eurofly

ANNUAL REPORT AS OF 31 DECEMBER 2007

Eurofly s.p.a. – Head Office; - Via Ettore Bugatti, 15, Milan (MI) – Share Cap. Euro 1,023,169

R.E.A. Milan No. 1336505 – Companies Reg. Milan 05763070017 – VAT Registration No. 03184630964 – Tax Code 05763070017

This report has been translated in English for the sole convenience of international readers.

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1. CORPORATE BODIES

BOARD OF DIRECTORS
(In charge until 31 December 2008 annual report approval)

President	Lorenzo	**CAPRIO** (3)
Chief Executive Officer	Giovanni	**ROSSI** (1)
Vice - President	Franco	**TRIVI**
Directors	Luca	**RAGNEDDA** (1)
	Sergio	**ROSA** (1)
	Antonio	**ROMANI** (2)
	Alessandro	**GIUSTI** (2)
	Gian Carlo	**ARDUINO** (2)
	Giuseppe	**LOMONACO** (2)

BOARD OF STATUTORY AUDITORS
(In charge until 31 December 2008 annual report approval)

President	Marco	**RIGOTTI**
Auditors	Michele	**SARACINO**
	Guido	**MONGELLI**
Deputy auditors	Dario	**FANGARESI**
	Antonio	**CIGALA**

INDIPENDENT AUDITORS **DELOITTE & TOUCHE S.p.A.**
(In charge for the period 2008 -13)

(1) Executive directors
(2) Independent directors
(3) Significant components as indicated in points 3C1 and 3C2 of Corporate Governance code, independent when appointend

The table below gives a comparison of the main economic and financial data and business indicators for the 2007 financial year with those of the previous year.

Unless otherwise specified Euro/000

Significant data	**2007**	**2006**	**Change**	**% change**
Total flight hours	47,144	44,048	3,096	7.0%
Passengers carried	1,879,289	1,494,258	385,031	25.8%
Fleet availability, rented and in wet lease (machine months)	156	141	15	10.6%
Productivity long range fleet (flight hours)	5,015	5,318	(303)	-5.7%
Productivity medium range fleet (flight hours)	3,255	3,097	158	5.1%
Summary Income Statement	**2007**	**2006**	**Change**	**% change**
Revenue from sales and services	322,290	282,731	39,559	14.0%
Total revenue	331,695	287,055	44,640	15.6%
EBITDAR (1)	31,186	30,472	714	2.3%
Percentage revenue from sales and services	9.7%	10.8%		
EBITDA (2)	(14,666)	(4,649)	(10,017)	215.5%
Percentage revenue from sales and services	-4.6%	-1.6%		
EBIT (3)	(22,289)	(16,374)	(5,915)	36.1%
Percentage revenue from sales and services	-6.9%	-5.8%		
Result of the fiscal year / period	(21,757)	(29,139)	7,382	-25.3%
Summary Balance Sheet	**31.12.07**	**31.12.06**	**Change**	**% change**
Total non-current assets	42,142	85,264	(43,122)	-50.6%
Total current assets	81,141	74,772	6,369	8.5%
Total assets	123,283	160,036	(36,753)	-23.0%
Net equity (4)	(5,406)	16,702	(22,108)	-132.4%
Total non-current liabilities	11,566	36,690	(25,124)	-68.5%
Total current liabilities	117,123	106,644	10,480	9.8%
Total net equity and liabilities	123,283	160,036	(36,753)	-23.0%
Investments	**2007**	**2006**	**Change**	**% change**
Investments	2,251	3,168	(917)	-28.9%
Other financial data	**31.12.07**	**31.12.06**	**Change**	**% change**
Net financial position (5)	(17,065)	(27,857)	10,793	38.7%
Net cash and equivalents	(8,960)	(4,124)	(4,836)	-117.3%
Cash flow of the period	(4,836)	(18,201)		

(1) EBITDAR: *Earnings Before Interest, Taxes, Depreciation, Amortization and aircraft Rentals* (being EBIT before the costs of operational hire of aircraft – excluding wet leases – and amortizations, provision for liabilities and charges, and other provisions and devaluations of non current business). (2) EBITDA: *Earnings Before Interest, Taxes, Depreciation, Amortization.* (3) EBIT: *Earnings Before Interest and Taxes.* (4) As shown in the management report, Para. 2.10 “Subsequent events”, on 15 February the entire subscription to capital increase in cash, for a total of 14,992,326 Euro, resolved by majority at the Shareholders’ Meeting of 9 November 2007 was finalized; in addition, on 11 March 2008 the capital increase by contribution in kind for a total of 8 million Euro proposed by the Board of Directors at the Shareholders’ Meeting of 29 February 2008, which had majority approval, was finalized. In line with the provisions of the Business Plan for the year 2008, the Company has, at today’s date, a positive net equity being accordingly not applicable the particular situations provided for by Articles 2446 and 2447 of the Italian Civil Code.

(5) With regard to the item “Net cash and equivalents”, the net financial position as of 31 December 2006 includes fixed financial receivables and the amounts of the mortgage and debt towards the leasing company. As of 31 December 2007, it includes only the mortgage amount.

2. BOARD OF DIRECTORS' REPORT ON MANAGEMENT PERFORMANCE

Dear Shareholders,

The 2007 financial year closed with a net loss for your Company of 21.8 m Euro (partially covered during the year in the measure resulting from the interim situations at 30 September and 31 October 2007) as against a loss of 29.2 m Euro for the previous year; the balance sheet deficit as of 31 December 2007 was 5.4 m Euro. Total revenues increased by 15.6% compared with 2006, achieving a value of 331.7 m Euro. This result, although negatively affected by the start-up of the Long Range routes to Mauritius and New Delhi (the latter being started up commercially in December 2006 and interrupted in September 2007) and the operational events involving the fleet in April (Para. 2.1.3 of this management report), benefited from positive effects of streamlining operational management consequent on the installation at the end of December 2006 of Meridiana S.p.A. as main shareholder.

In January 2007, in fact, a new Management team took over management of the Company as a consequence of the new company set up and management and coordination organisation.
During 2007, several important Company rationalisation and streamlining projects were started up regarding in particular the organisation and supervision of certain key processes, such as, for example programming the connections network, aircraft and crews, sales programming, pricing policy, quality control of airport services and catering supplied by third parties and maintenance logistics.

In the first quarter of 2007, in line with the decisions to suspend activities generating large losses taken by the Board of Directors on 23 January 2007 (Para. 2.1.4 of this management report) in which the appointment of the new Directors took place – the 319 Airbus connections in *All Business* 48-seat configuration between Milan Malpensa and New York JFK, were suspended. In the same period, the Company, in dealing with outstanding critical points, found itself having to find a solution, in a very short time, for the management of two long range 330 Airbuses that had entered the fleet during the winter of 2007-2008, in the absence of sales planning and marketing initiatives that would allow them to be started up in an economically programmed and reasonably predictable way.

In this context, the Company decided, still in the first quarter, to sublet one of the two A330 aircraft to a Spanish operator (Air Comet) and to start up, albeit at this late date, operation of the fourth A330 aircraft.

During the second quarter of 2007 the transfer to third parties of the financial leasing contract for the 319 Airbus, stipulated in 2005 with Locat, was started up. This procedure was completed in June 2007 with the disposal of the contract to a company in the Fininvest Group.

In April, an agreement was reached with the trade unions for a temporary solution to the company's crisis situation and to overcome some plans for reducing the fleet and the workforce, that had been defined by the Management as possible tools for managing its current and prospective difficulties.

During the summer, medium and long-range flights operated regularly, largely already sold on the basis of policy and contracts that pre-existed the entry of the new Management. In September, the connection between Rome Fiumicino and New Delhi was suspended because performances had been considerably lower than expected. In 2007 this connection caused a loss of 2.8 m Euro in terms of contribution margin and a loss of 5.4 m Euro in terms of operating result.

On 28 June 2007 the Board of Directors approved the 2007-09 Business Plan, then partly modified on 12 September 2007 and further updated on 27 October 2007, with an extension of the forecasts to the year 2010.

This Business Plan (hereinafter called the "Business Plan") outlines a Company reorganization procedure to be carried out by repositioning Eurofly from being a charter carrier to being a mixed carrier (scheduled and charter). This procedure is based on the strong integration with the Meridiana airline company and highlights some important objectives in terms of optimising costs, improving quality of service and consequently increasing revenues.

Projects for Company reorganization, already partly under way since the first months of 2007, also include company restructuring projects and can be identified in two intervention macro-areas:

(i) **development of sales synergies** with Meridiana through integrating scheduled flights, unifying websites, developing of SameItaly S.r.l., as a company dedicated to Eurofly and Meridiana sales in Italy, and developing Wokita S.r.l. as an innovative platform for online sales of products for tourism;

(ii) **increase in business efficiency and productivity** by concentrating the network on the Milan airports (Malpensa and Linate), simplifying aircraft and crew rotations, redefining and improving catering services - the largest concentration of ground operations directed to the end customer - reorganising maintenance activities, etc.

In the long term, the Company intend to pursue the start up of the fourth A330 aircraft (begun in January 2007), also considering the potential opportunities deriving from the reduction in Alitalia’s business and the probable reorganisation of services offered to and from North Italy. Increases in connections with New York from various Italian cities are also expected, extending the connection from Rome in winter and stipulating a code sharing agreement with Meridiana with the aim of improving sales distribution towards end consumers and travel agencies.

In the medium term, the most important element is the progressive increase in capacity used in both national and international scheduled flights, also operated in code sharing with Meridiana.

The Business Plan, as described more fully in Para. 2.1.5 of this management report, provides for the creation of two capital transactions, in money and in kind, already completed at today’s date and carried out, as regards the shareholder Meridiana S.p.A., in exemption of the obligation for public tender as acknowledged by CONSOB (Italian Stock and Change Commission) respectively on 3 October and 26 November 2007, and also the definition of a bank debt restructuring agreement. As regards the last point, as described more fully in Para. 2.1.6, on 27 November 2007 the Company’s debt was restructured by the signing of a medium-term financing contract with Banca Nazionale del Lavoro S.p.A., Unicredit Banca di Impresa S.p.A. and Intesa San Paolo S.p.A.

As described in Para. 2.10 “Subsequent Events” and in Para. 2.11 “Management Outlook on Operations”, performances in the year 2007 and in the first months of 2008, in which, among other things, two capital operations were implemented that were fundamental for carrying out the Business Plan itself, confirm the reasonableness of the projections and their assumptions on which the plan itself is based. These were, however, significantly affected by the trend assumed by non controllable scenario variables and by the actual implementation of strategic actions planned for the future.

2.1. Management performance and operating activity

2.1.1. The fleet

In 2007, as in 2006, the medium range fleet consisted of eight aircraft.
The long range fleet, on the other hand, increased by one unit, with the delivery of the I – EEZL aircraft, the fourth A330, in December 2006, purchased in operational leasing for eight years. At the end of March 2007 operational leasing of the fifth A330 started up, with a 7-year operational leasing contract. In the context of the recovery operations resolved by the Board of Directors meeting of 23 January 2007, it was decided to transfer the above aircraft in dry lease starting from March 2007 for one year to Air Comet, a Spanish airline.

At the end of June 2007 the financial leasing contract stipulated with Locat S.p.A. relating to the A319 CJ Airbus used during 2006 mainly for the Milan-New York *All Business* connection, was assigned to Alba – Servizi Aerotrasporti S.p.A. (hereinafter called "Alba"). At the same time, the counterpart asked Eurofly to operate the aircraft temporarily on its own account and to sublease it. As detailed below, operation of the A319 CJ ended at the beginning of February 2008 and it was definitively transferred to Alba. In the 2006 financial year, the *All Business* sector's contribution to the operating loss was 11.2 m Euro while in 2007, up to the date the contract was transferred, its contribution was 2.2 m Euro. This loss was offset by both the capital gain of 2.4 m Euro from the sale of the leasing contract and by the result produced by the activity carried out in the second half of the year on behalf of Alba, as shown in the table relating to the profit/loss on sale of assets (Ref. 33 in Para. 3.9 of the Notes to the income statement).

The Eurofly fleet from January 2006 to December 2007 is summarised in the table below.

Registration mark	Type	Entry in fleet	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
I-EEZB	A330	Aug-02	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZA	A330	Sep-02	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZJ	A330	May-05	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZL	A330	Dec-06												■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZC	A320	Oct-02	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZD	A320	Feb-03	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZE	A320	Mar-03	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZF	A320	Apr-03	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZG	A320	May-03	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZH	A320	Dec-04	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZI	A320	Dec-04	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZK	A320	Feb-05	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-ECJA	A319	Apr-06				■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■

In the period analysed, the A319 aircraft was part of the Eurofly fleet, by virtue of the above mentioned subletting by Alba, since the aircraft was temporarily managed by Eurofly on behalf of Alba.

In August, to cope better with the seasonal high in medium range activity, the Company hired a MD-82 aircraft in passive wet lease, from Itali Airlines. This activity is normal practice in the sector, in order to manage variable demand in an optimum way.

The main data in the contracts relating to the eight A320 medium range aircraft and to the five A330 long range aircraft currently in the fleet in operational leasing are summarised in the following tables:

Registration mark	**I-EEZC**	**I-EEZD**	**I-EEZE**	**I-EEZF**	**I-EEZG**	**I-EEZH**	**I-EEZI**	**I-EEZK**
Year of costruction	2002	2003	2003	2003	2003	1997	1997	1999
Initiation of leasing	Oct-02	Feb-03	Mar-03	Apr-03	May-03	Dec-04	Dec-04	Feb-05
End of leasing	Oct-08	Feb-09	Mar-09	Apr-08	May-08	Dec-09	Dec-09	Oct-09
Duration of leasing	6.0	6.0	6.0	5.0	5.0	5.0	5.0	4.7

Registration mark	**I-EEZA**	**I-EEZB**	**I-EEZJ**	**I-EEZL**	**I-EEZM**
Year of costruction	2000	2000	2005	2006	2007
Initiation of leasing	Sep-02	Aug-02	May-05	Dec-06	Mar-07
End of leasing	Apr-09	Apr-09	May-12	Dec-14	Mar-14
Duration of leasing	6.6	6.7	7.0	8.0	7.0

At the beginning of November 2007 a letter of intent was approved by the Company's Board of Directors, relating to the renewal up to 2015 of the operational leasing of the I–EEZE aircraft. Again during 2007, the Company extended the leasing contracts for the five A320 Gecas aircraft: the I-EEZF and I-EEZG for 5 years, the I-EEZH and I-EEZI for 6 years, up to 2015, and the I-EEZK for 7

years, up to 2016. The rentals agreed are in line with current market conditions, which are less favourable than the previous contractual conditions, but in line with Business Plan forecasts.
We are at present in the process of identifying aircraft to replace the I – EEZC and I – EEZD, whose leasing contracts are due to expire in October 2008 and February 2009.

The A330 aircraft, leased out to Air Comet in 2007 until March 2008, will be hired to the Israeli company Israir Airlines & Tourism LTD for one year, renewable for a further 12 months. The sub-lease to Israir will involve a positive profit margin, compared with the monthly rental cost.

Actions for improving quality of service

During the course of 2007 a set of actions aimed at improving quality of service to the customer were identified and put in place, in particular with the aim of increasing punctuality of operations, lessening inconvenience to passengers in the case of operational inefficiency, improving passenger cabin functionality and aesthetics, and improving and extending the catering service. A list of the main actions decided on in 2007 and partly already in place, is given below.

Ground Operations

In May 2007 a team of seven people in service 24h/24 365d/365 was set up (GOS – *Ground Operations Control*), dedicated to supervising ground operations for all airports of origin and destination of the Company's flights, through actions of directing, surveillance and control of the airport management and handling companies and other airport services, in coordination with local supervisors. The organisation operates according to standards shared with Meridiana, in accordance with the procedures that already exist in that company. The aims are to obtain the required services according to the conditions of contract, give notice of non-fulfilment of these, and intervene in cases of inefficiency, in accordance with the provisions of company policies and the ENAC Passenger Rights Charter.

Malpensa Airport

In May 2007 the job of Malpensa Airport Manager was given to an expert from Meridiana, for a one-year attachment, with a view to integrating organisations and know-how.

Following the establishment of the GOS organisation, substantially made up of qualified Malpensa airport personnel and two experts introduced on a temporary basis from Meridiana, the task of restaffing the airport structure with resources dedicated to supervision of Malpensa airport business, in a suitable number for operational requirements, was carried out.

Operations Control

The organisation was reviewed in order to give greater autonomy and decision-making capacity to *Operations Control*, comprising the *Flight Dispatch/Following*, *Crew Rostering* and *Ground Operations Control* departments.

At the end of August 2007 *Operations Control* was transferred into a single operations room in Malpensa airport, functioning 24h/24 and 365d/365, next to the MCC (*Maintenance Control Center*) and line maintenance, in order to create the necessary synergies between the operational departments, responsible for managing programmed ground and flight operations and all the operations dealing with the management of inefficient services. The aim of this was to make decisions relating to these faster and more effective.

Malpensa Terminal

In compliance with the SEA Malpensa airport restructuring plan, following the increase in low cost flights and the decrease in Alitalia traffic, it was decided to transfer Malpensa operations from Terminal T2 to Terminal T1, with the aim of supplying better services to passengers. Terminal T1 is the site of the majority of scheduled flights (and therefore in a position to offer connections with flights offered by other Carriers) and an arrival point for the Malpensa Express train; it is also equipped with better and fuller airport facilities. The expected transfer date is 15 May 2008.

Site of operations

In order to concentrate staff and activities concerned with operations and to achieve greater efficiency in operational management, it was decided to transfer all the company operational departments to a single site at Malpensa. The project will be concluded in May 2008, at the same time as the start up of operations from Terminal T1.

Cabin quality

Various measures for prevention, monitoring and correction of defects have been put in place, in order to improve the general state of cabins.

A dedicated team for cabin maintenance has been created comprising one manager and five technicians in rotation who will deal particularly with the inspection and repair of seats and in flight entertainment (IFE) and more generally the quality of the Company's aircraft passenger cabins.

Spare parts stock levels relating to cabins have been reviewed and the new forecast amounts are now being purchased.

Relationships with the main suppliers of materials and spare parts have been considerably improved, in order to guarantee a continual supply of services and products, as necessary.

Quality of on board services

A work group has been set up, with skills and responsibilities in the sales, purchasing and operations areas, who will completely redefine the processes and the choices relating to on-board services and catering, so as to guarantee a better product and reduce the global costs of the service, also through innovative proposals including payment for on-board services.

Agreements relating to the A350 aircraft

On 30 December 2005 Airbus and Eurofly signed a contract for the purchase of three long-range A350 aircraft, with deliveries expected in 2013 and 2014. The contract provided for advanced payments to the supplier of 4,870 thousand Euro on the date the contract was stipulated, and two further instalments by April 2007 reaching a total amount of around 16 m USD. During 2006, following pressure from some customers and strong competition from other manufacturers, a study was started up of a new version of this aircraft (the A350-XWB) characterised by more advanced technologies, better aerodynamics, a larger fuselage section and faster cruising speed, but with a 24-month longer delivery date than the original time limits. Following this and the fact that the flight instrumentation in the new aircraft was no longer comparable to the A330's (the aircraft making up Eurofly's long-range fleet), Eurofly agreed with Airbus to suspend the payment of the price installments originally agreed, while waiting to define the terms of a possible new agreement, which was reached at the beginning of 2008, as detailed hereinafter (see Paragraph 2.10). This agreement did not involve, and will not involve, any negative impact on the income statement or further financial outflows for the Company.

2.1.2. Commercial operations

The demand for air transport, more important in the segment of international flights for tourism and especially in Italy, is typically characterised by seasonal phenomena that determine a contraction in demand in certain periods of the year. In particular Eurofly has a peak in transport business concentrated in the third quarter of the year, while the periods of lesser activity are in the second and fourth quarters, excepts for periods around public holidays (Christmas/ New Year, Easter and bank holiday weekends). In the first quarter, medium-range business is smaller compared with the other months of the year, because of weather conditions in leisure-designated destinations that can be reached in medium-range journey times (less than 5 hours' flight), while the long-range leisure business to tropical destinations is particularly lively, enabling holidays to the more popular destinations in exotic countries during the winter months.

To cope with this strongly seasonal phenomenon of traditionally leisure destinations in the Winter 07/08 season (from 28 October 2007 onwards), Eurofly introduced new, mixed business/leisure, scheduled flights in code sharing with Meridiana for national and international destinations, with the aim of exploiting distribution and commercial synergies with Meridiana to the full.

In medium-range operations, commercial activity in 2007 was directed towards the following:

i) a presence in the Egyptian market with direct flights to Sharm El Sheikh from the main regional airports in Italy (Ancona, Bari, Bergamo, Milan, Naples, Pisa, Turin, Venice, Verona and Malpensa) and with internal mid-week flights (including Cairo - Abu Simbel) aimed at meeting the needs of internal movements of Italian tourists within the packages acquired by them;

ii) increasing operations to Tenerife (a destination with annual programming) aimed at improving aircraft productivity and stimulating alternative markets to the Red Sea;

iii) starting up, in June, code sharing with Meridiana (as marketing carrier[1]) for Eurofly medium range scheduled flights to Ibiza, Crete/Heraklion and Mykonos.

[1] *Marketing carrier*: in code sharing agreements between two carriers, the marketing carrier is the contractor who markets the flights carried out by the other (known as the operating carrier).

iv) starting in June, for the summer season, supplementing traditional business to annual destinations (Egypt and the Canaries) with a charter service to the Mediterranean and North Europe and a scheduled service to seaside resorts in Greece and the Balearics;

v) operating for the second year the weekly summer Naples-Moscow route;

vi) starting up code sharing operations, on 28 October, with Meridiana for the following scheduled flights:

- Milan Linate-Naples (2 flights per day as operating carrier, 1 flight per day as marketing carrier), Milan Linate-Catania (2 flights per day as operating carrier);
- Milan Linate–Palermo (1 flight per day as operating carrier);
- Milan Linate–Rome (2 flights per day as marketing carrier);
- Milan Linate–Paris (2 flights per day as marketing carrier);
- Naples-Paris (1 flight per day as operating carrier);
- Milan Malpensa-Pristina (1 flight per day as operating carrier).

In long-range operations, commercial efforts were concentrated on:

i) implementing the commercial and code sharing agreement with Livingston S.p.A., allowing Eurofly to concentrate on destinations in the Indian Ocean, where frequency of flights to the Maldives and Kenya/Zanzibar have increased considerably, confirming its absolute leadership on these routes. Caribbean destinations, on the other hand, were managed mainly by commercialising, as marketing carrier, the destinations operated by Livingston;

ii) launching a new charter route to Mauritius. Eurofly started up for the first time a connection to the island of Mauritius with 2 flights per week; this connection was made possible by the temporary unilateral variation granted by the Government of Mauritius to Eurofly, which therefore operated with special charter rights. Then, in the early months of the year, the bilateral agreement between Italy and Mauritius was modified, extending the number of operators (from 2 to 3 – the other appointed carriers are Air Mauritius and Volare) and the number of frequencies of scheduled flights (charter flights remain prohibited); Eurofly was appointed by ENAC[2] for this and may from now on operate as a scheduled carrier on the route with up to 3 flights per week. This right allows Eurofly to have a good placement in this important leisure market, which had a growth of over 60% in Italian arrivals in 2006;

iii) increasing capacity offered on the New York band for the whole summer season (from May to November), and in more detail:

- the connection from Rome has gone up from three to five flights per week;
- the connection from Palermo has gone up to two flights for the whole summer season;

[2] Italian Civil Aviation Authority

- two new connections from Pescara and Lamezia Terme have been added, reached via Bologna;
- the service from Naples has been substantially confirmed compared with last year, with three flights per week.

iv) launching the new scheduled route from Rome to Delhi in mid-January. The Rome-Delhi flight, the only one between Rome and India, got under way operationally on 15 January with 2 flights per week. The connection was interrupted in September. The sales launch had been more problematic than expected and the results lower than forecast, so that it was not possible to envisage breaking even in a short time; it was therefore decided to suspend flights.

v) continuing twice-weekly Rome Fiumicino-New York scheduled flights for the whole winter season 2007/2008 (Fridays and Sundays from 28 October 2007)

vi) intensifying *e-fly* (flight only) scheduling, starting from the winter season 2007/2008 (from 17 December) for tropical destinations with:

   a. three connections to Malè (Maldives), one on Tuesdays from Bologna – a new feature in the winter scheduling – and two from Milan Malpensa (direct on Fridays and via Colombo on Tuesdays).
   b. three weekly flights (Saturdays, Sundays and Mondays) from Milan Malpensa and Rome Fiumicino to Mauritius
   c. twice-weekly flights to Punta Cana (Dominican Republic) on Mondays (via Rome) and on Saturdays direct from Milan Malpensa
   d. one flight Malpensa-Mombasa (Kenya) on Fridays.

These flights complete the main long-range charter programming, with 4 more flights to the Maldives, 5 to Zanzibar and to Mombasa from Milan, Rome and Bologna and a flight to Cancun (Mexico) from Rome Fiumicino and Milan Malpensa.

As regards the *All Business* activity operated with A319 aircraft, it should be borne in mind that the connection between Milan and New York was interrupted in mid-January 2007 while the charter business already contracted for continued, mainly in the first part of the half-year and in particular to the Maldives. As already pointed out, the leasing agreement relating to the A319 was transferred to Alba on 25 June 2007. Alba then sub-leased the aircraft back to Eurofly, who took over temporary management of it on behalf of Alba for the remainder of 2007. At the beginning of February 2008, the use of the A319CJ I-ECJA was terminated, and it was transferred permanently to Alba Servizi Aerotrasporti SpA.

- <u>Statistical data</u>

Flight hours by type

Flight hours

	2007	2006	Change	% Change
Block hours (a)	46,085	42,321	3,764	8.9%
ACMI (b)	591	1,681	-1,090	-64.8%
REPRO (c)	468	46	422	918.5%
Total flight hours	**47,144**	**44,048**	3,096	7.0%

(a) flight hours operated by Eurofly with own aircraft

(b) flight hours operated on behalf of third parties with Eurofly's aircraft wet leased to third parties

(c) flight hours operated by Eurofly with third parties' aircraft wet leased by the Company

Flight hours by SBU

Flight hours

	2007	2006	Change	% Change
Medium Range	26,259	24,801	1,459	5.9%
Long Range	20,308	16,129	4,179	25.9%
All Business	577	3,119	-2,542	-81.5%
Total flight hours	**47,144**	**44,048**	**3,096**	**7.0%**

The number of flight hours in 2007 increased by 7% compared with 2006. Business operated with own aircraft (block hours) increased by 3,764 hours (8.9%) as against a drop of 1,090 hours in business operated with own aircraft on behalf of other operators (ACMI), which in 2006 benefited from agreements with the airline company My Way. The number of flight hours operated with third party aircraft ("repro" flight hours) went up from 46 hours in 2006 to 468 in 2007, also as a consequence of the wet lease agreements regarding an Itali Airlines MD – 82 aircraft in August. The details of flight hours show a less marked increase in the medium-range (5.9%) and much more significant in the long-range (25.9%), thanks to the increase in the A330 fleet and the supply of both scheduled and charter.

As regards the *All Business* BU, it must be remembered that in the first months of 2006 the aircraft was hired to the Saudi company NAS, while in 2007 the Milan-New York connection, to which the aircraft was mainly dedicated, was used in charter operations mainly to the Maldives, until June. The leasing agreement was transferred in June to Alba–Servizi Aerotrasporti S.p.A. which at the same time asked Eurofly to operate the aircraft temporarily on its behalf by sub-leasing it.

Fleet productivity
Annualized flight hours

	2007	2006	Change	% Change
Medium Range	3,255	3,097	158	5.1%
Long Range	5,015	5,318	-302	-5.7%

A comparison between 2006 and 2007 shows that in the medium-range, with fleet availability being substantially the same, greater productivity guaranteed a higher number of flight hours. In long-range, fleet productivity, which included one extra aircraft, fell because of the entry into the fleet of the fourth aircraft, the use of which required a far-from optimal initial entry phase.

Passengers carried

	2007	2006	Change	% Change
Eurofly	1,851,288	1,387,131	464,157	33.5%
Other carriers	28,001	107,127	-79,126	-73.9%
Medium Range	1,154,601	1,048,849	105,752	10.1%
Long Range	721,403	439,571	281,832	64.1%
All Business	3,285	5,838	-2,553	-43.7%
Total passengers	**1,879,289**	**1,494,258**	**385,031**	**25.8%**

The overall number of passengers carried by Eurofly in 2007 shows a growth of over 33% compared with 2006, mainly due to the increase of 64% in long range, consequent on the increased capacity offered.

Passengers carried - NY route				
	2007	2006	Change	% Change
Passengers carried	133,051	95,434	37,617	39.4%
Seats offered	186,804	141,564	45,240	32.0%
Load factor	71.2%	67.4%	0.04	-

In 2007, the number of passengers carried on the scheduled connection to New York rose by almost 40%, thanks to the greater supply. The load factor was further improved, reaching over 71%.

Passengers carried - Milan Linate/ South Italy / Paris				
	2007	2006	Change	% Change
Passengers carried	67,146	0	-	-
Seats offered	115,200	0	-	-
Load factor	58.3%	0.0%	-	-

Referring to scheduled operations from Milan Linate airport to Palermo, Naples and Catania and from Naples to Paris, which got under way at the end of October 2007, the number of passengers carried during 2007 was 67,146. The average load factor for these flights was 58.3%.

2.1.3. Operational events regarding the fleet

On 2 March 2007 damage was caused to a hatch door on the A330 I – EEZA aircraft during catering supply operations at Malpensa airport. Following this event and other problems consequent upon it, the two programmed flights departing for the Maldives were delayed significantly, since it was necessary to fall back on two ACMI aircraft. The event was attributable to specific, third party responsibility, admitted by them, and involved direct and indirect costs quantified at around 1.5 million Euro (excluding image damage). In its mid-year report the Company, although not in line with the provisions of IAS 37, recognized the expected compensation in the income statement. On 20 December 2007, an agreement was reached by which Eurofly obtained a compensation of 1.25 million Euro, substantially in line with expectations.

In the following April 2007, repeated technical problems concerning the long range fleet caused serious breakdowns in service to Eurofly customers. The problems involving two A330 aircraft happened in particular at the overseas airports of the Maldives and Mombasa, and involved the need for interventions from Europe with specialised personnel, materials and means, to deal with and resolve them according to aeronautical regulations.

Eurofly, taking into account the almost total use of all the other long range aircraft in the fleet, had to fall back on purchasing capacity from other European long-range carriers. In spite of this, there were significant delays in the transport of passengers. Owing to the above events, Eurofly incurred overall charges estimated at around 1.3 m Euro.
The technical inquiries carried out by ENAC and by the appropriate internal departments found no systematic deficiencies to explain the above events, which are rare but nevertheless possible in the context of long-range air transport.

2.1.4. Crisis situation and initial structural interventions

As already indicated in the management report to the individual accounts as of 31 December 2006, as a consequence of the serious economic and structural difficulties that Eurofly had to face during 2006 and which significantly affected profitability and capacity to generate income, the Board of Management, in its meeting on 23 January 2007, resolved to suspend as soon as possible all activities generating large losses that could prevent a financial balance from being reached in an acceptable time.
One of the interventions that was put in place, as described above, was the suspension of the Milan-New York business, operated with the A319 aircraft, whose leasing agreement was subsequently sold, and the fifth A330 aircraft was subleased.
On 30 January 2007, with notification to the Trade Unions and the Ministry of Labour, Eurofly started up the collective dismissal procedure, which was called off thanks to the trade union agreement signed at the ministry on 15 March 2007 by applying the solidarity contract as detailed in the paragraph relating to personnel.

2.1.5. 2008/2010 Business Plan and capital increase

On 28 June 2007 the Eurofly Board of Management approved the 2007-09 Business Plan, then partly modified on 12 September 2007 and further updated on 27 October 2007, with an extension of the analysis to 2010. As already mentioned in the introduction to this management report, the plan outlines a reorganisation programme for the Company, to be carried out by repositioning Eurofly from being a charter carrier to being a mixed carrier (scheduled and charter). This programme is based on a strong integration with the Meridiana airline and has some important aims in terms of optimising costs, improving quality of service and developing revenues. Referring to matters already mentioned in the introduction to this management report concerning the macro-areas of intervention planned, it should be stressed that the Company’s asset and financial restructuring allowed for two successive capital increases:
1) a capital increase in cash, rescindable, as an option to Shareholders, approved by the meeting on 9 November 2007, with abstention by some of those present, for a maximum value of 15 m

Euro (the operation was concluded at the end of February 2008, as detailed hereinafter, with the entire subscription of the newly-issued shares). Meridiana undertook irrevocably to subscribe to this capital increase, up to a maximum of 12 m Euro (inclusive of its own quota), also by subscribing any unopted shares, in exemption of the OPA (public purchase offer) obligation. (This exemption would also be granted if, following a capital increase by contribution in kind, initially expected to precede the capital increase in cash, Meridiana had more than a 30% threshold in Eurofly's capital, since this would be considered a "rescue" exemption). This capital increase was completed during February 2008 as detailed hereinafter.

2) a capital increase by contribution in kind, reserved to the partner Meridiana, with the provision of two 50% shareholdings in the subsidiaries Wokita S.r.l. and Sameitaly S.r.l. The provision was dependant, among other things, on obtaining Consob exemption from the OPA obligation, granted with a note of 3 October 2007 according to the regulations, to be considered in conjunction, in Article 49, Para. 1, Letter b) of the so-called "Regolamento Emittenti" ("Issuers' Regulation"), and Article 105, Para. 5, Letter a) of Italian Legislative Decree no. 58/1998 (rescue exemption). As detailed hereinafter, the Shareholders' Meeting of 29 February 2008 gave majority approval, with some Shareholders voting explicitly against, for this capital increase by contribution in kind in the value of 8 m Euro.

2.1.6. Debt restructuring

On 27 November 2007, to implement the agreement concluded with the term sheet signed on 9 July 2007 by the Company and by Banca Nazionale del Lavoro S.p.A., Unicredit Banca d'Impresa S.p.A. and Intesa San Paolo S.p.A., the financing contracts between the Company and the aforesaid banks were renewed, substituted by new agreements with the following terms. The spread applied by the banks to the new contracts (Euribor rate over three months), is significantly lower than for the conditions applied previously. In addition, the loan provides for the possibility of a further reduction in spread where, in activating the Business Plan, the Company manages to reach certain financial indicators set out in the agreement. The repayment term for the new loan was fixed at 36 months (as against the immediate revocability of the previous loans) in line with the expected time limits for carrying out the Business Plan. The loan was accompanied by the standard clause for similar operations, the "*negative pledge*" formula as well as financial covenants. As described more fully in the Notes, because of the extension of the time limits for carrying out the capital increase in cash compared with the expectations of the Business Plan, on 31 December 2007 the financial covenants appeared not to have been complied with, due to evident shortfalls in the Company's capitalisation.

On 19 March 2008 (as analysed also in Para. 2.10. of this management report) the signatory banks of the bank debt restructuring agreement declared themselves unwilling to proceed to take over the financial covenants referred to in this agreement, with regard to the expiry date of 31 December 2007. The subject of the lack of formal non compliance with these covenants as of 31 December 2007 is therefore of less importance.

Compliance with the *covenants* on dates subsequent to that indicated above depends on the Business Plan, which is significantly influenced by the trend assumend by non controllable scenario variables and the actual implementation of strategic actions planned for the future.

2.1.7. Reduction in capital through losses

Due to the losses recorded on 30 September 2007 and the consequent financial situation of the Company as outlined by Article 2446 of the Italian Civil Code on 9 November 2007, the Eurofly Shareholders' Meeting resolved on the elimination of the expressed nominal value of the Company's shares and approved covering the losses recorded in the period January-September 2007 of 10.4 m Euro by means of the entire use of the share premium account and the legal reserve, as well by means of a partial reduction in share capital, which is consequently 6,267,470 Euro. On 30 November 2007, the meeting resolved on cover for the losses of 5.4 m Euro reported in October, by the use of the reserves and share capital reduction, thereby adjusting the Company share capital to an effective net equity of 1,023,169 Euro at 31 October 2007.

2.1.8. Notifications from Supervisory Authorities

On 20 June 2007 Consob notified Eurofly of the need to present a monthly information document on the Company's economic and financial situation, according to Article 114, Para. 5 of Italian Legislative Decree 58/98, referring to Eurofly's accounts as at 31 December 2006 and the relative independent auditors' report issued by Deloitte & Touche in which they declared it impossible to give an opinion of these accounts.

Since the end of June 2007, with reference to the preceding May, the Company has started up monthly reports to the market with the information document required.

2.1.9. Inspection by Finance Police

On 23 May 2006 a partial fiscal inspection started on income tax for the year 2004, carried out by the Lombardy Regional Nucleus of the Tax Inspectorate. The inspection was then extended to the financial years 2002 and 2003. On 16 January 2007 the relative report on findings (the so-called P.V.C) was drawn up, in which objections were raised to a series of fiscal results; these objections were entirely opposed and rejected by Eurofly and will be the subject of further examination and defensive actions. The items disputed by the Finance Police inspectors relate partly to operations with countries with preferential taxation systems, that are in any case attributable to activities typical of the sector, partly to alleged excessive provisions for invoices receivable, and a small part relate to ascribing costs to unrelated operations.

In detail, the taxable amounts disputed by Eurofly are 0.6 m Euro for the 2002 tax year, 2 m Euro for the 2003 tax year and 1 million Euro for the 2004 tax year.

On 17 April 2007 Eurofly presented a petition for assessment with accession according to Italian Legislative Decree No. 218/97. Up to today's date no notices of assessment have been notified.

At today's date, as has been seen in the case of quarterly and half-yearly reports, the risk connected to this situation is not objectively quantifiable and in any case should be evaluated in the light of previous fiscal losses brought forward.

2.2. Analysis of operating and financial results

The factors affecting the operating result and financial position are summarised below: for a complete analysis, reference should be made to the notes to the accounts.

Euro/000

Ref.	Income statement	2007	% on revenue	2006	% on revenue	Delta	Delta %
	Euro/000						
18	Revenue from sales and services	322.290	100,0%	282.731	100,0%	39.559	14,0%
19	Other revenue	9.405	2,9%	4.324	1,5%	5.081	117,5%
	Total revenue	**331.695**	**102,9%**	**287.055**	**101,5%**	**44.640**	**15,6%**
20	Direct commercial expenses	7.671	2,4%	5.056	1,8%	2.616	51,7%
	Total revenues net of commercial costs	**324.023**	**100,5%**	**281.999**	**99,7%**	**42.024**	**14,9%**
21	Jet fuel	98.243	30,5%	85.084	30,1%	13.159	15,5%
22	Staff costs	38.354	11,9%	40.947	14,5%	(2.593)	-6,3%
23	Materials and maintenance services	45.365	14,1%	38.554	13,6%	6.810	17,7%
24	Other operating costs and wet lease	92.941	28,8%	68.717	24,3%	24.225	35,3%
25	Other commercial and corporate costs	17.935	5,6%	18.226	6,4%	(291)	-1,6%
	Total costs	**292.838**	**90,9%**	**251.528**	**89,0%**	**41.310**	**16,4%**
	EBITDAR	**31.186**	**9,7%**	**30.472**	**10,8%**	**714**	**2,3%**
26	Operative rentals	45.852	14,2%	35.120	12,4%	10.731	30,6%
	EBITDA	**-14.666**	**-4,6%**	**-4.649**	**-1,6%**	**(10.017)**	**-215,5%**
27	Depreciation and amortization	3.951	1,2%	4.108	1,5%	(158)	-3,8%
28	Write-off of non-current assets	0	0,0%	512	0,2%	(512)	-100,0%
29	Other provisions	2.820	0,9%	5.346	1,9%	(2.526)	-47,3%
30	Provisions for risks and charges	852	0,3%	1.758	0,6%	(906)	-51,5%
	Total costs	**7.623**	**2,4%**	**11.725**	**4,1%**	**-4.102**	**-35,0%**
	Operating result	**(22.289)**	**-6,9%**	**(16.374)**	**-5,8%**	**(5.915)**	**-36,1%**
31	Financial (income)/charges	(2.474)	-0,8%	(3.294)	-1,2%	820	24,9%
	Pre-tax profit	**(24.763)**	**-7,7%**	**(19.667)**	**-7,0%**	**(5.096)**	**-25,9%**
32	Tax charges	3.006	0,9%	1.728	0,6%	1.278	73,9%
33	Result from discontinued operations	1	0,0%	(11.200)	-4,0%	11.200	100,0%
	Result of the period	**(21.757)**	**-6,8%**	**(29.139)**	**-10,3%**	**7.382**	**25,3%**

It should be pointed out that, applying the *IFRS 5 – Discontinuing operations* – accounting principle, all the elements making up income and charges and revenue and expenses relating to the A.319 BU, in both the 2007 and 2006 financial years, have been classified in the specific line “Result from discontinued operations” in the income statement; an analysis by component of the “Result from discontinued operations” is given in Para. 3.9 of the notes, Ref. 33. It should therefore be noted that the intermediate results for EBITDA, EBITDAR and EBIT (Operating result) do not reflect the effects produced by this discontinued Business Unit (effects that are in this case negative compared with 2006 not only in terms of overall result but also in terms of individual intermediate result).

Total revenue in 2007 was 331.7 m Euro, showing an increase of over 15% compared with 2006. Revenue from sales and services was 322.3 m Euro, a 14% increase compared with the previous year, mainly due to the improved performance in the long-range sector, thanks to the increase in the fleet and consequently in business, as well as the code sharing agreement with the Livingston company. The rise in other revenue, amounting to 9.4 m Euro in 2007, can be attributed to revenue for aircraft hire linked to the sublease for one year of an A330 to the Spanish airline Air Comet.

EBITDAR of 31.2 m Euro, is in line with the value recorded in 2006. In spite of the significant increase in revenue, the EBITDAR for long-range has gone up by only 1.4 m Euro mainly because of the negative performance of the connection to India (suspended in September 2007) and the start up of operations to Mauritius.

In medium-range, EBITDAR went down by 0.7 m Euro because of the increase in certain operating costs as well as the reduction in ACMI operations supplied to third parties (characterised by operational costs borne by third parties).

EBITDA of -14.7 m Euro (-4,7 m Euro in 2006) worsened in relation to the comparable data for the previous year because of the increase in leasing costs deriving from the increase in long-range fleet, as well as the termination by Airbus of recognition of contributions linked to the fleet.

EBIT was –22.3 m Euro, as against -16,4 m Euro in 2006. This item benefited from fewer bad debts provisions carried out in 2007 compared with the previous year.

As a consequence of the dynamics described above, and also on account of the positive net effect of the 3.7 m Euro in deferred taxes deriving mainly from the utilization of tax losses brought forward on the basis of taxable income trend supported by the Business Plan, the net result was –21.8 m Euro.

The net financial position at the year end was negative at 17.1 m Euro, The improvement compared with the debt of 27.8 m Euro at 31 December 2006 is mainly attributable to the transfer of the A319 aircraft leasing agreement.

The figure for net assets at end-December 2007 showed a loss at 5.4 m Euro. With regard to this, it should be remembered that the capital increase in cash, resolved by the Shareholders' Meeting of 9 November 2007, was concluded on 20 February 2008. The capital increase was completed with the entire subscription of the 11,129,418 shares offered, for a value of 14,991,316 Euro. Following this recapitalisation, the company share capital was 6,253,995.46 Euro, divided into 24,484,720 shares without indication of nominal value.

It should finally be noted that the Shareholders' Meeting held on 29 February 2008 approved a capital increase by contribution in kind, reserved for the shareholder Meridiana according to Article 2441 of the Italian Civil Code, for a maximum value of 8 m Euro. This contribution in kind, as per the Business Plan, must be carried out through the granting of two 50% shareholdings in Wokita S.r.l. and Sameitaly S.r.l., previously wholly owned by Meridiana. Following this second recapitalisation, Eurofly's share capital amounted to 6,503,105.72 Euro, divided into 28,043,438 shares without indication of nominal value.

Consequently, at today's date, in line with the provisions of the Business Plan for the 2008 financial year, the Company has a positive net equity being no more applicable the provisions of Articles 2446 and 2447 of the Italian Civil Code.

Considering the distorting effect on the intermediate results caused by applying IFRS 5 in representing the BU 319 which was sold in 2007, in order to give complete information and to allow a more exhaustive interpretation of the Company's economic performance in the 2007 and 2006 financial periods, and considering also the effects of the "All Business" Business Unit on intermediate EBITDAR, EBITDA and operating results, we give below a comparative schedule of these items for the 2007 and 2006 financial years, comparing the data in the accounts and the same data restated without the application of the IFRS 5 on discontinued operations.

€/000	**2007**	**BU A319**	**2007 restated**	**2006**	**BU A319**	**2006 restated**
Total revenues	331,695	4,942	336,637	287,055	9,638	296,693
EBITDAR	**31,186**	**2,247**	**33,433**	**30,472**	**(4,827)**	**25,644**
% on revenues	9.40%		9.90%	10.60%		8.60%
EBITDA	**(14,666)**	**414**	**(14,252)**	**(4,649)**	**(4,837)**	**(9,476)**
% on revenues	-4.40%		-4.20%	-1.60%		-3.20%
EBIT	**(22,289)**	**(712)**	**(23,001)**	**(16,374)**	**(9,567)**	**(25,940)**
% on revenues	-6.70%		-6.80%	-5.70%		-8.70%

Referring to the restated data, the operating result shows an improvement both in absolute terms and in terms of percentage on revenues. The data relating to the BU A319 column are taken from Para. 3.9, Ref. 33.

2.3. Personnel

In carrying out the recovery operations described previously, Eurofly, in order to deal with the proclaimed state of crisis, notified the Trade Union organisations and the Ministry of Labour on 30 January 2007 of the start up of a collective dismissal procedure to reduce staffing levels according to Articles 4 and 24 of Law No. 223 of 23 July 1991, for a total number of 134 units. With a trade union agreement signed at the ministry on 15 March 2007, the necessity for collective dismissals was avoided by applying a solidarity contract (provided for by Law 223/91 as one of the alternative instruments to collective dismissals) for a period of 24 months starting from 1 April 2007. This signing of this solidarity contract for all categories of workers (Technical Flight personnel, Cabin Flight personnel and a large part of Ground personnel) meant that remunerations for all categories of workers were frozen until 2009 except for an agreement that concerned a review of the certification allowances for Maintenance personnel. In the context of development and training operations for Technical Flight Personnel, new “Command Courses” were start up by the company in May, to involve 24 staff overall in the next two years, in order to rationalise the Commander workforce. As shown in the notes to the accounts, the benefit to the income statement for the year 2007 deriving from this agreement can be estimated at 5.2 m Euro.

2.4. Research and development activities

Because of the nature of the business carried out, the Company does not perform any research and development activity in the strict sense.

2.5. Management and coordination activities

From 28 December 2006 Eurofly’s reference shareholder, with a 29.95% share and with three executive directors present on the Board of Directors, is Meridiana SpA, a company with headquarters at Olbia and a Share Capital at 31 December 2006 of 51,033,349 Euro fully paid up. With reference to the information referred to in Article 2497-bis, para. 4 of the Italian Civil Code (management and coordination activities), it should be noted that Eurofly is subject to management and coordination activities by this organisation.

The main Meridiana balance sheet data for the year ended 31 December 2006 are given below. For a description of operations with Meridiana reference should be made to Para. 2.24.

€/000	2006
Total revenues	418.7
Total costs	401.9
Operating results	16.8
Gross result	16.3
Net result	4.8
Cash flows	1.8
Cash	26.4
Not fixed assets	140.5
Net equity	64.6

Following the capital increases in cash and in kind, Meridiana's shareholding went up from 29.95% to 38.27% after the capital increase in cash, and to the present 46.10% after the capital increase in kind with exclusion of the right of option.

2.6. Reference scenario

2.6.1. Macroeconomic picture

During 2007 the world economy continued to expand in spite of a significant slow-down recorded mainly in the European markets in the latter part of the year, which went on into the early months of 2008. In particular, the American market was severely weakened because of the financial and real estate crisis, which became more acute in the fourth quarter of the year. GDP in the Eurozone, which had accelerated in the third quarter of 2007, slowed down in the fourth because of financial turbulence in international markets. The growth in the Italian economy is still below the average for the Eurozone. These slowing-down trends were confirmed and broadened in the first part of 2008.

In 2007, the cost of crude oil increased by around 10% of the average price over 2007 and 2006, and then showed an extraordinary acceleration in the last months of 2007, when it exceeded the price of 100 dollars a barrel. These values were confirmed and even exceeded in the first months of 2008.

Crude Oil

US dollar per barrell

Crude Oil	2007	2006	dec 07	dec 06
WTI - USA	72.3	66.0	91.7	62.0
Brent - Europe	72.5	65.2	90.9	62.5

Source: Energy Information Administration - US Government

The Euro strengthened against the dollar both in spot exchange terms between end-December 2006 and end-December 2007, and in average exchange terms between 2006 and 2007. In the early months of 2008, this trend became more marked, with the European currency reaching record exchange levels against the U.S. dollar.

Exchange rate

	2007	2006.0	31/12/07	31/12/06
EUR/USD	1.37	1.26	1.47	1.32

Source: Il Sole 24 ore

Interest rates returned to a phase of stability in the latter part of the period analysed, both in the Eurozone and in the United States.

Interest rates (3m)

	Jan-Dec 07	Jan-Dec 06	Dec 07	Jan 07
EURIBOR	4.3%	3.1%	4.9%	3.8%
LIBOR (US$)	5.3%	5.2%	5.0%	5.4%

Source: British Bankers Association

2.6.2. Sector scenario

During the period January-December 2007 a sustained growth in the number of passengers carried was recorded at world traffic level. In its periodic report, IATA reported a growth of 7.4% in passengers carried compared with 2006 and an increase in average load factor, to a value of 77.0%.

Similar data can be found in Italy. Assoaeroporti statistics show a higher growth in traffic from the main Italian airports than in 2006. In the period January-December, passenger traffic increased by 10.1% compared with the 8.7% for the same period in 2006. This growth was due mainly to the increase in international passengers (+11.6%).

As regards holiday destinations for Italians, in spite of the incomplete data, it is possible to highlight good performance in this sector, and in particular:

- good performance in traffic to the Red Sea;

- fair growth in the Maldives;
- growth of Mauritius.

2.6.3. Legislative and regulatory framework

The main legislative interventions during 2007 impacting on air carriers can be summarised as follows:

Law No 248/2005 on "System requirements"

With Law 248/2005 of 2 December 2005 the government converted into law Decree No. 203 of 30 September 2005 (published in the Official Gazette No. 243 of 18 October 2005). This regulation involves a set of measures (known as "system requirements") aimed at incentivating greater competition in national air transport.

With particular reference to the question relating to the elimination of so-called "royalties", it should be noted that in the light of the text of Article 11 (13) of Law No. 248/05, establishing that the premium and the royalty can be requested in addition to payment for services rendered only when the effective connection between them can be demonstrated at the cost sustained by the provider for delivering the services, directives were issued by the Italian Civil Aviation Authority, the Italian Association of Air Transport Carriers and Operators (Assaereo) and other sector associations, with the aim of clarifying the modification introduced by this regulation.

In particular ENAC sent the following provisions to Assaereo, the airport management company and Assaeroporti, IBAR (Italian Board Airline Representatives) and the Unione Petrolifera (association of oil companies operating in Italy): i) provision ref. 60600 of 15 September 2006, ii) provision ref. 70963 of 31 October 2006, iii) provision ref. 23931 of 13 April 2007, and further provisions issued during 2007, including provision ref. 25269 of 19 April 2007 and provision ref. 28001 of 3 May 2007, in which they redefined the royalties for certain Italian airports.

With appeal No. 10724 lodged on 14 November 2006 at the Lazio Regional Administrative Tribunal (TAR), Assaereo requested that the first two provisions be cancelled. Subsequently, with an appeal on additional grounds lodged on 31 May 2007, Assaereo requested the cancellation of all the further provisions issued by ENAC during 2007 on the subject of supplies of fuel in airports.

With sentence No. 11154 of 12 November 2007, notified on 30 November 2007, the TAR rejected the appeal on merit. However, the administrative judge correctly separated the positions of airport managements from those of service providers, specifically oil companies, explaining that the latter were responsible for determining the "price" of the service, while the "premium" concerned the airport management. The TAR, therefore substantially clarified that: a) the supplier must establish the "price" for the users of the fuel taking into account all the cost items, including royalties; ii) it remains the responsibility of the service provider to demonstrate the correlation to the costs

incurred for the supply of the service delivered and, in addition, that there would not be any overlap between “premium” and cost items already included in the “price”.
On 28 December 2007 an appeal was made to the Council of State for the above sentence No. 11154/07 to be reversed and for the consequent decree of cancellation of the ENAC provisions specified above.

At the same time, the ENI oil company, with a summons notified on 17 July 2006, convened before the Rome Court various airline companies, including Eurofly, and asked for an assessment and declaration that the companies be obliged to pay ENI the sums relating to the royalties which the oil company has to pay to the airport managements.
On 20 April 2007, Eurofly lodged its own appearance and answer brief with counterclaim, asking the Tribunal to reject all the requests from ENI S.p.A. and to compel them to return the sums paid to them, starting from 1997, as premiums for the supply of fuel in airports, for a value of around 3.5 m Euro. At the hearing on 30 January 2008 the Judge adjourned the case to 19 November 2008, giving the parties legal time limits for lodging defensive and preliminary briefs; these time limits fall on 31 March and 19 April 2008.

Finally, we report that the Italian Civil Aviation Authority sent the Italian Association of Air Transport Carriers and Operators (Assaereo), the airport management companies (SEA and AdR), as well as Assaeroporti, IBAR and Assocatering the provisions ref. 0035898 of 5 June 2007, ref 0035899 of 5 June 2007 and ref. 0072411 of 7 November 2006, in which they redefined the catering royalties at the airports of Fiumicino, Ciampino, Linate and Malpensa.
With appeal No. 8153/07 lodged on 18 September 2007 at the Lazio Regional Administrative Tribunal (TAR) against the ENAC, Assocatering, Aeroporti di Roma, SEA, the Ministry of Transport and Infrastructures and the Ministry of Finance, Assaereo requested the cancellation of the above provisions.
We are waiting for the TAR *terza ter* section to fix the hearing to discuss the merits of the appeal.

At the same time we would point out that, still on the subject of catering royalties, the Servair Chef company served an injunction on Eurofly for an amount of approximately € 54,500. Eurofly is preparing its opposition to the injunction on the basis of the same presuppositions on which the proposed appeal to the administrative tribunal is based

Use of centralised infrastructures

In compliance with the resolutions passed by the Malpensa Users’ Committee on 20 January 2004 and according to the provisions of resolution No. 86/2000 of the Interministerial Committee for Economic Programming (CIPE), on 8 February 2007 Eurofly, arranged to pay SEA S.p.A. an amount of only 65% of the payments requested by the airport company for use of the centralized infrastructures. Following the reply by SEA of 7 March 2007 in which they repeated the illegality of the decision taken by the carrier, on 19 April 2007 Eurofly gave confirmation of the contents in the preceding communication, and repeated that they would provide for payment of the percentage amount alone as agreed by other carriers operating at the Milan airports and also in accordance with the line determined by the associations representing them and by IBAR.

On 15 June 2007 the CIPE, having considered the "*need to proceed to a systematic reorganisation of matters relating to mechanisms for determining airport rights for exclusive services",* resolved (CIPE resolution No. 38/2007) to approve the *"Directive on tariff regulation for airport services offered with exclusive terms*", revoking the previous resolution No. 86 of 4 August 2000.

On 21 November 2007 Assaereo notified the administrations concerned as well as ENAC and Aeroporti di Roma S.p.A., as opposite interested parties, in appeal Nrg, 10702/2007 asking the Lazio Regional Administrative Tribunal (TAR) for the cancellation of the *"Directive on tariff regulation for airport services offered with exclusive terms*", resolved by the CIPE on 15 June 2007 (CIPE resolution No. 38/2007), published in the Official Gazette of the Republic of Italy, general series No. 221 on 22 September 2007.

On 18 March 2008 Assaereo lodged, in the first section chancellery, additional motives for appeal Nrg. 10702/2007 asking the Lazio Regional Administrative Tribunal (TAR) for a cancellation of the following documents:

a) "*Application guidelines – Directive on tariff regulation for airport services offered with exclusive terms*", produced by ENAC and published on the website www.enac-italia.it on 7 January 2008;
b) "*Opinion on the application Guidelines of the directive on tariff regulation for airport services offered with exclusive terms"*, by the office of the President of the Council of Ministers, Consultancy Team for implementing guidelines for the Regulation of Public Utility Services (hereinafter also called "NARS"), published on the website www.enac-italia.it on 7 January 2008.

We are waiting for the first section of the TAR to fix the hearing to discuss the merits of the appeal and the additional motives.

Regulations on flight and service time limits

With its Regulation of 23 March 2005 ENAC established new limits for flight and service times, as well as rest requirements for flight personnel, with the aim of increasing safety conditions in flight operations. This Regulation provides for a more restrictive control than the previous one in terms of flight personnel work times and the aforesaid new rules on composition of crews.

This regulation should have been completely implemented by the airline companies by 26 March 2006, except for two provisions relating to the so-called “reinforced crews” which should have been effective from 1 July 2005. Eurofly – together with other Italian air carriers – maintaining this Regulation to be faulty both for certain merit aspects and for the particular shortness in implementation times, presented an appeal to the Lazio TAR on 11 June 2005, to obtain its cancellation, with advance preliminary suspension.

With the judgement published on 2 March 2006, the Lazio TAR gave its definitive pronouncement, partially accepting the appeal presented by Eurofly (and others) and annulling the Regulation in the part in which the same treatment was laid down for all crew members, including flight attendants, even when they have different duties that undoubtedly involve different levels of fatigue.

After the edition of the 23 March 2005 and up to the date of publication of Circular OPV-20 of 16.07.2007, three further editions of the ENAC-FTL Regulations were issued: edition 3 on 14 July 2005, which introduced modifications to the provisional regulations, edition 4 on 2 May 2006, which limited its applicability to flight personnel only and edition 5 on 19 December 2006, with which the regulations applicable to cabin personnel were reintroduced.

With Circular OPV-20 of 16.07.2007 ENAC’s intention was to supply air operators and flight deck and cabin personnel employed by them with suitable instruments to interpret the requirements established by the Regulations, so as to allow the correct application of these, both in planning shifts and in carrying out the relative flight plans. This circular came into force on 28.10.2007. The airline companies, including Eurofly S.p.A., notified ENAC on 26 July 2007 of their strong reservations about the contents of the circular and stressed the impossibility of implementing the measures imposed from 1 August 2007, such as, for example the modifications to the aircraft that were need to adapt the seats dedicated to crew rest. ENAC therefore accepted the request formed by the carriers, postponing the date when the regulation would come into force to 28.10.2007. Subsequently, with a release published on its website in August, ENAC annulled Circular OPV-20. Then with a subsequent release published on the ENAC website in the same month of August, ENAC again confirmed that Circular OPV-20 would come into effect from 29 October 2007.

On 24 October 2007, Eurofly, together with other air carriers, notified the Italian Civil Aviation Authority and the Ministry for Infrastructures and Transport as opposing parties, as well as the National Commercial Aviation pilots Association, as the opposite interested party, of an appeal No. 8775/07 to the Lazio Regional Administrative Tribunal (TAR), asking for the cancellation, with prior suspension, of the ENAC Circular, flight operations series, OPV-20, issued on 16 July 2007, having as its subject "*application of the Regulations on limits of flight and service times and rest requirements for flight personnel – Part 1 - Public Transport*" as well as that of any other presumed deed, connected to and consequential on it.

At the outcome of the chamber of council meeting of 8 November 2007 the TAR, with ordinance No. 5141/2007, rejected the above mentioned petition for suspension supplying, for the preliminary demand presented by the carriers, the following motivation: "*considering that, from the findings of a summary consultation of the preliminary phase itself, the appeal, even irrespective of the configurability of the requirement of current serious and irreparable prejudice, does not appear supported by sufficient elements of fumus boni iuris, since there is no effective dissimilarity between ENAC circular OPV-20 and the ENAC FTL regulations, even regarding Point 4.13, concerning the "rest seat for crew members" since, although the circular provides for the use of seats that can recline to more than 45%, at the same time it allows the operator to request "that acceptability of equivalent solutions be evaluated"*".

We are waiting to fix the date of the hearing to discuss the merits of the appeal.

Safeguarding of passengers' rights: Reg. CE 261/04 and Italian Legislative Decree 69/06

In order to proceed to a more complete application of the regulation formerly CE 261/04 *("Regulations establishing common rules on compensation and assistance to passengers in the case of denied boarding, flight cancellation or prolonged delay, revoking regulation (EEC) No. 295/91")* the legal authorities issued Legislative Decree No. 69 of 27 January 2006, having as its subject *"Provision of sanctions for infringement of Regulation (CE) No. 261/2004 establishing common rules on compensation and assistance to passengers in the case of denied embarkation, flight cancellation or prolonged delay".* This provision lays down that the air carrier, in the case of non-compliance with the instructions referred to in the above CE Regulation No. 261/2004, may be punished with administrative sanctions of varying amounts.

In this way, all the measures needed for passengers' rights to be guaranteed by the carrier are reinforced, in comparison with the previous situation. ENAC is appointed as organisation responsible for applying the Regulation and for applying possible administrative sanctions.

On 23 June 2006, ENAC issued "APT 23" series Circular, which set out the methods of procedure for sanctions warnings.

In addition, on 26 July 2006, CE Reg. 1107/2006 was published in the European Union Official Gazette "*relating to the rights of people with disabilities and people with reduced mobility on air transport*". This regulation, which will come into force permanently on 26 July 2008, lays down a set of rules for safeguarding and assistance to people with disabilities and people with reduced mobility on air transport, both for protecting them from discrimination and for guaranteeing them assistance.

It should be noted that during 2007 the “Technical Table on Bad Service” was established at ENAC, in which associations of air transport operators and consumer associations take part. The aim of the Table, as stated by ENAC; is to establish a point of comparison between the various operators and consumers to examine in depth the themes relating to the types of complaints that occur most frequently, the methods of managing these, the activities put in place to safeguard passengers in the case of bad service and the roles played by the parties concerned.

Law No. 262 of 28 December 2005 (Law on Savings)

Law No. 262 of 28 December 2005 introduced numerous changes in company and financial matters with the aim of protecting savers and controlling the financial market. The Law on saving came into effect on 12 January 2006. The new law introduces certain modifications in respect of corporate governance, financial auditing, securities brokerage and sanctions; these modifications were accepted by the Company into its Articles of Association with the Extraordinary Meeting of 28 June 2007 and into its internal procedures.

2.7. Own Shares

No purchase or sales operations of its own shares, either directly or indirectly, were carried out during the year.

2.8. Exposure to interest rate fluctuation, exchange rate, fuel price and credit management risks

Reference should be made to the considerations shown in Para. 3.17 – “Information on financial risks” – concerning the Company’s exposure to interest and exchange rate risks and to liquidity and credit risks, and to their impact on financial receivabkes and debts existing at 31 December 2007 and identified in the analysis carried out according to IFRS 7 provisions.

It should also be noted that the Company is exposed to the risk of fuel cost fluctuation, which is linked to the oil price and the dynamics of the international markets; in 2007, this had an impact of about 30.5% on revenues.

2.9. Shareholdings held by Board members, Members of control bodies and Management with strategic responsibilities

According to Article 79 of the Issuers’ Regulation it is hereby stated that no Board member and Members of control bodies or Management with strategic responsibilities held shareholdings in the Company, either directly or through subsidiary companies, on 31 December 2007.

2.10. Subsequent Events

- ***Capital increase in cash***

On 11 January 2008, following Consob authorisation of 10 January 2008, the Offering Circular regarding the purchase option offered to Shareholders and the quotation of a maximum 11,129,418 Eurofly ordinary shares, at a unit price of 1.347 Euro, was published. The capital increase, which took place between 14 January 2008 and 15 February 2008, concluded with the entire subscription of the shares offered. Meridiana S.p.A. subscribed to an overall 5,370,113 new shares, equal to the sum of the shares due to it of 3,333,330 (of which 3,209,215 new shares in payment offsetting its receivble deriving from a shareholder loan with the subscription debt of 4,322,812.61 Euro) and 2,036,783 shares in exemption of the obligation for public purchase offer as in the CONSOB note of 26 November 2007. Its shareholding in Eurofly capital has consequently gone up from 29.95% to 38.27%.

- ***Capital increase by contribution in kind***

On 29 February 2008 The Eurofly Shareholders' Meeting gave majority approval for the capital increase in kind, with some Shareholders explicitly voting against it.

The operation, for an overall value of 8 m Euro was reserved *ex lege* to Meridiana and, in line with the provisions of the 2008/2010 Business Plan, took place by means of the assignment of two shareholdings each representing 50% of the capital of Wokita S.r.l. and Sameitaly S.r.l., for a total value of 8 m Euro.

It should be remembered that Wokita S.r.l. was set up in February 2006 to promote the development of the on-line tour operator business in the Meridiana group, and Sameitaly S.r.l. was set up at the end of September 2007 to take on the role of general agent for Italy for Meridiana and also for the tour operator Wokita S.r.l., in the travel agent and companies sector.
Both of them were set up by giving them branches of the company in their respective sectors, and pre-existed and were operational for several decades before the date of incorporation of the companies.

The benefits of the operation described above are as follows:

- the possibility of having a commercial, marketing and direct sales organisation available, widespread throughout Italy and dealing with the agency and company sales channel;

- the possibility of having a technologically advanced, on-line commercial, distribution and marketing platform able to offer, on the agencies channel and directly to the final on-line consumer, flights as well as flexible tourist packages that can generate a large number of contacts with customers;
- the possibility of having the above technological networks and platforms rapidly, without proceeding to an acquisition or having to incur start up costs for these activities;
- the availability of the distribution network spread over Italy, as well as the presence of on-line sales channels: this represents an all-important element for implementing the Company repositioning and business development strategy, which is oriented towards a growth in scheduled operations.

For the capital increase, 3,558,718 shares were issued at a unit value of 2.248 Euro, fully subscribed by Meridiana. Following this operation, the Eurofly share capital is 6,503,106 Euro divided into 28,043,438 shares without expressed nominal value. Meridiana's share in the Eurofly capital increased further from 38.27% to 46.10%. The operation was completed on 11 March 2008.

On 20 March 2008 the Company Board of Directors provided, according to Article 2343, Para. 3 of the Italian Civil Code, for a check on the expert appraisal as they found no reason to proceed to a review of the appraised value.

- ***Exemption from taking up covenants at 31 December 2007***

On 19 March 2008 the signatory banks to the Company's bank debt restructuring agreement signed on 27 November 2007 declared that they did not want to take up the financial covenants referred to in that agreement, relating to the expiry date of 31 December 2007, resolving the issue of the lack of formal non compliance with said covenants at 31 December 2007. Compliance with the covenants at dates subsequent to that indicated above depends on the realizetion of the Business Plan, which is significantly influenced by the trend assumed by non controllable scenario variables and by the actual implementation of strategic actions planned for the future.

- ***Agreement relating to the A350 aircraft***

At the end of January 2008 Eurofly and Airbus decided to terminate the agreement signed on 30 December 2007, relating to the purchase of three A350 Long Range aircraft.

The Airbus decision to start up the study of a new version of this aircraft (A350–XWB), with more advanced technological features, meant delivery times that were 24 months longer than the time limit originally planned for Eurofly of 2013 and 2014. Because of this, and the fact that the flight instrumentation of the new aircraft would no longer be compatible with that of the A330, Eurofly decided not to convert its order for the new A350 into new A350–XWBs. In the light of this decision, the parties reached a private agreement that did not have, and nor will it have, any impact on the income statement, or require further expenditure for Eurofly.

- ***Agreements with Alba relating to the A319 aircraft***

At the end of January 2008 use of the A319CJ I-ECJA by Eurofly terminated; Eurofly had operated the aircraft temporarily on behalf of Alba, initially until 31 October 2007 and subsequently for a further month until 30 November 2007, and this was further renewed by subleasing it. From 1 February to 30 June 2008 Eurofly will supply Alba with engineering (technical and operational) services for this aircraft, and maintenance services on request.

- ***Agreements with Israir relating to the A330 aircraft***

At the end of March 2008 the hire contract for an A330 aircraft to the Spanish company Air Comet terminated. This aircraft was the subject of a sublease agreement with the Israeli company Israir Airlines and Tourism Ltd. The hire will start in April 2008, will last for a year and is renewable for a further 12 months.

- ***Unrest in Kenya***

At the beginning of 2008 Kenya, one of the main Eurofly Long Range destinations, was affected by violent unrest, which broke out following the results of political elections held at the end of 2007. Operations to this destination felt the effects of these events: from 7 January 2008 the capacity offered was reduced by seven to four connections per week.

- ***Completion of start up phase of North-South Italy connections***

The first months of 2008 saw the completion of the start up phase for north-south routes, from Milan Linate to Naples, Catania and Palermo, operated in code sharing with Meridiana. These connections, launched in November 2007 after some difficulties in the start up phase, showed good performance in the early months of 2008, confirming the trend to optimise the use of the A320 fleet in moving from charter operation to scheduled use.

- ***New Ukraine, Cairo, Senegal and Seychelles traffic rights***

In the early months of 2008 Eurofly was appointed by ENAC as assignee of scheduled flights to the Ukraine, Cairo and Senegal. These appointments and the related presumable activation of connections starting in the next few months must be evaluated within the design outlined in the 2008/2010 Business Plan to transform Eurofly from charter company to mixed charter, with an increase in scheduled operations.

- ***Incorporation of EF-USA Inc***

In March 2008, EF-USA Inc., a new agency company, was incorporated, with a 51% shareholding owned by GCVA Inc. (a company not connected with Eurofly S.p.A.) and 49% owned by Eurofly S.p.A., replacing, from 1 April 2008, the previous *General Sales Agent* for the North American market, whose contract would expire at the end of March 2008.

2.11. Management outlook on operations

Referring to operational performance in January and February 2008, the Company's operating results are lower than the forecasts in the Business Plan (but in any case better than the same period in 2007), mainly due to the social and political riots affecting Kenya and the increase in fuel costs. However, net assets have benefited of the effect of the capital increase that was realized better-than-expected.in the Business Plan

The Board of Directors confirmed the reasonableness of the projections and their assumptions on which the Business Plan is based, while stressing that these are significantly influenced by the trend of non controllable scenario variables (such as, for example the events in Kenya and fuel cost increases) and by the actual implementation of strategic actions planned for the future, and also confirmed that the balance sheet as of 31 December 2007 and the Business Plan data shown below have been prepared on a going concern basis.

In particular, the projections relating to the Business Plan are as follows.

- for 2008 a significantly reduced operating loss compared with 2007;
- for 2009 a positive operating result;
- for 2010 the achievement of a net profit.

For the 2008 financial year, even despite a growth in revenues, losses at operating level and results level are forecasted, mainly due to Long Range operations, which are suffering the negative effects of the prolonged start up phase for the fourth A330 aircraft in consequence of the suspension of connections to India, to which this added capacity was mainly intended.

For the 2009 financial year, the positive effect of management, commercial and integration actions outlined in the Business Plan are expected to translate into further growth in revenues with a return to operational profitability and to a net financial result in break-even. In particular, the improvement in operating result is substantially attributable to Long Range operations.

In the 2010 financial year, the Compay expects the network, commercial and management setup to be consolidated, which will guarantee a significant increase in profitability.

The accounts as of 31 December 2007 have been prepared on a going concern basis, which depends on achieving the aims of the Business Plan – where integration with Meridiana is expected to be reinforced – its profitability prospects being significantly influenced by the trend of non controllable scenario and by the actual implementation of strategic actions planned, subject to the usual contingent uncertainty about the actual realization of future expected events. Carrying out the Business Plan, finally, affects also the compliance with financial covenants set out in the long term financing contract stipulated in November 2007 (cf. Para. 2.1.6.), allowing the Company to maintain financial breackeven in the three-years period covered by the Business Plan projections.

Failure to carry out the Business Plan may determine the Company's inability to realize its assets and, in particular, its tangible and intangible assets and tax asset receivables at 31 December 2007 and to fulfill its obligations at values corresponding to those reflected in the individual accounts as of 31 December 2007.

Destination of year-end results and consequent resolutions

Dear Shareholders,

The Eurofly accounts for the 2007 financial year close with an overall loss of 21,757,020 Euro already partly offset by an amount of 15,813.872 Euro, and negative net equity of 5,405,952 Euro. We propose that the Draft Accounts for the year to 31 December 2007, to be submitted to the Ordinary Shareholders' Meeting, be approved, with the following proposal:

- to approve the Eurofly Accounts as of 31 December 2007, which show an overall loss of 21,757,020 Euro, which loss has already been offset by 15,813,872 Euro, and a negative net equity of 5,405,952 Euro;
- to carry forward the residual loss, of 5,943,148 Euro, to the next financial year.

Milan, 28 March 2008

For the Board of Management

The Chairman

Lorenzo Caprio

The Managing Director

Giovanni Rossi

ACCOUNTS FOR THE YEAR 2007

2.12. Balance Sheet

	Euro/000	**31.12.07**	**31.12.06**	**Change**
1	Tangible fixed assets	19,567	55,408	(35,946)
2	Intangibles	2,559	4,023	(1,360)
3	Other long-term and financial investments	10,945	19,259	(8,314)
4	Deferred tax assets	9,072	6,573	2,499
	Total non-current assets	**42,142**	**85,264**	**(43,122)**
5	Stock	2,876	2,954	(78)
6	Trade receivables and other receivables	58,976	55,496	3,480
7	Other assets	12,334	11,174	1,161
8	Net cash and equivalents	6,955	5,149	1,806
	Total current assets	**81,141**	**74,772**	**6,369**
	Total assets	**123,283**	**160,036**	**(36,753)**
9	Share capital	1,023	13,355	(12,332)
9	Reserves	15,328	32,486	(17,158)
9	Profit / (Loss)	(21,757)	(29,139)	7,382
	Total net equity	**(5,406)**	**16,702**	**(22,108)**
10	Loans	3,275	27,921	(24,646)
11	Deferred tax liabilities	128	398	(270)
12	Provisions for risks and charges	8,163	8,372	(208)
	Total non current liabilities	**11,566**	**36,690**	**(25,124)**
13	Trade payables and other liabilities	94,700	86,873	7,827
14	Bank debt	15,914	9,273	6,642
15	Current portions of long-term loans	514	2,312	(1,798)
16	Loans	4,323	4,500	(177)
17	Provisions for risks and charges	1,672	3,686	(2,014)
	Total current liabilities	**117,123**	**106,644**	**10,480**
	Total net equity and liabilities	**123,283**	**160,036**	**(36,753)**

Translated from the original Italian version

2.13. Income Statement

Ref.	Income statement	2007	% on revenues	2006	% on revenues	Change	change %
	Euro/000						
	Euro/000						
18	Revenue from sales and services	322.290	100,0%	282.731	100,0%	39.559	14,0%
19	Other revenue	9.405	2,9%	4.324	1,5%	5.081	117,5%
	Total revenue	**331.695**	**102,9%**	**287.055**	**101,5%**	**44.640**	**15,6%**
20	Direct commercial expenses	7.671	2,4%	5.056	1,8%	2.616	51,7%
21	Jet fuel	98.243	30,5%	85.084	30,1%	13.159	15,5%
22	Staff costs	38.354	11,9%	40.947	14,5%	-2.593	-6,3%
23	Materials and maintenance services	45.365	14,1%	38.554	13,6%	6.810	17,7%
24	Other operating costs and wet lease	92.941	28,8%	68.717	24,3%	24.225	35,3%
25	Other commercial and corporate costs	17.935	5,6%	18.226	6,4%	-291	-1,6%
26	Operative rentals	45.852	14,2%	35.120	12,4%	10.731	30,6%
27	Depreciation and amortization	3.951	1,2%	4.108	1,5%	-158	-3,8%
28	Write-off of non-current assets	0	0,0%	512	0,2%	-512	-100,0%
29	Other provisions	2.820	0,9%	5.346	1,9%	-2.526	-47,3%
30	Provisions for risks and charges	852	0,3%	1.758	0,6%	-906	-51,5%
	Total costs	**353.984**	**109,8%**	**303.428**	**107,3%**	**50.555**	**16,7%**
	Operating result	**(22.289)**	**-6,9%**	**(16.374)**	**-5,8%**	**(5.915)**	**36,1%**
31	Financial (income)/charges	2.474	0,8%	3.294	1,2%	(820)	-24,9%
	Pre-tax profit	**(24.763)**	**-7,7%**	**(19.667)**	**-7,0%**	**(5.096)**	**25,9%**
32	Tax charges	3.006	0,9%	1.728	0,6%	1.278	73,9%
33	Result from discontinued operations	1	0,0%	(11.200)	-4,0%	11.200	-100,0%
	Result of the period	**(21.757)**	**-6,8%**	**(29.139)**	**-10,3%**	**7.382**	**-25,3%**

Translated from the original Italian version

2.14. Schedule of variations in net equity

Euro/000	Share capital	Share premium reserve	Legal reserve	Other reserve	Statutory reserve	Losses carried forward	Losses covered within 2007 year	Result of the period	Total
Net equity at 31st December 2005	**12,965**	**29,127**	**478**	**0**	**3,681**	**0**	**0**	**(2,775)**	**43,476**
Allocation of 2005 result						(2,775)		2,775	**0**
Change in equity related to capital increase fullfilment	390	1,975							**2,365**
Loss of the period								-29,139	**-29,139**
Net equity at 31st December 2006	**13,355**	**31,102**	**478**	**0**	**3,681**	**(2,775)**	**0**	**(29,139)**	**16,702**
Allocation of 2006 result						(29,139)		29,139	**0**
Coverage of loss carried forward		(28,233)			(3,681)	31,914			**0**
Renounce of shareholders'loan				177					**177**
Jan - Sept 07 loss coverage	(7,088)	(2,869)	(478)				10,435		**(0)**
Oct 07 loss coverage	(5,244)			(135)			5,379		**0**
Impact of adjustment of deferred taxes on equity				(378)					**(378)**
Adjustment for actuarial loss (IAS19)				(150)					**(150)**
Result of the year								(21,757)	**(21,757)**
Net equity at 31st December 2007	**1,023**	**(0)**	**0**	**(486)**	**0**	**0**	**15,814**	**(21,757)**	**(5,406)**

Translated from the original Italian version

2.15. Cash flow statement

Euro/000	**2007**	**2006**
Net cash and equivalents at the beginning of the period	**(4,124)**	**14,077**
Pre-tax loss	(24,763)	(19,667)
Profit/(loss) from sales of assets	1	(11,200)
Tax effects on sales of assets	593	(395)
Provisions for:		
- Depreciation	3,951	6,260
- (Gain)/Loss on exchange rates due to transactions in foreign currency	1,115	2,336
- Other financial charges	1,359	2,986
- Gains from sales of fixed assets	-	-
Change in trade receivables and other receivables	(9,737)	(9,422)
Change in stock	78	(814)
Change in trade payables and other liabilities (incl. current funds)	9,251	6,282
Interest and other financial charges paid	(1,582)	(3,809)
Taxes paid	(946)	(1,933)
Realized gain/(loss) on exchange rates due to transactions in foreign currency	1,420	(1,441)
Unrealized gain/(loss) on exchange rates due to transactions in foreign currency	(2,535)	(895)
Write-offs of non-current assets	-	2,465
Net variation of staff leaving indemnity	(916)	496
Cash flow from the A319 BU operations	254	-
Cash flow from operations	**(22,458)**	**(28,751)**
Investments in fixed assets		
* intangible	(148)	(659)
* tangible	(1,236)	(1,952)
* financial	(867)	(506)
Collected interests	223	822
Cash flow from the A319 BU disposal	16,849	-
Disposal value of other fixed assets	1,185	4,984
Cash flow from investments	**16,006**	**2,688**
Shareholders' loan	-	-
Financial loans for LAG acquisition deposit	-	-
Creation of bank time deposits included in current assets	-	(3,000)
Raising of A319 loan	-	-
Expiration of bank time deposits included in current assets	3,000	-
Cash flow from the insurance policy assignment	-	10,841
Payment of loan instalments	(486)	(486)
Payment of A319 loan instalments	(898)	(1,857)
Cash flow from financial activity	**1,616**	**5,497**
Increase of share capital	-	390
Dividend	-	-
Other variations	-	-
Share capital variations connected with the finalization of the listing process	-	1,975
Cash flow from operations on equity	**-**	**2,365**
Increase (decrease) of net cash and equivalents	**(4,836)**	**(18,201)**
Net cash and equivalents at the end of the period	**(8,960)**	**(4,124)**

Translated from the original Italian version

NOTES TO THE ACCOUNTS

These individual accounts as of 31 December 2007 have been prepared according to Consob Regulation No. 11971 and subsequent modifications, with the aim of supplying information on the Company’s economic and financial position. They have been drawn up according to the international accounting principles adopted by the European Union, as well as on the basis of the provisions issued in implementation of Article 9 of Italian Legislative Decree No. 38/2005, as the Company carried out the transition to IAS/IFRS with the report for the first quarter to 31 March 2006, drawn up according to Article 82 bis of the above-quoted CONSOB regulation and they have been drawn up in particular in compliance with IAS 1 and IAS 7.

As regards the statements presentation, the Company presents the balance sheet with the breakdown in assets and liabilities between current and non-current, while the income statement shows the classification of revenues and costs by nature, a form considered more representative than the so-called “by destination” form. The net equity schedule includes all changes recorded in net equity. The cash flows Statement has been prepared using the “indirect” method. Values are expressed in thousand Euro.

An asset/liability is classed as current when it meets one of the following criteria:

- it is expected to be realized/fullfilled or it is expected to be sold or used in the normal operational cycle or
- it is owned mainly to be negotiated or
- it is expected to be realized/fullfilled within 12 months from the date of closure of the accounts.

In the absence of all three conditions, assets/liabilities are classed as non-current.

With reference to Consob resolution 15519 of 27 July 2006, given their non significance, income and charges deriving from non-recurring operations or from events that are not frequently repeated in the usual company operations are not shown separately in the income statement. These items are commented on, however, in Para. 3.6 “Significant non-recurring events and operations”. Again referring to the above-mentioned Consob resolution, amounts relating to positions and transactions with related parties are not shown separately in the balance sheet and income statement, since they are likewise non-significant. These items have been commented on in Para. 3.13 “Related parties transactions”.

Referring to the information note required by IAS 14, we would point out that the primary segment comprises sectors of activity while the analysis by geographical area is the secondary one.

2.16. Accounting principles, evaluation criteria and use of estimates adopted in the preparation of the accounts as of 31 December 2007

The accounting principles, evaluation criteria and the use of estimates adopted by the Company in drawing up the individual accounts as of 31 December 2007 have not been subject to any change on those of the previous, comparative financial period and are given below. The accounts have been prepared on a going concern basis, based on considerations detailed more fully in Para. 2.11 ”Management outlook on operations” of the management report.

- **General principles**

These accounts have been prepared taking into account IAS/IFRS international accounting principles issued by the IASB, as approved by the European Union. By the term IAS/IFRS, we mean the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS), integrated with the interpretations issued by IFRIC, previously called SIC.
These accounts have been prepared on the basis of the historic cost principle, except for revaluations of certain financial instruments existing in the 2006 financial year. The most important accounting principles adopted are shown below:

- **Recognition of costs and revenues**

Sales and purchases of goods are recognised when the goods are delivered to the client or to the firm respectively, with the transfer of the significant risks and benefits connected to the ownership of the goods. Sales and purchases of services are recognised according to their state of execution and completion at each reference date taking into account, in particular, the flight date for passenger transport services, determined according to the total value of the service given or received.
Interest income and expenses are shown on an accruals basis. Costs relating to loans taken up are allocated to the income statement at the time they were incurred. Incidental expenses for the issue of a financial instrument or for a company capital increase are directly offset against the amount of the loan or the capital increase to which they refer. Commissions paid to agencies for sales of airline tickets are debited to the income statement at the time the relative revenue was recorded.

Redebits of costs incurred on behalf of third parties are recorded in the accounts as a reduction on the cost to which they relate.

- **Benefits to staff subsequent to the work relationship**

Payments for fixed contributions plans are imputed to the income statement in the period in which they were owed.

The "Staff leaving indemnity" is the debt to employees for the indemnity accrued on the reference date in compliance with the prevailing legislation and existing contractual agreements. This liability is similar to a defined benefits plan, the cost of which is determined by using the actuarial Projected Unit Credit Method, carrying out actuarial evaluations at the end of each financial year. Actuarial profits and losses are recorded in net equity on the reference date. The cost relating to past work done is recorded immediately to the extent in which the benefits have already been accrued or is otherwise amortized at constant rates within the average period in which the benefits are expected to accrue.

Up to 31 December 2006 the staff leaving indemnity (TFR) fund was considered a definite benefits plan. Regulation of this fund was modified by Law No. 296 of 27 December 2006, ("Finance Law 2007") and subsequent Decrees and Regulations issued in the early months of 2007. In the light of these modifications, and in particular with reference to companies with at least 50 employees, this indemnity should now be considered a defined benefits plan exclusively for the share accrued before 1 January 2007 (and not yet paid at the accounts date), while subsequent to that date, it is similar to a definite contribution plan. The impacts for accounting of applying the new regulation are described in Para. 3.8.

- **Taxes**

Taxes for the period represent the sum of current and deferred taxes.

Current taxes are based on the taxable result for the period. Taxable profit differs from the result shown in the income statement since it excludes positive and negative components that will be taxable or deductible in other financial periods and also excludes items that will never be taxable or deductible. The liability for current taxes is calculated by using the tax rates in force or *de facto* in force at the year-end date.

Deferred taxes are the taxes that the Company expects to pay or to recover on the temporary differences between the accounting value of assets and liabilities and the corresponding fiscal value used in calculating the taxable sum. Deferred tax liabilities are generally recorded for all temporary differences in taxable sums, while deferred tax assets are recorded as far is it is considered likely that there will be fiscal taxable results in future that allow the use of deductible temporary differences. In particular, the value of the tax burden for deferred tax assets is

reviewed at each reference date and reduced to the extent that the existence of sufficient taxable profits to allow these assets to be recovered wholly or in part seems no longer likely.
Deferred taxes are calculated on the basis of the tax rate that the Company expects to be in force at the time the assets are realised or the liabilities discharged. Deferred taxes are imputed directly to the income statement, except for those relating to items recorded directly in net equity, in which case the relative deferred taxes are also imputed to net equity.
Deferred tax assets and liabilities are paid when there is a legal right to payment of current taxes payable and receivable and when they refer to taxes due to the same fiscal authority and the Company intends to pay current tax assets and liabilities on a net basis.

- **Non current assets**

Intangible assets

Intangible assets include costs, inclusive of incidental charges incurred for the acquisition of resources without physical consistency on condition that their amount can be quantified and the asset is clearly identifiable and controlled by the Company.
They are entered at purchase or production cost inclusive of incidental charges and subject to amortization based on their period of future use. If there is a durable loss in value, the intangible asset is correspondingly devalued according to the criteria shown in the principle “loss in value of tangible and intangible assets” below.
The amortization periods adopted for the various intangible assets are given below:

- development costs relating to initial training of pilots are amortized for a period of three years, while those relating to the launch phase of new products/services from which lasting future economic benefits are expected are amortized over five years;
- concessions, licences, trademarks and similar rights are amortized for a period of ten years;
- costs relating to setting up the website are amortized over five years.

The useful life and the amortization criteria are periodically reviewed and, where significant changes are found compared with the assumptions adopted previously, the amortization rate is corrected with the “prospective” method.

Tangible assets

These are entered if the cost can be reliably determined and if the Company can make use of the relative future economic benefits.
They are entered at purchase or production cost, inclusive of incidental charges and direct and indirect costs in the share that can reasonably be imputed to the asset. Contributions obtained from investments are recorded in the income statement throughout the period necessary to relate

them to the relative costs and they are deducted directly from these. If there is a durable loss of value, the tangible asset is correspondingly devalued according to the criteria shown in the principle “loss of value in tangible and intangible assets” below.

Fixed assets are systematically amortized at constant rates on the basis of economic-technical rates determined in relation to the residual possibilities of using the assets. Assets comprising components with different useful lives are considered separately in determining amortization. The useful life and the amortization criteria are periodically reviewed and, where significant changes are found compared with the assumptions adopted previously, the amortization rate is corrected with the “prospective” method.

The useful life of an asset is generally subject to annual confirmation and is modified in cases where incremental maintenance or replacements have been carried out that might vary the useful life of the main investment.

Incremental and maintenance expenses that produce a significant, appreciable increase in production capacity or in the safety of tangible assets or that involve an extension of their life are capitalised and recorded as an increase in the tangible asset on which they are incurred. Maintenance costs of an ordinary nature are imputed directly to the income statement.

Rates are reduced to 50% for assets that come into operation during the period since this percentage is representative of the weighted average of assets coming into operation along the annual timeline. Amortization begins when the assets are ready for use.

In particular, the amortization rates used are as follows:

- land	not amortized	
- buildings,	50 years	2%
- light constructions,	10 years	10%
- installation,	10 years	10%
- equipment,	7 years	14%
- rotating components,	12 years	8,33%
- data processing machinery,	5 years	20%
- office furniture and machinery,	8.3 years	12%
- internal means of transport,	5 years	20%
- cars,	4 years	25%
- communications systems,	5 years	20%

- modifications and standardizations carried out on fleet aircraft are amortized on the basis of the duration of the operational leasing contract.

Improvements to third-party assets are classified in tangible fixed assets, based on the nature of the cost incurred. The amortization period corresponds either to the residual useful life of the fixed asset or the duration of the contract, whichever is the lower.

Amortization of aircraft is determined – on the basis of a components approach – amortizing engines and cell components over 25 years.

Leasing contracts are classified as financial leasing when the contract terms allow for all risks and benefits of the property to be substantially transferred to the leaseholder. All other rentals are considered operational.

Operations that are the subject of a financial leasing contract are recorded as Company operations at their fair value on the date the contract is stipulated, adjusted by the incidental charges on stipulation of the contract and any charges incurred for taking over the contract or, if lower, the current value of minimum payments due for the leasing contract. The corresponding liability towards the lessor is included in net equity as a financial liability. Payments for rentals are divided between capital and interest so as to achieve a constant interest rate on the residual liability. Financial charges are directly imputed to the income statement for the period.

Rental costs deriving from operational leasings are entered at constant rates based on the duration of the contract. Benefits received or receivable or paid or payable as incentive for taking up operational leasing contracts are also entered at constant rates over the duration of the contract.

Cyclical maintenance and repair costs at the end of the contract are capitalised and added to the tangible asset to which they refer and amortized respectively for the period of validity of the cyclical maintenance or throughout the duration of the aircraft operational leasing contract.

Loss in value of tangible and intangible assets

At each reference date, the Company reviews the accounting value of its tangible and intangible assets to determine if there signs that these assets have suffered a reduction in value. If these signs exist, the recoverable amount for these assets is estimated to determine any amount of devaluation. Where it is not possible to estimate an asset’s recoverable value individually, the Company carries out recoverable value estimates for the unit generating the financial flows to which the asset belongs. In particular this minimum aggregate unit is the Business Unit (Medium Range, Long Range or All Business).

The recoverable amount is either the fair value net of sales costs or the use value, whichever is the greater. In determining the use value, future estimated cash flows are discounted at their current value by using a rate inclusive of tax that reflects the current market evaluations of the asset’s money value and specific risks.

If the recoverable amount of an asset (or the unit generating the financial flows) is estimated at a level lower than the accounting value, it is reduced to the lower recoverable value. A loss in value is shown immediately in the income statement.

When there is no further reason to maintain a devaluation, the accounting value of the asset (or the unit generating the financial flows), except for startup, is increased to the new value deriving from the estimate of its recoverable value, but no more than the net charge value that the asset would have had if the devaluation had not been made for loss of value. The restored value is imputed immediately to the income statement.

Non-current assets and liabilities intended for sale

Non-current assets (and groups of assets intended for sale) classified as “held for sale” are evaluated at either their previous charge value or the market value net of sales cost, whichever is the lower.

Non-current assets (and groups of assets intended for sale) are classified as “held for sale” when it is expected that their charge value will be recovered through a transfer operation instead of being used in the business’s operational activities. This condition is complied with only when the sale is highly probable, the asset (or group of assets) is available for immediate sale in its current condition and the Management has committed itself to the sale, which is intended to happen within twelve months from the date it is classified under this item.

The economic result achieved from assets and liabilities intended for sale for the months between the last approved year-end accounts and the date of transfer – in compliance with IFRS 5 regulation – is classified in the item “Result form discontinued operations” together with the economic impact of these transactions net of incidental selling charges.

- **Current assets and liabilities**

Stock

Stock, comprising stocks of technical materials, catering materials and scheduled airline tickets are entered either at specific purchase cost, or at the realization value that can be presumed from market performance, whichever is the lower. This lower value is not maintained in subsequent periods if the reasons for it have been removed and the value is restored, where the presuppositions for this exist, within the limits of the original purchase cost.

Financial instruments

Financial assets and liabilities are recorded at the moment the Company becomes a party to the instrument’s contractual clauses.

- Trade receivables

Trade receivables are recorded at nominal value reduced by an appropriate devaluation to reflect the estimated losses on receivables.

- Financial assets

Financial assets relating to capitalisation contracts are evaluated at cost, or at nominal value with the accrued interest added; this value is no lower than the value represented by the initial insured capital increased by the minimum guaranteed return. Financial receivables relating to loan guarantee deposits are entered at nominal value, corresponding to the presumed encashment value.

Receivables for guarantee deposits for utilities are evaluated at nominal value, corresponding to the presumed encashment value, while receivables for deposits on contractual commitments with third parties are entered at nominal value and if necessary adjusted to the amount paid at the value of presumed recovery.

At subsequent reference dates, the financial assets that the Company intends and is able to hold until their expiry date are recorded at amortized cost, net of devaluations carried out to reflect losses in value.

Financial assets other than those held until their expiry date are classified as held for negotiation or available for sale, and are evaluated at fair value at each period-end, When financial assets are held for negotiation, profits and losses deriving from variations in fair value are recorded in the income statement for the period. On the other hand, for financial assets available for sale, profits and losses deriving from variations in fair value are recorded directly in net equity until they are sold or have suffered a loss in value; in this case, the overall profits or losses previously recorded in net equity are recorded in the income statement for the period.

- Cash and equivalents

The item relating to cash and equivalents includes cash and current bank accounts and deposits returnable on demand and other short term high liquidity financial investments, which are readily convertible into cash and are subject to a non-significant risk of change in value.

- Financing, bank loans and overdrafts

Financing and interest-bearing bank loans and overdrafts are recorded on the basis of amounts collected, net of the costs of the transaction, and subsequently evaluated at cost amortized using the effective interest rate method.

- Trade payables

Trade payables are recorded at nominal value.

- Derivatives and accounting of hedging transactions

The Company's liabilities are primarily exposed to financial risks from exchange rate variations. The Company used derivatives in 2006 to manage the risk of exchange rate fluctuation and these came into the contractual category of forward foreign exchange purchases. These derivatives contracts were stipulated with counterparts chosen from those that are financially more solid in order to reduce the risk of contractual non-fulfilment to a minimum. The Company does not use derivative instruments for the purposes of negotiation.

Derivative instruments are initially recorded at cost and adjusted to fair value on subsequent accounts closure dates with a contra-entry in the income statement since there are no existing structured procedures to determine their effectiveness in respect of the hedging intention for which they are stipulated.

- **Provisions for risks and charges**

Provisions for risks and charges are created when the Company has a present obligation as the result of a past event and it is probable that it will be asked to discharge the obligation. Provisions are allocated on the basis of the best estimate by the Management of the costs required to discharge the obligation on the reference date, and are updated when the impact is significant.

- **Entries in foreign currency or subject to "exchange rate risk"**

Receivables and payables expressed originally in foreign currency of non-Eurozone countries are converted into Euro at the exchange rates existing on the date of the relative transactions. The exchange rate differences realized when the receivables are collected and the payables are paid in foreign currency are entered in the income statement. Tangible fixed assets in foreign currency are entered at the exchange rate in existence at the time they are purchased or at an exchange rate lower than that at the year end closure date if the reduction is deemed to be durable.

Assets and liabilities originally in foreign currency of non-Eurozone countries, still existing at the year end, also including fixed assets of a monetary nature, are aligned to the spot exchange rate at the accounts closure date and the related profits and losses on exchanges are entered in the income statement and any net profit allocated to the appropriate non-distributable reserve until realized.

- **Use of estimates**

The preparation of the individual accounts and the relative notes requires the Management to make estimates and assumptions that have an impact on the accounting values of assets and liabilities and on the information relating to potential assets and liabilities at the accounts date. The estimates and assumptions used are based on experience and on other factors considered relevant. The results that are finally achieved may therefore differ from these estimates. The estimates and assumptions are periodically revised and the effects of each change made to them are reflected in the income statement for the financial period in which the estimate revision takes place if the revision has an impact only on that period, or also in subsequent periods if the revision has an impact on either the current or future periods.

The critical evaluation procedures and key assumptions used by the Management in applying accounting principles regarding the future, that might have significant impact on values recorded in the accounts or for which there is a risk that adjustments may have to be made to accounting values of assets and liabilities in the financial period subsequent to the reference accounts, are summarised below.

Bad debts provision

The bad debts provision reflects the Management’s estimates of losses relating to the credit portfolio towards end customers.

The bad debts provision estimate is based on losses expected by the Comapny, determined according to past experience of similar debts, current and historical overdue debts, losses and receipts, the careful monitoring of the quality of the credit and projections concerning economic and market conditions, and it is backed up by opinions from legal consultants representing the Company in pre-litigation and litigation phases. Reference should be made in particular to Para. 3.8 “Ref. 6 – Trade receivables and other receivables” in these notes to the accounts for considerations on the main litigation in progress, with regard to receivable recoverability.

Recoverable value of non-current assets

Non-current assets include buildings, installation and machinery and other property and intangible assets. The Management periodically revises the accounting value of non-current assets held and used and of assets that are to be sold, when facts and circumstance require this revision. This operation is carried out using estimates for expected cash flows and suitable discount rates for calculating the current value and is therefore based on a combination of hypothetical assumptions relating to future events and actions by the Company’s administrative body, which may not necessarily happen with the terms and in the time-limits as forecasted. In particular the Company’s prospective profitability is significantly affected by the tred of non controllable scenario variables, including the Euro/Dollar exchange rate, interest rates and aircraft fuel costs. Failure to carry out the Business Plan may determine the Company’s inability to realise its assets at 31 December 2007 at values corresponding to those recorded in the individual accounts as of 31 December 2007.

Deferred tax assets and liabilities

The Company records current and deferred taxes according to prevailing regulations. The recording of taxes requires the use of estimates and assumptions regarding the method of interpreting the standards to be applied and their impact on the company’s tax position in relation to transactions carried out during the financial period. In addition, the recording of deferred/prepaid taxes requires the use of estimates regarding prospective taxable income and its evolution as well as the tax rates that will effectively be applicable. These operations are performed by analysing the transactions carried out and their fiscal profiles and also with the support, where necessary, of external consultants for the various matters to be dealt with and by simulations of prospective income and sensitivity analysis for them. In particular, the recoverability of deferred tax assets at 31 December 2007, partly connected to the use of fiscal losses brought forward to the next financial periods, depends on the actual realization of the Business Plan subject to the previously-indicated implementation limits. Failure to carry out the Business Plan may determine the Company's inability to realise deferred tax assets at values corresponding to those entered in the individual accounts as of 31 December 2007.

Stock devaluation

Stock devaluation is an estimate procedure subject to uncertainty in determining the value of replacing rotating components and consumables, which varies over time and according to market conditions.

Definite benefits plan

Staff Leaving Indemnity (TFR) is classifiable as a definite benefits plan. The Management use various statistical assumptions and evaluation factors with the aim of anticipating future events for calculating charges, liabilities and assets relating to these plans. The assumptions concern the discount rate, the expected performance of the assets funding the plan, and rates of future remuneration increases. In addition, the Company's consultant actuaries also use subjective factors such as, for example, mortality and leaving rates.

Contingencies

The Company is involved in legal and fiscal cases possibly deriving from complex and difficult issues interpretations that are subject to differing degrees of uncertainty, taking into account the facts and the circumstances relating to each case, the jurisdiction and the different laws applicable.

Given the uncertainties inherent in these issues interpretations, it is difficult to predict with any certainty the expenditure that may result from these litigations.

Consequently the Management, having heard the opinion of their own legal consultants and experts in legal and fiscal matters, assesses a liability with regard to these legal cases when it considers it likely that a financial disbursement will be incurred and when the amount of the losses deriving from them may reasonably be estimated. If a financial disbursement appears possible but the amount cannot be determined, this fact is reported in the notes to the accounts.

- **New principles**

The IASB has issued the following documents, already approved by the European Union, applicable for the first time from 1 January 2007:

- IAS 1 – Presentation of the accounts: supplementary information relating to capital: amendment issued in August 2005 and effective from 1 January 2007;
- IFRS 7 – Financial instruments: supplementary information: issued in August 2005 and effective from 1 January 2007;
- IFRIC 8 – Context of application of IFRS 2: issued in January 2006, and effective from 1 January 2007;
- IFRIC 9 – Revaluation of embedded derivatives: issued in March 2006 and effective from 1 January 2007;
- IFRIC 10 – Interm Reporting and durable value reduction: issued in July 2006 and effective from 1 January 2007.

In relation to the above documents no significant impact was found on net equity and on the result for the period.

New accounting principles or interpretations issued by the IASB which will be effective in the next few years are listed below:

- IFRIC 11 – Operations with own and group shares: issued in November 2006;
- IFRS 8 – Segment Reporting: issued in November 2006 and effective from 1 January 2009.

The Company is assessing the possible impact IFRS 8 may have on future accounts.

2.17. Significant non-recurring events and transactions

Some significant non-recurring events whose consequences are reflected in the economic and financial results for the period, are analysed and shown below.

Euro/000

Description	Net equity		Result of the period		Debt		Cash flow (*)	
	Abs. val.	%	Abs. val.	%	Abs. val.	%	Abs. val.	%
Balance sheet values (A)	**-5.406**		**-21.757**		**-17.065**		**-8.960**	
Disposal of A319 aircraft leasing	-1	0,0%	-1	0,0%	-33.885	198,6%	-16.205	180,9%
Solidarity agreement	-5.221	96,6%	-5.221	24,0%	-1.728	10,10%	-1.728	19,3
Tax charges due to events above	*1.723*	*-31,9%*	*1.723*	*-7,9%*		0,0%		0,0%
Total non recurring operations (B)	**-3.498**	**-33,5%**	**-3.498**	**16,1%**	**-35.613**	**208,7%**	**-17.932**	**200,1%**
Gross imputed balance sheet value (A+B)	**-8.904**		**-25.255**		**-52.678**		**-26.892**	

(*) from increase or decrease of net cash and equivalents in the period

In addition to what is shown in the table and detailed hereinafter, it should be remembered that the result for 2007 was affected by the start-up of new long range connections and by the operational event in April; the effects of these on the year-end result are summarised in the management report.

2.17.1. Disposalof A319 aircraft leasing contract and closure of All Business BU

On 25 June 2007 the final deed was signed transferring to Alba (a company not related to Eurofly) the leasing contract stipulated with Locat S.p.A. relating to the A319 – 115/CJ, Airbus previously used in the *All Business* Unit for Milan-New York connections and for VIP charter operations.

The overall effect of transferring the asset, inclusive of the management result and the capital gain from the sale, was 1 thousand Euro on the result for the period, 33.9 million Euro on net indebtedness and 15.9 million Euro on liquidity.

2.17.2. Solidarity agreement

As already mentioned in the paragraph regarding staff, the solidarity agreement provided for by Law 223/91 as an alternative instrument to collective dismissals was applied to all categories of staff from 1 April 2007, for a period of twenty four months. In the 2007 financial year this contract had a positive effect of around 5.2 million Euro on the result and on net equity, and brought about an improvement in liquidity and net financial position for the part already collected at 31 December, of around 1.8 million Euro.

2.18. Comparability of accounts

We would point out that in application of accounting principle IFRS No. 5 the entries relating to the "All Business" Business Unit have been reclassified, determining a variation in the 2006 income statement data given for comparison.

In addition, we would point out that, in order to allow the comparison of accounting data at 31 December 2006 with those at 31 December 2007, improvements to third party properties of 105 thousand Euro have been reclassified from the item Startup Costs to the item Land and Buildings.

These reclassifications have not had any impact on net equity and on the result for the financial year to 31 December 2006.

2.19. Disclosures on Balance sheet items

Non-current assets

Non-current assets at 31 December amounted to 42,142 thousand Euro compared with a value of 85,264 thousand Euro at 31 December 2006. The decrease is mainly linked to the disposal of the A319 aircraft leasing agreement. Referring to the presuppositions of recoverability of non-current assets on the basis of expected profitability from the Business Plan, reference should be made to the considerations shown in Para. 3.5 – Use of estimates – above.

- Ref. 1 – Tangible fixed assets

Tangible fixed assets showed a decrease in the year of 35,948 thousand Euro, mainly deriving from the disposal of the A319 aircraft leasing agreement in June, and are detailed in the following table.

Euro/000	Gross value				Accumulated depreciation				Net Value	Net Value
	Gross value as at 31/12/06	Increases	Write off / Decrease	Gross value as at 31/12/07	Accumulated depreciation 31/12/06	Depreciation of the year	Decreases	Accumulated depreciation 31/12/07	As of 31/12/07	As of 31/12/06
1) Land and buildings	8,763	51	0	**8,814**	774	302	0	**1,077**	**7,738**	**7,989**
2) Installation and machinery	50,088	1,160	38,109	**13,139**	8,799	2,813	4,371	**7,242**	**5,897**	**41,289**
3) Equipment	819	0	0	**819**	438	95	0	**533**	**286**	**381**
4) Other assets	2,201	25	28	**2,198**	1,379	231	25	**1,586**	**614**	**823**
5) Fixed tangibles under constr.	5,032	0	0	**5,033**	-	**0**	-	**0**	**5,032**	**5,032**
Total tangible assets	**66,903**	**1,236**	**38,137**	**30,003**	**11,389**	**3,442**	**4,396**	**10,435**	**19,567**	**55,513**

The item "Land and buildings" relates to the civil building in Via Ettore Bugatti 15, Milan, to which the headquarters of the company was transferred in December 2004. The item "Installation and machinery", which included mainly the net residual value of the A319 CJ aircraft in 2006, includes revolving components, improvements to third party aircraft in the fleet and capitalized future cyclical maintenance costs. "Fixed tangibles under construction" mainly relate to advance payments to the supplier Airbus on the basis of the purchase contract for the A350 aircraft. Reference should be made to the Management Report Para. 2.10 concerning the evolution of negotiations in relations with Airbus allowing the advance payments recorded on 31 December 2007 to be considered recoverable without financial charges and expenses for the Company.

The increases recorded in the financial year refer mainly to installation and machinery, and specifically to improvements made to fleet aircraft (183 thousand Euro), the purchase of aircraft components (382 thousand Euro), as well as the inclusion in this item of costs linked to the maintenance operations on the A330 aircraft that entered the fleet in March 2007 (595 thousand

Euro). Future cyclical maintenance costs are entered in tangible assets and amortized, on the basis of the criteria set out in the Para 3.5 above.

- Ref. 2 - Intangibles

Intangible assets were worth 2,559 thousand Euro, showing a decrease of 1,360 thousand Euro, linked substantially to amortizations for the year. Movements for the year are detailed in the table below:

Euro/000	Gross value				Accumulated amortization			Net value	Net value
	Gross value as at 31/12/06	Increases	Write off	Gross value as at 31/12/07	Accumulated amortization 31/12/06	Amortization of the year	Accumulated depreciation 31/12/07	As of 31/12/07	As of 31/12/06
1) Start up costs	5,558	123		**5,681**	4,057	687	**4,744**	**937**	**1,501**
2) Research, development and advertising costs	463	-		**463**	257	96	**353**	**110**	**206**
3) Concessions, licenses, trademarks and similar rights	2,084	21		**2,104**	893	303	**1,196**	**908**	**1,190**
7) Other intangible fixed assets	1,954	4	111	**1,847**	933	311	**1,244**	**603**	**1,022**
Total intangible fixed assets	**10,059**	**148**		**10,095**	**6,141**	**1,397**	**7,538**	**2,559**	**3,919**

Start up costs were 937 thousand Euro and include mainly costs of training pilots and staff in the maintenance area (447 thousand Euro) and costs incurred for the opening of technical presences at Sharm El Sheikh and New York airports (318 thousand Euro).

Concessions, licenses, trademarks and similar rights include 402 thousand Euro for the Eurofly trademark as well as costs incurred for the purchase of software to a net residual value of 506 thousand Euro.

Other intangible fixed assets mainly relate to the net residual value of the incidental expenses incurred for entry to the fleet, through operational leasing, of the A320 and A330 aircraft currently in the fleet. The expenses relating to the A319, for which the leasing agreement was transferred during the year, have been wholly deducted from the capital gain realized on the transaction.

The increases refer mainly to investments in software (of 19 thousand Euro) and to expenses for license applications for flight and technical personnel (123 thousand Euro).

- Ref. 3 – Other long-term and financial investments

The other long-term and financial investments, of 10,945 thousand Euro, show a decrease of 8,314 thousand Euro, divided as follows:

Euro/000	**31.12.07**	**31.12.06**	**Change**
Financial receivables	0	8,000	(8,000)
Security deposits on operating leases	7,895	8,825	(930)
Other security deposits	3,050	2,435	615
Total financial assets	**10,945**	**19,260**	**-8,315**

Financial receivables of 98 million Euro refers to a fixed-term bank deposit with Unicredit, as a pledge for the issue by the Bank of a guarantee for the leasing agreement stipulated in May 2005 with Locat S.p.A. for the purchase of the A319 CJ aircraft and mobilized following the transfer of the leasing agreement for the aircraft.

The decrease in security deposits on operating leases is linked to the release of these during the financial year, being substituted with guarantees.

- <u>Ref. 4 – Deferred tax assets</u>

As of December 2007 deferred tax assets amounted to 9,072 thousand Euro.

Movements in deferred tax assets for the year were as follows:

	Value at 31.12.06				Value at 31.12.07		
	Temp. Differences	Rate	Taxes paid in advances	2007 Movements	Temp. Differences	Rate	Taxes paid in advances
Provision for risks and charges	4,478	37.25%	1,650	-950	3,528	31.40%	1,108
Fixed assets write off	512	37.25%	191	167	678	31.40%	213
Bad debt reserve	7,435	33.00%	2,454	-5,435	2,000	27.50%	550
Unpaid remuneration to Directors	224	33.00%	74	-224	0	27.50%	0
Remuneration to statutory and external auditors	69	37.25%	26	-69	0	31.40%	0
Expenses for pubblic relation and gift	33	37.25%	11	-22	11	31.40%	3
Net penalty interest	-7	33.00%	-2	-42	-49	27.50%	-13
Brand depreciation	0	37.25%	0	45	45	31.40%	14
Unrealized gains and losses on exchange rate	895	33.00%	296	867	1,763	27.50%	485
A319 write off	1,953	37.25%	727	-1,953	0	31.40%	0
Listing costs (minor PN due to IAS)	3,080	37.25%	1,147	-1,549	1,531	31.40%	481
Losses carried forward	0	33.00%	0	22,661	22,661	27.50%	6,232
Total	**18,672**	0	**6,573**	0	**32,167**	0	**9,072**

The net increase for the year, as shown in the attached table, was motivated mainly by recording receivables for deferred taxes on a part of the 2006 and 2007 fiscal losses brought forward, amounting to 6,232 thousand Euro. It should be noted that the total amount of brought forward fiscal losses relating to the 2006 and 2007 financial years amounts to around 43 million Euro.

The recording of deferred taxes is supported by an analysis of recoverability carried out by the Management on the basis of the Industrial Plan and of a further projection of this to 2011, carried out on the basis of inflation data and the trends of the plan, which do not incorporate streamlining

expectations or benefits from variables beyond the company's control that might make the taxability expections consequent on this projection be deemed unreasonable.
It should be noted finally that the movement for the year was also affected by the bad debt write-off for advance taxes due to the reduction in Ires and Irap tax rates starting from 1 January 2008 The amount written of following this reduction was 674 thousand Euro, of which 135 thousand Euro were directly recorded in net equity according to the relative temporary differences.

Current assets

Current assets of 81,141 thousand Euro as of 31 December 2007 show an increase of 6,369 thousand Euro compared with 31 December 2006, mainly linked to the increase in trade receivables and other receivables and the net cash and equivalents. The various components of this item are detailed below.

- Ref. 5 – Stock

Stock of 2,876 thousand Euro refers mainly to aeronautical supplies. This item shows no significant variation compared with the value recorded at 31 December 2006 and is shown net of write offs for obsolescence of 299 thousand Euro determined on the basis of procedures for estimates commented on in Para. 3.5 relating to the use of estimates.

- Ref. 6 – Trade receivables and other receivables

Trade receivables and other receivables amounted to 58,976 thousand Euro in 2007, with an increase of 3,480 thousand Euro compared with 31 December 2006. This growth was due mainly to the uncollected share of the solidarity contribution, equal to 3,486 thousand Euro, of which 1,656 thousand Euro accrued to the Occupational fund and 1,830 thousand Euro accrued to the Special Fund. These counterparts are the institutional bodies that govern the allocation of these contributions. During February 2008 one instalment of this credit, for an amount of 807 thousand Euro, was collected.

During the year the provision for bad debts reserve was 2,820 thousand Euro and use was made of the reserve in an amount of 2,285 thousand Euro, for losses on receivables recorded in the 2007 financial year, substantially in line with the expected amount evaluated for this risk in previous financial years. The amount of bad debts reserve as of 31 December 2007 was 12,208 thousand Euro. As happened also in 2006, in 2007 the Company made out a significant provision for bad debts reserve in order to face adequately the receivability risk of some specific debts as well as the risk of general receivability connected with the deterioration of customer solvency, mainly linked to the difficult situation in the Tour Operating market in Italy, as well as situations of complaints and legal cases. The bad debts reserve likewise takes into account the risk that complaints in progress about interpretations of contracts may require already-invoiced revenues to be adjusted to the Company's disadvantage. Referring to the considerations in Paras. 3.5. and 3.17. about the estimates procedures adopted for evaluating credit risk and the analyses of the share of residual risk, an analysis of the state of the main legal disputes connected with credit recovery and the consequent considerations carried out in the estimates processes about the fairness of the allocation to the bad debts reserve can be found below.

Of the most relevant legal disputes from the point of view of amount of the claims put forwards, we would note the following:

- Arbitration procedure with Teorema Tour S.p.A., relating to the debt claimed by Eurofly from Teorema Tour S.p.A. of about 3 million Euro and 3 million USD (for a total 5 million Euro for credit situations as of 31 December 2007), as well as penalty fines for flight cancellations, of 14.7 million Euro (these latter are not shown in the accounts on the basis of the principle of prudence). Teorema Tour S.p.A. has contested Eurofly's requests and has claimed a credit of approximately 1.2 million Euro. Referring to the state of the case, we would point out that on 19 April 2006 Eurofly started up the arbitration procedure contractually provided for, and on 12 July 2006 the first arbitration hearing took place. In October 2006 arbitration briefs were presented by both Eurofly and Teorema Tour S.p.A. On 5 December 2006 the first hearing with the appearance of the parties took place for an attempt at reconciliation. At this meeting, by request of the parties and of the arbitrators for clarifications, a third filing of briefs was arranged, and this took place on 6 February 2007, followed by two arbitration hearings, held on 10 May and 22 June 2007, devoted to an examination of the legal representatives of the parties and of witnesses. At present, the arbitrators have deferred their decision on the arbitration subject to some preliminary questions on the matter.
  In the meantime, in order to ensure its own credit standing, the Company served a writ on Teorema Tour S.p.A. aimed at declaring invalid of the sale of a property owned by Teorema Tour S.p.A.; the first hearing was fixed, with the summons, for 6 February 2008 and subsequently postponed to 5 March 2008 in order to attempt a reconciliation.
  In the hearing of 5 March 2008 the attempt at reconciliation was not successful and the judge fixed the next hearing, aimed at the admission of measures of enquiry, for 15 July 2008.

- Arbitration procedure with MG Viaggi S.p.A., relating to a debt claimed by Eurofly from MG Viaggi S.p.A. for around 2 million Euro. Referring to the state of the case, it should be noted that in October 2006 the arbitration procedure was started up; on 25 January 2007 the first briefs were filed, followed by the reply. On 17 April 2007 an arbitration hearing was held, during which the representatives of the parties were examined. The board of arbitrators then allocated the parties a time limit for filing the final briefs on 18 May, 18 June, 29 June and 17 September 2007. At the hearing on 24 September 2007 (regarding the admission of measures of enquiry and for discussion), a court appointed expert (CTU) was appointed to ascertain the correctness of the amounts requested by Eurofly On 16 January 2008 the CTU's report was filed with the Chairman of the Board of Arbitration. The arbitrators asked the parties to grant them an extension of the time limit for filing the award to 30 September 2008. In the last arbitration hearing of 19 March 2008, it was requested that the case be decided, or otherwise that a partial award be issued at least "for the part that the Board should deem already sufficiently proved", and otherwise that the already formulated preliminary requests should be allowed. The legal representative for the other party asked that the oral evidence formulated by him should be allowed and he opposed the issue of a partial award. The Board reserves its decision.

- Petition against the Ministry of Defence relating to the trade relationship – started up in July 2004 and concluded in June 2006 - about differences that emerged in the interpretation of contractual clauses; the effects of this on Eurofly's credit position, of around 4.4 million Euro as of 31 December 2007, were examined with legal support. Eurofly filed a petition for a first injunction against the Ministry of Defence, for part of the above amount (1.1 million Euro) on 5 October 2007. The Rome Court issued the relative injunction in early November. On January 11 2008 the Ministry of Defence notified its opposition to the injunction. A second petition for injunction was filed for the remainder of the amount (3.3 million Euro) on 26 November 2007, and the Rome Court issued the relative decree for this on 22 January 2008. On 21 March 2008 the Ministry if Defence notified its opposition to this second injunction.

- A client airline company requested, with a petition according to Article 700 of the Italian Code of Civil Procedure, for the issue of a restraining measure on the request for payment of guarantees put forward by the Company, as security for its own debts, to the issuing bank. On 28 September 2007 the judge issued an order temporarily allowing the measure to be issued, and thus preventing the issuing bank from paying the sums levied by the Company and preventing the latter from claiming the above guarantees. On 21 December

2007 the judge issued a measure in the Company's favour, revoking the restraining measure previously issued, and he rejected the appeal. The Company then obtained, on that date, payment from the issuing bank of the guarantee amount of around 500 thousand Euro.

In order to give complete information, we also report that some credit positions are in the process of being examined, also with legal means, with a value of around 2 million USD claimed from financial brokers involved in managing credit card sales on the American market.

With regard to the above-quoted commercial legal cases and the credit positions that expired on 31 December 2007, the provisions for bad debts reserve carried out in the financial year and in previous financial periods – also on the basis of the opinion of legal advisers representing the Company in the cases – are deemed sufficient to minimise the economic impact of a possible negative outcome of the legal cases pending.

Finally we would mention the presence of guarantees issued by clients in favour of the Company for a total value of 820 thousand Euro.

- Ref. 7 – Other assets

Other assets, of 12,334 thousand Euro, are substantially in line with those as of 31 December 2006 and are represented by costs or shares of costs carried forward to future years on accruals-based accounting principles. They include mainly costs for aircraft maintenance (4,7 million Euro), credit notes issued in 2007 but referring to 2008 (2.9 million Euro), operational leasing rentals for aircraft (2,6 million Euro), insurance costs (0.5 million Euro) and other operating costs.

- Ref. 8 – Net cash and equivalents

Net cash and equivalents amounting to 6,955 thousand Euro are made up of bank and central bank deposits. The increase of 1,806 thousand Euro is analysed in Para. 3.12.

- Ref. 9 – Net equity

As of 31 December 2007 the Company had an equity deficit of 5,406 thousand Euro, of which 1,023 thousand Euro related to share capital, 15,328 thousand Euro to reserves and 21,757 thousand Euro in loss for the period. For an analysis of the main changes, reference should be made to Para. 2.21.

As shown in Para. 2.10 "Subsequent Events" of the management report, on 15 February the full subscription to the capital increase in cash for a total of 14,991,326 Euro, decided by majority resolution at the Shareholders' Meeting of 9 November 2007, was completed. In addition, on 11

March 2008; the capital increase by contribution in kind was completes, for a total of 8 million Euro proposed by the Board of Management at the Shareholders' Meeting of 29 February 2008, which approved it by a majority. In line with the provisions of the Business Plan for the 2008 financial year, at today's date the Company has a positive net equity being as a conseuence not already applicable the provisions of Articles 2446 and 2447 of the Italian Civil Code.

Non-current liabilities

As of 31 December 2007 these amount to 11,566 thousand Euro. The decrease by 25,124 thousand Euro compared with 31 December 2006 is mainly due to the disposal of the A319 aircraft leasing agreement in June.

- Ref. 10 - Loans

Loans, at 3,275 thousand Euro, show a decrease of 24,646 thousand Euro, due again to the disposal of the A319 aircraft leasing agreement.

As of 31 December 2007, this item included exclusively the share of the mortgage loan from Banca Profilo, of 3,275 thousand Euro. This loan was contracted with Banca Profilo for an original amount of 5 million Euro in December 2003, for the purchase of the building housing the company headquarters in Via Ettore Bugatti 15, Milan. The mortgage has a duration of ten years and allows for payment of 20 half-yearly deferred instalments. The interest rate was fixed at 1% per year up to the second instalment and subsequently to the Euribor at 6 months updated by 1.30 percentage points on a yearly basis. This loan is guaranteed by a senior mortgage on the same building for a value of 10 million Euro. The share expiring after 5 years is 983 thousand Euro.

- Ref. 11 – Deferred tax liabilities

Deferred tax liabilities amounted to 128 thousand Euro, down on the 398 thousand Euro as of 31 December 2006. Deferred tax liabilities at 31 December 2006 showed the fiscal effect connected to recording the A319 aircraft leasing agreement in the accounts, according to accounting principle IAS 17. Following the disposal of the leasing contract, these deferred taxes were issued in the first half of 2007. The deferred tax liabilities as of 31 December 2007 relate to the recording in the accounts of TFR determined with the actuarial method of projecting the unit of credit.

- Re. 12 – Provisions for risks and charges

Provisions for risks and charges amounted to 8,163 thousand Euro, substantially in line with the value as of 31 December 2006, and relates to the allocation of an amount of 5,328 thousand Euro in phase-out funds and to 2,835 thousand Euro in Staff Leaving Indemnity (TFR). The increase in phase-out funds is mainly due to the allocation of future costs relating to the fifth A330 coming into the fleet in March 2007.

The TFR estimate, applying IAS 19, determined a liability of 2,835 thousand Euro as of 31 December 2007. This estimate was reached by taking into account the new regulations on TFR established by Law No. 296 of 27 December 2006, which determined a curtailment of 391 thousand Euro, entered in the income statement. In addition, the TFR estimate was carried out on the basis of actuarial hypotheses updated to 31 December 2007, determining the entry in the accounts of an increase in the liability of 207 thousand Euro with a direct contra-entry negatively affecting net equity, as shown in Para. 3.5 of the principles for preparing the accounts.

TFR movements are shown below:

Euro/000	
TFR at 31.12.06	3,544
Adj IAS 19	-21
Curtailment	-391
Service cost	148
Interest cost	126
Actuarial loss	207
Use	-779
TFR at 31.12.07	2,835

Up to 31 December 2005, staff leaving indemnity was reflected in the accounts by applying the provisions of Article 2120 of the Italian Civil Code, and was in line with the actuarial estimate permanently adopted as of the 2007 financial year.

Current liabilities

These amounted to 117,123 thousand Euro as of 31 December 2007, a growth of 10,480 thousand Euro compared with 31 December 2006.

- Ref. 13 – Trade payables and other liabilities

The increase of 7,827 thousand Euro recorded in 2007 is mainly due to the growth in the year of accrued expenses and deferred income, linked to greater advance invoicing for flights taking place in following months.

Euro/000	**31.12.07**	**31.12.06**	**Change**
Payment received on account	2,611	1,389	1,222
Debts due to suppliers	52,177	53,065	(888)
Debts due to tax authorities	1,808	2,117	(310)
Debts due to social securities and insurance	1,512	1,414	97
Other debts	6,336	5,395	941
Accrued expenses and deferred incomes	30,256	23,491	6,765
Total	**94,700**	**86,873**	**7,827**

Payments received on account amounted to 2,611 thousand Euro, a growth of 1,222 thousand Euro compared with 2006 and a consequence of the securities received from Air Comet and Israir for the sublease contract for the fifth A330 aircraft. Debts due to suppliers went down by 888 thousand Euro.

Referring to the considerations in Para. 3.5 – "Use of estimates", regarding the estimates procedures adopted in evaluating the risk of losing legal cases, the state of the main commercial litigation and the consequent considerations carried out in the estimates procedures regarding sufficient allocations to the risk fund are analysed below.

Among the existing legal disputes, we would note the following:

- Dispute with the ENI S.p.A. oil company relating to the summons served by ENI S.p.A. on various airline companies, including Eurofly (for an amount of 242 thousand Euro), at the Rome Court. ENI S.p.A. asked for confirmation and a declaration that the said companies are obliged to pay ENI S.p.A. sums relating to the royalties that the oil company has to pay the airport managements. On 20 April 2007, Eurofly filed an appearance and answer brief with counterclaim, asking the Court to reject all the demands formulated by ENI S.p.A. and likewise to sentence the latter to refund the sums paid to them, starting from 1997, as premiums for the supply of fuel in airports and equal to around 3.5 million Euro. At the hearing on 7 November 2007 the judge postponed proceedings to 8 January 2008, due to ENI S.p.A.'s failure to appear. At this hearing, the judge granted terms for filing preliminary briefs by 31 March 2008.
- At 31 December 2007 there were 14 injunctions received, which concerned debts entered in the accounts relating mainly to Alitalia (10 summons, for 2.6 million Euro) and to the Verona Valerio Catullo Airport (summons for an amount of 2.1 million Euro), as well as three other opposing parties for a total amount of around 5.5 million Euro. We would point

out that one of the opposing parties obtained a provisional enforcement, against which the Company presented a petition for revocation, discussed in the hearing on 14 March 2008. The judge reserved his decision on this petition and on further claims. In default of the hearing the opposing party served a notice of restraint on third parties, for a counter-value of 580 thousand Euro.

The Company has opposed all injunctions served, taking exception, depending on the case, to compensating the amounts claimed or to the unjustified nature of these claims to the extents quantified by the opposing parties.

- We would note that, in the early months of 2008, Commander Augusto Angioletti, former Managing Director of the Company, asked the Milan Court to issue an injunction against Eurofly for the sum of 200 thousand Euro, for monthly emoluments in the period March-August 2007. The Milan Court, accepting the petition, issued the relative decree on 14 January 2008 enjoining Eurofly to pay the above sum.

  Eurofly opposed this decree with a petition filed on 22 February 2008. The judge has fixed the hearing for the parties to appear on 12 June 2008.

  With the above opposition action Eurofly S.p.A. requests payment of a debt of its own – claimed from the opposing party and for a total mount of 453 thousand Euro – originating from the failure by the Commander to pay Eurofly income taxes and pension contributions owed by him, relating to the nominal value of the company shares allocated to him free of charge in performance of the capital increase resolution adopted on 26 May 2005 by the Eurofly Extraordinary General Meeting.

We would note the presence of guarantees given to suppliers for a total amount of 8.1 million Euro.

With regard to the above-quoted commercial legal cases, and also on the basis of the opinion of legal advisers representing the Company in the cases, we consider that the Company will not incur further liabilities to those reflected in the accounts as of 31 December 2007 because of recognition of its obligations towards opposing parties.

- Ref. 14 – Bank debt

Bank debt amounted to 15,914 thousand Euro and refers to current account overdrafts. The increase of 6,642 thousand Euro is analysed in detail in Para. 3.12.

- Ref. 15 – Current portions of long-term loans

Current portions of long-term loans of 514 thousand Euro include the short-term portions of the mortgage, whose characteristics have already been examined in the notes relating to non- current liabilities. At 31 December 2006 this item also included the current portion of the A319 aircraft finance lease.

- Ref. 16 – Loans

This item includes the members' loan to Meridiana S.p.A., of 4,323 thousand Euro. It should be remembered that for the recapitalisation and debt restructuring operations, on 3 October 2007 Consob notified Meridiana of the exemption from the obligation to carry out a public purchase offer on the Eurofly capital, according to the section to be considered in conjunction with Article 49, Para. 1, letter b) of the so-called Issuers' Regulation and of Article 106, Para. 5, letter a) of Italian Legislative Decree no. 58/1998 (Rescue Exemption). In consequence of this, Meridiana waived an amount in capital of this loan quantified at 177 thousand Euro in consideration of the financial position at 31 December 2007 and announced that it would use the remaining credit to compensate for its own share of the capital increase, totalling 15 million Euro, resolved on by the Meeting of 9 November 2007. In consequence of this the loan was reduced by 177 thousand Euro compared with the amount shown at 31 December 2006. When it subscribed its own share of the capital increase in cash in February 2008 Meridiana S.p.A. used the loan remaining at 31 December 2006 of 4,323 thousand Euro. The loan has therefore now been paid off.

- Ref. 17 – Provisions for risks and charges

This item, of 1,672 thousand Euro, shows a net decrease of 2,014 thousand Euro. A summary schedule of the movements in these provisions is given below, divided by type.

Euro/000	**31/12/2006**	**Provision**	**Riclassification from non current liabilities**	**Use**	**31/12/2007**
Maintenance provisione	3,420	1,032	94	(3,329)	1,217
Other risks provisions	266	189	-	-	455
Totale accantonamenti a fondi rischi ed oneri	**3,686**	**1,221**	**94**	**(3,329)**	**1,672**

The maintenance provision of 1,217 thousand Euro includes provisions for costs of periodical maintenance incurred by the Company. The decrease is due to the already-quoted disposal of the A319 aircraft leasing agreement, as well as the use of funds deriving from maintenance interventions carried out in the period.

Other risks provisions amounted to 455 thousand Euro, of which 332 thousand Euro refer to the allocation of noise tax and 123 thousand Euro to other lesser disputes connected to the Company's normal business in its sector.

The allocation of the noise tax is motivated by the fact that this tax has been decreed by law, but at the present time it is still lacking the regulation for its implementation.

In order to give complete information, we would point out that normal activities of commercial litigation both active and passive are in existence, from which no further liabilities are expected apart from those allocated in the accounts. In particular, of the passive legal cases, we would note a writ of summons served on the Company in August 2005 by a tour operator for payment of an amount of around 1.1 million Euro for alleged instances of non-compliance and infringements by the Company.

In November 2007 a writ of summons was served for an amount of around 1.1 million Euro, for the alleged failure to provide payment for brokerage activities for the disposal of the A319 aircraft Finance Leasing agreement, which took place in June 2007.

We would also point out that, in September 2007 a writ of summons was served for around 1 million Euro for damages requested for late consignment of baggage; this summons was concluded in March without significant supplementary charges. Finally in January 2008, the legal case concerning labour law, which was started up in previous financial years, was closed without significant disbursements.

2.20. Disclosures on Income statement items

Revenue

- Ref. 18 – Revenue from sales and services

At the end of 2007 revenue from sales and services of 322,290 thousand Euro show an increase of 14% compared with 2006.

Revenue from sales and services *Euro/000*	**2007**	**2006**	**Change**	**% Change**
Medium Range	145,051	137,905	7,146	5.18%
Long Range	177,238	144,826	32,412	22.38%
Total	***322,290***	***282,731***	***39,559***	**13.99%**

As shown in the table, this increase is due substantially to the growth in long range operations in consequence of the expansion of the fleet. This agreement allowed Eurofly to concentrate on destinations in the Indian Ocean, while Caribbean destinations, on the other hand, were managed mainly by marketing, the destinations operated by Livingston, as marketing carrier.

- Ref. 19 – Other revenue

Other revenue in 2007 amounted to 9,405 thousand Euro, compared with the 4,324 thousand Euro recorded in 2006. This growth is due to aircraft rental revenues linked to the sub lease for the duration of one year of an A330 to the Spanish airline company Air Comet S.A.

Euro/000	**2007**	**2006**	**Change**	**% change**
Penalties	1,111	3,591	(2,480)	-69.1%
Rental	10,311	1,276	9,035	707.8%
Commissions	528	595	(67)	-11.3%
Other revenues	507	1,395	(888)	-63.6%
A319 reclassification	(3,052)	(2,534)	(518)	20.4%
Total other revenues	**9,405**	**4,324**	**5,081**	**117.5%**

Costs

- Ref. 20 – Direct commercial expenses

Direct commercial expenses for the period, amounting to 7,671 thousand Euro, showed a significant increase mainly following the expansion of long-range scheduled activities operated with A330 aircraft.

- Ref. 21 – Jet fuel

Jet fuel, of 98,243 thousand Euro, showed an increase of 15.5% determined both by the larger number of operations carried out in 2007 compared with 2006 and by the different composition of operations carried out, consequent on the expansion of long-range and the increased cost of the raw material. In correspondence with this increase, the cost of jet fuel, denominated in dollars, benefited from the more advantageous performance of the Euro/Dollar exchange rate.

- Ref. 22 – Staff costs

Euro/000	**2007**	**2006**	**Change**	**% change**
Salary and remuneration	31,149	34,173	(3,025)	-8.9%
Social charges	7,209	7,781	(572)	-7.3%
Steff leave indemnity	796	1,435	(639)	-44.5%
A319 reclassification	(801)	(2,443)	1,642	-67.2%
Total staff costs	**38,354**	**40,947**	**(2,593)**	**-6.3%**

Staff costs in 2007 amounted to 38,354 thousand Euro, showing a drop of 6.3% compared with 2006, thanks to the application from April 2007 of the so-called solidarity contract.

It should be remembered that in the restructuring interventions described previously, Eurofly, with notification to the Trade Union Organisations and to the Ministry of Labour dated 30 January 2007, in order to deal with the proclaimed state of crisis, started up a collective dismissal procedure for staff reduction according to Articles 4 and 24 of Law No. 223 of 23 July 1991, for a total of 134 units. With a trade union agreement signed at the ministry on 15 March 2007, the possibility of collective dismissals was averted, through the application of the solidarity contract (provided for among the alternative instruments to collective dismissal by Law 223/91) for a period of 24 months starting from 1 April 2007. The signing of the solidarity contract for all categories froze remunerations (Technical Flight Personnel, Cabin Flight Personnel and a substantial share of Ground Personnel) until 2009, except for an agreement that concerned a review of the certification allowances for Maintenance personnel. The benefit determined by the solidarity contract in the period in question is 5.2 million Euro (cf. Para. 3.6).

As detailed in the table below, the average workforce remunerated increased in the period by around 75 units. In particular, it should be borne in mind that the entry into the fleet of the A330 Airbus at the end of 2006 involved an adjustment in number of flight personnel.

Categories	31.12.07	31.12.06	Change
Managers	11	12	-1
Office workers	191.2	182	9.2
Total ground staff	202.2	194	8.2
Pilots	139	132	7
Flight assistants	355	294	61
Total flight staff	494	426	68
Total staff	696.2	620	76.2

- <u>Ref. 23 – Materials and maintenance services</u>

At the end of 2007 costs for materials and maintenance services were 45,365 thousand Euro. The increase of 17.7% was substantially due to the growth in the fleet and in long range operations.

Euro/000	2007	2006	Change	% change
Maintenance aa/mm	12,231	11,750	481	4.1%
Maintenance reserves	14,517	11,953	2,564	21.5%
Technical assistance and average	2,637	1,786	851	47.7%
Rental of technical materials	1,813	1,522	291	19.1%
Certification aa/mm	643	579	64	11.0%
Subtotal	**31,841**	**27,590**	**4,251**	**15.4%**
Aeronautical consumption materials	1,143	748	394	52.7%
Subtotal maintenance aa/mm	**32,984**	**28,339**	**4,645**	**16.4%**
Catering	12,397	11,591	806	7.0%
Other costs	394	428	(35)	-8.1%
A319 reclassification	(409)	(1,803)	1,394	-77.3%
Total materials and maintenance services	**45,365**	**38,554**	**6,810**	**17.7%**

As shown in detail, there was a larger increase in the maintenance reserves category – an increase that is explained by the entry into the fleet of the last two A330s.

- Ref. 24 – Other operating costs and wet lease

Operating costs and wet lease, described below, amounted to 92,941 thousand Euro and showed an increase of 35.3% on the previous period. Wet lease costs included the charges relating to the purchase of seats established by commercial agreements with the Livingston airline company, as well as costs deriving from the agreement stipulated with the Itali company last August, to deal with greater demand especially to some medium range band destinations:

Euro/000	**2007**	**2006**	**Change**	**% change**
Other operating costs	84,291	68,033	16,258	23.9%
Wet lease	8,651	684	7,967	1164.8%
Total operating costs and rentals wet lease	**92,941**	**68,717**	**24,225**	**35.3%**

The growth in operating costs was determined by the larger number of operations carried out in the period, the reduction in ACMI activity supplied to third parties (characterised by operating costs borne by third parties), as well as by the increase in some specific unit costs (including passenger taxes) and in the repro pax item, affected by operational events involving the fleet in March and April 2007.

Euro/000	**2007**	**2006**	**Change**	**% change**
Handling costs	24,863	21,243	3,620	17.0%
Assistance weather radio	20,725	18,081	2,644	14.6%
Boarding charges	20,307	16,427	3,880	23.6%
Lending charges	6,147	5,598	550	9.8%
Hotac and transportation flight staff	7,386	4,910	2,476	50.4%
Repro pax	3,868	2,139	1,729	80.8%
Insurance aa/mm	818	1,132	(313)	-27.7%
Insurance flight staff	534	440	94	21.5%
Other operating costs	284	414	(130)	-31.4%
A319 reclassification	(641)	(2,350)	1,709	-72.7%
Total operating costs	**84,291**	**68,033**	**16,258**	**23.9%**

- Ref. 25 – Other commercial and corporate costs

Other commercial and corporate costs amounted to 17,935 thousand Euro, showing a slight decrease on 2006.

Euro/000	2007	2006	Change	% change
Advisory	4,322	4,799	(476)	-9.9%
Marketing	2,048	3,672	(1,624)	-44.2%
Other staff costs	2,565	2,233	332	14.9%
Informatics	2,905	2,872	34	1.2%
Insurance	1,228	1,700	(472)	-27.8%
General administrative expenses	1,283	1,167	115	9.9%
Rental	987	1,056	(69)	-6.6%
Other overhead costs	1,483	921	562	61.0%
Remuneration to Directors and External Aud	693	404	289	71.4%
Leasing and rental	444	300	144	48.0%
A319 reclassification	(24)	(899)	875	-97.3%
Total other commercial and corporate costs	**17,935**	**18,226**	**(291)**	**-1.6%**

The significant contraction in marketing costs is due to the lower investment in advertising made by the Company in 2007. Correspondingly, informatics expenditure increased, with costs linked to operational and sales systems and other overheads.

The reduction in insurance costs is connected to the more favourable renegotiation of premiums that took place during the year.

The increase in other overheads is mainly explained by parent company redebiting for staff seconded to the Company.

- Ref. 26 – Operative rentals

The increase in operative rentals is shown in the following table:

	2007	2006	Change	% change
A320	20,206	21,481	(1,275)	-5.9%
A330	25,646	13,639	12,007	88.0%
Total	**45,852**	**35,120**	**10,732**	**30.6%**

The increase in this item was determined both by the expansion in the long range fleet with the arrival of the fourth A330 aircraft in December 2006 and of the fifth in March 2007 (then sub-leased to Air Comet S.A.) characterised by higher rental costs than previously and by the termination of the Airbus contributions present in 2006. The cost of medium range aircraft went down because of the more favourable exchange rate, which also affected the long range fleet.

Commitments for future rentals for the A320/A330 fleet are as follows:

Operative rentals	2008	2009	2010	2011	2012	Further	Total
In US$/000	64,321	47,835	44,845	44,845	39,504	72,809	314,159
In Euro/000	43,693	32,494	30,463	30,463	26,835	49,459	213,407

- Ref. 27 – Depreciation and Amortization

Depreciation and amortizations were 3,951 thousand Euro and are substantially in line with 2006 values.

- Ref. 28 – Write-off of non-current assets

No write-offs of non-current assets were carried out in the financial year. During 2006 financial assets, comprising securities for contracts of 512 thousand Euro were written off, to bring them in line with the estimated cash value.

- Ref. 29 – Other provisions

This item, of 2,820 thousand Euro, relates to the allocation to bad debts reserve, and shows a significant reduction on the 2006 value of 5,858 thousand Euro, as analysed in the paragraph relating to trade receivables.

- Ref. 30 – Provision for risks and charges

Provisions for risks and charges were 852 thousand Euro with a decrease of 906 thousand Euro, due to lower allocations to maintenance funds during the period compared with 2006, which was characterised by an *ad hoc* adjustment of maintenance funds following agreements made with the new supplier of maintenance services.

- Ref. 31 – Financial (income)/charges

The performance of net financial charges, which decreased mainly because of lower charges on foreign exchanges, is shown in the following table:

Euro/000	**2007**	**2006**	**Change**	**% change**
Financial charges due to leasing A319	(921)	(1,683)	762	-45.3%
TFR - Interest costs	(126)	0	(126)	100.0%
Fair value derivatives	-	(335)	335	-100.0%
Commissions on bank guarantees	(330)	(533)	204	-38.2%
Other financial income and charges	(1,082)	(770)	(312)	40.5%
Profit / (loss) on exchange rate	(1,115)	(2,001)	886	-44.3%
Reclassification for A319	1,099	2,028	(930)	-45.8%
Total financial income and chages	**(2,474)**	**(3,294)**	**820**	**-24.9%**

In the 2007 financial year no operations were carried out on derivatives which, in the 2006 financial year, consisted of forward currency purchases.

- <u>Ref. 32 – Tax charges</u>

Tax charges were positive at a value of 3,006 thousand Euro, mainly through the fiscal benefit connected to the recognition of deferred tax assets on lost back taxes, as specified in Ref. 4 of this document. Current taxes, relating only to IRAP, amounted to around 677 thousand Euro.

- <u>Ref. 33 – Result from Discontinued operations</u>

This item is analysed as follows:

Euro/000	2007	2006	Change
Revenue from sales and services	1,890	7,104	(5,214)
Other revenue	3,052	2,534	518
Total revenues	**4,942**	**9,638**	**(4,696)**
Direct commercial expenses	(246)	(3,107)	2,861
Jet fuel	(572)	(3,863)	3,291
Staff costs	(801)	(2,443)	1,642
Materials and maintenance services	(409)	(1,803)	1,394
Other operating costs and wet lease	(641)	(2,350)	1,709
Other commercial and corporate costs	(24)	(899)	875
EBITDAR	**2,247**	**(4,827)**	**7,074**
Operative rentals	(1,833)	-	(1,833)
EBITDA	**414**	**(4,827)**	**5,241**
Depreciation and amortization	(887)	(2,152)	1,265
Other provisions	(167)	(2,255)	2,088
Provisions for risks and charges	(73)	(332)	259
EBIT	**(712)**	**(9,567)**	**8,854**
Financial income/(charges)	(1,099)	(2,028)	930
Gains on A319 disposal	2,405	-	2,405
Tax charges	(593)	395	(989)
Total result on sales of assets	**1**	**(11,200)**	**11,200**

The item "Result from discontinued operations" – as provided for by IFRS 5 – includes all income and fiscal components, including taxes, accrued during 2007 and in the period preceding the disposal of the A319 aircraft leasing agreement, the economic effects of the disposal itself, as well as the assets in progress on behalf of the Alba company, assignees of the leasing agreement. For comparable periods the item includes the costs and revenues deriving from the activities of the relative business unit. The overall effect of the disposal of the asset, inclusive of the result of the management and the capital gain from the disposal, is virtually nil.

Result of the period

In the light of the above, the net result for 2007 is a loss of 21,757 thousand Euro, compared with a negative result of 29,139 thousand Euro for the previous financial period.
The loss per share is 1.63 Euro.

2.21. Disclosure on Items in the schedule of variation in net equity

The main items comprising net equity and the variations that occurred during 2007 were as follows:

- Company share capital of 1.023 Euro, represented by 13,.355,302 ordinary shares, without indication of nominal value. The share capital is fully subscribed and a share of 29,95% is owned by Meridiana and 14.216% by the Spinnaker fund under Luxemburg law.
- The "share premium reserve", which amounted to 31,102 thousand Euro at 31 December 2006, was entirely used up during 2007 for balancing 2006 losses and the loss accrued up to September 2007.
- The "legal reserve", of 478 thousand Euro at 31 December 2006, was entirely used up for balancing losses accrued up to September 2007.
- The "statutory reserve", of 3,681 thousand Euro at 31 December 2006, was entirely used up for balancing losses.
- The "Other provisions" are for a negative amount of 486 thousand Euro. This net equity item includes: i) an adjustment for actuarial losses, inclusive of the relative fiscal effect, determined according to IAS 19 forecasts and attributed directly to net equity, as described in Para. 3.5, for an amount of 150 thousand Euro; ii) the effect of the variation in tax rates on prepaid taxes entered in the accounts with reference to temporary differences and directly attributed to net equity on the date of first adoption of IAS/IFRS principles (135 thousand Euro); iii) the effect of temporary differences for the 2008 financial year coming in, in relation to IAS/IFRS adjustments directly attributed to net equity on the date of first adoption of IAS/IFRS principles (243 thousand Euro).
- The "result for the period", a loss of 21,757 thousand Euro was covered by an amount of 10,435 thousand Euro by the meeting of 9 November 2007 and for an amount of 5,379 thousand Euro by the meeting of 30 November 2007 with reference respectively to the write offs at 30 September and 31 October 2007. The residual loss at 31 December 2007 was 5,943 thousand Euro.

In the light of the above, there were no reserves available or distributable at 31 December 2007.

2.22. Disclosures on cash-flows items

As shown in the cash-flows statement presented in Para. 3.4, illustrating the variation in the financial period of net cash and equivalents with indirect method, 2007 was characterised by an cash absorption of 4,836 thousand Euro. The cash flows for the period are analysed in detail below.

- Cash flow from operations

This flow for the year 2007 showed a loss of 22,458 thousand Euro. The cash absorption was determined mainly by the pre-tax loss for the period of 24,763 thousand Euro, by the increase of 9.737 thousand Euro in trade receivables and other receivables, according to the dynamics illustrated in Para. 3.8, as well as 1.582 thousand Euro paid in interest and other financial charges. Offsetting these, amortizations in the period amounted to 3,951 thousand Euro and the 8increase in trade payables and other liabilities generated cash of 9,251 thousand Euro.

- Cash flow from investments

Investments made by the Company during the year were for 2,251 thousand Euro, mainly in tangible fixed assets, as specified in Para. 3.8. Disinvestment flows amounted to 18,034 thousand Euro and relate mainly to the disposal of the A319 leasing agreement. Collected interests of 223 thousand Euro should also be noted.

- Cash flow from financial activity

During the financial year, cash flows from financial activity showed a positive result of 1,616 thousand Euro and were due to: i) the expiration of a bank time deposits of 3,000 thousand Euro following the completion of the plan with suppliers; ii) payment of the A319 leasing and loan instalments, amounting to a total of 1,384 thousand Euro.

2.23. Net financial position

	Euro/000			2007	2006	Change
A.	Cash	(1)		6,955	5,149	1,806
B.	Derivative contracts included in cash	(1)		-	-	-
C.	**Net cash and equivalents (A) + (B)**			**6,955**	**5,149**	**1,806**
D.	**Current financial receivables**			**-**	**3,000**	**(3,000)**
E.	Current bank debt	(1)	(2)	15,914	9,273	6,642
F.	Derivative contracts included in bank debt	(1)	(2)	-	-	-
G.	Current portion of non-current debt			514	2,312	(1,798)
H.	Current financial debt			4,323	4,500	(177)
I.	**Current financial debt (E) + (F) + (G) + (H)**			**20,751**	**16,085**	**4,666**
J.	**Net current financial debt (I) - (C) - (D)**			**13,797**	**7,936**	**5,860**
K.	**Non-current financial receivables**			**-**	**8,000**	**(8,000)**
L.	Non-current bank debt			3,268	3,783	(514)
M.	Bonds issued			-	-	-
N.	Other non-current debt			-	24,138	(24,138)
O.	**Non-current financial debt (L) + (M) + (N)**			**3,268**	**27,921**	**(24,653)**
P.	**Net financial debt (J) - (K) + (O)**			**17,065**	**27,857**	**(10,793)**
Reconciliation with cash flow and balance sheet tables:						
(1)	Net cash and equivalents			(8,960)	(4,124)	(4,836)
(2)	Bank debt			15,914	9,273	6,642

In particular, referring to letters C, D, I, K and O in the table above, we would specify the following:

C – Net cash and equivalents

On 27 November 2007 the Company's bank debt restructuring plan was signed. Banca Nazionale del Lavoro S.p.A., Unicredit Banca d'Impresa S.p.A. and Intesa San Paolo S.p.A. proceeded to the novation of the financing contracts agreed with Eurofly and their replacement with new agreements with the following terms and conditions: (i) the banks, in equal shares, undertook to deliver, in substitution of the existing loans, a new revolving stand-by cash loan up to a maximum of 15 million Euro at a significantly lower spread compared with that applied previously; (ii) the time lime for repayment of the new loan was fixed at 36 months; (iii) the loan is accompanied by standard clauses laid down for similar transactions as well as by financial covenants. In particular, these are based on net financial indebtedness/EBITDAR and net financial indebtedness/net equity and will be calculated on the basis of the annual accounts and on the half-yearly management report starting from the accounts as of 31 December 2007. The reference values are shown below.

I. Net financial indebtedness/EBITDAR:
  - for 2007 not exceeding (0.80)
  - for 2008 not exceeding (0.60)
  - for 2009 not exceeding (0.15).

II. Net financial indebtedness/net equity:
  - for 2007 not exceeding (2.80)
  - for 2008 not exceeding (1.80)
  - for 2009 not exceeding (0.35).

The recording of EBITDAR for calculating the net financial indebtedness/EBITDAR relationship will take place half-yearly and will refer to the last 12 months preceding the date of recording.

Because of the extension of the time limit for carrying out the capital increase in cash compared with that hypothesised in the Business Plan, on 31 December 2007 the loan covenants appear not to have been formally complied with through the Company's evident capitalisation lack.

On 19 March 2008 the banks that signed the bank debt restructuring agreement declared that they did not want to proceed to the recognition of the compliance ti the financial covenants referred to in the above agreement, relating to the expiration on 31 December 2007. Compliance with the covenants on dates subsequent to the above depends on the Business Plan being carried out, as this is significantly affected by the trend of non controllable scenario variables and by the actual implementation of strategic actions planned for the future.

Finally, we would note that the loan contract provided for the issue of a letter of patronage by Meridiana in favour of the banks.

Net cash and equivalents as of 31 December 2007, which benefited from this agreement, were 6,955 thousand Euro and are made up of credit balances on current accounts at banks.

D – Current financial receivables

Current financial receivables, which amounted to 3,000 thousand Euro in December 2006 and referred to pledges on sums deposited at credit institutions, linked to the re-entry plan negotiated with suppliers, were zero at the end of 2007.

I – Current financial debt

This amounts to 20,751 thousand Euro and is represented by: i) debts payable to banks of 15,914 thousand Euro, for current account overdrafts; ii) the current part of the non-current debt for an amount of 514 thousand Euro relating to the mortgage, and iii) other current financial liabilities of 4,323 thousand Euro relating to the non interest-bearing loan of 24 months, transferred from Spinnaker to Meridiana with the agreement completed on 28 December 2006, used subsequently in the subscription to Eurofly's capital increase.

At 31 December 2007 total receivables amounted to 26,000 thousand Euro, of which 24,044 thousand Euro were used. In particular, the uses were subdivided into 15,925 thousand Euro in advance invoices and 8,119 thousand Euro for guarantees.
The percentage use of cash receivables and advance invoices at 31 December 2007 was 92.48%.

K – Non current financial receivables

As of 31 December 2007, non current financial receivables were zero. As of 31 December 2006 they were 8,000 thousand Euro, represented by a bank time deposit at Unicredit, a pledge for the issue by the bank of the guarantee on the financial lease stipulated in May 2005 with Locat S.p.A. for the acquisition of the A319 CJ, following the disposal of the above mentioned leasing agreement.

O – Other non current debt

Other non-current debt was 3,268 thousand Euro and comprised non-current bank debts of 3,268 thousand Euro, represented by the share over 12 months of the mortgage contracted with Banca Profilo. In 2006 this also included the long term share of the debt to leasing companies.

2.24. Related parties transactions

According to IAS 24, Meridiana S.p.A. is a related party in that it is able to exert a considerable influence on financial and operational decisions taken by Eurofly. The assets, financial and economic relationships with the Meridiana Group are shown below.

€/000

Description	2007	Related parties	
		Absolute value	%
Trade receivables	58,976	1,124	1.9%
Non-current financial assets	0	0	-
Current financial assets	6,955	0	-
Trade payables	94,700	1,957	2.1%
Non-current financial liabilities	3,275	0	-
Current financial liabilities	20,751	4,323	20.8%

Description	2007	Related parties	
		Absolute value	%
Total revenue	331,695	869	0.3%
Total costs	353,984	2,858	0.8%
Financial (income)/charges	2,474	0	-

Description	2007	Related parties	
		Absolute value	%
Cash flow from operations	(22,458)	886	-3.9%
Cash flow from investments	16,006	0	-
Cash flow from financial activities	1,616	0	-

These transactions were carried out at market conditions and are analysed below.

- ***Trade receivables/payables***

The trade receivables in existence at 31 December 2007 in relation to Meridiana S.p.A. were 1.1 million Euro and refer mainly to the hire of Eurofly aircraft to Meridiana in ACMI mode and to the invoicing of the code-share with Meridiana. Trade payables of 2.0 million Euro were generated mainly by maintenance, supervision and handling operations and consultancies carried out by Meridiana S.p.A. for Eurofly.

- ***Financial assets and liabilities***

At 31 December 2007 financial liabilities towards Meridiana S.p.A. amounted to 4.3 million Euro and refer to the non interest-bearing loan for 24 months provided by Spinnaker on 18 November 2005 to reinforce the company's asset and financial situation with a view to its entry into the Stock Exchange and subsequently assigned to Meridiana S.p.A. with the sale of Eurofly's majority package. Reference should be made to Para. 3.8 for developments in the situation during 2008.

- ***Revenue/costs for purchases and supply of services***

Revenue at 31 December 2007 amounted to 0.9 million Euro, due mainly to the invoicing of flights in ACMI mode, while costs of 3,5 million Euro were mainly determined by maintenance, handling and supervision operations and for consultancies carried out by Meridiana S.p.A. as well as commissions accrued by Meridiana on code share sales on Eurofly flights.

2.25. Compensation paid to Board members, memebers of control body and Management with strategic responsibilities

According to Article 78 of the Issuers' Regulation, details of compensation paid to individual members of the administrative and control body are shown below, as well as the compensation paid to Management with strategic responsibilities, by panel method.

Name and last name	Office held	Term of office	Expiration	Annual compensation for the office	Compensation for the office held
Lorenzo Caprio	President	30/11/07-31/	31/12/08	70,000	6,137
Giovanni Rossi	CEO	28/12/06-31/	31/12/08	200,000	200,000
Franco Trivi	Vice president	28/12/06-31/	31/12/08	70,000	70,000
Luca Ragnedda	Director	28/12/06-31/	31/12/08	70,000	70,000
Sergio Rosa	Director	28/12/06-31/	31/12/08	70,000	70,000
Alessandro Giusti	Director	28/10/07-31/	31/12/08	20,000	3,616
Antonio Romani	Director	28/10/07-31/	31/12/08	20,000	3,616
Gian Carlo Arduino	Director	28/12/06-31/	31/12/08	20,000	20,000
Giuseppe Lomonaco	Director	28/12/06-31/	31/12/08	20,000	20,000

The table below shows compensation paid during 2007 to members of the Board of Management no longer in office at today's date.

Name and last name	Office held	Term of office	Annual compensati on for the office	Compensation for the office held
Sandro Capotosti	President	28/12/06- 27/10/07	70,000	57,534
Laura Sanvito	Director	28/12/06- 27/10/07	20,000	16,438
Ruggeromassimo Jannuzzelli	Director	28/12/06- 27/10/07	20,000	16,438

The table below shows the compensation paid to members of the board of auditors during 2007.

Name and last name	Office held	Term of office	Annual compensati on for the office	Compensation for the office held
Marco Rigotti	President	27/04/06-31/12/07	31/12/08	39,776
Guido Mongelli	Auditor	27/04/06-31/12/07	31/12/08	34,956
Michele Saracino	Auditor	27/04/06-31/12/07	31/12/08	34,552

The total value of compensation paid to Management with strategic responsibility for 2007 was 554 thousand Euro. The total value of Staff Leaving Indemnity set-aside during 2007 was 44 thousand Euro.

2.26. Compensation paid to Independent Audit Firm,

In compliance with the provisions of Article 149-twelve of the Consob Issuers' Regulation, we give below details of the compensation paid to the Independent Audit Firm charged with checking the accounts, as distinct from auditing services provided to the Company and other services apart from auditing, subdivided by type.

Service	Compensation
Auditing services	56,000
Attestation services (Report on 2007/2010 forecast included in paragraph 13.3 of the Prospectus)	210,000
Attestation services (Report of auditing firm on property of issue price of the share in the capital increase without option rights ex art 2441 4° clause, civil code and 158, 1° clause d.lgs 158)	165,000

2.27. Segment Reporting

According to IAS 14 instructions, Eurofly supplies segment information based on the distinction by activity between medium and long range and All Business, since the risks and benefits to the business are significantly affected by the differences in the three activities. The main characteristics of the Business Areas are summarised below.

1) Medium Range: includes flights of less than 5 hours' duration, covering the area of Europe and the Mediterranean basin and operated with the Company's A320 fleet or with aircraft purchased temporarily from third parties in wet lease. The main destinations for traffic operated by the Company are Egypt, Greece, and the Canaries and Balearics. From the end of 2007, it also includes north-south Italy scheduled routes. Medium range business is characterised by a high level of seasonality, linked to summer tourism.
2) Long Range: includes flights of over 7 hours' duration. The main destinations are the Maldives, Kenya, Mexico and Santo Domingo. From 2005 scheduled connections between Italian provincial airports (including Palermo, Naples and Bologna) and New York were started up, and these were extended to Rome in 2006 and to Lamezia in 2007. Scheduled connections to India and Mauritius were also started up. The connection to India, begun in January 2007, was suspended in September 2007. Because of the places reached, long range business is characterised by a less accentuated seasonality. In addition, scheduled operations to New York compensate further for the winter peak of charter flights to exotic "beach" destinations.

	Medium Range				Long Range				Total			
Euro/000	2007	2006	*Change*	*% Change*	2007	2006	*Change*	*% Change*	2007	2006	*Change*	*% Change*
Total revenue	**148,296**	**141,455**	**6,841**	*4.8%*	**183,399**	**145,600**	**37,799**	*26.0%*	**331,695**	**287,054**	**44,641**	*15.6%*
Direct commercial expenses	2,825	1,337	1,487	*111.2%*	4,847	3,718	1,129	*30.4%*	7,671	5,055	2,616	*51.8%*
Revenue net of direct comm	**145,471**	**140,117**	**5,354**	*3.8%*	**178,552**	**141,882**	**36,670**	*25.8%*	**324,023**	**281,999**	**42,024**	*14.9%*
Jet fuel	37,875	34,923	2,952	*8.5%*	60,368	50,161	10,208	*20.3%*	98,243	85,084	13,159	*15.5%*
Staff costs	17,412	22,088	-4,675	*-21.2%*	20,941	18,859	2,082	*11.0%*	38,354	40,947	-2,593	*-6.3%*
Materials and maintenance s	19,201	17,924	1,277	*7.1%*	26,164	20,630	5,533	*26.8%*	45,365	38,554	6,810	*17.7%*
Other operating costs and w	46,308	39,204	7,105	*18.1%*	46,633	29,513	17,120	*58.0%*	92,941	68,716	24,225	*35.3%*
Other commercial and corpo	8,939	9,589	-650	*-6.8%*	8,996	8,637	359	*4.2%*	17,935	18,226	-291	*-1.6%*
Subtotal costs	**129,735**	**123,727**	**6,008**	*4.9%*	**163,103**	**127,800**	**35,303**	*27.6%*	**292,838**	**251,527**	**41,310**	*16.4%*
EBITDAR	**15,736**	**16,390**	**-654**	*-4.0%*	**15,450**	**14,082**	**1,368**	*9.7%*	**31,186**	**30,471**	**714**	*2.3%*
Operative rentals	20,206	21,481	-1,275	*-5.9%*	25,646	13,640	12,006	*88.0%*	45,852	35,120	10,731	*30.6%*
EBITDA	**-4,470**	**-5,091**	**621**	*-12.2%*	**-10,196**	**442**	**-10,638**	*-2405.3%*	**-14,666**	**-4,649**	**-10,017**	*215.5%*
Depreciation and amortizati	1,374	1,331	43	*3.3%*	2,577	2,777	-200	*-7.2%*	3,951	4,108	-157	*-3.8%*
Other provisions	2,044	3,648	-1,604	*-44.0%*	776	2,210	-1,434	*-64.9%*	2,820	5,858	-3,038	*-51.9%*
Provisions for risks and char	127	868	-740	*-85.3%*	724	890	-166	*-18.6%*	852	1,758	-906	*-51.5%*
EBIT (operating result)	**-8,016**	**-10,938**	**2,922**	*-26.7%*	**-14,274**	**-5,436**	**-8,838**	*162.6%*	**-22,289**	**-16,373**	**-5,916**	*36.1%*

€/000	Medium Range		Long range		All Business		Not allocated		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Total non current assets	10,215	5,300	20,429	13,975	0	42,726	11,498	23,263	42,142	85,264
Total current assets	24,680	25,862	38,116	32,451	730	227	17,615	16,232	81,141	74,772
Total assets	**34,895**	**31,162**	**58,545**	**46,426**	**730**	**42,953**	**29,113**	**39,495**	**123,283**	**160,036**
Net equity	0	0	0	0	0	0	0	16,702	0	16,702
Total current liabilities	51,347	40,505	34,483	31,947	3,651	6,043	30,915	28,149	117,123	106,644
Total non current liabilities	6,740	4,074	3,370	2,037	0	25,958	1,457	4,621	11,566	36,690
Total liabilities	**58,087**	**44,579**	**37,853**	**33,984**	**3,651**	**32,001**	**32,372**	**49,472**	**128,689**	**160,036**

2.28. Information on financial risks

In this paragraph we give qualitative and quantitative reference information about the incidence of the main financial risks identified and managed by the company.

The Company is exposed to the following financial risks connected with its operations:

- Credit risk: highlighting the possibility of default by a counterpart or the possible deterioration of the creditworthiness assigned to them.
- Market risks: deriving from exposure to interest rate and exchange rate fluctuations;
- Liquidity risk: meaning the risk that the available financial resources may be insufficient to maintain payment commitments.

Quantitative data shown below have no forecast value. In particular, the *sensitivity analyses* on market risks cannot reflect the complexity and the connected reactions of the markets that may derive from any change hypothesis.

As required by IFRS 7, we give below the detail of the financial assets and liabilities identified for the purposes of this analysis.

€/000

Assets	(Note)	31/12/2007	Receivables
Financial assets	3	10,944.8	10,944.8
Total non current financial assets		**10,944.8**	**10,944.8**
Trade receivables and other receivables	6	58,976.1	58,976.1
Other asset	7	12,334.5	12,334.5
Cash and cash equivalents	8	6,954.7	6,954.7
Total current financial assets		**65,930.8**	**65,930.8**
Total financial assets		**76,875.5**	**76,875.5**

€/000

Liabilities	(Note)	31/12/2007
Loans	10	3,274.6
Future charge		2,164.0
Totan non current financial liabilities		**5,438.6**
Trade payables and other liabilities	13	94,700.3
Current financial loan	15	514.3
Bank debt	14	15,914.3
Future charge		1031.0
Loan	16	4,322.8
Total current financial liabilities		**116,482.7**
Total financial liabilities		**121,921.3**

€/000

Assets	(Note)	31/12/2006	Receivables
Financial assets	3	19,259.2	19,259.2
Total non current financial assets		**19,259.2**	**19,259.2**
Trade receivables and other receivables	6	55,495.8	55,495.8
Other asset	7	11,173.8	11,173.8
Cash and cash equivalents	8	5,148.6	5,148.6
Total current financial assets		**60,644.4**	**60,644.4**
Total financial assets		**79,903.6**	**79,903.6**

€/000

Liabilities	(Note)	31/12/2006
Loans	10	27,920.9
Future charge		7,229.1
Total non current financial liabilities		**35,150.1**
Trade payables and other liabilities	13	86,872.9
Current financial loan	15	2,312.4
Bank debt	14	9,272.7
Future charge		1,191.2
Loan	16	4,500.0
Total current financial liabilities		**104,149.2**
Total financial liabilities		**139,299.3**

Credit risk

As regards credit risk, it should be remembered that the Company, in the context of the progressive development of scheduled operations provided for in the Business Plan, at today's date creates most of its turnover through charter operations with the consequence that its ordinary clientele is mainly represented by tour operators. Bearing in mind that the tour operating sector in Italy is characterised by the presence of mainly small and medium sized operators, it seems obvious that the overall credit risk connected to trade relationships with these operators will inevitably be higher compared with that found in other main European countries.

The above risk is dealt with, on a contractual level, by providing for payment in advance of the date when the flights take place and also by requesting sureties or deposits to guarantee fulfilment of the contractual provisions while, on a management level, compliance with the payment terms is constantly monitored.

In addition, because of the above mentioned sector characteristics, the Company adopts a restrictive policy on late payments and in any case selects its clients on the basis of reliability and solitary shown by the contractors in trade conduct adopted in the past.

The tables below give information about the Company's exposure to credit risk at 31 December 2007 and at 31 December 2006:

€/000	31/12/2007	Ageing			
		30 days	60 days	90 days	further
Financial assets non current non overdue	**10,944.8**				
Trade receivables	32,547.3				
Pre paid for anticipated invoices	-27,393.9				
Cash and cash equivalents	6,954.7				
Total financial assets current not overdue	**12,108.1**				
Trade receivables	30,657.3	9,516.5	1,778.5	421.8	18,940.6
Pre paid for anticipated invoices	-2,554.6	-2,554.6			
Trade receivables overdue	**28,102.7**	**6,961.9**	**1,778.5**	**421.8**	**18,940.6**
Bed debt provision	-12,207.6	-284.0	-53.4	-12.7	-11,857.6
Total financial assets current overdue	**15,895.1**	**6,677.9**	**1,725.2**	**409.1**	**7,083.0**

Referring to financial liabilities overdue by more than 90 days not covered by provisions for bad debts, taking into account historical experience, the state of progress of the litigation and the relevant legal opinion as well as the existence of guarantees issued by the clients, the credit risk is considered to be reduced.

The table summarising trade receivables and other receivables at 31 December is given below, showing the make up of the value as per the accounts.

€/000	
Trade receivables not overdue	32,547.3
Trade receivables overdue	30,657.3
Bed debt provision	-12,207.6
Trade receivables	**50,997.0**
Fiscal receivables	1,787
Other receivables	6,192
Total trede receivables and other receivables	**58,976**

We give below the same data relating to 2006, for comparison

€/000	31/12/2006	Ageing			
		30 days	60 days	90 days	further
Financial assets non current non overdue	**19,259.2**				
Trade receivables and other receivables	21,435.3				
Pre paid for anticipated invoices	-17,128.7				
Cash and cash equivalents	5,148.6				
Total financial assets current not overdue	**9,455.2**				
Trade receivables and other receivables	34,824.1	10,162.3	1,306.6	859.9	22,495.3
Pre paid for anticipated invoices	-6,398.1	-6,398.1			
Totale crediti scaduti	**28,426.0**	**3,764.2**	**1,306.6**	**859.9**	**22,495.3**
Fondo svalutazione crediti	-11,036	-112.9	-39.2	-25.8	-10,858.2
Total financial assets current overdue	**17,389.9**	**3,651.3**	**1,267.4**	**834.1**	**11,637.1**

€/000	
Trade receivables not overdue	21,435.3
Trade receivables overdue	34,824.1
Bed debt provision	-11,036.1
Trade receivables	**45,223.2**
Fiscal receivables	3,501.2
Other receivables	6,771.4
Total trede receivables and other receivables	**55,495.8**

Market risk

Exchange rate risk

Referring to the exchange rate risk, we would point out that some of the main production factors are paid for in dollars. This is because some markets, such as the oil derivatives market and aircraft rental and insurance markets adopt the dollar as reference currency, and because business is carried out abroad. On the other side, partially compensating for this the Company develops a part of its turnover in dollars, as well as holding non current assets of around 13 million Euro in dollars, comprising deposits paid to suppliers to guarantee aircraft rental contracts and other supplies.

As regards cover for risks deriving from variations in the two quoted exogenous variables, it should be remembered that the charter contracts stipulated by the Company with tour operators provide for the possibility of adjusting the prices agreed according to the Euro/USD exchange rate at the time of the flight. The cover offered by this clause has some limitations. In fact, charter contracts are negotiated around six months in advance of the dates the flights are carried out; they provide for the performance of the flights, and exemptions, as well as the technical methods of calculation to determine a time variance between application of the adjustments and change in fuel prices and/or the exchange rate.

In addition, in the case of strong variations in the exogenous variables concentrated in a short time span, the price adjustments, although contractually guaranteed, come up against a limit in the capacity of the market to absorb the increases.

It should be noted that, with particular reference to transferring the risk of exchange rate increase to a corresponding amount applied to customers is also influenced by reasons of commercial opportunity and by the behaviour of competing companies.
Although the Company has contractual and commercial mechanisms available for containing this risk, it is anyway partly exposed to the effects deriving from the unfavourable performance of this variable.
Because of the presence of the above-mentioned contractual cover, it has not been the Company's practice up to now to implement further cover on the exchange rate risk.

The impact of a positive (negative) percentage point change in the Euro/dollar exchange rate on pre-tax profits for 2007 and 2006 and on net equity before tax as of 31/12/2007 and 31/12/2006, with reference to financial assets and liabilities as quoted in IFRS 7.

€/000

Impact on pre tax profit	2007	2006
Shock up (variation in exchange rate + 1%)	-136	-190
Shock down (variation in exchange rate - 1%)	138	194

€/000

Impact on net equity gross of fiscal effect	2007	2006
Shock up (variazione tasso di cambio + 1%)	-136	-190
Shock down (variazione tasso di cambip - 1%)	138	194

Interest rate risk

Finally, since some of Eurofly's financial liabilities are at variable rates, and that the reference rate for some operational and financial leasing contracts for aircraft is also variable, this means that the Company is exposed to risks deriving from increases in interest rates.
The impact of a positive (negative) percentage point change in the interest rate on pre-tax profits for 2007 and 2006 and on net equity before tax as of 31 December 2007 with reference to financial assets and liabilities, as quoted in IFRS 7, is shown below.

€/000

Impact on pre tax profit	2007	2006
Shock up (variation in exchange rate + 1%)	-578	-1,660.0
Shock down (variation in exchange rate - 1%)	578	1,660.0

€/000

Impact on net equity gross of fiscal effect	2007	2006
Shock up (variation in exchange rate + 1%)	-578	-1,660.0
Shock down (variation in exchange rate - 1%)	578	1,660.0

Liquidity risk

The liquidity risk can be identified as the risk that financial resources may not be sufficient to cover all the obligations nearing their expiry date. The following tables summarises the time profile of the Company's financial liabilities at 31 December and at 31 December 2006 on the basis of contractual payments not implemented.

€/000

	31/12/2007	expiring date				
		2 years	3 years	4 years	5 years	further
Loan	3,274.6	526.0	556.0	588.0	622.0	982.6
Future charge	2,164.0	1,003.0	903.0	117.0	83.0	58.0
Financial liabilities non current not overdue	**5,438.6**	**1,529.0**	**1,459.0**	**705.0**	**705.0**	**1,040.6**
Trade payables	74,100.3					
Current portion of financial loan	514.3					
Bank debt	15,914.3					
Future charge	1,031.0					
Loan	4,322.8					
Financial liabilities current not overdue	**95,882.7**					
Financial liabilities current overdue	**20,600.0**					
Total financial liabilities	**121,921.3**					

Financial liabilities not overdue shown in the above table, for the purposes of IFRS 7information, also include amounts of interest due to be settled in the next financial periods and, consequently, not yet included in the amount of financial loan recorded at 31 December 2007. The forecast cash flows from operational activity formulated in the Business Plan, the current composition of the bank loan together with the effects of the recapitalisation operations that have taken place as well as the normal management of overdue loans, mean that the Company can be considered as being in a position to fulfil its above-mentioned payment obligations although it cannot be ruled out that in certain periods of the year Eurofly may find itself in situations of temporary financial tension.

The 2006 data are shown for the purposes of comparison.

€/000

	31/12/2006	expiring date				
		2 years	3 years	4 years	5 years	further
Loan	27,920.9	2,435.0	2,564.0	2,700.0	2,844.0	17,377.9
Future charge	7,229.1	162.0	139.0	115.0	89.0	106.0
Financial liabilities non current not overdue	**35,150.1**	**2,597.0**	**2,703.0**	**2,815.0**	**2,933.0**	**17,483.9**
Trade payables	65,596.9					
Current portion of financial loan	2,312.4					
Bank debt	9,272.7					
Future charge	1,191.2					
Loan	4,500.0					
Financial liabilities current not overdue	**82,873.2**					
Financial liabilities current overdue	**21,276.0**					
Total financial liabilities	**139,299.3**					

The situation shown above relating to the previous financial year included the obligation to pay the A319 aircraft leasing contract, which was disposed to Alba in 2007.

3. Certification of Accounts for the Financial Year according to Article 81-ter of Consob Regulation No. 11971 of 14 May 1999 and subsequent modifications and integrations

1. The undersigned Giovanni Rossi, Managing Director, and Daniele Renna, Manager responsible for preparing financial report for Eurofly S.p.A., hereby certify the following, also taking into account Article 154 bis, Paras. 3 and 4, of Italian Legislative Decree No. 59 of 24 February 1998:

   a) sufficiency in relation to the business characteristics;
   b) the effective application of administrative and accounting procedures in preparing accounts during the 2007 financial year.

2. There were no significant aspects emerging in this regard.

3. It is also certified that the accounts as of 31 December 2007:

   a) correspond to the results in the accounts books and written accounting records;
   b) have been prepared in compliance with International Accounting Principles issued by the International Accounting Standard Board (IASB) adopted by the European Union and, as far as can be ascertained, they are suitable for supplying a true and fair view of the assets and the economic and financial situation of the Issuing Company.

Milan, 28 March 2008

Giovanni Rossi	Daniele Renna
Managing Director	Manager responsible for preparing the Company financial report
______________________	______________________