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Air France Plans EU750 Million Facelift for Alitalia

By Andrea Rothman

Dec. 17 (Bloomberg) -- Air France-KLM Group plans to raise 750 million euros (\$1.08 billion) to upgrade Alitalia SpA's aircraft cabins and boost its image with international flyers if chosen to buy the Italian national carrier.

Air France would raise the cash through a capital increase open to all Alitalia shareholders, the Paris-based company said in a statement today. The funds would be used to relaunch the brand with improved seating, cabin décor and in-flight entertainment, it said. There would be no job cuts.

Alitalia must choose between competing bids from Air France and local competitor Air One SpA as the Italian government seeks a buyer for its 49.9 percent stake. The Rome-based airline hasn't posted an operating profit in nine years and is losing more than 1 million euros (\$1.5 million) a day.

"Air France's offer is more realistic," said Christopher Kummer, president of Zurich-based research group Mergers, Acquisitions and Alliances. "Air France is more experienced with turnaround situations after its own turnaround in the 1990s, and with mergers following its purchase of KLM in 2004. It's critical to have the necessary management capacity and I think they have the advantage."

Shares of Alitalia fell as much as 10.3 cents, or 14 percent, to 65.4 cents and were trading at 68.8 cents as of 1:53 p.m. in Milan. They dropped 13 percent Friday. Air France fell as much as 55 cents, or 2.3 percent, to 23.53 euros before trading at 23.62 euros in Paris.

Air France plans to buy all of Alitalia's shares through a stock swap, it said in the statement. Investors would get a stake in a new holding uniting the French, Dutch and Italian carriers, Air France-KLM spokeswoman Brigitte Barrand said.

New Planes

The capital increase would be fully underwritten by Air France. Fleet renewal would also be a top priority, led by the replacement of the Italian carrier's Boeing Co. 767 and MD80 aircraft, today's statement said. No job cuts are planned beyond those already announced by Alitalia.

"Air France-KLM confirms its determination to support Alitalia in its recovery and to relaunch it as a strong national flag carrier with world coverage," it said. "The enlarged group will then be able to rely on three strong, complementary brands providing an unparalleled network."

Air One Plan

Rival bidder Air One SpA would immediately invest 1 billion euros in Alitalia if chosen to buy the unprofitable airline, a spokesman said, confirming comments from Carlo Toto, the company's owner and chairman.

Italy's second-largest carrier plans to inject a total of 4.3 billion euros into Alitalia through 2012, the spokesman said, helping to add about 130 planes. Air One would cut about 2,000 jobs.

“Alitalia is undercapitalized,” said Benoit de Broissia, who helps manage \$7.2 billion at Richelieu Finance in Paris. “It needs cash and Air France is ready to guarantee that. The acquisition would give Air France-KLM a solid position in Italy with nearly 50 percent of the market.”

Air France's offer has the backing of Alitalia Chairman Maurizio Prato and one of the carrier's main pilot unions. Air One is supported by several politicians and business leaders who want the national carrier to remain in Italian hands.

An earlier attempt to sell Alitalia was halted in July after all potential buyers dropped out.

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