrafts which, however, are offset by the amount capitalised in fixed assets for internal work.

In further detail:

6. for technical material, fuel and other	31.12.2013	31.12.2012	Change
Aircraft technical material and stocks	36,555	78,115	(41,560)
Sundry material (on-board services, uniforms, stationery)	30,064	30,487	(423)
Aircraft fuel	926,397	1,030,419	(104,022)
Hedging of fuel – income/(expense)	(5,689)	(64,930)	59,241
Total	**987,327**	**1,074,091**	**(86,764)**

7. Costs for services were equal to K€ 1,242,493, or down K€ 44,748 (-3.4%); as detailed below:

7. for services	31.12.2013	31.12.2012	Change
Sales expenses	206,410	217,754	(11,344)
Traffic and airport expenses	643,044	650,221	(7,177)
Fleet maintenance and overhaul	156,681	160,978	(4,297)
Negative results for joint traffic activities	21,002	17,422	3,580
Financial services (credit card commissions)	35,761	35,218	543
Sundry services	179,595	205,648	(26,053)
Total	**1,242,493**	**1,287,241**	**(44,748)**

Below is a detailed illustration of a few subitems of the item “for services” as listed above:

- ➢ overall, sales expenses fell by € 11,344 thousand, mainly attributable to the reduction in costs of booking services (-€ 2,114 thousand) and promotional initiatives (-€ 9,489 thousand), following streamlining actions introduced in the same departments, partly offset by higher advertising and promotional costs (+€ 450 thousand);

- traffic and airport expenses fell by € 7,177 thousand, mostly due to reduced activity and, to a lesser extent, to the effect of the exchange rate; the following is worthy of notice: lower charges for airport and operating assistance (-€ 25,943 thousand), passenger and cargo assistance (-€ 2,088 thousand) and overfly royalties (-€ 3,019 thousand), partly offset by higher costs for airport rights (+€ 22,190 thousand associated with the increase in tariffs) and radio meteorology assistance (+€ 828 thousand); it is also worth noting that flight assistance charges remained rather stable as higher prices were compensated by the reduction in activity referred to above.

- costs for fleet maintenance of € 156,681 thousand fell by € 4,297 thousand mostly due to lower fleet maintenance costs totalling € 20,373 thousand basically linked to the capitalisation, with regard to A319, A320 and A321 aircrafts, of the maintenance charges for C/2C inspections and maintenance of other mechanical components such as the "Thrust Reversers" and Air intakes, (-€ 16,645 thousand) partly offset by the higher amounts set aside in the technical area provision (+€ 11,414 thousand after the efficiencies realised on some contracts with major maintenance service companies), as a result of the higher number of leased aircrafts in the fleet compared to the previous financial year and the higher costs for pooled technical line services (+€ 1,716 thousand);

- sundry services totalling € 179,595 thousand fell by € 26,053 thousand. In particular, a reduction occurred in staff ancillary costs (such as hotel accommodation, canteen, Flying Satff food, training for a total of -€ 6,224 thousand), maintenance and overhaul on electronic units, transport means and equipment (-€ 5,737 thousand), general expenses (-€ 4,670), fees of professional experts and consultants (-€ 2,330 thousand), information and telecommunication (-€ 7,091 thousand) as well as insurance costs (-€ 1,237 thousand);

8. Costs for use of third-party assets amounting to € 672,189 thousand fell by € 8,980 thousand and are analysed below:

8. for use of third-party assets	**31.12.2013**	**31.12.2012**	**Variations**
Fleet rental costs	114,393	120,110	(5,717)
Operating leases	440,954	408,132	32,822
Block space	62,515	96,164	(33,649)
Rent for premises and other leasings	35,633	38,850	(3,217)
Machinery and other asset licences	18,694	17,913	781
Totale	**672,189**	**681,169**	**(8,980)**

The reduction highlighted above of € 8,980 thousand is basically related to lower block space costs of € 33,649 thousand and rental costs paid to Group companies, partly offset by higher fleet operating leases of € 32,822 thousand arising from the new aircrafts that commenced operations in 2013, such as no. 2 Embrarer 175 and no. 2 A319 aircrafts, as well as the new contract with the subsidiary APC12 for the B777 aircrafts.

9. **Personnel costs**, amounting to € 656,092 thousand fell by € 53,626 thousand, mainly due to € 36.2 thousand lower average workforce (a reduction of 864.4 staff, from 11,688 at 31 December 2012 to 10,824 at 31 December 2013), arising from the outsourcing of the London and Bari airport services, the catering area (-203 staff), the commencement of the Extraordinary Wages Guarantee Fund (CIGS) for Cabin Crew on a rotation basis through the agreement signed in December 2012 (-191 staff in terms of Average Remunerated Staff - ARS), the Ground Staff Solidarity contract in force as of June 2013 (-265 staff in terms of ARS) and the staff transferred to the new company Alitalia Loyalty (-20 staff in terms of ARS), € 14.1 thousand reduction in variable costs associated with flying activity, and € 9 thousand containment of the incentivisation policy and more holiday leave taken; the above was partly offset by higher unit costs due to seniority dynamics concerning Cabin Crew (€ 4.8 thousand) and the effect of shifting remuneration levels/increases onto Italy Ground staff (€ 3.2 thousand).

The balance can be broken down as follows:

9. for personnel	31.12.2013	31.12.2012	Change
Salaries and wages	500,442	541,887	(41,445)
Welfare costs	111,522	118,478	(6,956)
Severance indemnities	26,677	27,444	(767)
Pension costs	5,175	5,169	6
Other costs (employee insurance, temporary work)	12,276	16,740	(4,464)
Total	**656,092**	**709,718**	**(53,626)**

10. **Amortization, depreciation and write-downs** amounting to € 171,391 thousand increased by € 54,436 thousand compared to the previous financial year, and are as follows:

10. Amortization, depreciation and write-downs	31.12.2013	31.12.2012	Change
Amortization of intangible fixed assets			
amortization of third-party fleet	22,668	13,430	9,238
amortization of long-term charges	34,776	35,140	(364)
Total	**57,444**	**48,570**	**8,874**
Depreciation of tangible fixed assets			
for fleet	30,663	54,689	(24,026)
for plant and equipment	2,754	2,625	129
for electronic equipment units	2,670	2,198	472
for other assets	1,549	2,533	(984)
Total	**37,636**	**62,045**	**(24,409)**
Other write-downs of fixed assets	72,291		72,291
Write-down of receivables in current assets	4,020	6,340	(2,320)
Total amortization, depreciation and wite-downs	**171,391**	**116,955**	**54,436**

The increase of € 54,436 thousand is mainly attributable to:

- a write-down of intangible fixed assets for K€ 72,291 in total, attributable, to the extent of K€ 71,870, to the goodwill corresponding to the value contributed to the Parent Company Alitalia in 2009 following a partial carve-off of assets held by Airone, which had in turn acquired by merger its subsidiary European Avia Service (EAS). Such impairment emerged as a result of the poor result obtained in the impairment test performed on load factor sensitivity, as confirmed by the early result of Q2 2014;
- higher depreciation of third-party fleet and other long-term charges totalling € 8,874 thousand linked to the capitalisation of maintenance performed on aircrafts and engines (including the so-called C/2C inspections the effects of which, in the past, were directly written off to the income statement), improvements to the fleet as well as to licences and software projects;
- lower fleet depreciation of € 24,026 thousand due to the sale of no. 4 B777 aircrafts and no.1 B767 aircraft as well as to the extension of the useful life of the cell and engines of A319, A320 and A321 aircrafts from 18 to 20 years;
- lower write-downs of working capital receivables of € 2,320 thousand.

11. The item **Variations in the inventory of raw materials, auxiliary materials, consumables and goods** was positive for K€ 1,118 against a negative net amount for K€ 4,356 recorded at the end of 2012
12. **Provisions for contingencies and other charges** amounting to € 9,712 thousand fell by € 2,530 thousand and are representative of the amounts set aside for pending regulatory/transport disputes (€ 2,928 thousand), foreign transport (€ 1,497 thousand), civil lawsuits (€ 3,555 thousand) and labour disputes (€ 689 thousand), airport suppliers (€ 621 thousand) as well as overseas tax risks (€ 100 thousand).

14. **Other operating costs**, for a total of K**€** 114,908, were up K€ 32,925 from the level recorded at 31 December 2012.

Below is a breakdown of these costs:

14. Other operating costs	**31.12.2013**	**31.12.2012**	**Change**
. Loss on fleet disposal	1,522	2,026	(504)
. Loss on disposal of other assets		48	(48)
. Other taxes and levies	20,625	5,418	15,207
. Costs for MilleMiglia partnerships	9,958	8,816	1,142
. Administration costs	3,894	4,284	(390)
. Negative changes for prior year allocations	29,207	35,471	(6,264)
. Sundry costs to be recharged	27,367	18,288	9,079
. Bad debts	542	886	(344)
. Sundry charges	21,793	6,746	15,047
Totale	***114,908***	***81,983***	**32,925**

The increase of € 32,925 thousand is mainly attributable to:

- the increase in other taxes for the period of € 15,207 thousand, mostly relating to IRESA regional tax;
- the increase in sundry charges of € 15,047 thousand mainly associated with the reimbursement, as damages, of the rentals paid by the subsidiary Alitalia CityLiner for the CRJ900 aircrafts (€ 13,174 thousand – following the agreement according to which CityLiner maintained the rental contracts for that type of fleet in force as, otherwise, damages would have arisen for Alitalia for failure to comply with the guarantees granted by the latter to the financial backers of the lessor companies) and higher fines and sanctions (€ 3,308 thousand), partly offset by lower non-free CO2 quotas associated with the ETS – Emissions Trading Scheme (€ 2,387 thousand);
- increase in sundry charges paid in the name and on behalf of the group companies of € 9,079 thousand (however neutralised by a same amount included in other operating charges);

partly offset as a result of:

- lower negative differences arising from accruals made in previous years of € 6,264 thousand;
- lower capital losses generated by the sale of fleet of € 504 thousand, realised as a result of disposal/obsolescence of rolling stock and other non-current assets of € 48 thousand;
- lower bad debts (trade receivables) of € 344 thousand;

As a result of the above, the **difference between Value and Costs of production** (operating result – EBIT) was negative and amounted to € 414,211 thousand, compared to a similarly negative result of € 149.764 reported in 2012.

C) FINANCIAL INCOME AND EXPENSES showed a negative balance of € 47,237 thousand, highlighting a net negative change of € 23,101 thousand, mainly linked to the unfavourable trend in exchange rates (-€ 21,616 thousand), in both balance sheet actual balances in 2013 and the balances of items still open and adjusted using the exchange rates ruling at 31 December 2013, higher interest expense on long as well as short/medium-term loans (+€ 3,129 thousand), the amount accrued on the convertible debenture loan resolved by the Extraordinary Shareholders' Meeting of Alitalia on 22 February 2013 (+€ 6,334 thousand), higher financial charges (+€ 1,126 thousand mainly relating to factoring), as well as the fall in interest income paid to subsidiaries (- € 3,249 thousand), revenue from premiums on options on fuel of € 8,737 thousand, which had a nil balance in the previous financial year.

The item can be broken down as follows:

Financial income and expenses:	31.12.2013	31.12.2012	Change
16. Other financial income			
From receivables recorded in fixed assets :			
- subsidiaries	2,792	3,615	(823)
- others	4	11	(7)
Interest on receivables granted to subsidiaries	4,767	8,016	(3,249)
Bank interest income	755	562	193
Interest income from other receivables	1,843	1,382	461
Other financial income	8,828		8,828
Total financial income	**18,989**	**13,586**	**5,403**
17. Interest and other financial charges			
Interest and commissions to subsidiaries	(42)	(8)	(34)
Interest and charges on debentures	(6,334)		(6,334)
Interest expense to banks and othet institutions	(18,987)	(15,858)	(3,129)
Interest on trade payables	(92)	(16)	(76)
Other financial expenses	(3,566)	(6,251)	2,685
Total financial expenses	**(29,021)**	**(22,133)**	**(6,888)**
17.bis Exchange gains/(losses)	**(37,205)**	**(15,589)**	**(21,616)**
Total financial income and (expenses)	**(47,237)**	**(24,136)**	**(23,101)**

A) VALUE ADJUSTMENTS OF FINANCIAL ASSETS (nil balance at 31 December 2012) were negative and amounted to € 182,387 thousand. The amount relates to the write-down of investments in the subsidiaries Air One (€ 112,376 thousand) and Alitalia CityLiner (€ 35,368 thousand) made following the results of the impairment test, the making up of the losses of CAI First (€ 32,463 thousand in line with the resolution passed by the Extraordinary Shareholders' Meeting on 19 April 2013), the complete write-down (€ 370 thousand) of the value of the investment in AMS Holding s.r.l., as well as the setting up of a provision (€ 1,811 thousand) to cover the losses of the latter company.

B) EXTRAORDINARY INCOME AND EXPENSES were a net positive amount of € 76,472 thousand, an increase of € 111,706 compared to the previous financial year.

A breakdown of the balance is shown in the table below:

Extraordinary income and expenses	31.12.2013	31.12.2012	Change
20. Extraordinary income			
Gains on disposals	332	9,256	(8,924)
Windfall gains	5,972	2,353	3,619
Gain on transfer of business unit	150,000	-	150,000
Other income	2,336	8,088	(5,752)
Total extraordinary income	**158,640**	**19,697**	**138,943**
21. Extraordinary expenses			
Windfall losses	(8,129)	(2,795)	(5,334)
Losses on disposals	(3,081)	(3,555)	474
Prior years' taxes	(251)	(374)	123
Provision for restricted availability	(62,125)		(62,125)
Other expenses	(8,582)	(48,207)	39,625
Total extraordinary expenses	**(82,168)**	**(54,931)**	**(27,237)**
Balance extraordinary income (expenses)	**76,472**	**(35,234)**	**111,706**

The positive balance reported in the year of € 76,472 thousand mainly relates to the following events:

- the transfer of the "Mille Miglia" business unit to Alitalia Loyalty for € 150,000 thousand;
- € 62,125 thousand set aside out of prudence in relation to the risks associated with liquid assets with temporary restrictions on transfers, basically related to Venezuela;
- other net extraordinary expenses of € 6,247 thousand mainly related to the professional fees linked to the arbitration with the Toto group, the dispute with Wind Jet, and the costs incurred for managers leaving the company.
- the balance of windfall losses of € 2,157 thousand for maintenance, handling and fuel costs relating to prior years;

Note that at 31 December 2012 the item included costs relating to the phase-out of aircrafts, engines and spare parts of the MD80, B767,ERJ170 and CRJ models, as well as the net gain realised on the sale of the handling business unit of the London airport.

As a result, a **loss before tax** of € 567,363 thousand was reported for the year ended 31 December 2013 compared to a loss of € 209,134 thousand reported in 2012.

22. **Taxes for the year** were € 10,276 thousand, whereas the tax burden for the previous financial year was negative and amounted to € 15,996 thousand.

The tax credit is attributable to the effect of the tax benefit that enabled the company to set off the IRES tax of subsidiaries against the losses accrued by the Parent company in the financial year.

Current year taxes	**31.12.2013**	**31.12.2012**	**Change**
Current IRES tax	17,492	1,062	16,430
Current IRAP tax	(9,101)	(18,546)	9,445
Taxes of overseas branches	(120)	(110)	(10)
Current taxes	**8,271**	**(17,594)**	**25,865**
Deferred taxes			
Advance tax payments	2,005	1,598	407
Total taxes	**10,276**	**(15,996)**	**26,272**

Consequently, the **net result for the year** was a net loss of € 557,087 thousand compared to a net loss of € 225,130 thousand for the 2012 financial Year.

Part D – Other Information

Average salaried workforce

Alitalia S.p.A. 2013 Average workforce on payroll	2013	2012	Change
Executives	59.8	74.4	- *14.6*
Middle Managers	551.3	551.0	*0.3*
Employees	5,121.9	5,297.2	- *175.3*
Workers	2,554.2	2,661.0	- *106.8*
Total GROUND	***8,287.3***	***8,583.7***	**- *296.4***
Pilots	1,489.9	1,531.1	- *41.2*
Flight crew	3,631.4	3,648.6	- *17.2*
Total FLIGHT	***5,121.3***	***5,179.8***	**- *58.4***
TOTALE	13,408.6	13,763.4	- *354.9*

Directors' and Auditors' Fees

Directors

The ordinary Shareholders Meeting of 26 March 2012 resolved on an aggregate amount of 150,000 euros worth of the total annual fees to be paid to Members of Alitalia's Board of Director – which the Board of Directors would then duly apportion – as well as on the recognition of a refund of any expenses incurred in the exercise of their respective functions. Fees came into effect on 26 March 2012 with the exclusion of the Chairman's, the Chief Executive Officer's and the Vice Chairmen's fees.

The overall amount of fees payable therefore applied to the Board of Directors which were appointed on 26 March 2012 and remained in office until 13 Jan. 2014.

Subsequently, the Ordinary Shareholders' Meeting of 13 January 2014 resolved to pay € 5,000 emoluments a year (before tax) to each Director, totalling € 55,000 a year for the entire Board of Directors in addition to any other expense incurred by the members in the performance of their duties. The above will become effective as of 13 January 2013 without prejudice to further fees that the Board might fix for the Chairman and the Director that the Board may decide to appoint as Managing Director of the Company, as they hold offices requiring specific responsibilities.

These fees therefore concern the Board of Directors appointed on 13 January 2013 and currently in office.

Steering Committee Members

In their Meeting of 26 March 2012, the Board of Directors resolved on an aggregate annual amount of 60,000 euros recognised in favour of the Members of the Steering Committee – which the Board of Directors would duly apportion – as well as on the recognition of a refund of any expenses incurred in the exercise of their respective functions. Fees came into effect on 26 March 2012 with the exclusion of the Chairman's, the Chief Executive Officer's and the Vice Chairmen's fees.

Following the amendments introduced to the Articles of Association by the Shareholders Meeting of 3 July 2013, the Steering Committee was suppressed.

Auditors

Alitalia's Shareholders, in their ordinary Meeting of 20 April 2011, resolved to recognise an annual fee of 105,000.00 euros to the Chairman of the Auditing Board and of 70,000.00 to each Regular Auditor for their full duration in office, inclusive of any incurred travel and accommodations expenses.

Independent Auditing Firm's Fees

With reference to the Financial Statement Notes of Alitalia Group at 31.12.2013

Related Parties

With regard to transactions with related parties, these were concluded under normal market conditions and consequently fall outside the scope of art. 2427 no. 22 *bis*) of the Italian Civil Code. Only major transactions are described below as occurred or approved in the course of 2013:

Agreement with Poste Italiane S.p.A.

In December 2013, a number of projects were initiated with Poste Italiane in such areas as Sales, Web and Information Technology/Datacentre, and for the operation of aircraft belonging to Mistral (a company of the Poste Group) on specific routes for Charter services during summer.

It is worth recalling that Alitalia currently operates nighttime postal flights on behalf of Mistral Air, a wholly controlled subsidiary of the Poste Italiane Group.

On 28 January 2014 a framework agreement was signed with Poste to govern the criteria for implementing the industrial synergies between the two companines, which was a precondition for Poste's decision to invest in the recent capital increase of Alitalia.

The agreement also envisages the future negotiation of a number of trade agreements as well as a possible further development of commercial synergies. In April 2014 contacts were established with Poste for Alitalia's use of the services instrumental in the electronic invoicing of transactions with the Public Administration (legislation in effect since June 2014).

Agreements for the stabilisation of credit lines and the granting of new finance

On 3 February 2014, Alitalia signed an agreement for the stabilisation of a few existing credit lines and a loan contract for granting new finance to the Company.

The stabilisation agreement signed by Alitalia with Banca IMI, Banca MPS, Banca BPS, Intesa SanPaolo, MPS Leasing & Factoring, Unicredit and Unicredit Factoring – jointly with Loan Agency Services S.r.l. acting as Agent – resulted in the conformation of a few, previously revocable, existing lines either due or soon to fall due until 30 June 2015, based on the same pricing terms.

The purpose of the loan agreement signed by Alitalia with Intesa, Unicredit, Banca MPS and Loan Agency Services acting as Agent, is to grant in favour of the Compay a revolving credit line for M€ 150 maximum. Concurrently a factoring credit line was executed with Factorit SpA of the BPS Group for an amount of M€ 15. The maturity date for both credit lines was fixed at 31 Dec. 2016.

Hedges

Pursuant to the provisions of its Financial Risks Management Policy, Alitalia has executed a number of instruments to hedge against unfavourable commodity-price variations and variations in the exchange rate of the euro against other currencies.

In order to reduce its exposure to the risk of fuel price rises, Alitalia executed hedging agreements with Banca IMI (a subsidiary of Intesa Sanpaolo S.p.A.) in the form of swaps denominated in dollars with Brent as underlying commodity. In February 2014 these agreements were converted into Jet Fuel for hedges to be more efficiently managed through the use as underlying commodity of the actual fuel that Alitalia consumes.
For CO2 emission allowances and related legal obligations, hedges were executed in the form of forward purchases of EUA certificates.

As part of its overall hedging strategy, the Group executed hedges on indebtedness denominated in dollars by converting its Euro exposure. More precisely, through its Irish subsidiary Challey – which in turn controls companies that directly contracted debts in dollars for the purchase of aircraft – in 2013 Alitalia executed further hedges against the euro-dollar exchange rate risk in the form of “Cross Currency Swaps” (CCS) with Banca IMI.
The hedges in question implied the opening of a credit in dollars with Banca IMI at a variable rate corresponding to the rate of funding for transactions in dollars and the contraction of a debt in euros calculated at the exchange rate prevailing on the date when transactions are negotiated.
In practice, through respective initial exchanges of financial flows, the indebtedness generated by the disbursement of funds, has been converted from indebtedness in dollars at a variable rate (LIBOR 3M) to indebtedness in euros at a variable rate (EURIBOR 3M).

Unipol SAI

In 2013 a few guarantees executed between the companies of the Alitalia Group and Fondiaria Sai, currently Unipol SAI S.p.A., remained in place to secure a number of services.

Unipol Sai through the two companies merged into its group, Unipol Assicurazioni and Milano Assicurazioni Sasa division, executed an Insurance Agreement envisaging the opportunity by the insurance company to grant insurance coverage to employees and retiring personnel together with their respective families at cheaper premiums.

The company is also a co-insurer party to the insurance policies taken out by the Parent Company or its Subsidiaries with various insurance companies, with which Unipol-SAI shares a part of risks.

On 5 March 2014, a settlement agreement was signed between Alitalia, Air One, Aeroporti di Roma S.p.A. and ADR Mobility in which, following a joint examination of their current disputes with regard to (in essence):

- Access Fees (claims alleged by ADR against EAS and, currently, Alitalia after its take-over of this company, for payment defaults on the supplied services)
- Centralised Infrastructures (complaints made by Alitalia with regard to provided services which were found not to be in line with the required standards and invoices not complying with contract requirements)
- Fees for the Use of Utilities and Desks (complaints made by Alitalia with regard to the welcome lounge formerly belonging to AirOne and provided services which were found not to be in line with the applicable agreements)
- Milan Fast Track facility (complaints made by Alitalia on the regularity of the service offered)
- Parking Lot Badges (complaints made by Alitalia for increases applied by ADR to the contract and the failure to reach an agreement on the different pricing policy applied to AirOne vs. Alitalia)
- Net 6000 (complaints made by Alitalia on the sums invoiced by ADR for the new luggage sorting system)
- Technical Area Sub-concession (dispute on the amount requested from ADR)
- Aircraft Door (ADR contested any allegations of liability for damage caused to an Alitalia aircraft door).

the parties settled their mutual claims by a final agreement superseding any previous understandings (novation agreement).

Toto.
For relations with Toto, kindly refer to the section on litigations.

AMS. For relations with AMS, kindly refer to the Notes to the financial accounts at 2013 (comments on “Equity holdings”).

Air France
As already shown in the financial accounts of the previous accounting periods, a number of partnerships are currently in force with Air France – including, among others, sales partnerships (e.g. code share

agreements), joint trade and corporate contracts, cross selling arrangements through the web and Revenue Management projects.

An A320 Pool & Repair Agreement is also in place governing Air France's supply of component repair services based on guaranteed volumes; Alitalia is therefore using a single provider for its component repairs which, in addition to ensuring the availability of spares, accepts the responsibility to repair all components against a cost per flight hour.
In 2013 Alitalia sold its test rigs in the component repair shops to Air France.

Moreover, the Transatlantic Joint Venture – established by Air France, KLM, Northwest and Delta on 20 May 2009 to consolidate the original bilateral collaboration between Air France and Delta (founding members of SkyTeam) on the one hand and Northwest and KLM on the other – continues to be in effect (pursuant to a Transatlantic Joint Venture Agreement). The Agreement shall remain in force until 31 Mar. 2022.
Alitalia joined this Joint Venture by subscribing to the Transatlantic Joint Venture Agreement in July 2010, with retroactive effect to 1 April 2010.

In March 2014 an agreement was signed for the sale by Alitalia of an APU for B777 aircraft and for the purchase of an APU for A330 aircraft.

Since March 2013, Air France-KLM has been operating as GSA (General Sales Agent) on behalf of Alitalia in 4 Scandinavian markets (Denmark, Finland, Norway and Sweden).
Finally, in the course of 2013, a contract was signed with the New York Airport Terminal 1 (which Alitalia has been using for 11 years); the terminal T1 is owned by Air France (25%), JAL, Korean and LH; the overall value of the renewal for the full 4.year term is equal to around 42 million USD (4-flight operations), of which 13 million USD as centrally imposed costs and 29 million USD for the negotiable part.

Disputes in Progress

CIVIL ACTIONS IN THE TRANSPORT SECTOR

Civil actions in the transport sector at 31 December 2013 against Alitalia - Compagnia Aerea Italiana primarily seeking damages for service inefficiencies caused to passengers and/or for the mishandled/damaged luggage and/or delayed redelivery of luggage include a total of 2,200 cases awaiting decision of which 170 in court.
From 1 Jan. to 31 December 2013, 1,360 new writs of summers were served for an overall additional sum of K€ 2.300 worth of claimed damages.

Cases for which a final decision was pronounced were 1,227 in number in 2013, for an overall cost of K€ 1,833.

As on 31 December 2013, a total of 532 writs of summons had been served with regard to transport disputes that involved AirOne for an overall sought sum of K€ 927; payments made in 2013 amounted to K€ 256.

Altroconsumo vs. Alitalia

By a writ of summons dated 25 July 2013 to appear before the Civitavecchia Court, the consumer association Altroconsumo applied for an injunction and a declaration of invalidity on the ground of unfairness in a number of clauses of Alitalia's General Transport Terms.
The first appearance hearing was held on 15 January 2014 and the case was deferred for the taking of evidence to November 2014.

Disputes in the USA – Class action

In March 2011 an application for a class action was filed against Alitalia and other European and US airlines (Delta, Continental, Lufthansa, Iberia and British Airways) before the Chicago Court seeking the payment of the compensations prescribed by European Regulation 261/2004 for flight cancellations, delays and overbookings in favour of US nationals claiming title to such compensations.

Alitalia's defence has primarily been based on the unenforceability before US courts of European legislation and, among other arguments, on the prevalence of Tariffs lodged with the US DOT (Department Of Transport) over the General Transport Conditions (CGT) published on Alitalia's website, which include references to Reg. 261/2004.
At the enforcement stage, the class action against Alitalia was rejected by the US judge on the ground that Tariffs were valid. The decision resulting in the opening of a procedure with the DOT in which the claimant passengers requested to appraise the validity of Tariffs.
The procedure with the DOT ended on 28 March 2013 with the issue of a Consent Order, which established that the Tariffs lodged by Alitalia were still valid and prevailed over the CGT.

DOT also ordered Alitalia to pay a penalty of $125,000 for unfair commercial practices consisting in the lack of transparency on the governing law and the conditions applicable to passengers in case of service inefficiencies.

The payment of the penalty was suspended for half the amount in exchange for Alitalia's commitment to amend its CGT and Tariffs within 60 days, in order to make them clearer and more consistent.

To fulfil the DOT's order, the required amendments were introduced into the above documents pending a their thorough revision.

In the meantime, claimants brought a new petition for an action before the judge with a partially different motivation in order to take account of the decision made by the DOT.

On 16 September 2013, the Judge ruled on the new claims by partly rejecting and partly accepting them, which made the continuation of class action somewhat likely.

In the meantime, however, other judges, including those in the same district, issued several decisions, which rejected the class action against Continental, Delta and Iberia as a viable alternative.

For the foregoing reasons, Alitalia filed a motion for reconsidering the previous decision passed against it, which allegedly contradicted those of the other judges on the same subject matter.

Alitalia's position was therefore reconsidered and, on 17 March 2014, the action against it was dismissed, with the motivation that the EU Regulation 261/2004 does not determine an actionable right of passengers before US Courts, unless such rights arise from the contractual clauses applicable to the transport service.

This pronouncement was consequently favourable to Alitalia. An appeal against these decisions is possible, but the outcome will most probably be in favour of carriers.

The legal firm Kaplan, Massamillio & Andrews of New York, who defend Alitalia, consider the risk of an unfavourable pronouncement remote.

ADMINISTRATIVE DISPUTES

1. Action brought before the competent Regional Administrative Court (TAR) against the Italian Antitrust Authority (AGCM) on Administrative Charges

By a decision dated 11 May 2011, the AGCM inflicted a penalty on the Airline for an overall sum of € 105,000 as the way of advertising fares on the Alitalia website (and specifically the application of a € 5 euro supplement to tickets purchased by credit cards i.e. administrative charge) were found to amount to unfair commercial practice.

Although Alitalia fulfilled the order from the AGCM, it filed an appeal before the competent Regional Court, which still has to rule on it.

2. Action before the competent Regional Court (TAR) and precautionary appeal before the Supreme Administrative Court (CdS) against ENAC and the Italian Transport Ministry for granting fifth-freedom traffic rights on the Malpensa-NewYork route to Emirates.

On 7 June 2012 Alitalia brought an action before the Latium Administrative Court (*TAR Lazio*), with Delta and the carriers' association Assaereo concurrently joining the action, against the decision of the aviation authority ENAC in March 2013 to authorise Emirates to operated additional frequencies with fifth freedom traffic rights on the Malpensa-New York route for a 18-month term. The request for a stay of execution filed together with the action was rejected by the Court by a ruling of 9 July this year and, subsequently, also by the Supreme Administrative Court (*Consiglio di Stato*). A hearing on the merits of the case before the TAR was held on 30 Jan. 2014.

On 10 Apr. 2014 the TAR accepted Alitalia's action and ordered the cancellation of the authorisation given by ENAC. Emirates filed an appeal before the CdS against the Regional Court's decision and simultaneously asked and obtained a stay of execution on its ruling.

The appeal will be heard on its merits. As the date of a hearing still has to be fixed, Alitalia filed a petition for a prompt hearing.

<u>AGCM PROCEEDINGS: COMPETITION AND CONSUMER CODE</u>

3. **PS7771 – Three unfair commercial practices: Carpatair flights – Domestic flight carnet – Rules on the mandatory sequential use of round-trip flight coupons.**
4. **PS7771 – Objective evidence to a further unfair commercial practice "General and regional elections in Italy on 24-25 Feb. 2013."**

On 7 February 2013 the opening of a proceeding on three unfair commercial practices was notified. In particular:

a) Carpatair flights

The Antitrust Authority argued that no suitable disclosure was given to passengers in the ticket purchase process on Alitalia's website to the effect of informing them that a few Alitalia flights were actually operated by the carrier Carpatair or, more generally, carriers other than Alitalia pursuant to a charter or code-share agreement.

The proceeding was instituted following the enquiry conducted by the competent Public Prosecutor on the same event, as a result of the accident occurred on flight AZ1670 operated by Carpatair on behalf of Alitalia on landing at the Fiumicino airport..

b) Domestic flight carnet ("*Carnet Italia*")

In relation to this initiative, it was argued that the information given to consumers in the web pages on the initiative was unsuitable for the choice of the product, such as restrictions in booking time on the Rome- Milan route, and actual availability of seats in the dedicated class.

c) Denied boarding on a return flight following a 'no show' on an outbound flight.

The Authority contested as "unfair practice" the rule on the mandatory sequential use of flight coupons (known as "no show rule") for air tickets sold on multiple routes and therefore meant for distinct transport services, with special reference to round-trip tickets.. If this rule is not observed by the passenger (i.e. if an outbound flight is not flow), boarding on the corresponding return flight will be denied. In particular, the Authority contends, the wording the offer for this transport service is such that the above restriction is not sufficiently made clear to the customer, although, in the Regulatory Authority's view, it is absolutely significant for the terms of trade.

Concurrently with its served notice, the Authority made a request for documentation, information and clarifications on each of the three practices.

The information and documentation were supplied.
Following the document review and preliminary investgations, the Authority deemed it appropriate to extend the scope of its proceeding to a further practice of Alitalia related to the conditions for the fare offer "*Elezioni in Italia del 24-25 febbraio 2013*" (Elections in Italy on 24 and 25 February 2013) on the ground of its alleged infringement of articles 21, 22 and 23 of the Consumer Code.
In relation to the above initiative, the Authority argued that reference in the presentation of the offer to restrictions on available seats (which were later found to be inexistent) was misleading. In particular, the fare offer, presented with a single restriction on the period when flying was allowed (18 to 28 February 2013), was in actual fact no longer available for routes departing from a few European cities, which ultimately mislead consumers aged below 26 wishing to come back to Italy to exercise their right to vote.

On 11 September 2013, the Authority notified that the document-review and preliminary investigation phase of the proceeding would end on 26 September 2013. Alitalia submitted an additional defence brief whose purpose was also to mitigate a possible sanction.

On 27 November 2013, the Authority notified its final decision on the proceeding whereby it:

- found that there were no sufficient elements in Alitalia's commercial practice at issue ("*Elezioni in Italia del 24-25 febbraio 2013*") providing proof of an illegal, unfair commercial practice;
- confirmed that the three remaining commercial practices under review (Carpatair, Carnet and No show-rule) amounted to autonomous breaches of the prohibition on unfair commercial practices contemplated by articles 18 *et seq.* of the Consumer Code, and therefore ordered their suspension;
- consequently inflicted, for the three assessed unfair commercial practices, a penalty of € 50,000, € 25,000 and € 45,000 respectively. In the quantification of the penalties a significant (50%) reduction had been applied to the base amount given Alitalia's difficult economic situation. Moreover, as the infringement had been repeated, a surcharge of € 5,000 had applied for each of the assessed unfair commercial practices;

In its decision, the AGCM also gave Alitalia a 30 day term running from the service of its decision to notify any action initiated by the Airline to remedy the breaches.

On 23 December 2013 Alitalia filed a report on its initiated action to abide by the regulatory measure only with respect to the "Carnet Italia" practice, which action consisted in amending its Regulation and website information.
Concurrently, It also applied for an extension until 31 January 2014 of the grace period, in order to have sufficient time to change the information on the website and consequently remedy the assessed unfair commercial practices a) by clearly communicating the identity of any air carrier that would operate routes on Alitalia's behalf (e.g. Carpatair), and b) by clearly disclosing the terms of the "no-show rule" and the procedure for requesting a refund.
A compliance report on the two practices was filed on 17 February 2014.

For precautionary reasons, the Authority's decision also stated that, where the remedies introduced by Alitalia were found to be insufficient, the Authority could further sanction Alitalia for failure to comply.

In the following days, Alitalia requested a hearing in order to be informed of the Authority's preliminary opinion on its adopted remedies. The Authority replied that *"prima facie"*, it had found the remedies to the Carnet Italia practice and on the clear identification of the operating carrier sufficient. However it added that the remedial measures designed to mitigate the consequences of the application of the **no show rule** to passengers holding a round-trip ticket or a multi-destination ticket and unable to take an outbound flight for force majeure were insufficient.

In order to avoid a sanction for failure to comply, Alitalia has more recently proposed better remedies in favour of passengers, while always limiting such remedies to documented force majeure events.

Even then, assuming that those further remedies are also found insufficient by the Authority, Alitalia would be subject to an infringement penalty currently estimated in the order of €100,000.00.

Previously, on 27 December 2013 Alitalia also filed an appeal before the competent Regional Administrative Court (TAR) challenging the AGCM's decision and seeking its reversal.

A request for a stay of execution was also filed with respect to the prohibition – inferable from the AGCM's decision – to apply the no-show rule.

On 12 February 2014 a hearing on this request was held before the TAR.

The TAR rejected the request and confirmed that the AGCM's decision implied no prohibition of the application of the no-show rule as such, but only the obligation to give a clear, comprehensive disclosure on that rule. The case will continue to be heard on its merits.

In the current proceeding before the TAR, defence actions may be initiated which could also include a challenge against a possible proceeding for failure to comply,.

PS/8530 Web Loyalty

On 2 May 2013, the Authority initiated a preliminary investigation against Webloyalty International Sàrl and Webloyalty International S.r.l., on the ground of an alleged unfair commercial practice by both companies consisting in inciting consumers to inadvertently subscribe to an *Acquisti e Risparmi* (Buy and Save) service.

One of the grounds for the alleged misleading nature of the practice, the Authority argued, is the way in which the service is presented.

More specifically, at the end of the process for the online purchase of products and services on sale on a few major internet websites, the consumer is offered a discount coupon for purchasing another product or service from the same vendor: However, as a matter of facts, consumers land on a page where they are asked to subscribe to the "Acquisti e Risparmi" programme against payment of a fee of €12 per month, which gives them access to discounts on a few products.

At a later date, the Authority decided to subjectively extend the scope of the proceeding to Alitalia S.p.A, Airone S.p.A., Ryanair Ltd, Ticket one S.p.A and Vacaciones edreams Sl, as owners of the websites promoting the services offered by Società Web Loyalty.

On 5 June, the AGCM concurrently served on Alitalia, Air One and the above companies a request for information on the contested practice with special regard to art. 12, par. 1 of the Regulation.
Alitalia supplied the requested information on its own behalf and on behalf of Air One and also introduced changes to the way the initiative was presented on websites in order to avoid the risk of sanctions.
On 16 Deceber 2013 Alitalia filed a further defence brief on its own behalf and on behalf of Air One, stating that it had remedied any misleading information and that it would soon make the communication even clearer and more transparent for consumers, in line with the Authority's given instructions in its further exchanges and hearings with Webloyalty.

On 24 February 2014 a decision from the Authority was notified which declared the conduct "an aggressive commercial practice" and inflicted a penalty of €145,000 on Alitalia and of €25,000 on Air One.
Webloyalty and Ryanair, on their part, were subject to penalties of € 800,000 and € 420,000 respectively.
Alitalia's penalty was paid and the further request to make the advertising message as clear as possible – implied in the AGCM's decision – was met. The risk that a proceeding for failure to comply will be opened is deemed remote.

EU PROCEEDINGS

1. Action brought by Ryanair against the decision of the European Court of First Instance with respect to the decision of 12 November 2008 no. 6745 of the European Commission

Two actions were pending before the European Court of First Instance for the annulment of the decision no. 6745 of 12 November 2008 of the European Commission on the procedure for the sale of the assets of the company Alitalia in a.s. (in extraordinary administration), which actions were respectively brought by Ryanair (Case T-123/09) and Meridiana and Eurofly (Case T-128/2009). The latter airline waived its action and was ordered to pay judicial costs.
On 28 May 2012 the European Court of First Instance rejected Ryanair's action, which had also sought the annulment of the Commission's decision of 12 November 2008 no. 6743, limited to the part in which it failed to order the recovery of state aid for 300 million euros from the successors of Alitalia in a.s. The Luxemburg Judge therefore confirmed both the decision of the European Commission whereby no continuity existed between the new and the old Alitalia, and its decision that imposed on the old Alitalia the obligation to repay the bridge loan of 300 million granted in 2008 by the Italian Government. The Court also ordered Ryanair to pay Alitalia's legal expenses.
Ryanair then brought action before the European Court of Justice (case C-287/12P).).
On 13 June 2013 the Court rejected the action and confirmed he decision of the Court of First Instance.

2. 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 between Air France-KLM, Delta, Alitalia, in order to verify whether the cooperation between the airlines on routes between Europe and the United States was such as to determine restrictions on competition to the detriment of consumers in breach of art 101 of the Treating on the Functioning of the European Union (TFEU).

An investigation was conducted on the following 6 transatlantic routes operated by at least two of the 4 carriers: Amsterdam-New York, Paris-New York, Rome-New York, Nice-New York, Paris-Boston, and Paris-Atlanta.

It was decided jointly with our partners to have recourse to the procedure envisaged by art. 9 of EC Regulation no. 1/2003, which, through a negotiation process with the Commissions, avoids the service of a formal notice of infringement and the imposition of remedies by the Commission. More specifically, the procedure under art. 9 provides that the parties shall offer commitments to be negotiated with the Commission so as to compensate for any restrictions on competition caused by their agreements.

The law firm WSGR-Wilson Sonsini Goodrich & Rosati, LLP of Brussels, which defends all partners, has since the beginning suggested a phased defence strategy designed to first and foremost exclude routes where the absence of restrictions on competition may be more easily demonstrated (Paris–Boston and Nice-New York), while taking time for a more in-depth study on routes involving a lower number of carriers, i.e.: Paris-Atlanta, Paris-New York and Rome-New York.

Unfortunately the study produced no results suited to fully meet the criteria under art. 101, par. 3 of the Treaty in order to benefit from an exemption from the ban on agreements between undertakings, with the only exclusion of the Paris-Atlanta route.

Such being the situation, for the Paris-New York, Amsterdam-New York and Rome-New York routes a defence strategy was devised on the basis of legal and factual arguments designed to exclude the application of art.101, par 1 of the Treaty. Papers were all presented to the Commission between July and August 2013.

The defence brief on the Rome-New York route, submitted on 4 July 2013, is mainly based on a market analysis and related trends (seasonality, leisure and indirect flights) as well as on the inexistence of substantial barriers to the entry of competitors in the Fiumicino and NYC airports alike.

In the meeting with the Parties of 13 November 2013, however, the Commission notified that the submitted defences were not sufficient and confirmed its request for a package of commitments on the Fiumicino-New York, Paris-New York and Amsterdam-New York routes similar to those granted by the other alliances on the Europe/USA routes in previous procedures, which were respectively concluded in 2010 vs. the One World alliance and in 2013 vs. Star Alliance.

With the support of external legal advisors and in the light of the legal and factual market analyses and of the overall situation of the three routes, partners agreed that, in order to minimise the damage caused by the commitments to be presented to the Commission, it was appropriate to offer such commitments on a single route as a first step, while trying to observe as much as possible the text of commitments approved by the Commission for Star Alliance. In particular, after a long and heated debate, the partners agreed that it was preferable to offer commitments on the Fiumicino-New York route, considering the higher difficulty vs. the other two in obtaining a full or partial exemption from the commitments and further considering the lower risk of an actual request for slots or other remedies from third-party carriers, given the full and constant availability of slots on Fiumicino and the characteristics of the market in question, which are such as to determine a low penetration of direct flights operated by competitors.

Following the presentation of commitments on the Rome-New York route, the Commission informally repeated that they were waiting for commitments on the other two routes as well.

On 28 Feb. 2014 the commitments related to the Amsterdam-New York route and consisting in fare combinability agreements[9] or SPAs – Special Prorate Agreements were produced to the Commission.
The commitments offered so far include, in essence:

1) to make slots available in order to allow a new entrant carrier to operate up to 7 weekly frequencies on the Fiumicino-New York route;
2) to ensure fare combinability whenever a carrier operating the Fiumicino-New York or the Amsterdam-New York route and without a hub in those airports, makes a request to that effect;
3) to sign Special Prorate Agreement (on routes to be defined), whenever a carrier operating the Fiumicino-New York or on the Amsterdam-New York routes and without a hub on either Fiumicino or New York (both JFK and EWR) makes a request to that effect;
4) to extend our FFP (Frequent Flyer Programme) to a carrier without a comparable FFP or not participating in any of the FFPs of Alitalia, Air France-KLM and Delta, limited to the Fiumicino-New York route.

Please note that the commitments so far offered following an antitrust procedure of the Commission have very rarely resulted in actual requests from competitors.
The case team repeatedly notified that they found commitments insufficient, more recently during a meeting held on 27 March 2014. Following the meeting held and further contracts, Air France KLM agreed to extend slot commitments to the Amsterdam – New York route and commitments related to Fare combinability and Special Prorate Agreement to the Paris-New York route. The negotiation with the Commission is still in progress.
If no agreement is reached on the commitments to be issued, a decision must be made with the partners as to whether to face a litigation with the Commission or rather meet its requests.

CIVIL LITIGATIONS

Below is a detailed list of the main pending civil disputes of Alitalia as on 31 dicembre 2013:

ARGOL S.p.A.: writ of summons for a damage compensation of K€ 1.210 on the ground of Alitalia's in-sourcing of the handling service of Argol and the failed transfer of its 75 employees to Alitalia; application for an order of payment of K€ 751 – challenged by Alitalia – with regard to a claim for 2 monthly instalments on the supply contract executed with Alitalia and services provided outside the flat amount agreed; these two proceedings were merged and, at the hearing of 16 Apr. 2014, the judge took the applications for measures of enquirey under advisement and suspended judgement; on 16 May 2014 the judge decided not to grant the provisional enforcement of the payment order objected to by Alitalia, on the ground that the service had been contested, rejected the opposing party's complaint about the delay in the submission of applications for measures of enquiry and, conversely, accepted the Company's request for an order to produce the attendance book of ARGOL's employees. In addition the judge substantially accepted Alitalia's requests for witness evidence and rejected most of ARGOL's requests for witness evidence. Finally he reserved decision on the appointment of a court expert. The Company, comforted by the opinion of its legal advisors, assessed

[9] Fare combinability

the risk fo an unfavourable judgment probable at least in part and appropriated a suitable provision in its financial accounts.

FRECCIA ALATA 2 S.r.l.: application for a technical assessment worth 7,566,323.75 euros + VAT; this case pertains to a request for an assessment/claim for damage caused in building B of the Magliana complex used by CAI personnel on 12 Aug. 2013; Alitalia C.A.I. S.p.A. submitted a petition for a new technical appraisal following the opposing party's falure to reply to questions and the wrong or excessive quantificaiton of the loss charged to the tenant; the commissioned judge reserved decision and the preliminary technical assessment procedure (ATP) was concluded. as envisaged in the contract Freccia Alata 2 initiated an arbitration procdure with the concurrent appointemnt of the arbitrator to assess Alitalia's breach of its contractual obligations as defined in the lease agrement and to order Alitalia to pay damages to the extent of 7,566,323.75 as appraised in the preliminary technical assessment procedure. The opposing party's appointed arbitrator is prof. Mazzamuto, Alitalia's appointed arbitrator is Prof. Zimmatore; the third arbitrator, who will act as President. is Ms. Paolo Vittoria. The Company, comforted by the opinion of its legal advisors, assessed the risk fo an unfavourable judgment probable at least in part and appropriated a suitable provision in its financial accounts.

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SIT: writ of summons of K€ 6,949 for unfair competition by Alitransport, which on behalf of Alitalia transfers passengers from the Fiumicino airport to central Rome; the case was adjourned to the hearing of 13 November 2014 for a settlement to be formalised by the execution of a new commercial contract between Alitalia and SIT. Alitalia, comforted by the opinion of its legal advisors, assessed the risk fo an unfavourable judgment possible and consequently considered the appropriation of a provision unnecessary.

WIND JET: writ of summons of €162,000,500, for damage compensation for Alitalia's liability in tort (on the ground of its alleged attempt to cause Wind Jet's bankruptcy and win its market share);

As already discussed in the Notes to the Financial Accounts at 31 December 2012, following the failure to close the acquisition, Wind Jet asked the Catania Court to assess and declare Alitalia's liability in tort and order it to pay damages for loss in business value, with an additional amount of € 5,000,000 sought as remedy for harm caused to Wind Jet's image and reputation. Alitalia, who is confident about the fairness of its course of action (comforted by the opinion of its legal advisors), finds Wind Jet's arguments totally groundless.

As a result, the risk of an unfavourable judgment was considered "remote" by Alitalia's legal advisors and defence counsels (the Steering Committee resolved on the set-up of a Defence Team made up of advisors from the Bonelli Erede Pappalardo legal firm having followed the Wind Jet case since the beginning, from the Briguglio legal firm, engaged as Team Leader, and from a legal firm of Catania, acting as local agent). Following the reassurances received from the Company's independent legal advisors, no specific liability was appropriated to its financial accounts.

By an order dated 19 July 2013 the Court of Catania – in the person of Mr. Fichera – fixed the date of a hearing for a final decision at 17 March 2014, and made express reference to the complaints of Alitalia (with respect to the lack of competence of the Catania Court). At the hearing of 17 March 2014 Wind Jet filed a petition for an order of seizure of Alitalia's properties in the amount of more than 200,000,000 euros to secure its alleged claims. At the hearing of 30 April, the petition was rejected and the judge adjourned the case for a final decision to 29 Sep. 2014, as he found the case ready for judgement without needing further examination of evidence or measures of preliminary equiry. On 15 May 2014 Wind Jet challenged the judge's decision to reject the seizure.

FINARIA SPA + Vitalini Angelo Agatino: writ of summons of € 92,380,000, seeking the establishment of liability as per art. 2497 of the Italian Civil Code. In their capacity as shareholders and creditors of Wind Jet, the plaintiffs – wholly controlling Wind Jet's capital – argued that, through the execution of the agreements negotiated with Wind Jet, Alitalia was actually performing a management and coordination activity on the company in breach of the principles of sound corporate management and was consequently taking advantage of its position to change Wind Jet's trade policy in an uneconomical and anticompetitive way. At the hearing of 17 March 2014, the judge Mr. Fichera (the same who had rejected Wind Jet's petition for a seizure order) adjourned the case for a final decision to 29 September 2014, as he found the case ready for judgement without needing further examination of evidence or measures of enquiry. In this case too, the risk of an unfavourable judgement for Alitalia was found remote by the engaged legal advisors, for which reason no liability was appropriated to its financial accounts.

CROSS ADV S.r.l. in liquidation: writ of summons of K€ 3,560 seeking compensation for the loss caused by contractual breaches – infringement limited to the sale of advertising spaces; Alitalia appeared in court with a statement of defence and a counterclaim for contractual breach in the amount of 3,533,085.71 euros. At the hearing of 4 marzo 2014, the judge adjuorned the case to 6 June 2014 for the examination of evidence. The parties preferred to reach an amicable settlement out of court at zero ciost. Case risk: remote.

ACCA 24 S.r.l.: writ of summons before the Court of Rome (Ledger reference R.G. 85523/2013) whereby the company Acca 24 sought a declaration of illegitimacy for Alitalia's notified unilateral withdrawal and ordered the Company to pay the full amount envisaged by the contract until 31 December 2017 equal to 2,177,578.00 euros in total and, in the alternative. the payment of damages for 919,569.92 euros. At the hearing of 23 March 2014 the Judge gave the party a term as per art. 183, par. VI, of the Italian Civil Procedure Code and adjourned the case to the hearing of 1 Oct. 2014. Case risk: remote

TOTO ARBITRATION: On 5 Dec. 2012 Alitalia initiated an arbitration proceeding, by which it sought from Toto, in the main, a damage compensation of 150 million euros on the ground of its having been fraudulently solicited to sign the agreement for the acquisition of the full block of shares in Air One. In particular in the context of negotiations, Toto made no reference to specific facts which, if disclosed to Alitalia, would have convinced the Airline Management not to execute the agreement or to do so on terms and conditions differing from those agreed (*dolus incidens*);. In the alternative, Alitalia sought a compensation in the amount specified by the above acquisition agreement, following its incurred losses from litigations with employees (around 32 million euros) and other claims (about 27 million euros). In appearing before the Arbitrators, Toto

involved in the case the subsidiary AP Fleet (on which Alitalia submitted a petition for a preliminary ruling contesting its legitimacy to join the proceeding for the reason that it was not a party to the executed agreement), and filed a counterclaim of 120 million euros motivated by alleged contractual breaches. On 27 November 2013 the Arbitration Board made up of Prof. Guido Alpa (President), Prof. Sergio Maria Carbone (Alitalia's arbitrator) and Prof. Andrea Di Porto (Toto Holding's arbitrator), issued a partial and not final award. As for the arbitration claims filed by the parties, the Board of Arbitrator informed it had no competence to judge the counterclaims submitted by Toto/AP Fleet (seeking a maximum compensation of 120 million euros) on the alleged ground of breaches of obligations not contemplated in the Framework Agreement, or to judge the Alitalia's claim for the liability of Toto Holding for *dolus incidens* and its consequent claim for damages worth 150 million euros. Following an unsuccessful attempt at a conciliation, the Arbitration Board, in the hearing of 21 January 2014, fixed a calendar for continuing the arbitration procedure and declared that they would make use of the extension pursuant to art. 820 par. 4. item c). In the same hearing, the Arbitrators fixed a date for the filing of briefs designed for a possible rewording of claims, specifically on 5 and 20 February, with a new hearing scheduled for 19 March 2014. Following the verbal discussions and the production of written evidence the Board reserved decision. On 9 April 2014, they issued an award giving TOTO a short list of the produced documentation while fixing a new discussion hearing on 29 April 2014. At the end of that hearing, the Board suspended judgment and asked the parties to agree on an extension of the term for rendering their award. On 13 May 2014, the Board decided to give Alitalia a term expiring on 29 May 2014 for filing its prepared tables on labour disputes, while Toto was given a term expiring 3 June 2014 for filing his own tables. The term for rendering the award has ultimately been extended to 19 July 2014.
With regard to the counterclaim submitted by Toto/AP Fleet, although the different losses claimed by the opposing party do not seem to be substantiated by suitable documental evidence and although the claim for breach was regularly filed by Alitalia in accordance with the applicable civil procedure rules, in any case the legal advisors of the Company found that the risk of an unfavourable pronouncement was possible.

It is worth adding that, in addition to Arbitration, Alitalia has taken further steps in court against Toto. In particular:
(i) though an action under article 700 brought before the Rome Court, Alitalia and the Irish companies of the Alitalia Group requested the Court, as a matter of urgency, to order Toto to provide the sums required for settling the amount agreed with the Inland Revenue in the context of a tax dispute following the assessment of a number of tax liabilities of Air One in tax periods 2002 to 2008, which are therefore fully attributable to the Toto family as prior owners. The Court rejected the action as it found a default risk inapplicable to Alitalia. A challenge to that decision is now under preparation;
(ii) following a tax inspection with regard to tax periods corresponding to those of Toto's ownership and operation of Air One and the issue by the Tax Police (*Guardia di Finanza*) of a "Record of Finding" (*Processo verbale di constatazione*) on 1 april 2014, Alitalia filed a claim seeking a compensation from Toto in accordance with the provisions of the Framework Agreement for the purchase of Air One;
(iii) by a writ of summons notified on 20 may 2014 a civil proceeding was instituted with Toto before the Rome Civil Court in order to obtain the compensation of damage caused to Alitalia by Air One's bad faith in the conduct of preliminary negotiations for the execution of the Agreement for the purchase of Air One, on

the ground of Toto's alleged pre-contractual liability and/or *dolus incidens*. For the above behaviours, Alitalia claimed an amount of 150 million euros in damages with the case scheduled to be heard on 21 October 2014;

(iv) by a writ of summons served on Toto on 22 May 2014 Alitalia, initiated before the Civil Court of Chieti a revocatory action for the Court to void the three non-recurring transactions for the disposal of the equities held in Toto Holding, which had been executed in defraud of Alitalia's rights as Toto's creditor. The first hearing will be held on 19 November 2014. The formal registration of attachments on the assets diverted by the Toto family is now in progress.

ALITALIA SERVIZI IN A.S.: application for an order of payment of K€ 2,106 to recover unpaid rents due on a leased building identified as "CED" in the Rome Magliana area. The order of payment was challenged in court and the first hearing is scheduled on 14 April 2014; rents have not been contested as they are due and payable, however a counterclaim was entered to claim the payment of the rent due on the hangar used by Alitalia Servizi in A.S. (in extraordinary administration). At the hearing of 14 Apr. 2014 Alitalia impugned and contested the opposing party's entry of appearance. In reply to the objection raised by the opposing party, as no express denial of the amount due was made, Alitalia argued that its documentation could effectively be enforced against the opposing party. On the merits of the case, Alitalia contended that the opposing party admitted having occupied the hangars and consequently recognised the grounds for the accrual of Alitalia's claim. As for the opposing party's pleading the inadmissibility of Alitalia's counterclaim on the ground that it fell within the competence of a Bankruptcy Court, Alitalia contested the argument as groundless maintaining that, in the case in point, Alitalia's claimed sum was exceptionally relied on as a set-off and that, in any case, it was a "*credito prededucibile*" (a debt not forming part of the bankrupt's estate) accrued and payable by Alitalia Servizi in a.s. after the opening of the procedure and therefore falling outside the rule of "*concorso dei creditori*" (competition with the other creditors of the procedure).

For these reasons, Alitalia insisted on the admissibility of its counterclaim and objected to the recognition of the provisional enforceability of the challenged payment order. In the unlikely event that the Judge should recognise the inadmissibility of Alitalia's counterclaim, the Company requested a term for referring the case to the Bankruptcy Court – adding that it was prepared to do so without delay in the form of a late application to prove debt in the opposing party's bankruptcy proceeding, a counterpart of which was produced to the Judge – to the effect of suspending this proceeding, pursuant to art. 295 of the Italian Civil Procedure Code, without recognising the provisional enforceability of the challenged payment order. The Judge reserved decision. A decision of the Judge is now awaited in order to consider the opportunity to submit a late application to prove debt in the bankruptcy proceeding pursuant to art. 101 of the Italian Bankruptcy Act (*Legge Fallimentare*).

As for the debt claimed by the opposing party through the payment order, the opportunity is being considered to set it off against the higher sum claimed by Alitalia C.A.I. from the opposing party, which sum may either be recognised in this proceeding or, if need be, following the examination of the late application to be submitted pursuant to art. 101 of the Bankruptcy Act.

SAC (Società Aeroporto di Catania) S.p.A.: Court of Catania – writ of summons of 7,139,860.00 euros, for the purpose of obtaining a compensation for damage arising out of Alitalia's liability in tort, which is alleged as a ground for the bankruptcy of Wind Jet and, consequently, Wind Jet's default in the payment of SAC invoices.

More specifically, it is argued in the writ that, for the closing of the transaction with Wind Jet, Alitalia issued a comfort letter for the benefit of Wind Jet and its creditors (including SAC) whereby it declared that, in the event that Wind Jet executed debt rescheduling agreements, Alitalia would proceed with the closing of the acquisition transaction.

Pursuant to the comfort letter issued by Alitalia, SAC and Wind Jet signed an agreement for rescheduling the debt contracted by Wind Jet, granting Wind Jet a deferment of outstanding payments and suspending the recovery of overdue debts. As specified in the writ documentation, the hearing is scheduled for 24 June 2014. Case risk: remote.

ALITRANSPORT S.r.l.: Court of Rome – Corporate Affairs Division – action as per art. 700 of the Civil Procedure Code – with an undefined value – for retaining a service provision contract and a "car rental with driver" contract and for the further purpose of prohibiting CAI from establishing bonds of economic dependence amounting to an act of unfair competition and declaring that CAI's conduct amounts to an "abuse of economic dependence" to the detriment of Alitransport. The hearing for the appearance of the parties to the case is scheduled for 19 June 2014. Case risk: possible.

LABOUR DISPUTES

The pending labour dispute with Alitalia at 31 December 2013 comprises 744 appeals, the subject of which is mainly establishing the unlawfulness of the duration of the fixed-term employment contracts and the illegitimacy of the selection/recruitment criteria set out in the 2008 agreement and relating to former employees of the Alitalia-LAI Group; the amount of said dispute is still unknown as the appeals do not specify the amount of the claim that will eventually be established by the judge through an order or subsequent judgement aimed at fixing said amount.

CORPORATE DISPUTES

Writ of summons of G&C Holding

By a writ served on 7 February 2014, the Shareholder G&C Holding summoned Alitalia to appear before the Rome Court, Corporate Affairs Division, for the Judge's assessment and declaration of the invalidity of resolutions adopted by Alitalia's Shareholders Meeting on 14/15 October 2013.

In short, the resolutions concerned:

- the approval, pursuant to, *inter alia*, art. 2446 of the Italian Civil Code, of the Company's financial statements as on 30 June 2013 with the attached Director's Notes and remarks from the Auditing Board;
- the coverage of losses accumulated in the first half of 2013 and a decrease of the share capital pursuant to art. .2446 of the Italian Civil Code;
- a share capital increase by a maximum amount of 300 million euros.

Writ of summons of AF-KLM

By a writ served on 11 April 2014, the Shareholder Air France-KLM S.A. summoned Alitalia to appear before the Rome Court, for the Judge to do the following:

1) in the main:
   a). assess the invalidity of the resolution adopted by Alitalia's extraordinary Shareholders Meeting on 13 January 2014 to the effect of reducing the number of members composing the Board of Directors from 19 to any number in a range of 7 to 19, for breach of art. 2376 of the Italian Civil Code and clause 13.3 of the Company's Articles; and
   b). annul the above resolution;
2) in the alternative,

   assess and declare that the current Articles of Association of Alitalia, specifically clause 15, are to be interpreted as recognising the right of holders of class B shares – controlling at least 5% of the share capital and presenting a list of candidates – to appoint at least a member of the Board of Directors, irrespective of the number of members composing the same Board.

TAX DISPUTES

Kindly refer to the final part of these Notes to the Financial Accounts, section "The Alitalia's Tax Position" for an account of tax disputes.

Detailed Statements

Table of finance lease contracts using the financial method of accounting (Art. 2427- 22 of the Civil Code)

Situazione al 31 Dicembre 2013	TOTAL
A) ASSETS – contracts under way	
a) Value of leased assets at the end of the previous financial year	60,642,155
b) Accum. Depreciation of leased assets at the end of the previous financial year	(45,293,816)
c) assets purchased in the year	33,168
d) assets redeemed in the year	
e) depreciation charges for the year	(4,630,940)
f) adjustments and write-backs of assets	
Fixed asset	60,675,323
Accum. depreciation	(49,924,756)
Value of leased assets at the end of the current financial year	**10,750,568**
B) CHANGES	
Remainder of 2012 maxi fee prepaid	(2,739)
2013 maxi fee prepaid	2,739
Remainder 2013 maxi fee prepaid	
C) LIABILITIES	
Implicit payables at the end of the previous financial year	**10,594,202**
of which due within one year	*3,624,153*
of which due within one and 5 years	*6,970,049*
of which due after more than 5 years	
+ Implicit payables arisen in the year	
- Reductions due to repayment of principal	3,475,922
- Reductions for redemptions in the year (theft damages)	
- Reductions for more accurate estimate of 2012 payable	124,897
- 2011 accrual	290,542
+ 2012 accrual	199,775
C) implicit payables at the end of the current year	**6,902,617**
of which due within one year	*2,448,735*
di of which due within one and 5 years	*4,453,883*
of which due after more than 5 years	
D) Total effect before tax at year end (A+B-C)	**4,044,507**
E) net tax effect (- = highet taxes; + = lower taxes)	***(172,700)***
F) effect on net equity at year end	**3,871,807**
INCOME STATEMENT	
Reversal of fees on finance lease transactions	4,608,876
(of which financial charges)	(1,130,217)
Amortization of contracts in place	(4,630,940)
Amortization of redeemed assets	
Financial charge on lease transactions	(1,130,217)
Adjustments / wtite-backs of leased assets	124,897
Effect on result before tax	(1,027,383)
Tax effect	*43,869*
Effect on result for the year Profit (Loss	**(983,514)**

Analysis of Net Equity items (Art. 2427- 7 bis of the Civil Code)

USES OF NET EQUITY

Euro/thousand

ITEMS	Amount at	Possible use	Amounts allowed	Summary of uses made in the previous three financial years: TO MAKE UP LOSSES	Summary of uses made in the previous three financial years: FOR OTHER REASONS
SHARE CAPITAL	270,677			407,678	
Share premium account	290,000	A, B, C	235,864	501,156	
Shares subscribed upon share capital increases		---	---		
Legal reserve		A, B, C			
Other reserves:					
- Shareholders' payments for future capital increases					
- Reserve to make up losses		B		23	
- Extraordinary reserve					
- Convesrion reserve					
- Extraordinary reserve					
- Payment for the subscription of new shares resulting from conversion of convertible debenture loan	37,467	A	37,467		
Profit (Loss) c/fwd	0			(736,908)	
Profit (Loss) for the year					
- Loss made up in the year	171,949			(171,949)	
- Profit (Loss) for the year	(557,087)				
TOTAL	**213,006**		**273,331**	**0**	**0**
Undistributable share			**0**		
Distributable share			**273,331**		

Key:
A. for share capital inctreases;
B. to make up losses;
C. for distributions to shareholders

List of investments in subsidiaries (Art. 2427 - 5 of the Civil Code)

at 31.12.2013

amounts in euros

BUSINESS NAME	MAIN OFFICE	SHARE CAPITAL	PROFIT (LOSS)	NET EQUITY	% DIRECT OWNERSHIP %	CARRYING VALUE
AIR ONE S.p.A	**Fiumicino (RM)**	**50,000,000**	**(41,505,117)**	**20,080,457**	**100.00**	**63,064,135**
Challey Ltd	**Dublin**	**19,966,194**	**(7,008,198)**	**3,940,491**	**100.00**	**90,087,000**
CityLiner S.p.A.	**Fiumicino (RM)**	**1,000,000**	**229,392**	**15,908,073**	**100.00**	**24,993,861**
C.A.I. FIRST S.p.A. Unipersonale	**Fiumicino (RM)**	**1,120,000**	**(4,243,595)**	**815,570**	**100.00**	**2,757,366**
C.A.I. SECOND S.p.A. Unipersonale	**Fiumicino (RM)**	**1.120.000**	**1,563,411**	**8,262,609**	**100.00**	**28,620,000**
Alitalia Loyalty	**Fiumicino (RM)**	**500,000**	**5,461,213**	**155,461,213**	**100.00**	**150,000,000**
TOTAL						**359,522,362**

At 31 December 2013, Alitalia has the following transactions in derivative financial instruments in place, subscribed for mere hedging purposes.

Art. 2427-bis – Information on the Fair Value of Financial Instruments

Hedges against the fuel price risk:

The Group executed swap derivative contracts for hedging against the commodity price risk related to jet fuel supplies.

In order to calculate the fair value of the above derivatives, account was taken of forward projections of Brent prices, as reported by primary, independent info-providers; the fair value was found to be positive to the extent of 21,682,390 euros.

At 31 December 2013 the Group's derivative contracts successfully underwent the effectiveness test prescribed by IAS 39. The test was performed by applying the regression analysis method, which consists in analysing the regression between the prices of Brent, as underlying commodity of derivatives in the portfolio, and Jet Fuel.

instrument	objective	maturity	Notional value *	underlying financial risk	FV 31/12/2013 **	Assets or liabilities hedged	Outcome effectiveness test	Underlying product	Underlying amount (jet fuel:MT/brent:bbl)
FUTURES CONTRACT	hedge	Monthly from Jan to Dec.14	EUR 345,198,342 USD 476,063,034	jet fuel price	EUR 21,682,390.00	jet fuel purchases	regression ok***	brent	4,635,810

Hedges against the exchange rate risk:

The derivatives shown in the table below were executed for hedging against the exchange rate risk. Their measured fair value as on the accounting date was negative to the extent of 10,608,985 euros.

More specifically, the following types of derivatives were used:

- optional structures hedging cash flows for fuel purchases with payments in euros indexed to the dollar;
- optional structures hedging cash flows for the collection of sales made in the UK and Japan;
- cross currency swaps hedging principal and interest cash flows originating from bank loans denominated in dollars.

Please note that the fair value of the above derivatives is calculated by means of calculators using absolutely reliable and well-established pricing models.

At 31 December 2013 the Group's derivatives successfully underwent the effectiveness test prescribed by IAS 39; the test was performed by applying the dollar-offset method over time on a progressive basis.

EXCHANGE RATES

instrument	objective	Maturity	Notional value *	Underlying financial risk	FV 31/12/2013 **	asset or liability hedged	Outcome effectiveness test
SYNTHETIC FORWARD	hedge	Monthly from Jan to Dec 2014	EUR 333,142,986 USD 446,400,000	eur/usd exchange rate	EUR (9,365,631)	euro indexed to the dollar for fuel payments	-100%
COLLAR	hedge	Monthly from Jan to Dec. 2014	EUR 196,844,615 USD 258,600,000	eur/usd exchange rate	EUR (2,948,445)	euro indexed to the dollar for fuelpayments	-100%
FORWARD	hedge	Monthly from Jan. to Dec. 2014	EUR 7,143,708 GBP 6,000,000	eur/gbp exchange rate	EUR (65,693)	Collections from UK sales	-100%
COLLAR	hedge	Monthly from Jan. to Dec. 2014	EUR 44,150,110 JPY 6,000,000,000	eur/jpy exchange rate	EUR 1,770,784	Collections from Japan sales	-100%

Table of Revenues, Receivables and Payables by geographical area

<u>Revenues by geographical area (point of sales)</u>

REVENUES

	2013						**2012**					
Euro/thousand	**Italy**	**Europe**	**Americas**	**Far East**	**Other**	**Total**	**Italy**	**Europe**	**Americas**	**Far East**	**Other**	**Total**
<u>Revenues for services</u>												
Revenues from traffic:												
Passengers	1,156,038	536,000	690,759	251,663	1,172	2,635,632	1,304,169	525,061	583,650	297,344	488	2,710,713
Cargo	59,631	3,248	15,674	18,652	898	98,103	55,709	2,213	17,490	25,624	533	101,569
Post	1,143	292	811	590	93	2,929	1,358	312	758	352	21	1,801
Other					196,392	196,392					297,711	297,711
<u>Total revenues from traffic</u>	1,216,812	539,540	707,244	270,905	198,555	2,933,056	1,361,236	527,586	601,898	323,320	298,753	3,112,794
Other services					351,309	351,309					408,238	408,238
Total	1,216,812	539,540	707,244	270,905	549,864	3,284,365	1,361,236	527,586	601,898	323,320	706,991	3,521,032
<u>Revenues from sales</u>						2,700					928	928
Total revenues	**1,216,812**	**539,540**	**707,244**	**270,905**	**549,864**	**3,287,065**	**1,361,236**	**527,586**	**601,898**	**323,320**	**707,919**	**3,521,960**

Table of receivables by geographical area

Euro/ thousand	ITALY	EUROPE	AMERICAS	FAR EAST	OTHER	31/12/2012	ITALY	EUROPE	AMERICAS	FAR EAST	OTHER	31/12/2012
to clients	45,281	6,707	32,301	1,014	3,887	89,190	49,806	7,286	24,764	1,565	376	83,797
airline companies	21,785	33,421	324	246	66	55,842	26,401	40,212	36,925	112	20	103,670
travel agents	65,497	15,482	26,496	155	12,658	120,288	63,501	15,202	8,245	14,812	15,469	117,229
to subsidiaries	46,166	175,344				221,510	23,143	182,270				205,413
tax credits	14,493					14,493	10,332					10,332
deferred tax assets	23,376					23,376	24,371					24,371
other receivables	57,038	20,616	276	12	1,118	79,060	77,325	9,395	1,053	390	226	88,389
Total	**273,636**	**251,570**	**59,397**	**1,427**	**17,729**	**603,759**	**274,879**	**254,365**	**70,987**	**16,879**	**16,091**	**633,201**

Euro/thousand	ITALY	EUROPE	AMERICAS	FAST EAST	OTHER	31.12.2013	ITALY	EUROPE	AMERICAS	FAR EAST	OTHER	31.12.2012
Convertible debentures	63,867					63,867						
to banks	257,389					257,389	377,131					377,131
to other financial backers	159,467					159,467	157,872					157,872
advances	3,235					3,235	710					710
trade payables	513,903	29,849	16,115	1,050	2,788	563,705	449,040	42,267	4,508	(2,021)	2,760	496,554
airlines	12,829	1,341	377	504	69	15,120	23,356	384	41	70	66	23,917
travel agents	12,551	3,768	2,868	2,896	1,326	23,409	12,543	3,337	3,257	2,650	2,198	23,985
to subsidiaries	136,011	35,335				171,346	75,180	11,033				86,213
tax liabilities	10,784					10,784	10,625					10,625
payables to socisl sec. instit.	54,597					54,597	28,619					28,619
prepaid tickets	281,832					281,832	282,945					282,945
sundry payables	74,126	96	1,027	576	189	76,014	74,536	227	297	188	125	75,373
Total	**1,580,591**	**70,389**	**20,387**	**5,026**	**4,372**	**1,680,765**	**1,492,557**	**57,248**	**8,103**	**887**	**5,149**	**1,563,944**

Alitalia tax position

IRES

Year 2013 is the second tax period in the three-year term 2012-2014 in respect of which a few companies of the Group opted for a three-year Group taxation (known as “*Consolidato Nazionale*” or “National Consolidation Regime”) by executing suitable contractual instruments, pursuant to articles 117 to 129 of D.P.R. (President’s Decree) no. 917 of 22 December 1986 and Ministerial Decree no. 344/2004.

As a result of the above, the subsidiaries that opted for the aforesaid tax regime are as follows Air One, Cai First, Cai Second, Alitalia Cityliner and the newly established Alitalia Loyalty, which opted for this regime *for the three-year term 2013-2015*.

As a result of the foregoing, the Companies included in the scope of consolidation are required to transfer any taxable amounts to the Consolidating Company (Alitalia –Compagnia Aerea Italiana S.p.A.), which will in turn determine the fiscal result in unit terms and the corresponding tax burden for the Group. In case of a tax loss accrued during the consolidation term, the related negative taxable income is utilised and then set off against the taxable incomes generated by other Companies under the regime.

The singularity of the income produced by the Group under the consolidation regime requires the Companies having opted for such regime to settle between each other their respective financial positions by coordinating with and through the Parent Company Alitalia.

The result reported by the Company at 31 December showed, instead, an tax loss for IRES purposes of € 225,218 thousand.

IRAP

As regards IRAP, instead, current taxes amount approximately € 9,101 thousand, and receivables for taxes paid in advance were booked for approximately € 2,004 thousand.

The decrease in current IRAP taxes compared to the 2012 financial year is mainly due to the reduction in the value of production before tax, offset by the increase in the Lazio IRAP rate due to the elimination of the favourable tax treatment provided for airline transport activities.

In 2013 the Company paid € 1,602 thousand and € 11,625 thousand as the first and second advance payment of IRAP respectively.

VAT

Pursuant to art. 73 of Presidential Decree no. 633/1972, the Company opted for the Group VAT Return for Tax Year 2013 as the Parent company.

By opting for the aforesaid procedure, the Company is entitled to:

- set off its VAT receivable and payable in its VAT return against the corresponding balances of other companies of the Alitalia group, namely Cityliner, CAI First, CAI Second and Air One
- determine the periodical Group VAT return and make the related payments, if due.

At 31 December 2013 the Group VAT balance was a credit of € 921 thousand.

Taxes levied on Foreign Branches

With reference to taxes levied on the foreign branches of Alitalia – Compagnia Aerea Italiana, the following is worth noting *inter alia*:

- Provisions in the amount of K€ 120 were set aside for income taxes applicable to technical line maintenance;
- An appropriation in the amount of K€ 100 was made to the Foreign Branches Risk Provision to cover a solidarity levy imposed by the French government on all airlines operating in its territory.

With regard to the extraordinary surcharge imposed in Greece in year on Alitalia – Compagnia Aerea Italiana S.p.A., it is hereby informed that the mutual agreement procedure envisaged by the Convention between the Government of the Hellenic Republic and the Government of the Italian Republic is still in progress; similarly, a judicial proceeding initiated locally is still pending and the Company is waiting to be informed about the outcome of the hearing held on 7 November 2013.

FOREIGN BRANCHES: VAT

VAT levied abroad on Alitalia-Compagnia Aerea Italiana S.p.A.: during 2013 refunds of VAT in the amount of around K€ 100 were obtained from foreign tax authorities.

Access by the Tax Police

On 13 May 2013 the Tax Police started investigating Tax Years 2002 through 2008 with regard to the tax residence of the 15 Irish companies that, to date, are 100% owned by Alitalia.
This investigation follows the seizure of documentation made at the main office of Alitalia on 7 November 2012 as part of a search delegated to the Rome Public Prosecutor's Office by the Judicial Authority of Catania and relating to different criminal proceedings.
That verification terminated on 9 July 2013. The Reports on Findings (ROFs) ensuing the objection to the tax residence in Italy were serves respectively on 13 June 2013 to the companies Challey, Subho, APC11 and APC12, on 27 June 2013 to the companies APC, APC1, APC2 and APC3 and on 4 July 2013 to the companies APC4, APC5, APC6, APC7, APC8, APC9 and APC10. The challenged violations, of a formal and substantial nature, concerned IRPEG (corporation tax), IRAP

(regional tax) and VAT. The companies started controverting with the Inland Revenue before issuing the related statements of opposition.

As the controverting process came to an end, on 10 December 2013 the Inland Revenue and the companies shared, in a Report on Findings, the overall settlement of the positions that were the subject of the objections raised by the Tax Police by proposing a full settlement through a payment of € 38.4 million:

- IRPEG/IRES: assessed tax € 6.2 million + sanctions € 1.3 million
- IRAP: assessed tax € 3.6 million + sanctions €0.7 million
- VAT: sanctions of € 9 million; as regards the tax, the set-off of taxes due against the amount that would be deductible by aircraft users was immediately recognised;
- Withholding taxes: assessed tax € 4.1 million + sanctions € 2.2 million
- Legal interest € 11.3 million.

On 16 December 2013 a notice accepting the invitation to controverting proceedings issued on the basis of the aforesaid Report on Findings was filed.

The Irish companies actually joined on the dates listed below by paying the amounts specified in the amortization plans included in each assessment notice:

1. 11/12/2013: € 0.3 million
2. 13/12/2013: € 1.9 million
3. 19/12/2013: € 2.2 million

At 31 December 2013, taking account of the finalised joining mentioned above, a provision was made of € 38.4 million.

Tax disputes

In 2012 Alitalia was served amendment and settlement note no. 20101T003730000 whereby the Inland Revenue amended the disposal value of the business unit “Full handling assistance services at Catania airport”, occurred on 25 January 2010, between Alitalia and S.A.C. – Società Aeroporto Catania S.p.A.. The Inland Revenue increased the aforesaid amount from € 10 thousand to a total of € 777 thousand with the payment of a higher registration tax of € 23 thousand, plus interest and sanctions of € 25 thousand. On 28 March 2012 the Company filed an appeal with the Provincial Tax Commission of Rome. To date the company is waiting for the hearing to be scheduled.

RECONCILIATION BETWEEN TAXES AS PER FINANCIAL STATEM. AND THEORETICAL TAXES (I.RE.S.)

Profit before tax	(567,363,296.52)	
Theoretical tax charge (tax rate 27.5%)		-
Temporary differences taxable in future financial years:	-	
Temporary differences deductible in future financial years:	423,740,023.70	
Reversal of temporary differences:	(118,879,990.88)	
Differences that will not reverse in future financial years:	37,246,902.46	
Taxable income (*)	(225,256,361.24)	
Current taxes on income for the year		-

(*) Company that opted for Group Taxation: taxable income transferred to to the Consolidating company ALITALIA

Reconciliation between taxes as per financial statem. and theoretical taxes (I.R.A.P.)

Difference between value and costs of production for IRAP purposes	327,903,246.50	
Values that are not relevant for Irap purposes and differences that will not reverse in future financial years	(84,583,966.56)	
Total	243,319,279.94	
Theoretical tax burden (tax rate 3.90%)		**9,489,452**
Reversal of temporary differences from previous fin. years:		
Total	56,504,533.60	
Temporary differences in future financial years:		
Total	(106,156,601.26)	
Taxable income	193,667,212.28	
Current taxes on income for the year with effective tax rate		**9,101,222**

Calculation of deferred taxes and deferred tax assets and ensuing effects for IRAP purposes:

	2012 financial year		2013 financial year	
	Temporary differences	**Tax effect (tax rate 3.90%)**	**Temporary differences**	**Tax effect (tax rate 3.90%)**
Deferred tax assets:				
Provisions	97,617	(3,807)	107,185	(4,180)
Other charges for the year	22,873	(892)	715	(28)
Prior years'	(79,509)	3,101	(56,505)	2,204
Total	**40,980**	**(1,598)**	**51,396**	**(2,004)**
Deferred taxes:				
Deferred income				
Prio years'				
Total				
Net deferred tax (assets)		(1,598)		(2,004)
Deferred tax (assets) relating to previous financial years				
Total		**(1,598)**		**(2,004)**

Reconciliation between ordinary tax rate and effective rate:

	2012 financial year		2013 financial year	
	Amount	Percentage	Amount	Percentage
Tax provisions using legally applicable rate	24,839	4.29%	15,410	4.70%
Effect of values not recorded to the fin. year	(4,533)	(0.78%)	(3,975)	(1.21%)
Effect of values to be recorded in future fin. years	(1,759)	(0.30%)	(2,333)	(0.71%)
Tax provision as per balance sheet	18,546	3.21%	9,101	2.78%

Calculation of deferred taxes and deferred tax assets and ensuing effects for IRES purposes:

	Esercizio 2012		Esercizio 2013	
	Temporary differences	**Tax effect (tax rate 27.5%)**	**Temporary differences**	**Tax effect (tax rate 27.5%)**
Deferred tax assets:				
Provisions				
Other charges for the year				
Prior years'				
Total	-			
Deferred taxes:				
Deferred income				
Prior years'				
Total				
Net deferred tax (assets)				
Deferred tax assets related to tax losses of the financial year				
Deferred tax assets related to tax losses of the previous financial year				
Total				
Taxable income/tax losses brought fwd (*) (with theoretical calculation of deferred tax assets)				
Pervious tax year – adjusted to new tax rate	(130,522)	(35,894)	(141,945)	(39,035)
Current tax year	(11,423)	(3,141)	(225,256)	(61,945)
Total		(39,035)		(100,980)
Difference between theoretical and effective calculation of deferred tax assets		(39,035)		(100,980)

(*) Company that opted for Group Taxation: taxable income transferred to the Consolidating company ALITALIA

Reconciliation between ordinary and effective tax rate:

	2012 financial year		2013 financial year	
Tax provision using currently applicable tax rate	(56,824)	(27.50%)	(136,261)	(27.50%)
Effect of charges deducted in the fin. year	(30,859)	(14.93%)	(32,692)	(6.60%)
Effect of charges not deducted in the fin. year	85,902	41.57%	107,007	21.60%
Tax provision as per balance sheet	(1,782)	(0.86%)	(61,945)	(12.50%)

Mission statements of subsidiary companies

CAI FIRST S.p.A. (Fiumicino)

Operation of air routes, connections and services, either directly or on behalf of third parties, for passenger and freight transportation within Italy as well as between Italy and foreign countries (operational since January 13, 2009).

CAI SECOND S.p.A. (Fiumicino)

Operation of air routes, connections and services, either directly or on behalf of third parties, for passenger and freight transportation within Italy as well as between Italy and foreign countries (operational since January 13, 2009).

Air One S.p.A. – (Fiumicino)

Operation of aircraft, air routes and services, either directly or on behalf of third parties, for passenger transportation within Italy as well as between Italy and foreign countries.

Alitalia City Liner S.p.A. – Fiumicino

Operation of aircraft, air routes and services, either directly or on behalf of third parties, for passenger transportation within Italy as well as between Italy and foreign countries.

Alitalia Loyalty S.p.A. - Fiumicino

Company dedicated to development and management of Alitalia Business Loyalty.

Challey Ltd – Ireland

Operation of leasing, purchasing and sales of aircrafts, helicopters, vehicles, engines and related parts.

Aircraft Purchase Company Ltd - Ireland

Operation of leasing, purchasing and sales of aircrafts, helicopters, vehicles, engines and related parts.

SubHo Ltd – Ireland

Operation of leasing, purchasing and sales of aircrafts, helicopters, vehicles, engines and related parts.

Aircraft Purchase Company Ltd – Ireland Dublio (12 companies assigned with numbers from 1 to 12), Operation of leasing, purchasing and sales of aircrafts, helicopters, vehicles, engines and related parts.

Glossary

(the original list was rearranged to reflect alphabetical order in English)

ACARS	Aircraft Communications Addressing and Reporting System, a ground-to-air, air-to-ground communication system.
ACMI	Aircraft, Crew, Maintenance & Insurance, a type of fee normally used in wet lease agreements.
AEA	Association of European Airlines.
AFTK	Available Freight Tonne Kilometres, number of tonnes of freight times kilometres travelled (measures available total freight capacity).
ALIS	Flight management system (aircraft turnover time, crew shifts, etc.).
APU	Auxiliary Power Unit, an aircraft power supply unit used for engine ignition, navigational instruments and lighting while the aircraft is on the ground.
AR	Average Revenue, total revenues divided by the number of passengers.
ARCO	IT booking management system.
ASK	Available Seats Kilometres, the number of seats offered by a carrier on a given group of lines times the route length in kilometres.
Assaereo	National Association of Air Transport Carriers and Operators, founded in 1967, a member of Confindustria, the Italian Employer's Federation, since July 1999.
Assaeroporti	*Associazione Italiana Gestori Aeroporti* – an association founded in 1967 which brings together the operators of the 45 major Italian airports.
ASW	See "FRM".
ATA	Air Transport Association, the association of the main US airlines, established in 1936.
ATK	Available Tonne Kilometres, number of tonnes available times kilometres travelled (i.e. the number of passenger seats available for sale on each flight stage).

Belly	Compartment in a passenger aircraft where freight is transported.
Block flight time	Overall flight time, including aircraft movement on the ground.
Block space	Acquisition - against the recognition of a fee – of capacity (in terms of passenger seats or space for freight) on the aircraft of another carrier to be used for the sale of air transport services.
BRS	Baggage Reconciliation System, IT system for luggage handling and reconciliation.
BSP	Billing and Settlement Plan, a centralised sales management system which simplifies relations between travel agents and airlines.
Cabin Factor	Cabin occupancy coefficient (calculated as the ratio of booked passengers to offered seats).
Capability	The full set of skills, resources, qualifications and know-how needed for production activities.
Capacity Provider	Carrier providing aircraft and crew for air transport services pursuant to a wet lease agreement.
CASS	Cargo Accounts Settlement Systems, an IT billing management system that simplifies the billing and settling of accounts between airlines and freight forwarders.
Catchment Area	Potential number of customers.
Catering	In-flight food and beverage service.
CCAL	Short for "*Contratto Collettivo Aziendale di Lavoro*" (company-level collective labour agreement).
CCL	Short for "*Contratto Collettivo di Lavoro*" (collective labour agreement).
CER	CERs (Certified Emission Reductions) are a type of emission units (or "carbon credits") achieved through "Clean Development Mechanism" projects, i.e. high energy efficiency industrial projects or projects using renewable energy sources, in developing countries not admitted to the Emission Trading System (ETS). A CER credit gives entitlement to the emission of a CO_2 quantity of one metric tonne.

Chapter 11	US bankrupt procedure giving a company in financial difficulty protection from its creditors.
Charter flights	Flights, other than scheduled flights, operated pursuant to a charter contract entered into by a single contracting entity – usually a tour operator, a travel agent , an association, a company or a public or private body – for the full capacity of an aircraft (which shall in any case be above twelve seats) with intermittent or occasional frequency, normally for temporary or seasonal requirements.
Check-in	The full set of ground operations (ticket and document check, luggage inspection and collection, etc.) that passengers are required to undergo prior to air travel.
COA	Short for "*Certificato di Operatore Aereo*" (air carrier certificate) issued by ENAC, the Italian Civil Aviation Authority, in order to certify that a carrier has the professional skills and organisation needed for the safe operation of its aircraft in the air services therein specified.
Code share agreement	Agreement between two carriers pursuant to which a flight operated by one of the two signatories (the "operating carrier") and equally marketed by the other signatory (the "marketing carrier") is identified by the brands, IATA codes and flight numbers of both carriers.
Core business	A company's main area of business.
CRS	Computer Reservation System, an IT booking system.
DBC	Denied Boarding Compensation, compensation paid to passengers in the event of denied boarding.
Domestic flights	Flights within the Italian territory.
Dry-lease	Lease of unmanned, unequipped aircraft.
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation, an indicator of the core business of the company before amortisation and depreciation and gross of the cost of debt. It consists of the result for the period gross of interest payable, taxes, amortisation and depreciation.
EBITDAR	Earnings Before Interest, Taxes, Depreciation, Amortisation and Rentals, a typical core-business performance indicator for an air carrier equal to the sum of EBITDA and the cost of aircraft rental.

ENAC	Short for "*Ente Nazionale Aviazione Civile*", the Italian Civil Aviation Authority.
ENAV	Short for "*Ente Nazionale Assistenza Volo*", the Italian Air Traffic Control Authority.
ETS	The EU ETS (European Emission Trading Scheme) is a system whereby European companies are under the obligation to reduce greenhouse gas emissions to the atmosphere through the purchase of emission units (or "allowances").
EU	European Union.
EUA	European Unit Allowance. EUAs are tradable emission units used by the aviation industry and other industries as exchange money to comply with the Kyoto protocol (ETS- Emission Trading Scheme).
EUROCONTROL	European Organization for the Safety of Air Navigation, an international organisation whose mission consist in harmonising and integrating European air navigation services through a consolidated Air Traffic Management (ATM) system for civilian and military use.
FAA	Federal Aviation Authority (the US civil aviation authority).
Feeder trade	Traffic component developed in the form of flights operated on airport hubs for connecting with international and intercontinental flights.
Fifth freedom rights	The Chicago Convention of 1944 (which Italy ratified by legislative decree no. 616 of 1948) establishes the "five freedoms of the air". The fifth freedom is the right or privilege, granted in the territory of a State, to take on passengers, mail and cargo destined to the territory of any third State and the right to put down, in the territory of the same State, passengers, mail and cargo coming from the territory of any third State.
Financial lease	Lease of an aircraft financed by third parties to which a lease fee is paid for a certain amount of time. At the end of the lease period a redemption price of the asset is normally paid for ownership transfer.
FMR	Italian acronym for *Forza Media Retribuita* (Average Salaried Workforce), an indicator of the average number of employees during the year (or period), the corresponding English acronym ASW is conventionally used in this English translation.
Frequent flyer	Frequent air traveller.

FTE Full Time Equivalent **–** The total number of human resources in a period measured through the number of hours worked by a full-time worker. FTE is a standard indicator of the workload of an employed person in a way that makes workloads comparable between part-time and full-time workers.

FTK Freight Tonne Kilometres, transported freight measured in metric tonnes times kilometres.

Fuel Surcharge A surcharge applied to ticket price by an airline in order to cover exceptional costs due to crude oil price rises.

Galley Service area in the aircraft used by cabin crew.

GDS Global Distribution System, an IT system for managing reservations of air tickets as well as hotel bookings, car rentals etc.

Go Show A passenger who arrives at gate without reservation.

GPS Global Positioning System, a satellite navigation system.

GRAMS An IT system for managing ramp operations. (see also UFIS).

Gross Operating Margin An indicator of the margin of profit from a company's core business. A company's profit from selling goods and services net of the cost of externally sourced goods and services company and labour costs (abbreviated as GOM).

Grounding Removal of an aircraft from operation.

GSA General Sales Agent.

Handling The set of ground services provided by an airport operator and consisting in the handling of passengers, luggage, cargo and aircraft.

Home Base The place assigned by an operator to every crew member where they usually begin and conclude their period of service or a set of periods of service and where, in normal conditions, the operator is not responsible for supplying accommodation to the crew member.

Hub An airport normally lying at the heart of sizeable, traffic-feeding areas, which consists in an organisation system implemented by a carrier to centralise inbound and outbound air traffic of considerable size in accordance with a wavelike structure, which develops in specific times slots (normally 4 to 8 per day depending on airports) through a close-knit network of links. Currently, all major airline alliances operate and compete on a global scale for the control of large intercontinental passenger and cargo traffic flows through their respective, integrated “hub and spoke” systems used as interconnecting points between short and medium haul flights – feeding traffic from airports belonging to the network and located in catchment areas – and other connecting medium and long haul flights.

IAS International Accounting Standards.

IATA International Air Transport Association, the international airlines’ association.

ICAO International Civil Aviation Organisation, the highest international regulatory authority of the world aviation industry.

IFRS International Financial Reporting Standards.

Intercontinental flights Flights to non-Italian destinations in countries outside Europe or the Mediterranean basin.

Interline Agreement Agreement whereby an airline accepts on its flights passengers with travel documents issued by other airlines.

International flights Flights to non-Italian destinations in Europe or the Mediterranean basin.

Inventory A tool for managing fare classes.

Load factor A coefficient measuring the utilisation (or “filling”) of traffic capacity operated by a carrier, – expressed as ratio of RPK to ASK and/or TKT to TKO.

Narrow Body Aircraft with a single aisle normally used to connect short and medium haul destinations.

Net Invested Capital The value of fixed assets net of current (i.e. short-term) financial fixed assets (reduced by the value of working capital and severance pay fund).

Network Network of routes operated by an airline.

No Show A passenger with a reservation who does not show up at the gate.

Operating Income Operating income shows a company's income before financial items, taxes and extraordinary expenses. It consists of the Gross Operating Margin, to which depreciation and other adjustments are added, as well as provisions for risks and charges and the balance of income and expense.

OJEU Official Journal of the European Union..

Operating lease A type of contract in which an aircraft is leased for a certain amount of time against the payment of a lease fee. At the end of the period, the aircraft is returned to its owner.

Operating Result Operating result is the value of a company's earnings before financial items, non-recurring revenues and costs, and taxes. It is calculated from Gross Operating Margin plus amortisation, depreciation and other adjustments, provisions for liabilities and charges and the balance of sundry revenues and costs.

Outsourcing Process that leads to the transfer of activities previously carried out within the company to an external supplier, resulting in direct acquisition of the same goods or services.

PAX Short for **"**Passengers".

Phase in Entry of an aircraft into a fleet.

Phase out Exit of an aircraft from a fleet.

PNC Italian acronym for "*Personale Navigante di Cabina"* (cabin staff), i.e. cabin attendants.

PNT Italian acronym for "*Personale Navigante Tecnico"* (cockpit staff), i.e. pilots.

POC Short for "*Prestito Obbligazionario Convertibile*" (convertible debenture loan) – allows the subscriber to convert the debentures held, according to the method defined at the time of issue, into shares of the issuing company, forgoing his rights connected to his position as creditor in respect to the company and becoming contributor of risk capital.

Point to point Identifies flights specifically structured to serve a specific air route and not intended to connect to other flights.

Prorate Manual-Passenger A manual prescribing the terms for the proration of passenger revenues in Interline Agreements

RASK Revenue per Available Seat-Kilometre, i.e. revenue per product unit - expressed as the ratio of revenue to ASK.

RATK Revenue per Available Tonne-Kilometre, i.e. revenue per product unit - expressed as the ratio of revenue to TKO.

RPK Revenue Passengers Kilometres, transported passengers times the number of operated kilometres.

SAT Transit management system (see also VOR).

Scheduled flights Flights operated with such frequency and regularity as to constitute a systematic set of frequencies with the following characteristics: respect of timetable; repeated provision of air service between two or more points or traffic zones; and opportunity to book service in advance through reservation systems.

Seat Share Market share in terms of number of seats offered.

Service Provider Companies providing airlines with services complementing air service (e.g. handling, wet lease, etc.).

Slot Time interval allotted to an airline for the take-off or landing of a specific flight at a given airport.

SPA Short for **"Special Prorate Agreement**", agreement for the proportional allotment of fare revenues (proration), entered into between carriers having signed interline agreements.

Stick flight time Flight time from take-off to landing of aircraft.

Sub-holding Co. A holding company's subsidiary which in turn holds participating interests in other subsidiary companies.

Taxi (or taxiing) Movement of an aircraft on the surface of an aerodrome under its own power before take-off or after landing, on both manoeuvring areas and taxiways for the transfer of the aircraft to the parking area (or "apron").

Taxi out (to) “To taxi out” is the aircraft movement on the ground from the apron (parking area) to the runway.

TCV Ticket Credit Voucher, a money compensation offered to passengers for service inefficiencies.

TFEU Short for “**Treaty on the Functioning of the European Union”** one of the fundamental treaties of the European Union (EU) together with the “Treaty on the European Union” (TEU). Both treaties are the key foundations of primary legislation for the EU political system. With 358 articles, the TFEU illustrates in detail the functioning of the EU bodies and established their respective purview of functions and responsibilities.

TFTK Total Freight Tonne Kilometres, cargo, excluding mail, transported on passenger or all-cargo aircraft, expressed as tonnes times the number of kilometres.

TKO Tonne Kilometres Offered. Measures the traffic capacity offered by a carrier (same as ASK but expressed in terms of weight/distance through conventional conversion coefficients).

TKT Tonne Kilometres Transported. Measures the traffic transported by a carrier (same as RPK but expressed in terms of weight/distance in accordance with conventional conversion coefficients).

UFIS An IT management system for ramp operations (see also GRAMS).

VOR Transit management system (see also SAT).

Wet lease Aircraft lease agreement including cockpit and cabin staff, maintenance and insurance.

Wide Body Aircraft with more than one aisle normally used to connect long haul destinations.

Working capital The total value of inventory, receivables and other commercial activities net of the value of payables and other commercial liabilities and provisions.

Yield Average income per transported passenger or freight unit correlated to flown kilometres, expressed by the ratio of income to RPK and/or income to TKT.