EUROPEAN COMMISSION

Brussels, 10.9.2021
C(2021) 6665 final

In the published version of this decision, some information has been omitted, pursuant to articles 30 and 31 of Council Regulation (EU) 2015/1589 of 13 July 2015 laying down detailed rules for the application of Article 108 of the Treaty on the Functioning of the European Union, concerning non-disclosure of information covered by professional secrecy. The omissions are shown thus […]		PUBLIC VERSION This document is made available for information purposes only.

Subject: **State Aid SA.58173 (2021 N) (ex 2020 PN) – ITALY – Newco ITA**

Excellency,

1. PROCEDURE

(1) On 20 July 2020 Italy contacted the Commission in the context of the envisaged launch, involving a State capital injection, of a new company called Italia Trasporto Aereo S.p.A. (hereinafter 'ITA') which was planned to acquire assets from Alitalia - Società Aerea Italiana S.p.A. in amministrazione straordinaria (hereinafter 'Alitalia'). The Commission services registered that pre-notification on 29 July 2020.

(2) Between July 2020 and August 2021 Italy submitted additional information and supporting documents via electronic mail on numerous occasions.

Onorevole Luigi Di Maio
Ministro degli Affari esteri e della Cooperazione Internazionale
Piazzale della Farnesina, 1
00135 Roma
ITALIA

(3) Meetings, conference calls as well as other electronic email exchanges between the Italian authorities and the Commission services took place throughout that period.

(4) On 15 July 2021 the Commission services sent an administrative letter to the Italian authorities.[1]

(5) Following those informal contacts, on 13 August 2021, for reasons of legal certainty, Italy notified the procedure for the capital injection into ITA. Furthermore, Italy indicated that the envisaged transfer of assets would not lead to economic continuity between Alitalia and ITA.

(6) Italy exceptionally agrees to waive its rights deriving from Article 342 Treaty on the Functioning of the European Union ('TFEU'), in conjunction with Article 3 of Regulation 1/1958[2] and to have this Decision adopted and notified in English.

2. BACKGROUND

2.1. ITA

(7) ITA is a fully State-owned company created by the Italian State on 9 October 2020[3], initially with a share capital of EUR 20 million, with a view to it becoming a new Italian air carrier.

(8) According to Article 79 of Decree-Law No 18 of 17 March 2020 on "Measures to strengthen the National Health Service and economic support for families, workers and businesses linked to the COVID-19 epidemiological emergency" ('Decree-Law 18/2020')[4], which provides a legal basis for the creation of ITA, the launch of the new company was related to the outbreak of the COVID-19 pandemic and the sale of Alitalia's assets. Under that provision the Italian Ministry of Finance is authorised to incorporate a new company and to acquire share capital in it as well as to make subsequent capital increases.

(9) On 19 May 2020, Italy adopted Decree-Law No 34 on "Urgent measures regarding health, support to work and the economy, as well as social policies linked to the COVID-19 epidemiological emergency" ('the Relaunch

---

1 […]

2 Regulation No 1 determining the languages to be used by the European Economic Community, OJ 17, 6.10.1958, p. 385.

3 Ministerial Decree of Ministry of Economy and Finance in agreement with Ministry of Transports, Ministry of Economic Development and Ministry of Labour and social policies of 9 October 2020, pursuant to Article 79 of Decree-Law 18/2020 as converted in Law and modified by Law 27/2020 n. 27 as modified and converted in law by Decree-Law 34/2020, as converted in law and modified by Law 77/2020 and by Article 87 of Decree-Law 104/ 2020.

4 Decreto-legge 17 marzo 2020 n. 18 - Misure di potenziamento del Servizio sanitario nazionale e di sostegno economico per famiglie, lavoratori e imprese connesse all'emergenza epidemiologica da COVID-19. (GU Serie Generale no.100 17.3.2020).

Decree')[5], which was subsequently converted with modifications into law with modifications by Law No 77 of 17 July 2020 ("Law 77/2020")[6]. Article 202(1) of the Relaunch Decree modified Decree-Law 18/2020 confirming the decision to create a new air carrier controlled (directly or indirectly) by the State. Furthermore, according to Article 79(3) of Decree-Law 18/2020 as modified by Article 202(1) of the Relaunch Decree as adopted, the capital increase into the new company is subject to approval by the Commission.

(10) For the purpose of ITA's expansion, Article 202(4) of the Relaunch Decree modified article 79(4) of Decree-Law 18/2020 earmarking the sum of EUR 3 billion. Subsequently, in Italy's commitments annexed to the notification, Italy committed that the total public capital injection into ITA would amount to EUR 1.35 billion.

2.2. Alitalia

(11) Alitalia is a company headquartered in Fiumicino, Rome, operating in the air transport sector. Alitalia is part of the Alitalia Group. Alitalia accounts for the overwhelming majority of the Alitalia Group's activities.

(12) Alitalia's total headcount was 10 524 on 31 December 2020[7]. Alitalia's shareholding structure and Alitalia Group's structure is shown in Chart 1 and the shareholders of Compagnia Aerea Italiana S.p.A. ('CAI')[8] as of May 2019 are shown in Table 1.

Chart 1 – Ownership structure of Alitalia and structure of the Alitalia Group on 23 January 2018

[5] Decreto-legge 19 maggio 2020 n. 34 - Misure urgenti in materia di salute, sostegno al lavoro e all'economia, nonché di politiche sociali connesse all'emergenza epidemiologica da COVID-19". (GU Serie Generale no.128, 19.5.2020).

[6] Legge 17 luglio 2020 n. 77 - Conversione in legge, con modificazioni, del decreto-legge 19 maggio 2020, n. 34. (GU Serie Generale no. 180, 18.7.2020, Suppl. Ordinario no. 25).

[7] Reply to the Commission's request for information of 9 March 2021.

[8] Other shareholders with a stake equal or below 1% include Factorit S.p.A. (1%), Macca Srl (0.96%) and residual share of Air France-KLM (0.73%).

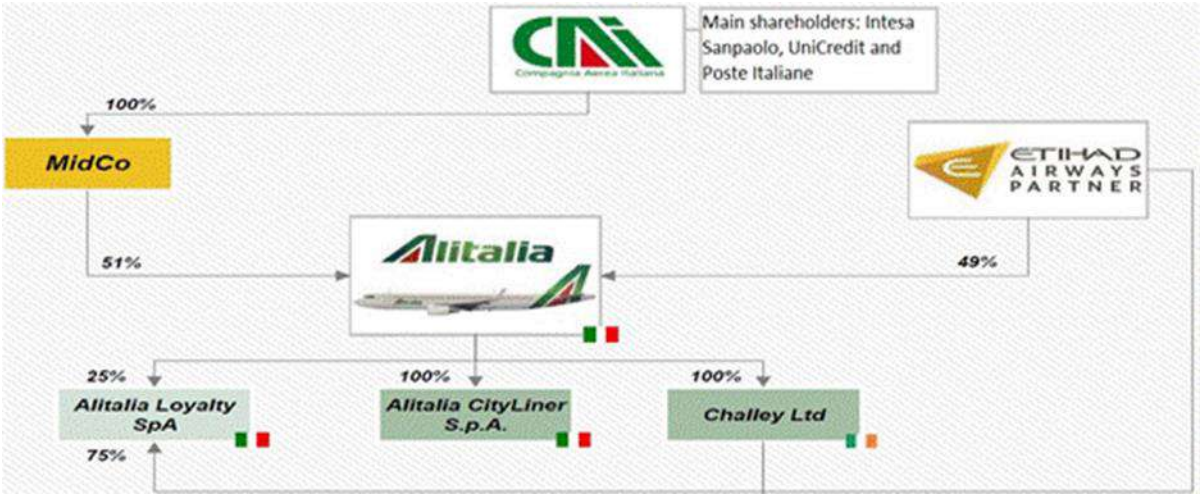

Main shareholders: Intesa Sanpaolo, UniCredit and Poste Italiane
100%
MidCo
51%
49%
ETIHAD AIRWAYS PARTNER
25%
100%
100%
Alitalia Loyalty SpA
Alitalia CityLiner S.p.A.
Challey Ltd
75%

Table 1 - Shareholders of CAI in May 2019

Shareholders of CAI, May 2019	Ownership %
Unicredit S.p.A	36.59
Intesa Sanpaolo	27.48
Banca Popolare di Sondrio Societa Cooperativa per Azioni	9.11
Atlantia S.p.A	6.52
Banca Monte dei Paschi di Siena S.p.A	6.11
MPS Leasing & Factoring S.p.A	3.97
IMMSI S.p.A	2.18
Poste Italiane S.p.A	2.02
PIRELLI & C.S.P.A.	1.4
Other shareholders equal or below 1%	4.62
Total	**100**

(13) In May 2017 Alitalia and Alitalia Cityliner S.p.A. ('Cityliner'), a regional subsidiary fully owned by Alitalia[9], which operates as Alitalia's transport capacity provider covering part of the short-haul network,[10] were placed under extraordinary administration by decrees of the Italian Ministry of Economic Development dated respectively 2 and 12 May 2017[11] and declared insolvent by the Court of Civitavecchia on 11 and 26 May 2017, respectively.

(14) When Alitalia was placed in extraordinary administration, it owned the entire share capital of Cityliner and of Challey Ltd. Challey Ltd is a sub-holding based in Ireland, which, itself, controls other companies, also based in Ireland (the 'Irish subsidiaries'). Challey Ltd and its Irish subsidiaries own the entire fleet of aircraft used by Alitalia and Cityliner and registered in Ireland, as well as minority interests in other part-owned companies. Challey Ltd and the Irish subsidiaries are not in extraordinary administration.

(15) Alitalia is 49% owned by Etihad Investment Holding Company LLC and 51% owned by MIDCO S.p.A., which, itself, is 100% owned by CAI.

---

9 See Decree of Minister of Economic Development of 12 May 2017 placing Cityliner under extraordinary administration, publicly accessible on the web site of Alitalia's Extraordinary Administration: www.fallcoweb.it/home/pdf/alitalia/estensione_procedura.pdf.

10 See point 85 at page 55 et seq. of the Report on the causes of insolvency of Alitalia and Cityliner (Relazione sulle cause di insolvenza di Alitalia e Cityliner) drawn up on 26 January 2018 by the extraordinary commissioners and published on the web site of Alitalia's extraordinary administration: http://www.fallcoweb.it/home/pdf/alitalia/relazione_cause_insolvenza.pdf.

11 The decrees were adopted pursuant to the national insolvency rules i.e. the Italian Bankruptcy Law as amended and complemented by the relevant subsequent measures specifically applicable to Alitalia, i.e. Legislative Decree No 270/1999 of 8 July 1999 , ('Prodi-bis Law') and Decree-Law No 347 of 23 December 2003 ('Marzano Law').

(16) For the purposes of this decision the reference to 'Alitalia' covers Alitalia together with the subsidiaries directly and indirectly owned and controlled by it, as well as, *mutatis mutandis*, the Alitalia Group and the companies comprising the group.

2.2.1. Alitalia's financial situation between 2008 and 2019

(17) Alitalia has been continually loss making since 2008 when it was acquired by CAI. As it was in an unsustainable economic situation, Alitalia sought a new industrial partner. As a result, in 2015 Etihad acquired 49% of Alitalia. In early 2017 Alitalia's shareholders, led by Etihad, drew up a restructuring plan[12] envisaging aggressive cost-cutting measures. However, Alitalia's workers and trade unions rejected the restructuring plan and thus, under the relevant Italian rules, it could not be implemented. Following the rejection of the restructuring plan Alitalia was declared insolvent.

(18) By the end of 2016 Alitalia was, in essence, frozen out of the credit markets and, due to its immediate and longer term liquidity problems, was dependent on the Italian State.[13]

(19) To meet Alitalia's liquidity needs, Italy provided the company with two loans. Specifically, on 2 May 2017, the day on which it was placed under extraordinary administration, Italy granted to Alitalia a EUR 600 million loan, which in October 2017 was supplemented by an additional EUR 300 million loan[14]. Those loans were to be repaid by 5 November 2017 and by 31 December 2018 respectively. However, the maturity dates were extended multiple times, no interest was paid, and in April 2019 Italy stopped the accrual of interest and prolonged the maturity of the two loans until Alitalia's assets were sold.[15]

(20) Although the EUR 600 and EUR 300 million loans provided temporary financial relief, by the end of 2019 Alitalia had again severe liquidity problems. Thus, in December 2019 Italy granted a third loan of EUR 400 million ('the 2019 loan') under essentially the same conditions as the EUR 600 and EUR 300 million loans[16]. As with the EUR 600 and EUR 300 million loans, Italy has postponed the maturity of the 2019 loan multiple times and it has never been repaid.

---

12 The plan is described in detail in section 4.2.1.1 of Commission Decision C(2021)6659 of 10 September 2021 on the State aid in favour of Alitalia SA.48171 (2018/C) (ex 2018/NN, ex 2017/FC) implemented by Italy.

13 See Commission Decision C(2021)6659 of 10 September 2021 on the State aid in favour of Alitalia SA.48171 (2018/C) (ex 2018/NN, ex 2017/FC) implemented by Italy.

14 Both loans referred to as the 'the EUR 600 and EUR 300 million loans'.

15 See in more detail section 2 of Commission Decision C(2021)6659 of 10 September 2021 on the State aid in favour of Alitalia SA.48171 (2018/C) (ex 2018/NN, ex 2017/FC) implemented by Italy.

16 See Article 54 of Decreto-legge 26 ottobre 2019, n. 124 'Disposizioni urgenti in materia fiscale e per esigenze indifferibili', GU Serie Generale n. 252 26.10.2019.

(21) On 28 February 2020, the Commission opened an in-depth investigation on the compatibility of the 2019 loan with the internal market.[17] That investigation is ongoing.

2.2.2. Alitalia's extraordinary administration procedure

(22) According to the Italian authorities[18], because of the placing of Alitalia in extraordinary administration procedure, the private shareholders were deprived of all the powers of management and supervision of Alitalia.

(23) Under the relevant Italian law, the management of Alitalia was entrusted to extraordinary commissioners ('the extraordinary commissioners') until the adoption by the Minister of Economic Development of an extraordinary administration programme ('the EA programme'), whereupon the extraordinary commissioners would be authorised to sell Alitalia's assets under the supervision of the Ministry of Economic Development.

(24) The sale procedure laid down by the EA programme covered the assets relating to Alitalia's operating business.

(25) On 26 January 2018, Alitalia's extraordinary commissioners provided to the Ministry of Economic Development the EA programme aiming at the sale of Alitalia's assets in operation. In May 2019, the deadline for the completion of the asset sale programme was postponed until 23 March 2020.

(26) Decree-Law No 137 of 2 December 2019 on "Urgent measures to ensure continuity of the service provided by Alitalia — Società Aerea Italiana S.p.A. and Alitalia Cityliner S.p.A. under extraordinary administration"[19] ("Decree-Law 137/2019"), provided that the sales programme of Alitalia's assets was to be combined with a reorganisation plan aimed at restructuring and streamlining Alitalia's business activities, to be drawn up by the extraordinary commissioner and approved by the Ministry of Economic Development pursuant to Article 60 of the Prodi-bis Law. The procedure enabling the disposal of Alitalia's assets following the implementation of that reorganisation plan was to be carried out by 31 May 2020.

2.2.3. Sale of Alitalia's assets

(27) Based on the information provided by the Italian authorities, certain assets of Alitalia will be transferred to ITA under direct negotiation, while other assets will be tendered.[20]

---

17 Commission Decision of 28 February 2020 – Italy State aid SA.55678 (2019/NN) – New loan to Alitalia, OJ 2021 C 303, 29.7.2021, p. 24.

18 See recital 42 of Commission Decision C(2021)6659 of 10 September 2021.

19 Decreto-legge 2 dicembre 2019 n. 137 - Misure urgenti per assicurare la continuita' del servizio svolto da Alitalia - Societa' Aerea Italiana S.p.A. e Alitalia Cityliner S.p.A. in amministrazione straordinaria (GU Serie Generale no. 282, 2.12.2019).

20 The transfers through direct negotiations and tenders will not cover all Alitalia's assets. For a certain period after the direct negations and the tenders, Alitalia will continue to exist as a legal entity and the extraordinary commissioners will manage the residual assets in accordance with the relevant Italian legislation.

(28) Furthermore, Alitalia and ITA are envisaged to enter into a contractual agreement on market terms as defined in the Memorandum of Understanding (the 'Memorandum of Understanding'),[21] which will regulate the transfer of part of Alitalia's aviation business and the related arrangements between ITA and Alitalia that will allow ITA to operate autonomously as a carrier. The Memorandum of Understanding will further regulate the interim relations between ITA and Alitalia until 15 October 2021, when ITA is expected to become fully operational and Alitalia is expected to cease operations. According to the Italian authorities, the details of the relations between Alitalia and ITA will be negotiated and contracted at a later stage through a number of separate agreements.

2.2.3.1 Direct negotiations between the extraordinary administration and ITA

(29) According to the Italian authorities, part of Alitalia's aviation business (the 'Aviation Business') will be transferred to ITA through direct negotiations. Those assets and rights consist of: the leasing of 52 aircraft, related slots, and other related assets. The Commission understands that the assets itemised and valuated in an Ernst & Young appraisal report (see sections 3.4.1) include those other related assets.

(30) Specifically, the Aviation Business will be transferred on the basis of direct negotiations. To that end Alitalia and ITA intend to enter into a sales and purchase agreement which will be concluded before the launch of ITA's flight operations, scheduled for 15 October 2021.

(31) According to the Italian authorities, the transfer of the Aviation Business will be carried out at market terms under Article 6, paragraph 4, of Decree-Law No. 99 of 30 June 2021[22] on "Urgent measures on taxation, labour protection, consumer protection and business support" ('Decree-Law 99/2021'), which states (last sentence) that: "*The assessment of the value of the assets to be transferred can be carried out by means of an appraisal by a third party identified by the Commissioners, subject to the opinion of the Supervisory Committee, to be rendered within a maximum of three days from the request*."

(32) Furthermore, as regards the transfer price, ITA and Alitalia's extraordinary administration have opposing interests in determining the sale price of the Aviation Business, with the former seeking to minimise the amount paid while the latter seek to maximise it. In addition, ITA faces a budget constraint through the commitments of the Italian State to inject into ITA no more than EUR 1.35 billion.

(33) In addition, the Italian authorities also contend that the applicable provisions of Decree-Law 23 December 2003 No 347 on "Urgent measures for the industrial restructuring of insolvent large enterprises" ("Marzano Law")[23] (as well as of

[21] The Memorandum of Understanding is envisaged to be signed before the transfer of the Aviation Business to ITA, i.e. before 15 October 2021.

[22] Decreto-legge 30 giugno 2021 n. 99 – Misure urgenti in materia fiscale, di tutela del lavoro, dei consumatori e di sostegno alle imprese (GU Serie Generale no.155, 30.6.2021).

[23] Decreto-legge 23 dicembre 2003, n. 347 – 'Misure urgenti per la ristrutturazione industriale di grandi imprese in stato di insolvenza' (GU Serie Generale no. 298, 24.12.2003).

the MoU between Alitalia's extraordinary administration and ITA) guarantee that the sale price will be on market terms and will be calculated on the basis of an independent expert evaluation.

2.2.3.2 The tenders planned and the lots

(34) The Italian authorities have committed that some of Alitalia's assets will be sold, transferred or allocated via tenders divided in at least the following lots to be tendered separately and with the following bidding limitations for ITA set out in the commitments provided by Italy to the Commission:

(a) Alitalia brand (ITA may bid);

(b) Alitalia's ground handling business splitting the lots by airport (ITA may bid only for the ground handling in the Rome Fiumicino Airport);

(c) Alitalia's maintenance business (ITA may bid for a minority shareholding only, which will not give it control over the operation of the Maintenance Newco);

(d) Alitalia's loyalty programme (*MilleMiglia*) (ITA may not participate in the tender).

(35) In addition, the Italian authorities have committed that PSOs currently imposed on Alitalia will be subject to tendering in accordance with Regulation 1008/2008[24] (ITA could participate as a bidder under the same conditions as any other market participant).

(36) In order to ensure that the brand will be transferred to ITA at market price an independent expert has been appointed to estimate the value of the brand.

(37) According to the Italian authorities, the award of the tender and the sale of the brand to the highest bidder is planned to occur by mid-October 2021.

3. THE NOTIFICATION

3.1. The measure

(38) The Italian authorities have notified to the Commission a capital injection of EUR 1.35 billion into ITA with a view to executing ITA's business plan (the 'Business Plan').

(39) According to the notification and the Business Plan, the capital injection into ITA will be for a total of EUR 1.35 billion: the first tranche in 2021 will be EUR 700 million, EUR 400 million in 2022 and EUR 250 million in 2023. The Italian State will remain the sole shareholder of ITA.

[24] Regulation (EC) No 1008/2008 of the European Parliament and of the Council of 24 September 2008 on common rules for the operation of air services in the Community (OJ L 293, 31.10.2008, p. 3).

(40) Furthermore, the Business Plan envisages the setting up of a new aviation business, partly by acquiring from Alitalia the Aviation Business under direct negotiations and other assets via tenders (see section 2.2.3).

(41) The assets and rights to be transferred to ITA under direct negotiation include the lease of 52 aircraft, together with the commensurate number of slots, and other tangible and intangible assets and certain inventories (see recital (29)).

(42) The assets to be acquired by ITA under tender procedures are described in more details in the section on ITA's business perimeter in section 2.2.3.2.

3.2. The Business Plan

3.2.1. ITA's business strategy

(43) The Business Plan covers the period 15 October 2021 – 31 December 2025 as well as projections for long-term growth thereafter. The Business Plan envisages the setting up of a new aviation business with a reduced perimeter of activities compared to that of Alitalia. The Business Plan foresees a business strategy focusing on the following elements:

(a) A reduced route network with a focus on profitability (see section 3.2.3.1.1);

(b) A higher degree of outsourcing of ground handling and maintenance services (see sections 3.2.3.2.5 and 3.2.3.2.6);

(c) Improved cost efficiency, in particular for fleet (see section 3.2.3.2.3) and personnel (see recital (81));

(d) Digitalisation that substantially improves consumer experience and cuts costs;

(e) Interconnected mobility through integration with the Italian transport system;

(f) Environmental sustainability through a fleet of new-generation, more efficient aircraft (see section 3.2.3.2.3); and

(g) Participation in a global alliance and building a strategic commercial partnership with a European player to establish stronger presence on both long-haul and European markets, with gradual network integration from 2022.

3.2.2. Perimeter of activities and purchase of Alitalia's assets

(44) The Business Plan envisages that ITA will start its operations on 15 October 2021 with 52 old-generation aircraft leased from Alitalia and will gradually increase its fleet size to 105 aircraft by 2025 as shown in Table 2.

Table 2 - Comparison of Alitalia fleet size in 2019 and ITA's planned fleet size

	Alitalia	**ITA**				
Year	**2019**	**2021**	**2022**	**2023**	**2024**	**2025**
Fleet (yearend)	114	52	78	100	103	105
Fleet (average)	114	52	73	94	104	105

(45) According to the Business Plan, ITA will by 2025 own [30-40]% of the aircraft used by the company while the rest will be leased. At that point, its fleet will include 79 new-generation aircraft[25] out of 105.

(46) According to the Business Plan, in the start-up phase ITA will be transferred slots commensurate to the fleet taken over from Alitalia.

(47) The Business Plan also envisages that ITA will participate in the tender for the Alitalia brand. Under the Business Plan, ITA will not participate in the tender for Alitalia's loyalty programme (*MilleMiglia*).

(48) Italy has committed to ensure that, while ITA may participate in a tender for Alitalia's ground handling in Rome Fiumicino Airport, ITA may not participate in the tenders for Alitalia's ground handling in other airports. If ITA wins the competitive bidding for Alitalia's ground handling in Rome Fiumicino Airport, ITA will create a Ground handling Newco for that airport in which it will be holding a majority stake, with the involvement of an industrial partner. The Business Plan foresees a ground-handling model with service levels comparable to European full-service carriers.

(49) ITA will participate in a tender for Alitalia's maintenance business ('Maintenance') and if it wins the competitive bidding ITA will create a Maintenance Newco holding a minority stake, with the involvement of an industrial partner.

3.2.3. Industrial and financial aspects of the Business Plan

(50) The financials of the Business Plan take the historical financial performance of Alitalia in 2019 as a starting point and add modifications due to the reduced parameter compared to Alitalia's aviation business and the more efficient operation plan. The Business Plan is built on several assumptions and financial projections and on the capital injection from the Italian State.

(51) Table 3 presents the key financial figures of ITA's Business Plan.

[25] According to the Business Plan the new-generation aircraft consume on average approximately 15 to 17% less fuel and reduce CO_2 emissions compared to Alitalia's fleet.

Table 3 - Selected ITA financial figures

Selected ITA financial figures (output Business Plan)						
P&L	**15-10-2021**	**Oct - Dec 2021BP**	**2022BP**	**2023BP**	**2024BP**	**2025BP**
Total Revenues	-	[...]	[...]	[...]	[...]	[...]
Total Costs	-	[...]	[...]	[...]	[...]	[...]
EBITDAR	-	[...]	[...]	[...]	[...]	[...]
EBIT	-	[...]	[...]	[...]	[...]	[...]
Net result	-	[...]	[...]	[...]	[...]	[...]
Balance Sheet	**15-10-2021**	**Oct - Dec 2021BP**	**2022BP**	**2023BP**	**2024BP**	**2025BP**
Total fixed assets	[...]	[...]	[...]	[...]	[...]	[...]
Net invested capital	-	[...]	[...]	[...]	[...]	[...]
Net Equity	[...]	[...]	[...]	[...]	[...]	[...]
Net Debt post IFRS16	[...]	[...]	[...]	[...]	[...]	[...]
Cash Flow	**15-10-2021**	**Oct - Dec 2021BP**	**2022BP**	**2023BP**	**2024BP**	**2025BP**
Cash Flow before Equity injection	-	[...]	[...]	[...]	[...]	[...]
Net Cash Flow	[...]	[...]	[...]	[...]	[...]	[...]
Cash & cash equivalent - EoP	[...]	[...]	[...]	[...]	[...]	[...]
Source: ITA						

(52) The Business Plan envisages digitalisation of the company in line with market best practices aimed at improving customer experience and operational efficiency. In that regard, ITA plans to dematerialise certain manual activities.

(53) In addition, the Business Plan envisages a lean organisation to cut costs and ensure quick execution.

3.2.3.1 ITA's traffic and revenue projections

3.2.3.1.1 Route planning and traffic projections

(54) The financial model supporting ITA's Business Plan takes Alitalia's historic route network and passenger traffic in 2019 as a starting point for the revenue projections.[26]

(55) With regard to the route network, ITA's plan includes the Alitalia routes that were profitable in 2019 and are expected to be profitable in 2021 as well as routes with sufficiently high feeder value[27] that have a net positive effect on the profitability of the network as a whole. In addition, ITA's initial plan excludes those bypass routes[28] previously operated by Alitalia that in 2019 were not profitable or did not provide sufficient feeder value.

(56) The Business Plan is based on an increased inter-modality through integration with high-speed train transportation.

---

26 The Business Plan also takes into account the slots for the operation of the routes that ITA plans to operate.

27 Feeder value is the contribution of a certain route to the profitability of another route, typically by connecting passengers to the origin of the latter route.

28 Bypass routes are point-to-point routes where the aircraft travels directly between two airports that are not hubs.

(57) Moreover, as regards long-haul routes, ITA intends to focus on core destinations in particular in the [*destination*] and [*destination*] and discontinue non-sustainable routes such as those to [*destination*] and [*destination*]. As regards short-haul routes, ITA plans to focus on routes with higher feeder value (e.g. Mediterranean area/Middle-East) feeding ITA's routes to [*destination*] as well as on premium point-to-point routes while eliminating non-performing routes (e.g. some routes to Central and Eastern Europe). For the domestic network, the plan envisages to eliminate non-performing/non-strategic routes such as [*origin-destination*], [*origin-destination*], [*origin-destination*] and [*origin-destination*].

(58) Overall, under the Business Plan, in 2025 ITA is expected to serve 89 routes, [XX] short-haul and [XX] long-haul. [XX] out of the 112 routes operated by Alitalia in 2019 would be discontinued and ITA would operate 9 routes in 2025 that Alitalia did not operate in 2019.

(59) Given the initial route plan, ITA projects passenger traffic starting from Alitalia's 2019 passenger traffic on the selected routes, and then uses the country-level traffic recovery projections from IATA to forecast[29] passenger traffic for the years 2021-2025. In addition, ITA also plans to expand its route plan over the 2021-2025 period, depending on traffic recovery forecasts and revenue potential. The planned new routes[30] include new routes consistent with ITA's strategy and in line with ITA's fleet size and characteristics. Domestic traffic is expected to reach 2019 rates in 2023 while intercontinental and international traffic numbers are expected to reach that level by 2024 and 2025 respectively.[31]

(60) The Business Plan also envisages ITA's inclusion in a global alliance and its potential integration with a European player to establish stronger presence on both long-haul and European markets. The objective is to enter into code-share and after discussions launch a partnership with that European player. That strategy would help with gradual growth on medium/long routes and could include the entry of the partner into ITA's capital, which could bring additional synergies (joint procurement, shared services, etc.).

3.2.3.1.2 Capacity projections

(61) In terms of capacity measured as available seats per kilometre ('ASK'), which is a measure of passenger-carrying capacity in the aviation industry, ITA's projections as set out in the Business Plan are displayed in Table 4.

Table 4 - Comparison of Alitalia ASK in 2019 and ITA's projections

	Alitalia	**ITA**

[29] IATA forecast, April 2021 release.

[30] Specifically, ITA plans to open new routes (not active in 2019) between Italy and San Francisco, Tokyo Hadena, Dakar, Accra, Lagos, Jeddah, Riyadh, Kuwait and Hamburg and to operate them at least until 2025.

[31] ITA business plan, slide 9 (source IATA and Oxford Economics Passenger Forecast 2020-9.

Year	2019	2021	2022	2023	2024	2025
Capacity (ASK)	[40-50]	[X.X]	[XX.X]	[XX.X]	[XX.X]	[XX.X]

(62) The capacity deployment is in line with IATA traffic forecasts. The Business Plan assumes a moderate increase of domestic capacity, generated by regional fleet change (Airbus vs Embraer) and a downsize in the international and intercontinental routes due to the rationalisation of non-profitable routes from Rome Fiumicino Airport.

3.2.3.1.3 Yield (average revenue per passenger per kilometre)

(63) Starting from its route plan and passenger traffic projections (see section 3.2.3.1.1), ITA forecasts revenues from passengers for the period 2021-2025 by assuming a certain dynamic of the average revenue per passenger per kilometre, i.e. the so-called yield. Table 5, extracted from the Business Plan, reports such yield dynamics in 2019 (Alitalia's yield) and during the period 2021-2025.[32]

Table 5 - Comparison of Alitalia yield in 2019 and ITA's projections

	2019	2021	2022	2023	2024	2025
Yield (€ cent)	[X.XX]	[XX.X]	[X.XX]	[X.XX]	[X.XX]	[X.XX]
Adjusted yield (€ cent)	[X.XX]	[X.XX]	[X.XX]	[X.XX]	[X.XX]	[X.XX]
Revenues (m Euros)	[X XXX]	[XXX]	[X XXX]	[X XXX]	[X XXX]	[X XXX]

(64) The adjusted yield takes into account the different route planning and the different stage length of the routes. Considering the adjusted yield, the Business Plan envisages yield reductions on domestic routes (from EUR [XX] to EUR [XX.X]) in light of higher expected competitive pressure – especially on routes to and from Milan Linate Airport. Yield is mostly stable on those routes that Alitalia operated in 2019 for international and intercontinental routes.

3.2.3.1.4 ITA's projected load factor

(65) According to the Business Plan, ITA's projected load factor on domestic, international and intercontinental routes are those set out in Table 6. ITA expects the load factor on those routes to grow driven by capacity reduction on low performing routes.

Table 6 - Comparison of Alitalia load factor in 2019 and ITA's projections

	Alitalia	ITA				
Year	**2019**	**2021**	**2022**	**2023**	**2024**	**2025**
Domestic (%)	[60-70]	[XX]	[XX]	[XX]	[XX]	[XX]
International (%)	[70-80]	[XX]	[XX]	[XX]	[XX]	[XX]

[32] The adjustment takes into account: (i) stage length (i.e. the average kilometres flown) of ITA in 2025, by multiplying the yield by square root of Stage length/ITA stage length in 2025 and (ii) inflation.

Intercontinental (%)	[80-90]	[XX]	[XX]	[XX]	[XX]	[XX]

3.2.3.1.5 ITA's Revenue per Available Seat-Kilometre ('RASK')

(66) ITA's revenue per available seat-kilometre[33] as provided for in the Business Plan is set out in Table 7.

Table 7 - Comparison of Alitalia RASK in 2019 and ITA's projections

	Alitalia	**ITA**				
	2019	**2021**	**2022**	**2023**	**2024**	**2025**
RASK adj. (€ cent)	[5-10]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]

(67) The increase in the RASK is mainly due to [*business strategy*] on domestic routes (by [X]% points) and [*business strategy*] in international routes ([X]%).

3.2.3.2 ITA's cost projections

(68) This subsection outlines ITA's cost projections as set out in the Business Plan.

3.2.3.2.1 ITA's CASK projections

(69) ITA's Business Plan foresees a [*business strategy*] cost per available seat kilometre ('CASK') – which is a standard measure of cost efficiency in the aviation industry – to that of Alitalia. The cost projections of ITA take Alitalia's CASK in 2019 as a starting point.

(70) Tables 8 and 9 compare the CASK of Alitalia in 2019 to that of ITA in 2025, and presents the efficiencies that ITA intends to have in order to have lower CASK.

Table 8 – Comparison of Alitalia CASK in 2019 and ITA's projections

	Alitalia	**ITA**				
	2019	**2021**	**2022**	**2023**	**2024**	**2025**
CASK adj. (€ cent)	[5-10]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]

(71) For the years from 2021 to 2025, ITA envisages a set of efficiency measures, which are supposed to reduce ITA's CASK, compared to Alitalia's.

[33] RASK is obtained by multiplying the load factor by the yield.

(72) Table 9 reports the CASK of Alitalia in 2019 and that of ITA in 2025, together with a breakdown of the main cost components, their percentage reduction compared to 2019 and the factors underlying that reduction.[34]

Table 9 – Alitalia's CASK in 2019 compared to ITA's projections for 2025

	Alitalia – 2019	**ITA – 2025**	**% Change**	**Cost reduction lever**
CASK, *of which*	**[5-10]**	**[X.X]**	**-[XX]%**	
Fuel	[0-5]	[X.X]	-[XX]%	New fleet, Macro factors[35]
Fleet	[0-5]	[X.X]	-[XX]%	New fleet
Commercial & Distribution	[0-5]	[X.X]	-[XX]%	Direct sales channel
Maintenance	[0-5]	[X.X]	-[XX]%	Macro factors, new fleet (lower unit cost)
Flight Operations	[0-5]	[X.X]	-[X]%	Zero-based sizing[36]
Ground Handling	[0-5]	[X.X]	-[X]%	Zero-based sizing
Overhead	[0-5]	[X.X]	-[X]%	Zero based sizing
Others (in-flight control, in-flight services etc.)	[0-5]	[X.X]	-[X]%	

(73) Table 9 shows that ITA envisages a [XX] % reduction of the total CASK vis-à-vis Alitalia in 2019. That total cost reduction mainly comes from fuel (-[XX] %), maintenance costs (-26%), fleet (-[XX] %) and commercial and distribution costs (-[XX] %). To achieve those cost reductions, ITA's approach is based on four levers: (i) macroeconomic factors, (ii) the acquisition of new fleet, (iii) zero-based sizing measures, and (iv) sales through direct channels.

3.2.3.2.2 Macroeconomic drivers of ITA's costs

(74) The main macroeconomic factors that underlie the Business Plan consist of fuel price and EUR/USD exchange rates. To determine the expected fuel price over the planning period, the Business Plan uses the Bloomberg forward value.[37] Based on the market price of that future contract in June 2021, the expected fuel price is USD 605 per metric tonne in 2021, the planned starting

[34] To compare the CASK of Alitalia in 2019 to that of ITA in 2025, ITA adjusts the CASK values by inflation (1% per year) and stage length ([1 500-2 000] km for ITA vis-à-vis [1 500-2 000] km for Alitalia).

[35] Such as expected future oil price, expected future EUR/USD exchange rate.

[36] In this context "zero-based sizing" consists of cost reductions compared to the operating costs of Alitalia, stemming from the creation of ITA as a new company, which makes it possible to design the perimeter of certain activities more efficiently.

[37] Bloomberg Terminal ('Bloomberg') is a leading provider of financial data to professionals in the financial services industry. Bloomberg provides reliable and authoritative data on forward and futures transactions concerning, among others, the expected EUR/USD exchange rate and fuel price. The market expected future rates are considered the best unbiased estimates of these values.

date of ITA, and USD 592 per metric tonne in 2025, the end of the planning period. With regard to the exchange rate, ITA's assumptions come from the implied EUR/USD forward rates in June 2021. According to those rates, the expected EUR/USD exchange rate is 1.22 in 2021 and 1.27 in 2025.

3.2.3.2.3 Fleet cost reductions

(75) With regard to the fleet, ITA plans to acquire 79 new-generation aircraft during the 2021-25 period. In 2025, out of a total fleet of 105 aircraft, ITA plans to operate 79 new-generation aircraft, while 26 will be old-generation. Thus, ITA will gradually replace a substantial part of the fleet of 52 aircraft that ITA intends to take over from Alitalia in October 2021. By 2025, ITA plans to own [30-40] % of the aircraft in its fleet, while it will lease the rest. Through the acquisition of new-generation aircraft, ITA expects three types of cost reductions, compared to Alitalia in 2019:

(a) Fuel costs, through a [XX] % reduction of fuel consumption (in litres per block hour);

(b) Maintenance costs, which ITA estimates to be [XX] % lower (in USD per block hour);

(c) Fleet costs, by taking advantage of the improved conditions in the aircraft market (ITA intends to lock in the current low market price on future aircraft deliveries and leasing costs).

(76) The acquisition of new fleet is crucial to the cost reductions that ITA envisages. First, the [XX] % reduction in fleet cost per ASK in 2025, compared to Alitalia in 2019, stems from the improved conditions in the aircraft market, with regard to both leasing rates and purchase prices. Second, together with the expectations on the EUR/USD exchange rate and fuel price, the more energy-efficient new-generation aircraft will lead to a [XX] % reduction in fuel costs.[38] Third, the combination of the new-generation aircraft and the expectations on the EUR/USD exchange rate will contribute to the [XX] % maintenance cost reduction, together with the so-called zero-based sizing measures explained below.

(77) Moreover, the sourcing the aircraft in from one manufacturer would have additional cost savings (e.g. on maintenance).

(78) ITA considers the depreciation of the aircraft in the calculation of the fleet costs. The calculation of the depreciation charges differ depending on the acquisition form, i.e. purchases or financial leases. With regard to purchases, ITA splits the value of each aircraft into several main components (airframe, engine shop visits and other components) and assumes a different depreciation period for each of those components, which depends on their useful life. With regard to financial leases, ITA calculates depreciation charges by dividing the net present value of each leasing contract by the relative time period, i.e. the time between the phase-in and phase-out dates.

[38] ITA estimates that the [XX] % fuel cost reduction is driven by a [XX] % fuel consumption reduction, due to the acquisition of more energy-efficient aircraft, a [X] % fuel reduction in fuel prices and a [XX] % appreciation of the EUR, compared to 2019.

(79) Italy also submits that the capital expenditures on leased aircraft are in line with the market practice on leasing contracts, which envisage a deposit equal to a multiple of 3.5 on monthly rent. Moreover, both the acquisition price and leasing rates are in line with the market values of aircraft reported in the Ascend database ('Ascend')[39]. With regard to the purchased aircraft, the practice of splitting the acquisition price into a [20-30] % prepayment, of which [0-5] % at order, [0-5] % at 24 months, [10-20] % at 18 months and [10-20] % at 12 months before delivery, and settlement upon delivery is standard in the aviation market.[40]

3.2.3.2.4 Cost reductions from zero-based sizing

(80) Zero-based sizing measures consist of cost reductions arising from the re-design of certain activities to make them more efficient compared with their implementation by Alitalia.

(81) The most important zero-based sizing measure is the lower level of staff essential for running the business and the new labour contracts. In 2025, ITA plans to have overall [20-30] % fewer full-time equivalent ('FTE') employees compared to Alitalia in 2019, which is the result of [XX] % reduction in overheads,[41] [XX] % in ground handling activities and [X] % in flight operations. Furthermore, ITA plans to achieve a salary cost reduction and an increase in crew staff productivity compared to Alitalia as a result of the negotiations with the labour unions on the new labour contracts. The staff evolution per activity is shown in Table 10[42]).

Table 10

[Staff evolution over 2020-2025: ~ X XXX FTEs at 2025]

(82) Furthermore, ITA plans to achieve several other zero-based sizing reductions in external overhead costs such as: (1) aligning advertising expenditure to the level of the peer companies which is [0-5] % of pax revenues[43] (starting from 2023); (2) rent of technical areas in Rome Fiumicino Airport, on which a renegotiation target of [XX-XX] % was applied based on current estimate of rent prices at airports; (3) [10-20] % reduction on flight-operations' overhead external costs (e.g. maps and cartography) driven by better market expectations; and (4) 60% efficiency target compared to 2019 on external costs for commercial areas (e.g. administrative expenses, technical support).

(83) Overall, zero-based sizing measures fully explain the cost reductions in the ground handling activities (-[X] %), in overheads (-[X] %) and flight

[39] Ascend is a database maintained by Cirium that provides independent valuation reports, as well as models, forecasts and valuation tools for the aviation industry.

[40] According to ITA, the assumptions on the pre-payment schedule are based on the preliminary informal talks with the main providers.

[41] In terms of overhead staff, in 2025 ITA plans to employ ~[500-600] FTEs fewer than the [1 500-2 000] FTEs of Alitalia in 2019.

[42] Source: Business Plan, slide 39.

[43] Revenue per passenger.

operations (-[X] %). They also contribute, together with the acquisition of new fleet and the expected EUR/USD exchange rate, to the [XX] % reduction of maintenance costs (see Table 9).

3.2.3.2.5 Ground handling

(84) ITA envisages the creation, with the involvement of an industrial partner, of a Newco in which ITA will hold a majority stake. The Newco is envisaged to be active in the provision of ground handling services. To that end, ITA will bid for Alitalia's handling assets in Rome Fiumicino Airport. The Business Plan assumes a service level comparable to that of European full service carriers. The Business Plan also assumes that the Newco will provide ground handling services to third parties, generating a revenue stream of EUR 135 million over the planning period.

(85) The Business Plan envisages [10-20] % fewer FTEs in 2025 vs 2019 for handling services, with [100-200] FTEs in outstations (outside Rome Fiumicino Airport).

3.2.3.2.6 Maintenance

(86) The Business Plan expects the creation of an ad-hoc company in which ITA will hold a minority stake to carry out maintenance activities in Rome Fiumicino Airport. The assets would be acquired subject to a competitive bidding and with the presence of a solid strategic partner with industrial experience. The services contracted between the maintenance company and ITA would be at market price.

(87) Heavy maintenance and components with variable workload activities are not included in the Newco perimeter and ITA would acquire them from other suppliers.

(88) There are different integration operating models on the market, from total outsourcing (EasyJet, Vueling) to insourcing of almost all activities (Lufthansa).

3.2.3.2.7 Reduction of distribution costs

(89) With regard to the direct sales channels, ITA envisages an increase in the share of revenues through direct sales channels from the [20-30] % of Alitalia in 2019 to [XX] % in 2025, in line with market projections on peer airlines.[44] ITA has identified a number of initiatives to grow its corporate segment and increase direct channel penetration. Through that increase of direct sales, ITA expects to reduce commercial (distribution) costs from EUR [X.XX] ([X.XX]) to EUR [X.XX] ([X.XX]) per available seat kilometre.

3.2.3.3 ITA's financial needs and policy

(90) This section describes the financial aspects of the Business Plan, focusing on ITA's financing needs and financing policy.

[44] Data which, according to ITA, is "*based on market expert interviews, Europe travel market report 2020-2024, BCG internal data*".

(91) ITA expects a cumulated financing need of EUR [X XXX] million in the first three years of the plan, when its cash flows before equity injection are negative. That financing need stems mainly from ITA's capital expenditures and, to a lesser extent, from the losses generated by ITA's operating activities.

(92) With regard to the capital expenditures, they mainly consist of costs related to the acquisition of the fleet and corresponding assets and rights from Alitalia. The former includes costs for the purchase of aircraft, such as advance payments (EUR [XXX] million in total in the first two years of the plan), reconfiguration costs including costs for leased aircraft from Alitalia (EUR [XXX] million) and payments upon delivery (EUR [X XXX] million in total in the last three years of the plan), as well as the cash deposits on the leased aircraft (EUR [XX] million in total).

(93) The other main category of capital expenditures are the costs for the possible acquisition of assets from Alitalia, covering the Alitalia brand (EUR [XXX] million), the majority stake in the Ground Handling Newco for Rome Fiumicino Airport (EUR [XX] million), the minority stake in the Maintenance Newco (EUR [XX] million) and investments in IT systems (EUR [XXX] million over the whole planning period).

(94) With regard to the Alitalia brand, ITA assumes, as set out in the Business Plan, that it can acquire it through a public tender for a price equal to its net book value of approximately EUR [XXX] million as of 30 September 2020.

(95) With regard to ITA's operating activities, they are expected to absorb cash only in the last quarter of 2021 and in 2022, when the cash flows from operations are [*business strategy*] ([*business strategy*]). Starting from 2023, ITA's expected cash flows from operations turn [*business strategy*], which means that ITA's operations [*business strategy*]. ITA's cash flow before equity injection will remain [*business strategy*] for its first three years of operation ([*business strategy*]).

(96) Overall, according to ITA's business plan, operating and investment activities will consume EUR [X XXX] million of cash in 2021-2023 and generate [*business strategy*]. ITA plans to finance the cash consumption in 2021-23 through debt and equity, while it expects to use the cash generated in 2024-2025 to partially repay the debt financing. It is also worth noting that ITA's financing policy envisages a certain amount of cash to be kept as a buffer, to face unforeseen needs. In EUR terms, the cash buffer ranges between EUR [XXX] million ([*date*]) and EUR [XXX] million ([*date*]), while it is between 7% and 11% in terms of percentage of revenues for the planning period (except for the first three months of operation in 2021).

(97) ITA's financing policy consists of a total equity injection of EUR 1 350 million, of which EUR 700 million in 2021, EUR 400 million in 2022 and EUR 250 million in 2023. Debt inflows consist of two non-State funding sources: [*financial arrangements for the business strategy*].

(98) The revolving credit facility is a non-collateralized debt claim with a [*term*] maturity, an upfront fee of [XXX] basis points and an interest rate equal to the sum of the six-months EURIBOR (with a zero floor) and a 550 basis points risk premium. The secured debt claims are fully collateralized by the value of

the aircraft. They amount to [XX] % of the value of aircraft (i.e. [XX]% loan-to-value ratio), have a [*term*] maturity with repayment according to a [*term*] amortization schedule, an upfront fee of 200 basis points and an interest rate equal to the sum of the six-months EURIBOR (with a zero floor) and a [XXX] basis points risk premium.

(99) During the planning period, ITA envisages the full repayment of the EUR [XXX] million credit facility in 2025 and a partial repayment of the mortgages ([*business strategy*]). Moreover, ITA expects a total interest expense of EUR [XXX] million, of which EUR [XX] million on the credit facility, EUR [XX] million on the secured debt and EUR [XXX] million on the leasing contracts. Finally, ITA plans EUR [XXX] million of leasing payments, net of interest.

(100) At the end of the planning period, ITA's net invested capital is EUR [X XXX] million, of which EUR [X XXX] million financed through equity and EUR [X XXX] million through net debt, including financial leases.

3.2.3.4 ITA's profit projections

(101) Projections determining the profitability of ITA take into account standard industry-wide forecasts[45] for the revenue, complemented with considerations for more adverse developments to reflect the Business Plan's execution risks.

(102) The Business Plan envisages that EBITDAR[46] break even at [*date*] and that EBIT[47] break even at [*date*] (as shown in Table 11) by leveraging a profitable network and the support of a strong European partner and global alliance.

Table 11 – Comparison of Alitalia profitability in 2019 and ITA's projections

	Alitalia	**ITA**				
Year	**2019**	**2021**	**2022**	**2023**	**2024**	**2025**
EBITDAR (million €)	[60-70]	(XXX)	(XX)	XXX	XXX	XXX
EBITDAR margin	[0-5]%	(XX.X%)	(X.X%)	X.X%	XX.X%	XX.X%
EBIT (million €)	([400-500])	(XXX)	(XXX)	X	XXX	XXX
EBIT margin	([10-20]%)	(XX.X%)	(XX.X%)	X.X%	X.X%	X.X%

[45] IATA & Oxford Economics Passenger Forecast 2020-2039, snapshot October 2020 and April 2021, applied on ITA network, Project team analysis.

[46] EBITDAR is a measure of profitability of a company. It stands for earnings before interest, taxes, depreciation and amortisation, excluding rent and restructuring costs.

[47] EBIT is a measure of profitability of a company. It stands for earnings before interest and taxes.

3.3. Valuation methodologies

(103) To determine whether the equity investment of the Italian State into ITA complies with the market economy operator ('MEO') principle, Italy compares the expected internal rate of return ('IRR') on the equity investment to the cost of equity of that investment. Italy claims the former is in the range [5-10] %-[10-20] %, with a mid-point of [10-20] %, while the latter is equal to [10-20] %. Since the mid-point IRR of the equity investment is greater than the cost of equity, Italy claims that its equity investment into ITA complies with the MEO principle.

(104) To calculate the IRR on the equity investment, Italy considers the following cash flows: the equity injections into ITA as 'cash-out', i.e. EUR 700 million in 2021, EUR 400 million in 2022 and EUR 250 million in 2023, and the terminal value of ITA's equity in 2025 as 'cash-in'. That terminal value, which can be interpreted as the price at which Italy is able to sell its equity stake into ITA at the end of the planning period, is the only source of return for the Italian State. No additional dividend payment or other return to shareholders is envisaged during the planning period, as ITA plans to keep all the cash available at the end of each year as a buffer instead of distributing it to shareholders.

(105) Italy uses two methodologies to determine the terminal value of ITA's equity in 2025: the Gordon growth method and the trading multiples of comparable companies.

(106) In the following sections, the Commission will describe those methodologies used by Italy and their underlying assumptions.

3.3.1. Gordon growth method

(107) According to the Gordon growth method, a company's terminal value is the net present value of the profits that the company will earn in perpetuity. To calculate that net present value, the following assumptions are necessary: (1) profits will grow at a certain perpetual growth rate ('g'), starting from a normalized profit in the last year of the business plan and (2) the discount rate is either the cost of equity or weighted average cost of capital ('WACC'), depending on the type of profit, relating to the equity holders or more widely to the firm. The Gordon growth method implies that the higher the perpetual growth rate, the greater the normalized profit is and that the lower the discount rate, the higher the terminal value is.

(108) The formula for the terminal value used by Italy is:

$$TV = \frac{NCF(1+g)}{(WACC-g)}$$

where *TV* is the terminal value, *NCF* is normalised profit in the last year of the Business Plan and g is the expected perpetual growth rate in the normalised profit.

(109) To apply the Gordon growth method to the calculation of a terminal value of equity, Italy starts by estimating the enterprise terminal value of ITA by using a measure of profits accruing to the whole company (e.g. free cash flows to the firm) and the WACC as a discount rate. The terminal equity value would then result from subtracting the net debt of ITA at the end of the planning period from its enterprise terminal value.

(110) Italy calculates the terminal value of ITA's equity in 2025, i.e. the end of the planning period, at EUR [X XXX] million, excluding the ground handling and maintenance business (and EUR [X XXX] million including them). To calculate the terminal enterprise value, Italy assumes a perpetual growth rate of [0-5] %, a WACC of [5-10] % and normalized free cash flows to the firm equal to EUR [XXX] million.

(111) The perpetual growth rate has been considered to be [0-5] % in line with the long-term (five year ahead) inflation rate for the Euro area.[48]

(112) The WACC has been estimated at [5-10] % using the standard formula:

$$WACC = \frac{D}{D+E}Kd + \frac{E}{D+E}Ke$$

where *D* is the debt of the company, *E* the equity, *Kd* the (after tax) cost of debt and *Ke* the cost of equity.

(113) Italy submits that the cost of debt after tax would be [0-5] %, the cost of equity at [10-20] % (see section 3.3.3) and debt (equity) would be [40-50] % of the capital structure of the company. The leverage parameters have been based on the average of comparable companies before the COVID-19 crisis.

(114) Italy considers that the pre-tax cost of debt of [5-10] % (post tax [0-5]%) is in line with the yields of bonds of a number of air carriers (Finnair, IAG, Lufthansa, SAS, EasyJet, Pegasus and Ryanair). The bonds of those companies with a term to maturity of more than 10 years has a yield of [5-10] %.

(115) The normalized free cash flows is equal to [*business parameter*] in [*date*] (EUR [XXX] million[49]), net of taxes (EUR [XX] million) and capital expenditures (EUR 360 million). Capital expenditure is estimated at [XX.X] % of revenues in 2025 using the ratio of several air carriers (from brokers' consensus).[50] Given those assumptions, the enterprise terminal value of ITA's aviation business is EUR [X XXX] million.

---

48 https://www.ecb.europa.eu/stats/ecb_surveys/survey_of_professional_forecasters/html/table_hist_hicp.en.html

49 Excluding ground handling. Ground handling contributes additional EUR [10-20] million to an overall EBITDAR of EUR [XXX] million (aviation and handling) for ITA. Maintenance is not included in ITA's EBITDAR projections as ITA plans to acquire only a minority stake and thus the maintenance business' financials will not be consolidated into ITA's accounts.

50 Using the following peer group with available data of Capex as a % of sales in 2023: Lufthansa, IAG, Air France, SAS, Ryanair, EasyJet, Delta, American and United. The median of that group is 10%. Focusing on European flag carriers, the average is at 8.9% and median at 8.6%.

(116) To determine ITA's equity terminal value, Italy subtracts the value of net debt in 2025 associated with the aviation business from the enterprise terminal value of the aviation business. The value of net debt of ITA's aviation business in 2025 is expected to be EUR [X XXX] million. Furthermore, Italy adds the equity book value in 2025 of ITA's [XX.X] % minority stake in the maintenance Newco (EUR [XX] million) and of the [XX.X] % majority stake in the Ground-handling Newco (EUR [XX] million). Adding those values to ITA's aviation business equity, the terminal value in 2025 (EUR [X XXX] million) gives ITA's total equity terminal value of EUR [X XXX] million.

(117) Based on the expected free cash flows generated in the planning period (from 15 October 2021 to 31 December 2025) and the estimated terminal value of ITA's equity with the Gordon growth methodology, and using the standard methodology for computing IRR, Italy estimated the IRR of its capital injection into ITA to be in the range of [5-10] %-[10-20] % with a mid-value of [10-20] %.

3.3.2. The market multiples method

(118) The market multiples method of valuation for the terminal value is based on the following steps. First, one computes multiples as an enterprise value/EBITDAR ('EV/EBITDAR') ratio based on a group of peer companies ('EV/EBTDAR peer'). Second, one multiples the average of the computed ratios by the expected EBITDAR of the company that is being valued ('ITA EBITDAR 2025').

TV = ITA EBITDAR 2025 * EV/EBITDAR peer

(119) Using that methodology, Italy estimated the implied EV/EBITDAR reference multiple based on the group of peer companies[51] using an updated average EV/EBITDAR of 2023.[52] The analysis using financial data from FactSet[53] and brokers' reports gave a reference value around [0-5]-[5-10], therefore Italy applies [5-10] as a reference multiple. By applying that multiple with the estimated normalised[54] EBITDAR for ITA's aviation business end of 2025, which is equal to EUR [XXX][55] million, Italy considers an enterprise valuation of EUR [X XXX] million in 2025. Subtracting the net aviation debt[56] from the enterprise value gives an equity value for ITA at the end of 2025 equal to EUR [X XXX] million (for the aviation business) and EUR [X XXX] million for ITA.

---

51 The peer group comprises: i) flag carriers: Aeroflot, Air France–KLM, Finnair, Lufthansa, IAG, SAS and Turkish Airlines and ii) low cost peers: EasyJet, Pegasus, Ryanair and Wizz Air.

52 ITA considers that the 2022 market multiples are still significantly affected by the impact of the COVID-19 pandemic.

53 FactSet provides financial data and analytical tools.

54 EBITDAR is normalised when non-recurring expenses or revenue are removed (such as one-off revenues or expenses which distort the annual profitability metric).

55 The EBITDAR of ITA end of 2025 is EUR [XXX] million, out of which EUR [XX] million is related to the EBITDAR of the Ground Handling Newco consolidated.

56 Debt is calculated applying IFRS 16 for the accounting of leasing debt. IFRS 16 is an International Financial Reporting Standard which aims at improving financial reporting on lease contracts.

(120) Based on the expected free cash flows generated in the planning period (from 15 October 2021 to 31 December 2025) and the estimated terminal value of ITA's equity with the multiple methodology, and using the standard methodology for computing IRR, Italy estimated the IRR of its capital injection into ITA to be in the range of [10-20]%-[10-20]% with a mid-value of [10-20]% (with a multiple of [5-10]).

3.3.3. Cost of equity of the investment

(121) The cost of equity is the minimum expected return that a private investor requires from its equity investment in a project in order to be willing to invest in that project (given the risk it carries and the other available investment opportunities). This section describes the calculation of the cost of equity of the equity investment into ITA.

(122) Italy's estimate of the cost of equity of its investment into ITA is [10-20]%. To estimate that value, Italy starts from the capital asset pricing model ('CAPM'), which it then augments by adding further risk premia in order to account for additional risk factors specific to ITA. Table 12 presents the risk premia that Italy uses to estimate the cost of equity of its investment into ITA.

Table 12 – ITA's cost of equity

A	Risk free rate	[0-5]%
B	Country risk premium	[0-5]%
C	Equity risk premium	[5-10]%
D	Size risk premium	[0-5]%
E	Beta unlevered	[0-5]%
F	Beta levered	[0-5]%
G=A+D+F*(B + C)	**Cost of Equity**	**[10-20]%**

(123) Italy sets the risk free rate at the average rate on 10-year German government bonds (Bund) during the period from 4 June 2020 until 4 June 2021, which is equal to -0.43%. For the purposes of the cost of equity computation, Italy assumes conservatively that the applicable risk-free rate is zero.

(124) The country risk premium of [0-5]% is the rounded value[57] that Professor Damodaran[58] calculated for Italy in January 2021.[59] To determine the country risk premium, Professor Damodaran first estimates the country default spread and then adjusts it by the relative riskiness of equity vis-à-vis debt.[60]

---

[57] The exact figure computed by Professor Damodaran for Italy is 2.13%. The rounding reduces the value of the estimated cost of equity by 0.03% which appears immaterial for the conclusion in this decision, in particular given that the values of several other elements (risk premia) of the cost of equity are conservatively estimated.

[58] Answath Damodaran is a Professor of Finance at the Stern School of Business and a leading expert on valuation of equity and other assets.

[59] Source: pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

[60] The country default spread is set equal to the beginning of year average spread on credit default swaps and dollar denominated bonds with a rating corresponding to the sovereign rating of the country. With regard to the relative riskiness of equity vis-à-vis debt, it can be assumed that it is equal to the ratio of

(125) The equity risk premium of [5-10]% is the value that is calculated for Italy in January 2021[61] in line with standard market practices.[62] That value comprises the equity risk premium of a mature market equity risk premium which is computed to be 4.72%[63] and the country risk premium, which for Italy is 2.13%.

(126) The size risk premium of 1.58% is the value of the risk premium of "small cap" companies[64] as calculated by Duff & Phelps' 2019 Valuation Handbook, International Guide to Cost of Capital. According to Duff & Phelps, there is a smaller size risk premium for larger companies, the so-called "mid cap" companies[65], at 0.89%.

(127) With regard to the equity beta, which generally is measured for companies listed on the stock exchange using the CAPM and boils down to measuring how sensitive is the market price of an asset to the movement of the price of the overall stock market, Italy estimates it using a benchmark group of peer companies in the aviation sector which are listed on a stock exchange. To estimate ITA's beta, Italy uses standard market practices.[66] Based on that, Italy's estimate of ITA's equity beta is [0-5].

---

the standard deviations of the S&P Emerging Market Equity Index and the BAML Emerging Public Bond index.

61 Source: pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

62 Specifically, to determine the equity risk premium of a country, the risk premium of that country is added to the equity risk premium for mature markets. The latter premium is estimated on the basis of an equity pricing model, whereby the value of a stock today is the present value of future expected dividends. The value of the S&P 500 index is taken as the value of the stock and the dividend yield (including share repurchases) on that index, increased by stock analysts' forecasts of earnings growth, as a proxy of future dividends. Based on those assumptions, it is then possible to reverse-engineer the required return on equity, i.e. the rate at which future dividends are discounted.

63 This is the implied equity risk premium based on econometric analysis of the American benchmark equity index the S&P 500 which tracks the stock market performance by a sample of 500 large cap US companies.

64 "Small cap" relates to companies with relatively small market capitalisation. According to ITA's sources, "small caps" are companies with market capitalisation between USD 570 million and USD 2 390 million. Italy explains that Duff & Phelps calculate the size risk premia as the difference between historical (observed) excess return and the excess return predicted by the CAPM.

65 "Mid cap" companies have market capitalisation above USD 2 390 million, according to Duff & Phelps' methodology.

66 Specifically, Italy uses the following approach. First, Italy retrieves the equity beta of a sample of listed peer airlines. Those peer airlines are Aeroflot, AF-KLM, EasyJet, Finnair, IAG, Lufthansa, Pegasus, Ryanair, SAS, Turkish Airlines and Wizz Air. Italy retrieved the equity beta of those companies with reference to pre-COVID-19 data ending on 11 March 2020, which was estimated using two years of weekly stock returns. Second, Italy excluded the airlines for which the estimation model of the equity beta explains less than 20% of the variation in their stock return, i.e. Air France. Third, Italy adjusted the equity beta through the Blume formula, which consists in calculating the weighted average of the estimated beta and one, with weights equal to two thirds and one third, respectively. Fourth, Italy unlevered the adjusted equity beta of the peer airlines by using the Hamada formula. That formula consists in dividing the adjusted equity beta of the peer airlines by the sum of one and the product of the debt-to-equity ratio of those airlines and the complement to one of the tax rate that they pay on their profits. Italy applied that formula by using the pre-COVID-19 crisis debt-to-equity ratio of peer airlines and the 2020 corporate marginal tax rate by country from Professor Damodaran. Fifth, and finally, Italy adjusted the average unlevered beta of ITA's peer airlines, which is equal to 0.76, to ITA's own leverage ratio and tax rate. To that end, Italy used the Hamada formula

(128) Overall, Italy's estimate of the cost of equity of its equity investment into ITA consists in the sum of the equity risk premium and the country risk premium multiplied by the estimate of ITA's equity beta, adding the risk free rate and the size risk premium.[67] That calculation yields a cost of equity of [10-20]%.

3.3.4. Italy's conclusion on the MEO test

(129) Italy argues that its equity investment into ITA complies with the MEO principle because the IRR on that investment, which ranges between [5-10]% and [10-20]%, with a mid-point of [10-20]% for the Gordon growth methodology (using different assumptions on WACC, namely [5-10]% and [5-10]% respectively) and [10-20]-[10-20]% with a mid-point of [10-20]% for the multiples methodology (using different assumptions on the multiple applied, namely [0-5]x and [5-10]x respectively). The mid-point of IRR for both methodologies is greater than the cost of equity, which is equal to [10-20]%.

3.4. Independent expert reports provided by Italy

(130) Italy submitted two valuation studies by Ernst & Young to justify the acquisition price of the assets that ITA intends to acquire through a direct negotiation from Alitalia.

(131) The Italian authorities have further submitted two reports based on ITA's Business Plan, prepared by independent experts before the Italian State made any decision on carrying out the planned capital injection. One of the reports, dated 2 July 2021, is prepared by Mediobanca (the 'Mediobanca Report'), focussing on the financial aspects of compliance with the MEO principle. The other report, dated 7 July 2021, is prepared by A.T. Kearney (the 'Kearney Report') and it sets out an independent industrial business review of the Business Plan.

3.4.1. The first Ernst & Young Report

(132) The Ernst & Young prepared two reports. The first Ernst & Young report (the 'First Ernst & Young Report') covers the information and communications technology ('ICT') intangible assets and the aviation tangible assets. The study estimates their fair value by using the adjusted net asset value method. That method takes the net book value of the assets as a starting point, which is then adjusted based on their economic obsolescence and physical deterioration (only tangible assets). The study estimates economic obsolescence as the complement to one of the utilization rate, whose definition depends on the type of asset.

(133) With regard to the ICT intangible assets, the study assumes a positive utilization rate only for the SABRE software, which integrates Alitalia's reservation and ticketing system into an aggregate database containing all airline reservations. The study proxies the utilization rate of the SABRE

assuming a debt-to-equity ratio of 0.96, in line with ITA's long-term expectations on its capital structure, and the marginal tax rate for Italy, which is 24%.

[67] See formula in the last row of Table 2.

software as the ratio between the original and revised 2021-2028 forecasts of the passengers booked through the software.[68] The study estimates the value range of the ICT intangible assets as the value of those assets with and without taking into account the economic obsolescence of the [*type of*] software.

(134) With regard to the tangible assets, the study assumes a utilization rate of [70-80]% and a physical deterioration rate in line with the useful life of the assets, which is consistent with industry standards as well as the analysis and data provided by the American Society of Appraisers (ASA) and Marshall & Swift (M&S). The study assumes a [10-20]% interval around the point estimate of the fair value of the tangible assets to determine their valuation range.

3.4.2. The second Ernst & Young Report (concerning the Alitalia brand)

(135) The second Ernst & Young report (the 'Second Ernst & Young Report') estimated the fair market value of the Alitalia brand.[69]

(136) To assess the fair value of the Alitalia brand, Ernst & Young used the relief from royalty method methodology for assessing the value of an intangible asset. The relief from royalty method is based on the revenue stream expected to be generated from sales of products or services labelled under the trademark concerned. Using that method, the value of the Alitalia brand was estimated as the sum of: (1) the present value of the expected royalty streams for the period 15 October 2021 to 31 December 2025 (the explicit period), and (2) the value of the expected royalty streams at the end of the explicit period.[70]

(137) To make the concrete calculations Ernst & Young relied on several assumptions, such as ITA's revenue projections, the royalty rate ([0-5]%),[71] the Italian tax rate applicable on annual royalties ([20-30]%),[72] the terminal (perpetual) growth rate ([0-5]%),[73] a WACC discount rate ([5-10]%) as well as a tax amortisation benefit.[74]

(138) Using the relief from royalty method and those assumptions, Ernst & Young estimated the value of the Alitalia brand to be in the range between EUR

---

68 The original forecast is the one at the time of signing the contract between Alitalia and SABRE in 2016, while the latter is the one at the time of renegotiation of the contract fees in December 2020.

69 The Brand Ernst & Young Report refers to the 'Alitalia Trademark'.

70 Specifically Ernst & Young calculated the present value of the expected royalty streams as the sum of (1) the present value of the expected royalty streams for the period 15 October 2021 to 31 December 2025, and (2) the terminal value, i.e. the value of the expected royalty streams.

71 Ernst & Young estimated the royalty rate on the basis of market comparable royalty rates in the aviation industry for the period 2009-2020. The specific figure 0.3% is the median value for the selected panel of peer companies which Ernst & Young used for its study.

72 Consisting of IRES 24% plus IRAP 4.82%.

73 The perpetual growth rate estimated by Ernst & Young is the expected average GDP growth in the OECD area for the period 2026 to 2050.

74 Ernst & Young applied a tax amortisation benefit which essentially assumes that a hypothetical buyer could capitalize the intangible asset and reduce future taxable income through amortization over a certain period pursuant to the applicable tax regulations. Ernst & Young used projections for the period 2021-2038, ranging from 1.49% in 2021 and 0.44% in 2038.

[XXX] million and EUR [XXX.X] million. On that basis Ernst & Young placed the point estimate of the value of the Alitalia brand at EUR [XXX.X] million.

3.4.3. The Kearney Report

(139) A. T. Kearney was asked to verify the plausibility of the industrial assumptions and corresponding economic projections envisaged in the Business Plan. The Kearney Report is based on the information and documents provided by ITA, including the Business Plan, interviews with ITA's management, expert interviews, industry reports and forecasts, historical data and trends[75] as well as business intelligence related to peer air carriers.

(140) A.T. Kearney first analysed ITA's strategic ambitions on the airline market in order to position ITA and its envisioned Business Plan considering the structure and traffic outlook of the aviation passenger transport market. The Kearney Report concludes that the "*Underlying addressable aviation passenger transportation market considered in the ITA business plan seems realistic and aligned with the sector consensus*." However, the "*short-haul traffic component* [of the Business Plan] *is affected by a structural competitive pressure*" coming from low-cost carriers, which service city pairs in Europe and are present in Rome Fiumicino Airport "*while there is space for ITA to serve the Long-Haul traffic*."

(141) The Kearney Report further verifies the parameters and assumptions of the Business Plan such as, with regard to the ASK and RASK: the traffic and recovery assumptions, the network plan and the fleet composition; and, with regard to the CASK: the operating costs including the fuel costs, exchange rate projections, personnel costs, leasing fee and maintenance costs, and commercial and distribution cost.

(142) The Kearney Report notes that ITA's model takes into consideration industrial assumptions (e.g. stable pax share, traffic growth assumptions per country pair, yield trends) and historical data to project monthly revenues on a route basis. The model also calculates costs and margins for each route, leveraging granular information (e.g. detailed costs parameters – fuel consumption by aircraft model, feel information for each fleet airplane). Therefore, the report concludes that the calculation model logics seems solid and appropriately detailed.

(143) The Kearney Report also considers that the organisational structural design and sizing is aligned with industry best practices.

3.4.3.1 ITA's traffic and revenue projection

(144) Concerning traffic projections, the Kearney Report notes the underlying positive trend in air transport market, which was resilient during the pre-COVID period, with passengers from/to Italy consistently growing in the last decade (+45% in 2019 vs 2010) faster than the underlying GDP growth. The report also notes that one of the key inputs for the revenue projections is the

[75] The external sources covered data from IATA, CAPA, Eurocontrol, etc.

IATA traffic forecasts on recovery, which are consistent with Eurocontrol projections. The report also notes that long-haul traffic in Italy is underserved compared to other Member States (e.g., 0.4 seats/inhabitant long-haul flights in Italy compared to 1.4 in the Netherlands, and 0.9 in France).

(145) Concerning the network plan, the Kearney Report notes that according to the Business Plan ITA will not fly 32 unprofitable routes of Alitalia (28.5% of 2019 routes), and will open 9 new routes. The Kearney Report considers the Business Plan to be based on a sound network concept with some uncertainty around a potential European partner/Global alliance selection. That uncertainty potentially affects network strategy and the Business Plan's revenue evolution, according to the report. The Kearney Report also notes that ITA will focus on short-haul routes with high feeder value/premium routes while capitalising on the potential growth of long-haul core markets. In terms of ASK, the Kearney Report notes that in 2025 ITA will offer 11% fewer seats than Alitalia in 2019. The report also notes that the assumptions about the domestic passenger increase are optimistic while those for international and intercontinental are sound. Therefore, the report also suggests continuous market monitoring to adjust fleet deployment schedule.

(146) The Kearney Report notes some key elements to achieve the revenue and profitability projections compared to Alitalia, namely the increase of load factors, the rationalisation of routes and the renewal of the fleet. As described in recitals (65), (55) and (75), the rationalisation of the routes and the fleet renewal are foreseen in the Business Plan.

(147) Concerning yield management, the Kearney Report observes that the Business Plan assumes a reduction in the yield for domestic flights due to high competition with low cost carriers, and slight increases for international flight (+[10-20]% by [*date*] compared to Alitalia's in 2019) and constant yield for intercontinental flights.

(148) With regard to the load factor, the Kearney Report observes that in 2021-2022 the load factor will drop to [XX]% due to the effects of the COVID-19 pandemic but that by 2025 the overall load factor is foreseen to increase from 72% (Alitalia in 2019) to [XX]%. That [X]% increase is justified on the basis of capacity reduction on low performing routes and the rightsizing of the fleet.

(149) Considering the composition of the load factor increase, for domestic route it is planned to increase by [5-10]% driven as a result of differentiation of service and product offering, while the increase for international flights is [0-5]%, and no increase is planned for intercontinental flights. The report considers that domestic yield increase as challenging due to low cost carrier competition. Therefore it suggests again continuous market monitoring to adjust fleet deployment schedule and extra commercial efforts.

(150) The Kearney Report recommends a differentiation of service as critical to compete with low cost carriers on several domestic routes and achieve the Business Plan's objectives.

3.4.3.2 ITA's cost reductions

(151) According to the Kearney Report, the projected cost reductions are plausible and are dependent on the effective new-generation fleet. It finds fuel cost estimates to be in line with those of other airline operators. The report notes that CASK would increase in 2021 compared to 2019 due to lower scale but will drop by [10-20]% by 2025 due to the efficiencies considered in the Business Plan (new fleet, zero based sizing) and macroeconomic factors.

(152) The Kearney Report confirms that the macroeconomic drivers are reasonable since the unit price for fuel and exchange rates are based on Bloomberg projections. The report sees a minor risk of fuel cost increases and exchange rate depreciation and suggests to periodically evaluate hedging as a potential mitigation strategy.

(153) Concerning the fleet, the Kearney Report observes that the fleet (ASK) is fully aligned with ITA's traffic evolution projections and "with best market standards". It also considers the increase in narrow body aircraft for medium/long haul is in line with ITA's objectives as regards sustainability and cost efficiency. The new fleet also allows flexible configuration for Business, Economy Plus and Economy classes.

(154) Regarding the cost and maintenance of the fleet, the Kearney Report notes that even if the price for aircraft and leases are indicative, they are aligned to market benchmarks. The fleet has an average reduction of [XX]-[XX]% in fuel consumption and CO_2 emission compared to Alitalia's fleet and the fleet is produced by one manufacturer (Airbus), which allows rationalisation of costs (including maintenance).

(155) The Kearney Report considers that the FTE volume reduction is in line with the reduction of ITA's fleet compared to Alitalia and ITA's perimeter in handling, flight operations and overheads. The reports notes there will be a [70-80]% reduction in FTEs in 2021 vs 2019 and [10-20]% reduction in 2025 (compared to 2019).

(156) The report also sees no major risks for the maintenance and handling subsidiaries. The maintenance cost reduction of [XX]% in 2025 compared to Alitalia's 2019 costs are found to be in line with those of other airline operators. The report also considers that the scope of the Maintenance Newco is fair, with variable workload activities outsourced, and it sees managerial advantages in handling due to the majority holding which can assure quality on internalised services.

(157) Concerning the commercial and distribution costs, the Kearney Report considers that the target channel mix is in line with the European benchmark, and should be enabled by the planned digital transformation. The slight lower level of digital adoption in Italy compared to Central/Northern Europe justifies the lower web penetration of ITA. The target unitary channel costs are also found to be in line with the European benchmark. The report also identifies the acquisition of Alitalia brand as important to achieve the objectives. Otherwise, it expects another EUR [XX]-[XX] million of additional commercial costs to gain comparable brand recognition.

3.4.3.3 Kearney Report's conclusion

(158) The Kearney Report concludes that "*ITA's plan appears in line with the market economy operator rationales, strategic intentions seem solid and assumptions seem mostly plausible, in line with the sector consensus expectations and corresponding to the information gathered through industry intelligence about peer companies*". However, the Kearney Report notes that the plan is dependent on the implementation capabilities of ITA and on the achievement of three key prerequisites:

a) The first is the early-stage entrance into a global alliance in order to be able to compete within Europe and on the North American market. That industrial partner is expected to substantially support traffic development from 2023 onwards ([10-20]% of revenue), especially on the long-haul market, and will have a material impact in the medium/long term. A.T Kearney sees the option of a commercial and industrial partnership as from 2022 and a financial partnership after 2025, which would allow the optimisation of ITA's capital structure;

b) The second is the zero-based sizing of FTEs including gradual FTE deployment in line with the ramp-up of the activities over the planning period, and the creation of a lean and efficient organisational structure;

c) The third is the digitization of the airline processes (including direct sales), which is planned to take place in two phases: (i) transition phase in 2021 and 2022 with full adoption of old Alitalia IT infrastructure ([*business secret*]) and (ii) the transformation phase with rationalization of IT systems ([*business secret*]) and of the suppliers.

3.4.4. The Mediobanca Report

(159) The Mediobanca Report analyses the IRR of the equity investment in ITA by the Italian State and the cost of equity. The report is prepared based on the information and documents provided by ITA and publicly available information.[76]

(160) Based on standard methodologies, Mediobanca estimated ITA's cost of equity to be [10-20]% and its WACC to be [5-10]%.[77]

(161) Mediobanca estimated ITA's IRR using a similar methodology to that employed by Italy. Specifically, Mediobanca computed ITA's expected

[76] Such as market information gathered from sources such as FactSet, Bloomberg and Thomson Reuters.

[77] Specifically, Mediobanca estimated ITA's levered beta at 1.31, its market risk premium at 6.9% and assumed a debt to equity ratio of 68.4%. As regards the size risk premium, Mediobanca assumed that ITA is a small cap company and applied a 1.6%. To estimate the beta, Mediobanca used selected peer companies that included the companies used in Italy's own assessment plus the American airlines Delta and United. Under Mediobanca's methodology the companies with R^2 ("r squared" in regression analysis is the percentage change in the dependent variable that is explained by the change in the independent variable, or, put differently, R^2 shows the predictive power of a known variable from which one tries to infer the value of another unknown variable) less than 25% were excluded. Thus, EasyJet, Wizz Air, SAS, Finnair and a number of others were excluded from the estimation.

levered free cash flow[78] for 2021-2025 as well as ITA's terminal value using two methodologies: (1) the Gordon growth model and (2) the multiples methodologies.[79] Based on those estimations and using standard techniques, Mediobanca estimated ITA's IRR in the range of 10%-14% using the Gordon Growth Model and 8%-13% using the trading multiples.

(162) In addition to those two methodologies (which ITA also used), Mediobanca also provides a control method using historical multiples to estimate the terminal value. A problem with such a historical analysis is that the financial standards have changed related to the accounting treatment of operating leases. To adjust for that change, the relative leasing costs are capitalised using a 7.0 multiple (market proxy). Using a conservative sample of companies (which does not include European low cost carriers, due to their different business models and historical growth prospective from ITA) leads to a multiple of 5.8 (central scenario). The IRR following that methodology would be in the range of 14-18%.

(163) The Mediobanca Report demonstrated that the midpoints of all estimated IRR ranges are at, or above ITA's cost of equity. Furthermore, the Mediobanca Report showed that its estimations are approximately the same as those of the Italian authorities.

(164) The Mediobanca Report also assesses important assumptions from the valuation based on benchmarking analysis using information from brokers' report.[80] Based on assessment of the data from brokers, Mediobanca finds the consensus average (median) for the following parameters which are relevant for the Gordon growth methodology: (1) WACC of [5-10]% ([5-10]%) (based on a sample of five flag carriers (Lufthansa, IAG, Air France, SAS, Finnair) and [5-10]% ([5-10]%) when also considering Ryanair, Wizz Air, EasyJet and Delta, American Airlines and United ("the three US airlines") (2) Capex[81] as a percentage of revenues of [5-10]% ([5-10]%) (based on Lufthansa, IAG, Air France and SAS projections) and [10-20]% ([10-20]%) when also considering Ryanair, EasyJet and the three US airlines, and (3) growth rate of [0-5]% ([0-5]%) (based on Lufthansa, Air France and IAG projections) and [0-5]% ([0-5]%) when considering also Ryanair, EasyJet, Wizz Air and the three US airlines.[82]

---

78 Levered free cash flow is the amount of money a company has left after paying all its financial obligations.

79 Mediobanca used both trading multiples and historical multiples method.

80 Using the estimates of HSBC, Credit Suisse, Berenberg, Bank of America, UBS and Exane.

81 Capex as a percentage of sales.

82 The values of the three parameters, the WACC, the capex and the perpetual growth rate are company-specific which is why they vary for each company and also, depending on the selected peers, the averages also vary. However, the benchmarking exercise shows that those values are approximately in line with the estimated values for ITA, which gives additional assurance and robustness of the assessment.

(165) Furthermore, the report provides details on outstanding bonds of peers[83] and finds an average of [0-5]% (peers include Air France, IAG, Lufthansa, SAS and Finnair as well as US companies such as the three US airlines).

(166) Thus, the Mediobanca Report concludes that ITA's estimations of its cost of equity and IRR are in line with the returns expected by a market operator.

4. NOTIFICATION AND COMMITMENTS OF ITALY

(167) The Italian authorities notified the capital injection into ITA. Their submissions are described below.

4.1. Italy's position on the Market Economy Operator Principle

(168) According to the Italian authorities, the capital injection into ITA, in light of the Business Plan, does not constitute State aid, because it is in line with the market economy operator principle. Specifically, the Italian authorities point out that according to ITA's estimates and the independent expert reports, the IRR of the investment into ITA will be higher than ITA's cost of capital.

4.2. Italy's position on economic discontinuity between Alitalia and ITA

(169) According to the Italian authorities, the procedure for the sale of some of Alitalia's assets is no different from other types of transfer of goods carried out under market conditions, taking into account the specific nature of the air transport sector and regulatory restrictions.

(170) In notifying the measure, the Italian authorities ask the Commission, for reasons of legal certainty, to confirm that:

(a) the extraordinary administration's sale of Alitalia's assets under direct negotiations and via tenders to ITA (as described in section 2.2.3) does not constitute State aid in favour of the purchaser of the assets;

(b) the purchase by ITA of Alitalia's assets under direct negotiations and via tenders to ITA (as described in section 2.2.3) in the scope and under the conditions set out in the notification and the Business Plan does not contain elements of economic continuity with the company placed under extraordinary administration such as to lead to the transfer of Alitalia's liabilities to the purchaser and, in particular, the obligation to recover incompatible State aid granted to Alitalia;

(171) According to the Italian authorities, the Commission should be able to confirm that ITA's acquisition of Alitalia's assets will not lead to ITA inheriting the unlawful and incompatible State aid granted to Alitalia. The Italian authorities consider that they can demonstrate that the sales procedures do not have the effect

[83] The sample covers bonds with outstanding maturities longer than 10 years at the time of the drafting of the Mediobanco Report. Bonds of European low cost carriers are not included as none of them have issues bonds with at least 10 years of outstanding maturity. The yields in the sample range from [0-5]% to [0-5]%, excluding the perpetual bonds covered in the sample. The sample perpetual bonds' yields range from [5-10]% to [10-20]%

of evading the recovery obligation incumbent on the Italian Republic under Commission Decision C(2021)6659 of 10 September 2021.[84]

4.3. Italy's commitments

(172) To avoid economic continuity, the Italian authorities undertake to sell at least the following assets of Alitalia through open, transparent, non-discriminatory and unconditional tenders:

(a) Alitalia's maintenance business unit, for which ITA will be allowed to bid for a minority stake (not giving ITA control over the maintenance business) but will not be allowed to bid for a controlling majority stake,

(b) Alitalia's ground handling business unit, which shall be split into lots. ITA will be allowed to bid for a majority stake of the ground handling business in Rome Fiumicino Airport,

(c) Alitalia's *MilleMiglia* loyalty programme, where ITA will be excluded from bidding,

(d) Alitalia's brand, where ITA will be allowed to bid.

(173) Regarding the PSOs currently imposed on Alitalia, Italy commits not to allow their automatic transfer to ITA, including PSOs for routes to/from Sardinia. The right to operate the PSOs can only be offered through open, transparent, non-discriminatory and unconditional tenders in accordance with Regulation 1008/2008.

(174) In addition, Italy will ensure that ITA shall not to acquire a majority (control) in Alitalia's maintenance business or Alitalia's loyalty programme at least until 1 January 2026.

(175) Furthermore, regarding Alitalia's aviation business unit, Italy commits to ensure that:

a) ITA's fleet at the start of its operations will not exceed 52 aircraft and after the initial transfer of aircraft from Alitalia, ITA will source all its other aircraft from the market;

b) there will be no transfer of client information from Alitalia to ITA;

c) ITA will hire staff from the market under new labour contracts, based on market conditions. The number of staff hired will not exceed 2800 in 2021 and 5750 in 2022;

d) ITA will not take over prepaid tickets from Alitalia;

e) ITA will create its own website facing its customers, using a domain, which is separate from Alitalia.com. However, because of technical constraints, bookings made through ITA's own website may be redirected to Alitalia.com/ITA for the purpose of finalising booking or purchase of

[84] See Commission Decision C(2021)6659 of 10 September 2021 on the State aid in favour of Alitalia SA.48171 (2018/C) (ex 2018/NN, ex 2017/FC) implemented by Italy.

tickets.[85] If ITA acquires the Alitalia brand and after Alitalia stops its operations, ITA may also use the Alitalia.com website and domain name for its interface with its customers.

(176) Italy commits that ITA will not apply the employment conditions that were applicable to Alitalia's employees.

(177) Italy commits not to make a capital injection into ITA higher than EUR 1.35 billion, with a first tranche of EUR 700 million in 2021, second tranche of EUR 400 million in 2022 and a third tranche of EUR 250 million in 2023, as set out in the Business Plan.

(178) Finally, regarding slots, Italy commits to ensure that:

(a) there will be proportionality between the volume of slots to be transferred and the flight capacity to be acquired from Alitalia;

(b) ITA will operate the slots transferred from Alitalia as from the start-up phase.

(179) Specifically, Italy commits to ensure on an airport-by-airport basis:

- Milan Linate: ITA will not obtain more than 175 daily slots or 24 aircraft-equivalent. If ITA bases fewer aircraft in Milan Linate Airport in the start-up phase, the number of daily slots to be transferred will be reduced proportionally;

- Rome Fiumicino: ITA will not obtain more slots than those to be used in the start-up phase, i.e. 178 daily slots. If ITA bases fewer aircraft in Rome Fiumicino Airport in the start-up phase than the equivalent of 178 daily slots, the number of daily slots to be transferred will be reduced proportionally;

- other coordinated airports in Italy and other EU/EEA Member States where ITA intends to operate: the same conditions (proportionality and use as from the start-up phase) will apply.

5. MONITORING TRUSTEE

(180) The Italian State [*agrees with*] the Commission to employ, at its own expense, a monitoring trustee whose task will be to check that the sale of Alitalia's assets is carried out at the market price, in accordance with the undertakings given by the Italian authorities and that the commitments made by the Italian State are fulfilled. The monitoring trustee will send regular detailed reports to the Commission. The Italian authorities will pay the monitoring trustee in such a way as not to hinder the independent and effective execution of its mandate.

[85] The Italian authorities explained that ITA faces significant technical difficulties to finalise bookings other than by using Alitalia's passenger service system ('PSS') because although ITA can create its own website it cannot buy a PSS in the short term.

5.1. Appointment of the monitoring trustee

(181) The Italian authorities undertake to send the Commission a list of qualified persons whom they propose to appoint as monitoring trustees. The appointment of the monitoring trustee and the relative conditions (trusteeship) will be subject to the prior approval of the Commission. The approval of the appointment of the monitoring trustee by the Commission does not substitute a procurement procedure nor the application of the relevant public procurement rules for hiring the trustee.

(182) The monitoring trustee must be independent from the Italian authorities and the extraordinary commissioners, the independent experts, as well as from the purchasers of Alitalia's assets. It must have the necessary qualifications and experience to carry out its mandate. Finally, it must comply with the obligation of confidentiality and must not have conflicts of interest, nor put itself in a position to be exposed to such conflicts.

(183) The Commission will verify whether the persons proposed for the position of a monitoring trustee meet the criteria defined. Italy will also communicate to the Commission, at the same time as the list of proposed persons, all the conditions of the mandate, including all the provisions necessary to enable the monitoring trustee to fulfil its mission, as well as a work programme describing how the monitoring trustee will exercise its mandate.

(184) If the monitoring trustee ceases to exercise its functions for any reason, including the case of conflict of interest, the Commission may, after having heard the monitoring trustee, require Italy to replace it. Italy may also do so on its own initiative but with the prior agreement of the Commission.

(185) Italy undertakes to provide, and will ensure that the extraordinary commissioner, the independent expert, the purchasers and Alitalia provide, the monitoring trustee with all the cooperation, assistance and information necessary to carry out its mandate. The monitoring trustee will also have access to all books, accounts and documents, personnel, places and sites, as well as technical information necessary to carry out its tasks. Italy has undertaken to transmit to the monitoring trustee copies of all the documents it deems necessary for the performance of its mission.

5.2. Reports of the monitoring trustee

(186) After its appointment, the monitoring trustee will send a written report to the Commission every month. The report will focus on the Italian authorities' compliance with the notified process and the commitments made. The report will cover, *inter alia*, the following aspects:

(a) the major actions taken by the monitoring trustee and the major actions it intends to take;

(b) any element or difficulty encountered in the course of the execution of the process notified, which allow in particular to establish the non-compliance of the process notified;

(c) assessment of the market price of Alitalia's assets sold during the period in question through direct negotiations or tenders.

(187) In addition to the obligations of regular information incumbent on the monitoring trustee, the latter must immediately inform the Commission of any specific element or difficulty which might prevent it from carrying out its mission or which might result in the Italian authorities not respecting their commitments as described in this decision.

6. ASSESSMENT OF ECONOMIC (DIS-)CONTINUITY

6.1. General principles governing economic continuity and recovery of illegal and incompatible State aid

(188) In the event of a negative Commission decision regarding the recovery of incompatible aid to an undertaking in the context of Articles 107 and 108 TFEU, the Member State in question is required to recover the incompatible aid. The recovery obligation may be extended to another company, to which the beneficiary company has transferred or sold part of its assets, where that transfer or sale structure shows economic continuity between the two[86]. Therefore, an economic continuity decision can determine whether or not the other, acquiring, company is liable to repay illegal State aid.

(189) In Commission Decision C(2021)6659 of 10 September 2021, the Commission concluded that the EUR 600 and EUR 300 million loans were unlawful and incompatible with the internal market and ordered Italy to recover it from the beneficiary Alitalia.[87]

(190) In view of the procedure for the liquidation and sale of Alitalia's assets, at the request of Italy, the Commission started this procedure to determine whether that recovery should extend to ITA.

(191) According to the Union Courts' case-law[88], economic continuity between companies who are parties to a transfer of assets may be assessed in the light of the subject matter of the transfer (assets and liabilities, maintenance of the workforce, bundled assets), the transfer price, the identity of the shareholders or owners of the acquiring undertaking and the original undertaking, the moment when the transfer takes place (after the commencement of the investigation, opening of the procedure or the final decision) and also the economic logic of the transaction.

---

86 Judgment of the General Court of 28 March 2012, *Ryanair* v *Commission*, Case T-123/09, EU:T:2012:164, paragraph 155.

87 See Commission Decision C(2021)6659 of 10 September 2021 on the State aid in favour of Alitalia SA.48171 (2018/C) (ex 2018/NN, ex 2017/FC) implemented by Italy.

88 See judgment of the Court of 29 April 2021, *Fortischem* v *Commission*, Case C-890/19 P, EU:C:2021:345, paragraph 59; See also judgment of the Court of 8 May 2003, *Italy and SIM 2 Multimedia* v *Commission*, C-328/99 and C-399/00, EU:C:2003:252, paragraph 78; and judgment of the General Court of 28 March 2012, *Ryanair* v *Commission*, T-123/09, EU:T:2012:164, paragraph 155.

6.2. Economic continuity between Alitalia and ITA

6.2.1. Subject matter of the transfer

(192) The subject matter of the transfer to ITA concerns only a reduced scope of assets and rights compared with those held by Alitalia and used by the latter in the course of its activities.

(193) The planned transfer of assets and rights from Alitalia to ITA relates to the air passenger transport business and some related assets and rights. Specifically, ITA plans to acquire the Aviation Business (see section 2.2.3.1) through direct negotiations, as well as to participate in the tender for the Alitalia brand, the tender for a controlling majority stake in Alitalia's ground handling in Rome Fiumicino Airport, and the tender for Alitalia's maintenance business albeit only for a minority non-controlling stake. Thus, ITA will be excluded from the tender for Alitalia's loyalty programme (*MilleMiglia*), the tender for Alitalia's ground handling business in airports other than Rome Fiumicino, as well as from the possibility to acquire a controlling majority stake in Alitalia's maintenance business. The PSOs currently imposed on Alitalia will not automatically be transferred to ITA. Moreover, Alitalia's pre-paid tickets[89] not honoured by the time it ceases its operations will not be transferred to ITA. The transactions will be carried out in accordance with the Italian authorities' commitments that also exclude any access for ITA to Alitalia's customer information.

(194) As regards the aviation business, ITA plans to lease not more than 52 aircraft that were part of Alitalia's fleet.[90] Thus, at the start of its operations, ITA's fleet will comprise a maximum of 52 aircraft, which is less than half of Alitalia's fleet of 108 aircraft in 2020.[91] In accordance with the rules on partial takeover of an aviation business[92], ITA will operate only part of Alitalia's slots (within the limits set by Italy's commitments). In particular, ITA will use the slots corresponding to the flight capacity taken over from Alitalia and operated by ITA in the start-up phase of its business.

(195) In terms of capacity measured as passengers transported per kilometre ('ASK'), in 2022, ITA will have only about 50% of Alitalia's ASK. The Commission considers that the resulting reduction in capacity is reasonable[93], taking into account that Italy committed to ensure that ITA will not take over other activities of Alitalia such as a controlling majority stake in maintenance and ground handling, except ground handling at Rome-Fiumicino International Airport (see recitals (48) and (49)).

---

89 Which are a liability.

90 Alitalia owned and leased aircraft.

91 Alitalia's fleet in 2019 consisted of 114 aircraft. In Q1 and Q2 of 2021 Alitalia's fleet consisted of an average of 102 aircraft.

92 See Article 8a(1)(b)(iii) of Council Regulation (EEC) No 95/93 of 18 January 1993 on common rules for the allocation of slots at Community airports, OJ L 14, 21.1.1993, p. 1.

93 The number for 2021 would be less than 14%. However, that number is not informative as it does not represent a full year, i.e. ITA would only start operating in September.

(196) Furthermore, ITA plans to take on only staff essential to its operations (see recital (81)) and start its operations in 2021 with a workforce that is [*a proportion*] of Alitalia's in 2019. Thus ITA plans to hire around [X XXX-X XXX] FTE employees[94] in 2021, increasing its workforce to [X XXX-X XXX] FTE employees by [*date*]. By comparison, Alitalia had [X XXX] FTE employees on [*date*]. Moreover, there will be no automatic transfer of employment contracts between Alitalia and ITA. ITA plans to recruit its employees from the market and insofar as ITA takes on Alitalia's personnel, it will recruit them on new terms set out by ITA.

(197) Finally, ITA plans to reduce the number of hubs from two[95] to one compared to Alitalia's activities. At the start of its operations, Rome Fiumicino Airport will be ITA's only hub, while from Milan Linate Airport ITA will focus on offering high-yield point-to-point flights.

(198) As it appears from the above, ITA's perimeter of activities will be different from that of Alitalia so as to match ITA's business strategy as described in section 6.2.5.

(199) In addition, Italy has committed to ensure that there will be limitations on ITA's participation in the bidding process for the other lots (see recitals (172) to (174)). Specifically, ITA cannot bid at all for the loyalty programme lot and the pre-paid tickets, and it can only bid for a minority non-controlling stake in the Maintenance business lot. Thus, the Commission considers that ITA's perimeter of activities is substantially reduced compared to Alitalia's activities based on the tendering rules for assets other than the Aviation Business.

6.2.2. The sale price

(200) In order to determine if there is economic continuity between Alitalia and ITA, the Commission will next examine if the assets to be acquired by ITA will be sold at market price.

(201) The Italian authorities explain that the Aviation Business will be sold to ITA through direct negotiations. To ensure that those assets are sold at market price, ITA has entrusted a consultant (Ernst & Young) to estimate the fair value of some tangible and intangible assets as of 31 December 2020.[96]

(202) Alitalia's extraordinary administration is governed by the rules of Italian insolvency law requiring the highest possible price for the sale of the relevant assets.

(203) According to the Marzano law, for companies operating essential public services, the extraordinary commissioners have the powers to sell the business

94 Employees count based on full-time equivalent scheduled working hours.

95 In 2019 Alitalia operated with hubs in Rome Fiumicino and Milan Linate.

96 The assets object of the estimate are (1) selected ICT intangible assets and (2) selected aviation tangible assets. The selected aviation tangible assets cover: spare engines, rotables, furniture, vehicles, M&E systems, equipment, work-in-progress activities and other assets, while the selected ICT intangible assets cover software applications, software licenses, work-in-progress intangible assets as well as other items.

assets through a negotiated procedure, provided that the sale price agreed by the extraordinary commissioners with the buyer is not lower than the market value established by an independent expert's report on behalf of the Ministry of Economic Development.

(204) The Alitalia's extraordinary administration, in the sale of Alitalia's assets, is therefore required by law to obtain the highest possible price and not lower than the market price identified by an independent expert. ITA as a company, on the other hand, aims to maximise shareholder value and thus to obtain assets at the lowest possible price available on the market and in any event to remain within the limits resulting from its Business Plan.

(205) It can therefore be concluded that ITA and Alitalia's extraordinary administration have opposing interests in identifying the sale price of the Aviation Business.

(206) Moreover, the applicable provisions of the Marzano Law and of the MoU guarantee that the sale price will be based on an independent expert evaluation. In light of the above, the Commission considers that the applicable legislative rules together with Italy's commitments, provide sufficient safeguards to ensure a sale at market price of Alitalia's assets.

(207) With regard to the rest of Alitalia's assets which will be sold through tenders (see section 2.2.3.2), as explained already in section 4.3, the Italian authorities have undertaken to sell those assets through open, transparent, non-discriminatory and non-conditional tender processes to the highest bidder.

6.2.3. Identity of the buyer

(208) The Commission will now examine if ITA has any economic link with the owners of Alitalia, as part of its assessment of whether ITA will be liable for any recovery of incompatible State aid.

(209) ITA, a new company created and wholly owned by the Italian State, has insignificant economic and corporate links to Alitalia. The Italian State is an indirect shareholder in Alitalia through its shareholding in Poste Italiane and Monte dei Paschi di Siena S.p.A. which are themselves shareholders in CAI (see recital (12) and Table 1).

(210) That exposure originates from the control by the Italian State of Poste Italiane that itself owned 2% of CAI, which in turns had 51% of Alitalia. Consequently, the Italian State was an indirect shareholder of Alitalia, owning circa 1% of it. The Italian State in May 2017 was also a shareholder of the bank Monte dei Paschi di Siena S.p.A. that owned about 10% of CAI (hence about 5% of Alitalia given that CAI owned 51% of Alitalia's shares). Overall, the exposure as a shareholder of the Italian State towards Alitalia amounted to around 6%. The indirect and non-controlling stake of 6% which the Italian State has in Alitalia appears insignificant and is insufficient to indicate economic continuity between Alitalia and ITA via the ownership structure.

(211) Therefore, the Commission finds that there are no links between the former owners of Alitalia and ITA of the kind that would indicate economic continuity.

6.2.4. The moment when the transfer takes place

(212) The Commission will next assess whether the moment of the sale of Alitalia's assets may lead to a circumvention of a decision by the Commission to recover incompatible State aid.

(213) The notification of the envisaged sale of the assets to ITA took place while there were two pending Commission investigations, an investigation into the EUR 600 and EUR 300 million loans and an investigation of the EUR 400 million loan (see recitals (18) to (21)). The Commission takes this decision at the same time as it adopts Commission Decision C(2021)6659 of 10 September 2021, the decision by which the Commission finds that the EUR 600 and EUR 300 million loans are incompatible with the internal market and orders Italy to recover them from Alitalia.

(214) In addition, at the moment of the adoption of the present decision, there is an ongoing formal investigation procedure against Italy for the 2019 loan in the amount of EUR 400 million which Italy granted to Alitalia under very similar circumstances and conditions as the EUR 600 and EUR 300 million loans (see recital (19)).

(215) The Commission considers that after the sale of certain assets to ITA, Alitalia may not have sufficient funds to cover the recovery of the unlawful State aid order. Although such an outcome would arise even in the scenario where Alitalia's assets are not transferred or they are transferred to third parties other than ITA, the Commission considers that the timing of the transfer is not an element that supports discontinuity between ITA and Alitalia.

6.2.5. The economic logic of the transaction

(216) The criterion of economic logic aims at assessing whether the buyer(s) of the assets will employ them in the same way as the previous owner or whether it will use them to establish a different activity or strategy.

(217) The Commission notes that the assets that ITA plans to acquire (see section 2.2.3) have a specific usage, i.e. serving activities in the aviation sector.

(218) As the Italian authorities have indicated and as appears from ITA's Business Plan, ITA plans to acquire assets from Alitalia that are necessary to carry out its business strategy.

(219) Specifically, ITA's business strategy is based on (1) [*Business strategy*] (see recital (55)), (2) digitalisation that substantially improves consumer experience, (3) interconnected mobility through better integration with the Italian transport system and (4) environmental sustainability through a fleet of new-generation, more efficient, aircraft. All those elements are part of a distinct business strategy that, among other things results in focus on profitable activities with improved cost efficiency (see section 3.2.3.2), including through the reduced perimeter of activities such as having a significantly reduced fleet of aircraft, as well as the higher degree of outsourcing of ground handling and maintenance services.

(220) Moreover, as part of its business strategy, ITA plans to gradually change the composition of its fleet. While initially ITA plans to lease old-generation

aircraft used by Alitalia, as of 2022 ITA plans to start sourcing new aircraft from the broader market obtaining new-generation, fuel-efficient, airplanes. In order to cut its maintenance costs, ITA intends to homogenise the fleet, reducing the number of suppliers (see recital (77)). By contrast, Alitalia used several suppliers and used old-generation aircraft.

(221) ITA will also cease operating certain routes previously operated by Alitalia, which will reduce costs. Moreover, ITA does not foresee investments in non-profitable markets, in contrast with Alitalia, which maintained unprofitable domestic, international and intercontinental routes. ITA will also make capacity adjustments and will focus its activities on profitable routes and routes that contribute the overall profitability of the network (see recital (55)). ITA's core strategy is to re-focus the activities on core and profitable routes.

(222) Lastly, ITA's commercial strategy will rely on direct, agile, and scalable digital channels development with an improved digital experience for customers compared to what they experienced with Alitalia. The digital strategy is notably built on an increased penetration of digital channels and digital marketing campaigns to support direct channel growth.

(223) Based on the above, the Commission concludes that the economic logic of the operation is to allow ITA to use certain assets of Alitalia under different conditions and to pursue a business strategy that is different from that of Alitalia.

6.3. Conclusion on economic discontinuity

(224) In the light of the above findings, on balance, the Commission concludes that, subject to full compliance with Italy's commitments, including that the transfer of Alitalia's assets to ITA will be carried out on market conditions, the transfer of the assets of Alitalia (described in section 2.2.3) to ITA will not lead to economic continuity between Alitalia and ITA.

7. ASSESSMENT OF MARKET ECONOMY OPERATOR PRINCIPLE

7.1. Existence of aid within the meaning of Article 107(1) TFEU

(225) By virtue of Article 107(1) TFEU, '*save as otherwise provided in the Treaties, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects the trade between Member States, be incompatible with the internal market'*.

(226) It follows that, for a measure to be qualified as State aid within the meaning of Article 107(1) TFEU, the following cumulative criteria must be met: (i) it must be granted by the State and through State resources; (ii) it must confer an advantage upon an undertaking; (iii) it must be selective, i.e. favour certain undertakings or the production of certain goods; and (iv) it must distort or threaten to distort competition and it must affect trade between Member States.

(227) Moreover, according to the established case law, the intervention of public authorities in the capital of an undertaking, whatever form it may take, could constitute State aid in the sense of Article 107(1) TFEU when the conditions of this Article are met.[97]

(228) An advantage within the meaning of Article 107(1) of the Treaty is any economic benefit which an undertaking would not have obtained under normal market conditions, that is to say in the absence of State intervention.[98]

(229) The Commission further recalls that "*capital placed directly or indirectly at the disposal of an undertaking by the State in circumstances which correspond to normal market conditions cannot be regarded as State aid*".[99]

(230) Italy claims that the EUR 1.35 billion capital injection into ITA respects the MEO principle, so that it granted no advantage, and therefore the measure does not constitute State aid. The Commission analyses those arguments in sections 7.2 and 7.3.

7.2. Applicability of the market economy operator test

(231) The Commission will examine the applicability of the MEO principle, to determine whether the State acted as a public authority rather than as economic operator when deciding on the capital injection of EUR 1.35 billion into ITA so that ITA can execute the Business Plan. Should the Commission determine that the MEO test is not applicable to the capital injection by the Italian State, it cannot apply that test.

(232) The Commission notes that the existence of public policy reasons is not in itself sufficient to preclude the applicability of the MEO principle. Moreover, in the present case the Italian State has decided to make a capital injection on the basis of *ex-ante* assessment of the profitability of the investment similar to the one that would have been undertaken by a private investor in similar circumstances. Specifically, the Italian authorities took into account the Business Plan and the independent expert reports referred to in section 3.4. The latter reports aimed at ascertaining whether the investment would have a sufficiently high return as the one that can be expected from a similar investment in other peer companies.

7.2.1. Italy did not act as public authority

(233) The Commission recalls that the Court has considered that the applicability of the MEO test ultimately depends on a State having conferred, in its capacity as

---

97 Judgment of the Court of Justice of 14 September 1994, *Spain* v *Commission*, C-278/92 to C-280/92,EU:C:1994:325, point 20 and quoted case law; and Judgment of the Court of Justice of 8 May 2003, *Italy and SIM 2 Multimedia* v *Commission*, C-399/00 and C-328/99, EU:C:2003:252, point 36 and quoted case law.

98 Judgment of the Court of 11 July 1996, *Syndicat français de l'Express international (SFEI) and others* v *La Poste and others*, C-39/94, EU:C:1996:285, paragraph 60; and judgment of the Court of 29 April 1999, *Spain* v *Commission*, C-342/96, EU:C:1999:210, paragraph 41.

99 Judgment of the Court of 16 May 2002, *France* v *Commission*, C-482/99, EU:C:2002:294, paragraph 69.

an economic operator and not in its capacity as a public authority, an economic advantage to an undertaking.[100] Interventions by the State, which are intended to honour its obligations as a public authority cannot be compared to those of a private investor in a market economy.[101]

(234) In order to determine whether the capital injection made by the Italian State in ITA represent the exercise of State authority, the Commission must examine: (i) its nature and subject matter, (ii) the context in which it has been taken, (iii) the objective pursued, and (iv) the rules to which the capital injection at issue is subject.

7.2.2. The nature and subject matter of the measure

(235) As described in section 2.1, the measure in question consists of a capital injection of EUR 1.35 billion aimed at the creation of a new air carrier.

7.2.3. The objective pursued

(236) As regards the objective pursued, it must be underlined that neither the content of ITA's Business Plan nor the context in which the investment has been decided upon point to specific public policy objectives that can be linked to Italy's decision to invest in ITA.

(237) In particular, the notified capital injection into ITA and the corresponding business plan do not point to specific public policy objectives (i.e. the need of avoiding interruption of the service provided by Alitalia, or to the need to ensure the right to territorial continuity within Italy guaranteed by the Italian Constitution). ITA's intention to [*Business strategy*] supports that conclusion. Similarly, the fact that the PSOs imposed on Alitalia will not be automatically transferred to ITA indicates that the new carrier [*Business strategy*]. The same is true of the limited extent to which ITA will acquire Alitalia's workforce. ITA has made it clear and committed to hire personnel anew without a transfer of labour contracts from Alitalia. However, ITA noted that it may hire former Alitalia employees as they are likely to have the required skill sets and be available for employment.

7.2.4. Conclusion on the applicability of the MEO test

(238) Based on the above, the Commission concludes that that the Italian State acted in its capacity as an investor/shareholder and that the MEO test is applicable in the present case.

7.3. Application of the market economy operator test

(239) Given that the MEO test is applicable, the Commission will now assess whether the planned capital injection confers an economic advantage to ITA, i.e. a benefit that ITA could not obtain under market conditions. It must therefore determine whether *"[...] in similar circumstances, a private investor*

[100] In relation to investments, see judgment of the Court of 5 June 2012, *Commission* v *EDF*, C-124/10 P, EU:C:2012:318, paragraphs 79-82 and 87.

[101] Judgment of the General Court of 15 December 2009, *EDF* v *Commission*, T-156/04, EU:T:2009:505, paragraph 228.

of a comparable size operating in normal conditions of a market economy could have been prompted to make the investment in question."[102]

(240) In the application of the MEO test, only the benefits and obligations linked to the role of the State as an economic operator are relevant. Member States should evaluate those benefits and obligations based on the information available at the time of the intervention (i.e. on an *ex-ante* basis), by relying on economic evaluations comparable to those which, in similar circumstances, a rational market economy operator would carry out.

(241) One approach to verify compliance with the MEO principle is to rely on generally accepted, standard assessment methodologies, such as comparing the IRR of an investment to its normal expected return. The normal expected return on an investment is the average expected return that the market requires depending on generally accepted criteria, notably (i) the risk of the investment, (ii) the financial position of the company and (iii) the specific features of the sector, region or country. Overall, an investment from the State complies with the MEO principle if the IRR on the investment is not smaller than the normal required return on that investment.

(242) Accordingly, the Commission will assess whether the equity investment of the Italian State into ITA complies with the MEO principle by comparing the IRR on that equity investment to the relevant cost of equity, which is the normal required return on equity investments. In the following sections, the Commission will explain the determinants of the IRR of the equity investment by the Italian State in ITA, its cost of equity and conclude on whether the investment is in line with market conduct.

7.3.1. IRR of the equity investment

(243) The IRR on an equity investment depends on the amount of equity that shareholders inject into a company and the returns that they expect to receive in exchange for that equity injection. Typically, both the size of the equity investment and the corresponding expected returns are based on financial projections, which, in turn, derive from the company's business plan. In addition, the return on an equity investment also depends on the expectations of investors about the performance of the company beyond the planning period, the so-called terminal value of the equity investment.

(244) In the following sections, the Commission will assess the financial projections of ITA and its terminal value, which underpin the calculation of the IRR on the equity investment of the Italian State. The Commission will then conclude on the plausible range of IRR values.

[102] Judgment of the Court of Justice of 21 March 1990, *Belgium* v *Commission*, C-142/87, EU:C:1990:125, paragraph 29; judgment of the Court of Justice of 21 March 1991, *Italy* v *Commission*, C-305/89, :EU:C:1991:142, paragraphs 18 and 19; and judgment of the General Court of 30 April 1998, *Cityflyer Express* v *Commission*, T-16/96, EU:T:1998:78, paragraph 51. See also Commission Notice on the notion of State aid as referred to in Article 107(1) of the Treaty on the Functioning of the European Union, OJ C 262, 19.7.2016 paragraph 74.

7.3.2. ITA's projections

(245) In this section, the Commission will assess whether the financial and industrial projections of ITA are reasonable, by benchmarking their underlying assumptions to market information and/or market best practices. In addition, the Commission will examine the observations and conclusions of the independent expert reports (see section 3.4). The Commission will examine the profit and loss projections as well as the cash flow and balance sheet projections.

7.3.2.1 ITA's revenue and cost projections

(246) First, the Commission will scrutinise and benchmark the assumptions underpinning the revenue and cost projections of ITA. Those projections are important to assess the conformity of the measure with the MEO test, as ITA's profits in the planning period are one of the determinants of the IRR of the equity investment of the Italian State (see recital (104)).

7.3.2.1.1 Revenue projections

(247) The Kearney Report confirms that the Business Plan was prepared with due consideration of the current aviation passenger transportation market (see recital (140)).

(248) With regard to route selection, ITA's approach based on network analysis with a model relying on feeder values seems reasonable. The Kearney Report confirms that the network plan of ITA is rationalised and sound (see recital (145)).

(249) With regard to the revenue projections (see section 3.2.3.1), as confirmed by the Kearney Report (see recital (144)), they are based on IATA forecasts and the yield assumption is conservative, as the Business Plan assumes yield increase only in the international flight segment (see recital (142)). The Commission notes that ITA has further explained that on domestic and international routes from Milan Linate Airport the Business Plan incorporates decreasing yields since the slots released will allow competitors to increase market presence in Milan Linate Airport thereby putting pressure on ITA's yields. On the domestic routes from Rome Fiumicino the Business Plan assumes yields mostly in line with 2019 in nominal terms (and hence a decrease in real terms) because (1) information currently available on capacity scheduled (until June 2022) by low cost carriers on routes where ITA is going to operate does not show a significant increase in capacity compared to ITA and (2) Rome Fiumicino Airport has a high connecting component of traffic that is not affected by low cost carriers' competition.

7.3.2.1.2 Cost projections

(250) With regard to the cost projections, the Commission notices that they take Alitalia's costs per available seat kilometre in 2019 as a starting point. As such, the basis of ITA's projections consists of historical, and hence verifiable, data.

(251) The cost projections for the years 2021-2025 result from applying a set of efficiency measures to the initial costs, which ITA expects to have an impact

mainly on fuel, fleet, commercial and distribution, and maintenance costs (see Table 9).

(252) With regard to the macroeconomic drivers, the Business Plans assumes future fuel cost price (in USD) estimated from publicly listed jet fuel future contracts, which ITA then converts into a EUR price by using the expected EUR/USD exchange rate derived from EUR/USD forward contracts from Bloomberg (see recital (74)).

(253) With regard to fuel costs, ITA's estimates depend on its route plan, the type of aircraft serving each route and its corresponding fuel consumption, as well as the fuel cost projections. ITA uses data from aircraft manufacturers to estimate an aircraft's fuel consumption per block hour. With regard to fuel cost projections, ITA assumes a price (in USD) estimated from publicly listed jet fuel future contracts, which ITA then converts into a EUR price by using the expected EUR/USD exchange rate derived from EUR/USD forward contracts (see recital (74)). Fuel cost projections are equal to the product of ITA's total planned fuel consumption, which is the sum of the fuel consumption of all the necessary aircraft to operate ITA's route plan, and the expected fuel price in EUR.

(254) Since ITA estimates the determinants of the fuel costs projections by using verifiable and objective data (including on the macroeconomic drivers), the Commission considers those projections, and hence the expected fuel cost reduction compared to that cost for Alitalia in 2019, as credible.

(255) With regard to the fleet costs, ITA's projections rely on a fleet acquisition plan, which sets out the number of aircraft for it to acquire in each year of the business plan and the expected purchase price and/or leasing rates, depending on the acquisition form. The planned number of aircraft acquisitions depends on ITA's route plan, while the acquisition price corresponds to the aircraft market value and/or lease rates as reported by Ascend.

(256) The Commission considers the fleet cost projections rely on objective and verifiable information and standard practices to calculate aircraft depreciation. Therefore, the Commission concludes that ITA's fleet cost projections, and hence the 17% decrease of fleet costs per ASK compared to Alitalia, are credible.

(257) The Commission notes that the planned reduction of personnel costs is crucial to the savings that ITA envisages in the different cost categories, such as ground handling, flight operations and overheads. ITA's planned [*Business strategy*] originates from [*Business strategy*]. The Commission observes that the productivity target of crew staff is lower than the top quartile of full service carriers ([700-800] vs. 780 block hours per year). Moreover, ITA plans the largest FTEs reduction in the overhead headquarter functions ([XXX] FTEs, compared to Alitalia in 2019), namely finance, HR, procurement, communication, legal, facility management, health and safety, corporate IT, network and alliances.

(258) As explained above, the Kearney Report considers that those FTE volume reductions are in line with ITA fleet dimensioning and in line with European benchmarks. Therefore, based on the comparison of ITA's targets to other full

service carrier, the Commission considers the planned reduction of the personnel costs is credible.

(259) With regard to the maintenance and ground handling costs, the Commission notes that the Kearney Report does not see major risks, especially in light of the personnel cost reductions and market pricing of services.

(260) With regard to the commercial and distribution costs, ITA envisages a [XX]% reduction in [*date*] compared to those of Alitalia in 2019, by increasing its share of revenues through direct sales channels from [XX]% to [XX]%. ITA provides evidence that such a target share is in line with market expectations on full service carriers for the growth of their direct sales by 2025. Therefore, the Commission concludes that the commercial and distribution cost projections, and their planned [XX]% reduction compared to Alitalia in 2029, are credible.

(261) With regard to all the parameters in this section, the Commission views positively that the Kearney Report concludes that ITA's traffic recovery projections, fuel cost reductions, commercial and distribution cost reductions, personnel cost reductions and fleet cost reductions with respect to maintenance cost as well as price and lease conditions are based on empirical data and analysis (see recital (115)).

7.3.2.1.3 Profit projections

(262) The Commission has also confirmed that the projected EBITDA ratios for peers are similar or higher than the ratio projected in the plan, using the Capital IQ database ('Capital IQ').[103] Those observations provide a further consistency check on the reasonableness of the business plan.

(263) The Commission benchmarked ITA's expected profits against those of peer airlines. More specifically, the Commission will compare the EBITDA[104] margin (i.e. the ratio between EBITDA and revenues) that ITA expects in 2025 to the EBITDA that stock market analysts forecast for other airlines in 2025.

(264) Based on the dataset available to the Commission (Capital IQ), there are eight airlines for which stock market analysts have made EBITDA and revenue forecasts at the current time. They are Air France-KLM, Turkish Airlines, Aeroflot, IAG, Lufthansa, EasyJet, Wizz Air and Ryanair. For each of those airlines, the Commission has calculated the EBITDA margin based on the stock market analyst forecasts for EBITDA and revenue. Both the average and the median forecasted EBITDA margin in 2025 is [20-30]%, while the median is [20-30]%. ITA's expected EBITDA margin in 2025 is [10-20]%, hence lower than the median analyst forecast. That is still the case if low cost carriers, i.e. Ryanair, Wizz Air and EasyJet, are removed from the sample of

[103] Capital IQ is a market intelligence platform providing research data and analysis, designed by the financial research and analysis arm of the Standard & Poor's.

[104] EBITDA is a measure of profitability of a company. It stands for earnings before interest, taxes, depreciation and amortisation.

peer airlines.[105] ITA's expected EBITDA margin in line with the first quartile of the peer distribution, which is equal to [10-20]%. The Commission considers that ITA's assumption of smaller than the industry average EBITDA margins lends credibility to its financial projections, and illustrate that the business plan in not based on unrealistic projections of profitability compared to profitability expectations in the industry. Furthermore, the Commission has carried out the same analysis using net profits instead of EBITDA and has found the same results.[106]

(265) Furthermore, according to data from the Mediobanca Report (using FactSet data as of 30 June 2021) [107] ITA's forecasted EBIT at the end of the plan ([5-10]%) would be in line with the average of European flag carriers of 2019 ([5-10]%) and lower than the EBIT ratios expected for them in 2023 ([5-10]%).

(266) In light of the above and also taking into account the findings of the Kearney Report, the Commission considers that the results of the benchmarking analysis of ITA's profits against peer airlines corroborate the credibility of ITA's cost and revenue projections.

7.3.2.2 ITA's financial need and costs

(267) In this section, the Commission will assess the credibility of the assumptions underpinning ITA's financial projections, namely the financing needs and the financing policy.

(268) ITA's financing needs stem from ITA's capital expenditures, as ITA expects its operations in the first year to consume a relatively small amount of cash only (EUR [XX] million out of a total financing need of EUR [X XXX-X XXX] million). Furthermore, ITA's expected cash flows from operations mainly depend on its profitability, which the Commission has assessed as credible in section 7.3.2.1. Therefore, the Commission will focus the analysis of ITA's financing needs mainly on the assumptions underpinning the capital expenditures.

(269) As explained in recitals (92) to (93), ITA's capital expenditures consist of costs for the acquisition of fleet, acquisition of assets from Alitalia and IT investments. With regard to the acquisition of fleet, the addition of new aircraft is in line with ITA's route plan. ITA plans to acquire 79 new-generation aircraft during the 2021-25 period. By 2025, ITA plans to own [30-40]% of the aircraft in its total fleet (of 105 aircraft), while the rest will be leased (see recital (45)). For the leased aircraft, capital expenditures include a cash deposit, which amounts to EUR [XX] million over the planning period. For the purchased aircraft, capital expenditures consist of the acquisition price, which is split into prepayments (EUR [XXX] million in the first two years) and

[105] Excluding the low cost carriers, the average and median EBITDA margin in 2025 is 22%, while the first quartile is 20%.

[106] While ITA expects a net margin of [0-5]% in 2025, the benchmark group (which does not include Aeroflot since there are no data available on net margin for that company) has an average of 10% and median of 8% while the first quartile is 4%.

[107] Group of peers includes: Lufthansa, IAG, Air France, Turkish airlines, Aeroflot and Finnair.

payments upon delivery (EUR [X XXX]million), as well as reconfiguration costs (EUR [XXX]million).

(270) The Commission notes that the capital expenditures on leased aircraft are in line with the market practice. The acquisition price and leasing rates (and deposits/prepayment rates) are in line with the market values of aircraft reported in Ascend (see recital (79)). Therefore, the Commission considers ITA's planned capital expenditures on fleet acquisition as credible.

(271) The second component of ITA's capital expenditures consists in the price for the acquisition of assets from Alitalia under direct negotiation. Those expenditures amount to EUR [XXX] million, of which EUR [XXX] million in 2021 and EUR [XX] million per year from 2022 to 2025. Those amounts include EUR [XX.X] million for a set of ICT intangible assets (i.e. software license, custom and work in progress intangible assets) and EUR [XX.X] million for a set of aviation tangible assets (i.e. spare parts, rotables, equipment, work in progress assets, other assets such as furniture and vehicles, other systems such as mechanical and electrical systems).[108]

(272) Moreover, ITA includes EUR [XX]million for the acquisition of a minority stake in a Maintenance Newco, by participating together with an industrial partner in a tender called by the extraordinary administrator of Alitalia. The plan also assumes that ITA will be purchasing the ground handling assets for EUR [XX] million and capitalise the Ground Handling Newco for Rome Fiumicino Airport with EUR [XX] million (of which around [XX.X]% will be injected by a third party).

(273) With regard to the brand, the Commission notes that ITA assumes it will be able to purchase the Alitalia brand at a public tender for a price corresponding to its book value of approximately EUR [XXX] million (see recitals (93) and (94)). [*Business strategy*], which considers what would be the price that would be received to sell an asset in an orderly transaction between market participants, the independent Second Ernst & Young Report estimated the value of the Alitalia brand at EUR [XXX.X] million with a rage between EUR [XXX] million and EUR [XXX.X] million (see recital (138)). The Commission finds the Second Ernst & Young Report credible as it uses a standard valuation methodology and credible assumptions.[109] The tender should ensure that if ITA succeeds in purchasing it, it will do so at market price. Based on those observations the Commission finds ITA's assumption that it would acquire the Alitalia brand for EUR [XXX] million to be conservative and therefore realistic for the purposes of the MEO assessment.

(274) The Commission concludes the valuation of the assets that ITA intends to acquire through a direct negotiation with Alitalia is credible, as it is justified by

[108] EUR 78.3 million and EUR 54.2 million represent the midpoint of the valuation range for the ICT intangible assets (EUR 68 - 88.6 million) and aviation tangible assets (EUR 46 – 62.3 million).

[109] Under a sensitivity of growth rate of 1.9 % and WACC around 8% the value of the brand is estimated at less than EUR 120 million and with a growth rate at 1.9% and WACC at 7.4% the value of the brand is at EUR 130 million – which is still lower than the EUR 145 million target.

an independent study relying on standard industry practices and verifiable assumptions.

(275) By contrast, ITA did not submit a valuation of the assets to be acquired in a tender, i.e. the minority stake in a Maintenance Newco and Ground Handling Newco. The tender process would ensure market price is paid for such assets. In addition, since those services can also be outsourced and they are assumed to be provided at market terms it would not have any material impact on the Business Plan.

(276) On the basis of the above, the Commission concludes the valuation of the assets that ITA intends to acquire in a tender is credible.

(277) Having assessed the financing needs of ITA and concluded on their plausibility, the Commission will now turn to the analysis of the financing policy of ITA. As explained in recital (91), the financing policy of ITA aims at covering the financing needs of the company in the first three years of operation, which amount to EUR [X XXX] million, and holding a certain amount of cash as a cushion against unforeseen events. ITA plans to finance itself through equity from the Italian State (EUR [X XXX]million) and, to a lesser extent, through market debt financing in the form of (i) a revolving credit facility (EUR [XXX] million) and (ii) mortgages for the acquisition of aircraft (EUR [XXX] million). Those sources of finance will allow ITA to operate with a cash buffer ranging from roughly [XX]% (in the last three years of the plan) to [XXX]% of revenues (in the first year of the plan).

(278) The Commission will scrutinise the assumptions on the debt financing instruments and the cash buffer. The Commission will also analyse ITA's capital structure and verify whether that justifies the assumptions on the debt financing conditions. With regard to the capital structure, the Commission considers the net debt-to-EBITDA ratio and the interest coverage ratio as useful ratios to determine a borrower's creditworthiness. Rating agencies typically consider a net debt-to-EBITDA ratio lower than 3-3.5 as a requirement for a company to have an investment grade rating. The interest coverage ratio, defined as EBIT divided by interest expenses, is also a commonly used metric to determine a company's creditworthiness. Table 13 shows the values for ITA.

Table 13 – ITA's projected debt metrics

	2021	**2022**	**2023**	**2024**	**2025**
Net debt to EBITDA			[X.XX]	[X.XX]	[X.XX]
EBIT to interest expenses			[X.XX]	[X.XX]	[X.XX]
Net debt to Equity		[X.XX]	[X.XX]	[X.XX]	[X.XX]

(279) Table 13 shows that ITA's prospective net debt-to-EBTIDA ratio is [*Business secret*]. In 2021 and 2022, that ratio is not defined because in those years either net debt, EBITDA or both are negative. The EBIT-to-interest expense ratio increases over time, starting from [X.XX] in 2023 and reaching [X.XX] in 2025. Based on calculations from Professor Damodaran,[110] those EBIT-to-

[110] http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ratings.htm

interest expense ratios correspond to ratings of C and BB, respectively. Like the net debt-to-EBITDA ratio, the EBIT-to-interest expense ratio is not defined in 2021 and 2022 because EBIT is negative.

(280) Overall, the net debt-to-EBITDA and the EBIT-to-interest expense ratios indicate an expected improvement of ITA's creditworthiness over the course of the business plan. While a lender would take into account such a prospective improvement in creditworthiness, it would also consider that, at the time of time ITA plans to take debt financing (i.e. 2022, for the revolving credit facility, and 2023, for the mortgages), ITA will be a loss-making company.

(281) In light of those elements on ITA's creditworthiness, the Commission will assess the plausibility of ITA's assumptions on the conditions of debt financing on the basis of additional factors. First, ITA plans to have EUR [XXX] million of net equity and net debt of only EUR [XX] million at the end of 2021, i.e. the year before the expected access to the revolving credit facility. At the end of [*date*], i.e. the year before the planned mortgage financing, ITA expects a net debt-to-equity ratio of less than one. That means ITA will be a company with relatively small default risk at the time of accessing market debt financing, considering the large amount of equity relative to debt.

(282) Second, the Commission notes that the size of the revolving credit facility, i.e. EUR [XXX] million, is relatively small compared to the equity base of the company. Based on its liquidity plan, ITA's expected cash buffer would be positive, and at least equal to EUR [XXX] million, absent the revolving credit facility. As a result, the lender could call the credit facility at any time and expect to be repaid. Therefore, the Commission considers the risk margin of [XXX] basis points to be reasonable.

(283) Third, the Commission notes that the mortgages for the acquisition of aircraft have a loan-to-value ratio of [XX]% and are fully collateralized by the value of the aircraft, which is common market practice according to ITA. That means a creditor in case of ITA's default would be able to seize the aircraft and not to make any losses if those aircraft can be resold at least at [XX]% of their value. The Commission concludes that this assumption is sufficient or even conservative to justify a credit risk margin of [XXX] basis points on the mortgages to finance the acquisition of aircraft. Italy explains that that assumption also reflects the start-up nature of the company (which could lower the debt recourse of ITA).

(284) With regard to the cash buffer, the Commission notes it is larger than ITA's expected revenues in 2021. However, Italy explains that the cash buffer has been elaborated ensuring that (i) no shortfall of cash will occur at monthly level and (ii) the end of period cash profile growth is in line with the turnover growth of ITA. In addition there are regulatory requirements from the Italian Civil Aviation Authority (ENAC) for minimum cash buffers. The cash buffer then decreases over the planning period, to reach roughly [XX]% of ITA's expected revenues from 2023 to 2025. The Commission considers that such value is a reasonable estimate.

(285) Therefore, the Commission considers that the financing policy of ITA is reasonable and justifiable.

7.3.3. Valuation methodologies

(286) In this section, the Commission will describe the methodologies that Italy used to verify the compliance of its equity investment into ITA with the MEO principle, as well as the assumptions underlying those methodologies. It will ascertain the adequacy of both in its own assessment.

(287) The Commission takes note that Italy argues the compliance of its equity investment into ITA with the MEO principle is based on comparing the expected IRR and the cost of equity of that investment. The Commission considers it is an appropriate method to use in applying the MEO test to the equity investment of the Italian State into ITA.

(288) With regard to the calculation of the IRR, the Commission observes that it relies on one source of return for the State, i.e. the terminal value of ITA's equity (see recital (104)). Without prejudice to its assessment of the assumptions underlying ITA's terminal value of equity, which the Commission will carry out in sections 7.3.3.3 and 7.3.3.4, the Commission considers that those methodological approaches to the calculation of the IRR as reasonable.

(289) In section 7.3.3.3, the Commission will scrutinise first the assumptions underpinning required return on the investment (cost of equity). Then it will assess the terminal value calculation, which largely determines the IRR calculation. The MEO assessment concludes with a comparison of the IRR results with the cost of equity, followed by sensitivity analysis.

7.3.3.1 Cost of equity of the investment

(290) In this section, the Commission will assess the methodology and the parameters that Italy uses to calculate the cost of equity of its equity investment into ITA.

(291) With regard to the methodology, as explained in section 3.3.3, Italy starts from the CAPM methodology and then adds further risk premia, namely country and size risk premia, to take into account specific risk characteristics of ITA. The Commission considers the CAPM methodology as the standard methodology to calculate the cost of equity and has used it in other cases involving capital injections.[111] Furthermore, the Commission observes it is appropriate and conservative to add premiums capturing: (1) the riskiness of the country where ITA plans to earn most of its revenues (i.e. Italy) and (2) the risks stemming from ITA's relatively small size, as small companies typically command higher risk premiums than large ones. Overall, the Commission concludes that Italy has followed an appropriate methodology to estimate the cost of equity of its investment into ITA.

(292) With regard to the parameters of the cost of equity, the Commission notes they come from publicly available data, which are objective and verifiable sources, and are estimated in line with standard market practice and finance theory.

[111] See Commission Decision of 29 October 2019 in case SA.53869 – Romania, Market-conform recapitalisation of CEC Bank, recital 19, OJ C 74, 6.03.2020.

(293) Italy used ITA's estimates of the cost of equity which is [10-20]%. That value is obtained assuming the parameters set out in Table 14.

Table 14 - Cost of equity

	ITA	Mediobanca	Source (ITA)
Risk free rate	[…]%	[…]%	Annual average rate on 10-year Bund
Country risk premium	[…]%		Damodaran (January 2021)
Equity risk premium	[…]%	[…]%	Damodaran (January 2021)
Size risk premium	[…]%	[…]%	Low cap size premium of Duff & Phelps
Beta unlevered	[…]%	[…]%	Updated unlevered beta equal to the 2 years average of the comparable companies sample, including only peers with an observed R2 of at least 20%
Beta levered (equity beta)	[…]%	[…]%	
Cost of Equity	**[10-20]%**	[10-20]%	

(294) The Commission has assessed the assumptions for those parameters which might have a significant impact on the cost of equity. Regarding the risk-free rate, the Commission finds it reasonable to use the average rate of the last 12 months on the 10-year German government bonds (the Bund) as it is standard practice in finance to use the yield on AAA-rated government bonds as the benchmark for a risk-free rate. The Commission also finds the specific value of 0.0% used by ITA as reasonable and conservative even though the actual value computed as a 12-month average is -0.43%. This is because using -0.43% would result in a lower cost of equity,[112] i.e. a lower bar to be met by IRR.

(295) For the value of the country risk premium and the equity risk premium**,** ITA uses the values [0-5]% and [0-5]% equity risk premium using the study by Professor Damodaran (see recitals (124) and (125)), which is widely used in financial analysis.

(296) With regard to the equity risk premium, the Commission observes that ITA assumes the value for Italy to be equal to the sum of the mature market risk premium [0-5]% and the Italian country risk premium [0-5]%.[113] The Mediobanca Report does not do that split but uses directly the equity risk premium that incorporates the country risk premium, which is available also from the same source. These two methodologies lead to (almost) the same result. The Commission considers that this is a reliable and well accepted source.

[112] As explained in recital (123). As is apparent from Table 12 the cost of equity is computed by adding several values. Thus assuming a higher value for one of the elements leads to a higher cost of equity.

[113] Italy used the rounded values of 4.72% for the mature market equity risk premium and 2.13% for Italy's country risk premium (see recital (124)).

(297) Regarding the size risk premium**,** ITA used the estimations from the Duff & Phelps 2019 Valuation Handbook, International Guide to Cost of Capital, according to which the value is 1.58% which corresponds to so-called "small cap" companies with market capitalisation between USD 570 million and USD 2 390 million (i.e. approximately EUR 2 billion) (see recital (126)). The Commission observes that under the valuation carried out in this assessment ITA's equity value is expected to be more than EUR [X] billion in 2025. It therefore appears that ITA falls close to the upper boundary of the limits set by Duff & Phelps. If it were assumed that ITA is instead a "mid cap" company the applicable value would be 0.89% (see recital (126)), which would lead to a lower cost of equity and would allow ITA to satisfy the MEO test with a lower IRR. The Mediobanca Report also considers that premium in its estimation. Therefore, the Commission considers that the assumption that ITA is a small cap company for the purposes of estimating its cost of equity is conservative and reasonable.

(298) With regard to the observed (levered) beta, the Commission notes that both ITA's and Mediobanca's analyses follow standard methodologies. Starting from the observed betas of peer companies, they are unlevered using the Hamada formula and then levered again to reflect the target leverage of ITA.[114] The Commission also notes several assumptions along those steps. First, the Commission notes that the peers data used are from before the outbreak of the COVID-19 pandemic, i.e. March 2020 (see footnote 66). Since the Commission wanted to ensure that the COVID-19 crisis has not led to significant increases in the observed betas, it has confirmed that levered betas of peers remained largely similar (or have decreased) if June/July 2021 were used as a basis period using Capital IQ.

(299) Second, Italy has excluded the peer airlines for which the estimation model of the observed beta explains less than [XX]% of their stock returns.[115] It is not an uncommon assumption in practice to take into account only observed betas with predictive power. In this specific case, the Commission notes that the excluded airline is Air France. By taking into account Air France, the Commission finds that the average unlevered beta of ITA's peer airlines would decrease to [X.XX]. Therefore, the Commission concludes that it is a conservative assumption (i.e. it leads to higher cost of equity) to exclude Air France from the estimation of ITA's equity beta.

(300) Third, the Commission observes that Italy applies the Blume adjustment to the observed beta of ITA's peer airlines, which consists in a weighted average of the observed beta and one, with weights equal to two thirds and one third, respectively. The Commission notes that such an adjustment is frequently used in market practice and therefore considers it reasonable to do so.[116]

---

[114] The formula applied is: $\beta L=\beta U[1+(1-T)(D/E)]$ where: βL=Levered beta βU=Unlevered beta T=Tax rate and D/E=Debt to equity ratio.

[115] See footnote 44 for more details.

[116] A small difference between the two methodologies is the D/E computed for the peers. Mediobanca assumes the debt to equity while ITA the net debt to equity. Detailed D/E ratios for the peer groups have been provided.

(301) In addition, the Commission takes note that Italy's estimate of ITA's cost of equity of [10-20]% is almost identical to Mediobanca's estimate of [10-20]%.

(302) Overall, the Commission concludes that the estimate of the cost of equity is credible, as it is based on objective and verifiable information.

7.3.3.2 Gordon growth method

(303) The Commission observes that the Gordon growth method is a standard method to calculate the terminal value of a company in the context of a company valuation. The Commission also recognizes it is customary to determine the terminal value of equity as the difference between terminal enterprise value and net debt, which is the approach that Italy adopts, as explained in recital (109).

(304) As described in section 3.3.1, the main assumptions driving the Gordon growth method are the perpetual growth rate of profits, the normalized profit at the end of the planning period and the WACC.[117] The Commission will assess those assumptions in this section, together with those on net debt and the adjustments for the value of the maintenance and ground handling stakes, which are necessary to derive the terminal value of equity from the terminal enterprise value.

i) Growth rate

(305) With regard to the perpetual growth rate of profits, which ITA assumes to be [0-5]%, in line with the long-term (5 year ahead) inflation rate for the Euro area.

(306) In addition to that comparison, the Commission considers it is appropriate to use air traffic projections to estimate the perpetual growth rate in the Gordon growth method, because air traffic growth is a driver of ITA's profit growth. The Commission notes that IATA predicts long-term growth of traffic in Europe of around [0-5]%.[118] In addition, the Mediobanca Report indicates that financial analysts in their valuation of airlines consider growth rates higher than [0-5]% for all airlines in the sample (Lufthansa, IAG, Air France, Ryanair, Wizz Air, EasyJet, Pegasus, Delta, American and United).

(307) Overall, the Commission considers growth rates of [0-5]% (ITA analysis) and [0-5]% (base scenario in the Mediobanca Report) as reasonable and justifiable assumptions.

ii) Normalised profit

[117] The Commission notes that in the financial analysis the Handling and Maintenance activities have been valued as pro-rata equity book values end of 2025. Handling figures have been excluded from the consolidated perimeter of ITA to calculate the equity value of the aviation business. Thereafter the expected equity value end of 2025 of the Handling and Maintenance activities (at 50.1% and 49.9% of total equity respectively) have been added to the equity value of the Aviation business.

[118] Source: IATA 20 year passenger forecasts for the 2025-39 period, October 2020.

(308) With regard to the normalised profit, ITA assumes the same free cash flows to the firm as in year 2025, except for two differences. First, the changes in the net working capital are equal to [*Business secret*]. Second, capital expenditures are considered to be EUR [XXX] million, i.e. [10-20]% of aviation revenues in 2025. Overall, the normalized profit is equal to EUR [XXX] million.

(309) The Commission notes that it is a common assumption in company valuations using the Gordon growth method to set the changes in net working capital equal to [*Business secret*].

(310) With regard to the capital expenditures (as explained by the Mediobanca report as well), the Commission notes that the ratio of capex to sales is higher than that ratio for four European flag carriers (Lufthansa, IAG, Air France and SAS) and three US airlines (Delta, American, United), which have an average/median of 8.9%/8.6% and 9.1%/9.7% respectively. The Commission also notes that there are significant differences in that ratio between flag carriers and low cost airlines. That gap can be attributed to the more intense use of aircraft for low cost airlines (more kilometres flown, more turnarounds). Therefore, it would seem more appropriate to benchmark ITA's capex to sales to flag carriers.[119] Therefore, the Commission considers that the assumptions used to arrive to the normalised profit to be reasonable, conservative and justified.

iii) WACC

(311) Italy calculates ITA's WACC assuming a cost of debt of [5-10]%, a ratio of total debt to total debt and equity of [40-50]%, and a tax rate of [20-30]%, in addition to the cost of equity described in section 3.3.3.

(312) The cost of debt of [5-10]% is the sum of the pre-tax cost of debt for the aviation sector in January 2021, as calculated by Professor Damodaran, and the one-year average of the 10-year Italian BTPs[120] yield. The Commission notes that Professor Damodaran's estimate of the pre-tax cost of debt includes a global default risk premium of 0.77% and the US long-term treasury bond rate as risk free rate, which is equal to 0.93%, in addition to the typical credit risk margin of the aviation sector.

(313) To assess whether [5-10]% is a reasonable estimate of the prospective cost of debt of ITA, the Commission has also analysed ITA's creditworthiness based on its financial projections in 2025. Using those projections, the Commission has estimated a credit score, which is akin to a credit rating, by using the Credit Analytics[121] tool by Capital IQ.

(314) The credit score estimate of ITA's rating in 2025 is BB.

---

[119] This is also confirmed by data available to the Commission (from Capital IQ) as of 1 July 2021. Focusing on eight European airlines for which there are forecasts for 2025, the average/median of the capex to revenues ratio is [10-20]%/[5-10]%. When low cost carriers are excluded from the sample the ratio falls significantly to [5-10]/[5-10]%.

[120] BTP are Italian government bonds indexed to the inflation.

[121] Credit Analytics is a Capital IQ credit risk modelling tool.

(315) This credit score estimate is also corroborated by the interest coverage ratio. The Commission notes that the relevant interest coverage ratio for the company would be between [0-5] and [0-5] in 2025 (see recital (278)).[122] According to Professor Damodaran, a company with such an interest coverage ratio would be rated as BB.

(316) Professor Damodaran envisages that companies with BB rating (and less than USD 5 billion market capitalisation) would have a spread of 2.4%. In addition, the Commission's Reference Rate Communication[123] considers margins of up to 400 basis points in cases of low collateralisation for BB rated companies. However, ITA would also issue significant secured debt which should be able to achieve even lower rates.

(317) In addition, Mediobanca and ITA have provided a list of bond issuances with the corresponding yields. Amongst the eight issuances with a BB class rating, the yields do not exceed 4% for different maturities[124]. ITA submits that bonds with residual life of more than [10-20] years have a yield of [5-10]%. The Commission considers that this is a very conservative sample since it includes issuances that are perpetual and therefore may have closer characteristics to equity than debt.

(318) The Mediobanca Report also considers that rate in line with the average yield to maturity of listed peers' outstanding bonds. The list of bonds in the Mediobanca Report is equally conservative since it includes several perpetual bonds and the yields never exceed [5-10]% except for perpetual bonds (see recital (165)). However, the list may not be so informative since it is not clear what is the riskiness/rating of those issuances.

(319) Overall, the Commission considers the assumption on the level of cost of debt reasonable and justified. The IRR obtained under the above assumptions is around [10-20]%, which is higher than the [10-20]% cost of equity estimate. Hence, the Commission considers that the Gordon growth methodology illustrates that the capital injection is in accordance to the market investor principle.

7.3.3.3 Market multiples method

(320) An alternative valuation methodology is provided by ITA and reflected also in the Mediobanca Report. The multiple approach is a standard industry practice to value companies that are not listed. That approach exploits the market information of listed companies. Once comparable companies (the peer group) are identified, the market value of those companies is converted into standardised values relative to a key ratio. By applying the valuation multiple to the key ratio of the company being valued, its value can be estimated.

---

122 According to Professor Damodaran:

https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ratings.htm

123 Communication from the Commission on the revision of the method for setting the reference and discount rates, OJ C 14, 19.1.2008, p. 8.

124 According to ITA's submissions.

(321) Therefore, it is important that both the i) peer group, and ii) the key ratio are properly identified. Italy has submitted a list of companies in the peer group that includes seven flag carriers and four low cost airlines (Aeroflot, Air France, Finnair, IAG, Lufthansa, SAS, Turkish airlines, SAS, EasyJet, Pegasus, Ryanair and Wizz Air). The Commission considers the peer group to be relevant in light of the type of business model that ITA intends to adopt (i.e. it includes more flag carriers but also some low cost carriers). In addition, the key ratio used is EV/EBITDAR, which is a standard metric in the industry. Moreover, since the relevant time period of assessment is in the future, forecasting the enterprise value is required (which can be obtained through analyst forecasts).

(322) Concerning ITA's estimates, the analysis of the ratios comes from several broker consensus reports which point to a multiple of [5-10] in 2023 (average value from the 11 air carriers). Data from FactSet lead to slightly lower multiple of [0-5] for the same list of companies. Differences between the data sources can be largely attributed to the differences on the specific time period of assessment as well as analyst forecasts on future enterprise values. The Commission notes that the multiple of [5-10] is broadly in line with ITA's assumptions (see recital (120)).

(323) The Commission also notes that that multiple is also supported by the Mediobanca Report. That report considers a multiple of [5-10] based on the same sample as Italy but also includes three major US airlines (Delta, American and United) using the FactSet database (see recital (265)). The Commission has also replicated that analysis using Italy's sample and data from Capital IQ. The average multiple would be [5-10] on 1 July 2021.

(324) In addition, the Mediobanca Report also indicates that over the business cycle (10-year period 2009-2019) the historical EV/EBITDAR has been [5-10]-[5-10].[125] The Commission considers that is supporting evidence that the claimed multiples of [5-10] estimated by Italy and [5-10] estimated by Mediobanca are reasonable and do not only rely on expectations for 2023 (which is the date for which those multiples are estimated).

(325) With a multiple of [5-10], Italy estimates an IRR of [10-20]%. With a multiple of [5-10] an IRR of [10-20]% is obtained while with a multiple of [5-10] the Mediobanca Report estimates an IRR of the capital injection of [10-20]%. Since all multiples lead to IRRs that are in line (higher or slightly higher) than the cost of equity, the Commission considers that the multiples methodology provides support that the capital injection is in line with market conduct.

7.3.3.4 Sensitivity analysis

(326) The Commission notes that ITA has performed a number of sensitivity analyses, and compared the results under alternative evaluation methodologies.

[125] That analysis uses the assumption that operating lease are capitalised at a multiple of 7. This is necessary to make the results comparable due to the changes in IFRS reporting for leases and is often applied to make such adjustment in the financial statements.

(327) ITA has considered a range of the IRR that is expected to be achieved based on the assumptions for the values of the parameters underlying the financial analysis.

(328) Concerning the Gordon growth model, ITA expects IRR in the range of [5-10]-[10-20] % depending on the level of WACC (between [5-10]-[5-10]%).

(329) In the multiple approach the IRR is in the range of [10-20]-[10-20]% depending on the exact multiple applied (between [5-10]-[5-10]).

(330) The Commission has performed a further sensitivity scenario under the Gordon growth model. As discussed in section 7.3.3.2 , the Commission considers that in an alternative (more optimistic) scenario a growth rate of[0-5]% and Capex/revenues of [10-20]% may have been considered. Under such a scenario the Commission has estimated that even under a cost of equity as high as [10-20]% (WACC would be [5-10]%) the MEO test would be met since the IRR would be even higher. Therefore the Commission notes that in such a sensitivity scenario at least a [0-5]% company-specific premium could be added to ITA's cost of equity as currently submitted by Italy ([10-20]-[10-20]%) and the MEO test could still be met under the Gordon growth methodology and those alternative assumptions. Such an additional company-specific premium could provide a buffer for unexpected execution risks.

7.3.4. Conclusion on the application of MEO test

(331) The Commission concludes the equity investment of the Italian State into ITA complies with the MEO principle, because the IRR of that investment is greater than the relevant cost of equity.

(332) The Commission has assessed all the underlying assumptions of the IRR and cost of equity calculation and considers that they are credible.

(333) Therefore, the Commission concludes there is no advantage to ITA and thus no State aid.

8. CONCLUSION

The Commission has accordingly decided that:

- subject to the full compliance with Italy's commitments, including that the transfer of Alitalia's assets will be carried out under market conditions, the transfer of certain assets of Alitalia to ITA as described in the present decision will not lead to economic continuity between Alitalia and ITA.

- the capital injection into ITA, according to the notified schedule and in the light of the submitted Business Plan, does not create an advantage for ITA and therefore it does not constitute State aid.

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site: http://ec.europa.eu/competition/elojade/isef/index.cfm.

Your request should be sent electronically to the following address:

European Commission,
Directorate-General Competition
State Aid Greffe
B-1049 Brussels
Stateaidgreffe@ec.europa.eu

Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President



ANNEX

[*Annex to the administrative letter of the Commission of 15 July 2021 on the key parameters to ensure economic discontinuity between Alitalia and ITA and the market conformity of the public investment in ITA.*]