

*Press release*

**18 July 2011**

**Meridiana Fly and Air Italy are creating a new Italian group in the air transportation sector, a market leader for scheduled flights on the markets of Sardinia and of the main Italian cities as well as for all leisure and charter destinations. Having successfully completed the first phase of the restructuring, the Chief Executive Officer Massimo Chieli is resigning, and Giuseppe Gentile, founder of Air Italy is joining the Board of Directors of Meridiana Fly as CEO for the group.**

**The group's capital structure is being strengthened through a share capital increase of approximately Euro 231 million.**

**Milan, 18 July 2011** – Today the Board of Directors of Meridiana S.p.A. ("**Meridiana**") and Meridiana Fly S.p.A. ("**Meridiana Fly**" or the "**Company**") unanimously approved a plan to integrate the Meridiana group with the group headed by Air Italy Holding S.r.l. ("**Air Italy Holding**"), creating a major new player in air transport, with revenues in excess of Euro 800 million. The new group will retain its strategic focus upon Sardinia and will consolidate its position in the main Italian markets, offering both scheduled and charter services.

### **Business Plan**

The Meridiana group was founded in 1963, initially as Alisarda, as a scheduled carrier for connections to and from Sardinia. In the following years, Meridiana expanded both domestically and internationally, until its merger with Eurofly in February 2010. The Company is the only airline currently listed on the Italian Stock Exchange, and currently has revenues of approximately Euro 650 million, offering scheduled and charter services to leading domestic and international destinations.

His Highness, the Aga Khan, the controlling shareholder of Meridiana has announced the transfer of 38,161,624 shares held to AKFED S.A. (Aga Khan Fund for Economic Development), a Development Agency controlled by Him, which will thus become the owner of a shareholding equal to 75.78% of Meridiana share capital.

Because the persistence of the recent downturn for European air carriers, together with the continuing market consolidation trend Meridiana fly was required to pursue a restructuring process, still ongoing, including the exit from non-strategic markets, the discontinuation of non-strategic routes and the introduction of a short-time working programme for ground and air staff.

Air Italy S.p.A. ("**Air Italy**"), a wholly-owned subsidiary of Air Italy Holding, was founded in 2005 at the initiative of a group of businessmen headed by Commander Giuseppe Gentile. The airline, which is based at Milan Malpensa Airport, started operating in the charter market and within just a few years has become a leader in leisure travel to East Africa, South America and the Caribbean. Subsequently, Air Italy has expanded its offer to also include the domestic scheduled market on a number of select Italian cities; Air Italy's total turnover currently exceeds Euro 200 million.

The plan to merge Meridiana Fly and Air Italy and bolster the new group's balance sheet will allow accelerating the restructuring and revitalisation process through the creation of an operator with turnover exceeding Euro 800 million, boasting a leadership position in both the charter and scheduled markets in each of the areas in which it is present. The new carrier's strategic focus will be on leisure customers, while at the same time ensuring business travel services for certain selected routes from the airports it serves. That will deliver high quality and close attention to the standards of service provided to passengers.

Sardinia in particular will represent the core business in terms of scheduled operations, together with the markets of Verona, Turin and Naples, where the group may already draw upon a considerable presence. The offer will also include selected connections from and to Milan Linate, Rome Fiumicino, Catania and Bari. In the charter market, the new group will pursue a leadership strategy in the principal Italian markets (Milan Malpensa, Bologna, Rome Fiumicino and Verona), offering a complete portfolio of destinations, in particular East Africa, the Indian Ocean, the Caribbean, South America and various countries in the Mediterranean area.

Consistently with the business plan approved by the board of directors, the integration of Meridiana Fly's and Air Italy's networks will also allow the fleet to be rationalized and put to more efficient use (with an anticipated increase in terms of flight hours per aircraft of around 10 per cent, for the medium-haul fleet, and around 20 per cent for the long-haul fleet). The new group will operate with a total fleet of approximately 35 aircraft including Airbus, Boeing and MD80 aircraft. The Group's general headquarters will remain in Olbia Airport, while some operating activities will be concentrated at Milan Malpensa Airport where the companies already have their operating headquarters.

### **Changes in top management**

**The CEO Massimo Chieli, after successfully completing the initial phase of the restructuring, resigns from the Board of Directors. Giuseppe Gentile is named as the new CEO.**

The Board has accepted the resignation of the current CEO, Mr Massimo Chieli, expressing its esteem for the work he completed during his mandate. Mr Chieli's work in accordance and consistent with the Board's strategic indications has ensured the successful completion of the initial phase of Meridiana Fly's restructuring and turnaround, through the planning and implementation of the restructuring plan, which gained recognition with the success of the capital increase completed in July 2010, the finalisation of the agreement with the trade union organisations, the launch of a new structurally competitive organisation, the implementation of a plan for the rationalisation of the fleet with the initial network review phase resulting in a greater focus on Sardinia and on the company's other core markets.

The work completed over recent months by Mr Chieli has therefore allowed for the establishment of a new strategic plan for the Company, enabling it to face the integration with Air Italy and to evaluate new opportunities for the future.

Meridiana Fly's Board of Directors, following the approval of the integration program with Air Italy, named Captain Giuseppe Gentile, controlling shareholder of Air Italy and future shareholder of Meridiana Fly, as new CEO.

Commander Gentile is therefore now in charge of continuing to pursue and to strengthen the strategic plan designed by Mr Massimo Chieli in an aim to resume profitability in the medium-term.

The Board has also accepted the resignation of Mr Claudio Allais, whom it thanks for the invaluable contribution made to the Group. Mr Roberto Scaramella, Director of Aviation of AKFED and current member of the board of directors of Meridiana, has joined the Board in Mr Allais's stead.

### **Summary of Meridiana- Air Italy agreements and description of capital increases**

The Boards of Directors of Meridiana Fly and its controlling shareholder Meridiana, have granted their approval to proceed today with the acquisition of the entire share capital of Air Italy Holding, the company which holds 100% of Air Italy and which is held by Marchin Investment B.V., Pathfinder S.A. and Zain S.A., belonging to Commander Giuseppe Gentile, Mr Alessandro Notari and Mr Giambenso Borgognoni Vimercati, respectively. The acquisition will be completed upon satisfaction of the conditions precedent described below. Once the above-mentioned acquisition has been completed, Meridiana Fly will launch two capital increases for up to an aggregate amount of approximately Euro 231 million (of which, an initial capital increase for up to an amount of approximately Euro 154 million, to be implemented through the issuance of ordinary shares offered under an option to the current shareholders, and a second capital increase for up to an amount of Euro 77 million approximately upon exercise of warrants allocated to the subscribers of the first capital increase). Such capital increases will allow, *inter alia*, also by way of a transfer to Air Italy Holding's current quotaholders of a portion of the option rights resting with Meridiana and exercise of such rights, the set-off of the debt resulting from the contribution by Air Italy Holding's current quotaholders with the receivable deriving from the purchase price of Air Italy Holding owed to the same. Following the above-mentioned resolutions, Meridiana Fly, Meridiana, Air Italy Holding's current quotaholders, Air Italy Holding and Air Italy have entered into the agreements as described below.

The agreements entered into today provide that upon the satisfaction of a number of conditions precedent no later than 30 September 2011 (in particular, (i) the issuance by an independent expert of an appraisal report which confirms the value assigned by the parties to the quotas in Air Italy Holding also pursuant to art. 2343-*ter* of the Italian Civil Code, (ii) the issuance of a favourable opinion concerning the whole transaction by an independent expert appointed by Meridiana in relation to transactions involving related parties and (iii) the necessary consents from the lending banks of Meridiana Fly and Air Italy Holding), Meridiana Fly will purchase 100% of Air Italy Holding for a purchase price of Euro 89.9 million (plus a variable earn-out, up to an amount of Euro 7.25 million), which will not be paid upon the transfer of the quotas, but rather will give rise to a receivable held by Air Italy Holding's current quotaholders vis-à-vis Meridiana Fly.

Following completion of the acquisition, the quotaholders of Air Italy Holding will convert the receivable held vis-à-vis the Company concerning the purchase price for Air Italy Holding's quotas into a future capital increase reserve ("*versamento in conto futuro aumento capitale*").

The envisaged capital increases are currently structured as follows and will be preceded by a share grouping transaction:

- (a) an initial capital increase of up to approximately Euro 154 million, to be implemented through the issuance of ordinary shares offered under an option to the shareholders in accordance with art. 2441, paragraph 1, Civil Code; and
- (b) a second capital increase of up to approximately Euro 77 million to be applied towards warrants, to be issued on a gratuitous basis in favour of the subscribers of the initial capital increase, exercisable within 12 months of the first capital increase.

The capital increases in question will be approved through resolutions to be passed by the Company's shareholders' meeting to be held by 31 October 2011, with a mandate to the Company's Board of Directors to approve the terms and conditions of the same on the basis of the relevant market conditions.

In relation to the above-mentioned capital increases, Meridiana and Air Italy Holding's current quotaholders have undertaken the following commitments:

- Meridiana will transfer to Air Italy Holding's current quotaholders a portion of its option rights. The number of option rights to be transferred and the purchase price for such transfer (to be paid in kind through a partial transfer of the receivable vis-à-vis the Company arising under the acquisition or the reserve created upon the conversion of such receivable) will be determined on the basis of the terms and conditions of the capital increases to be approved by the Company's Board of Directors, taking into account the agreement to assign to Air Italy Holding's quotaholders a 37% shareholding in the Company upon the completion of the above-described capital increases (assuming the share capital increases are fully subscribed by the market);
- Air Italy Holding's current quotaholders will subscribe for a proportional amount of the capital increases using a contribution toward the above-mentioned future capital increase reserve (after deducting the portion assigned to Meridiana as described in the previous paragraph);
- Meridiana's current controlling shareholder will subscribe for a proportional amount of the two capital increases by fully exercising its remaining option rights (therefore deducting the portion of the rights assigned to Air Italy Holding's quotaholders), and thus also reducing its shareholding in the Company to approximately 41% (upon completion of the above-described capital increases, assuming such share capital increases are fully subscribed by the market). The portion of the capital increases subscribed by Meridiana will be released with the contribution of a minimum amount of Euro 89.4 million (the "**Minimum Underwriting**"), comprising: (i) a cash contribution of up to Euro 36 million, after deducting any cash contributions that may be made by Meridiana from the date of this press release until the date of subscription and payment of the first capital increase; (ii) use of the contributions made by Meridiana for contributions toward the future capital increase reserve; and (iii) a waiver of claims relating to shareholder loans, if present. In addition, Meridiana will be setting off the remaining part of its debt from the contribution with a portion of the amount receivable from the Company arising from the acquisition, assigned to Meridiana by Air Italy Holding's quotaholders.

#### **Further financial commitments of Meridiana S.p.A. and support from AKFED S.A.**

As part of the agreements entered into today, Meridiana has also undertaken to ensure the subscription of the first capital increase by the minority shareholders in an amount up to Euro 10 million (the "**Underwriting Commitment**").

Furthermore, Meridiana has undertaken to disburse to the Company shareholders' loans in order to cover its further liquidity requirements following the first capital increase, up to a maximum amount of Euro 53 million, after deducting the following amounts: (i) the amount paid for the subscription of the share capital increases exceeding the Minimum Underwriting referred to above; and (ii) the amount paid by the minority shareholders for the subscription of the capital increases. These shareholders' loans may not be converted into capital contributions until 30 June 2015 and any conversion of the same into capital contributions may not result in any dilution of the shareholding that Air Italy Holding's current quotaholders will hold in the Company.

The above commitments undertaken by Meridiana are supported by identical commitments undertaken today by AKFED S.A. towards Meridiana.

### **Public tender offer**

The above-described transactions is part of the broader turnaround and rescue of the Company, which the latter is evaluating the implementation of the restructuring procedure envisaged under article 67, third paragraph, letter d) of Royal Decree No. 267 of 16 March 1942 (without the need, however, to proceed with a restructuring of the existing debt). On this basis, Meridiana and Air Italy Holding's quotaholders believe that they could be exempted from the obligation to launch a tender offer for the whole of the share capital, under article 106 of Legislative Decree No. 58 of 24 February 1998. The agreements provide that if CONSOB does not consider the exemption from the obligation to bring a tender offer for the whole of the share capital to apply, then the parties will negotiate in good faith the appropriate amendments to be made to the transaction in order to perfect the industrial integration as contemplated in the perfected agreements, while at the same time minimising the costs of a possible public tender offer.

### **Shareholders' agreement**

Lastly, Meridiana and Air Italy Holding's current quotaholders have entered into a shareholders' agreement in order to define a number of issues related to the Company's corporate governance (including the appointment and functioning of the Board of Directors and the appointment of the top management) and certain mutual rights and obligations with reference to their respective shareholdings in the Company. This agreement, the disclosure on which will be given by the deadlines and in accordance with the modalities provided by law, provide for, *inter alia*: (i) a number of restrictions on the transfer of the shares; (ii) the occurrence of certain circumstances (such as, for example, decision-making deadlocks on certain matters or results of operations that are not in line with the new group's business plan), a number of put and call options which, if exercised, would allow Meridiana to purchase the shares in the Company held by Air Italy Holding's current quotaholders.

The shareholders' agreement will become effective as soon as Air Italy Holding's current quotaholders have become shareholders in the Company. In order to accelerate the industrial aggregation process, the parties have agreed that a number of the provisions of the shareholders' agreement concerning, in particular, corporate governance, are implemented immediately once the Company, has perfected the acquisition of the quotas representing 100% of Air Italy Holding's capital, and Air Italy Holding's quotaholders have converted their receivable vis-à-vis the Company resulting from the purchase price into a contribution to the future capital increase reserve.

For the preparation and negotiation of the agreements described above, Meridiana fly group and its controlling shareholder AKFED are advised by the law firm Clifford Chance, by Bain & Company and by BNP Paribas as financial advisor.

Air Italy is advised by the financial advisor Corporate Finance Advisor and by the law firm BVR & Partners and by UniCredit S.p.A.

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