eurofly

Quarterly Report as of 31 March 2008

Eurofly S.p.A. – Head Office Via Ettore Bugatti 15, Milano (MI) - - Share capital Euro 6,503,105.72

Company subject to management and coordination by Meridiana S.p.A.

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

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E U R O F L Y S.p.A.

Head Office Via Ettore Bugatti15, Milano

Share Capital Euro 6,503,105.72 fully paid-up

Entered in the Milan Companies' Register at No. 05763070017 – R.E.A. N. 1336505

Introduction

This Quarterly Report as of 31 March 2008 has been prepared according to Italian Legislative Decree No. 195 of 6 November 2007, containing the implementation of Directive 2004/109/CE (also known as the "Transparency Directive") and with the purpose of supplying information about the Company's income, balance sheet and financial position. It has been prepared with the application of international IAS/IFRS principles and, in particular, of IAS 34 accounting principle, set out in detail in Para. 3.1 of this report.

In the Quarterly Report the income statement and financial statement data for the quarter are compared with those for the same period in the previous year. The net financial position and balance sheet entries at 31 March 2008 are compared with the corresponding data at 31 December 2007.

We give below the main economic-financial data and business data at 31 March 2008, compared to those of the same period in 2007 and to the 2007 year-end data.

Unless otherwise specified Euro/000

2007	**Significant data**	**I quarter 08**	**I quarter 07**	**Change**	**% change**
47.144	Total flight hours	10.936	10.814	122	1,1%
1.879.289	Passengers carried	382.264	370.406	11.858	3,2%
156	Fleet availability, rented and in wet lease (machine months)	37	39	(2)	-5,1%
5.015	Productivity long range fleet (flight hours)	4.850	5.386	(536)	-10,0%
3.255	Productivity medium range fleet (flight hours)	2.986	2.451	535	21,8%

2007	**Summary Income Statement**	**I quarter 08**	**I quarter 07**	**Change**	**% change**
322.290	Revenue from sales and services	79.445	72.272	7.174	9,9%
331.695	Total revenue	83.101	72.722	10.379	14,3%
31.186	EBITDAR (1)	10.408	6.277	4.131	65,8%
9,7%	Percentage revenue from sales and services	13,1%	8,7%	0,0%	0,0%
(14.666)	EBITDA (2)	(657)	(4.293)	3.636	-84,7%
-4,6%	Percentage revenue from sales and services	-0,8% -	0	-	0,0%
(22.289)	EBIT (3)	(3.103)	(5.389)	2.286	-42,4%
-6,9%	Percentage revenue from sales and services	-3,9% -	0	-	0,0%
(21.757)	Result of the fiscal year / period	(4.167)	(7.429)	3.261	-43,9%

31.12.07	**Summary Balance Sheet**	**31.03.08**	**31.12.07**	**Change**	**% change**
42.142	Total non-current assets	47.301	42.142	5.159	12,2%
81.141	Total current assets	79.917	81.141	(1.224)	-1,5%
123.283	Total assets	127.218	123.283	3.934	3,2%
(5.406)	Net equity	12.931	(5.406)	18.337	-339,2%
11.566	Total non-current liabilities	11.371	11.566	(195)	-1,7%
117.123	Total current liabilities	102.915	117.123	(14.208)	-12,1%
123.283	Total net equity and liabilities	127.218	123.283	3.934	3,2%

2007	**Investments**	**I quarter 08**	**I quarter 07**	**Change**	**% change**
2.251	Investments	2.980	1.019	1.961	192,4%

31.12.07	**Other financial data**	**31.03.08**	**31.12.07**	**Change**	**% change**
(17.065)	Net financial position (4)	(8.520)	(17.065)	8.545	50,1%
(8.960)	Net cash and equivalents	(4.976)	(8.960)	3.983	44,5%
(4.836)	Cash flow of the period	3.983	(4.836)		

(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) With reference to the item "Net cash and equivalents", the net financial position at 31 March 2008 includes the mortgage amount.

OPERATIONS AND SCENARIO

1.1. Management performance and operating activity

1.1.1. Quarterly results

The first quarter of 2008 was characterised by several events, which are detailed below. In the initial phase of the year, there was a considerable fall in economic trends, which saw a drop in the value of the US dollar, a rise in inflation and an ever-greater demand for raw materials, as well as a negative performance on stock exchanges. The element that characterised the slow-down in world economies, however, was the extraordinary level reached by fuel costs linked to the ever-growing demand from developing economies with limited resources (cf. Para. 1.1.5). In addition, there were events of a socio-political nature affecting Kenya, one of the main Eurofly long-range destinations, as a consequence of which it was necessary to reduce significantly flights to that destination, with serious consequences for the company's business.

Against this scenario, total revenues in the first quarter of 2008 amounted to 83,101 thousand Euro, compared with 72,722 thousand Euro in the same period of 2007. The increase can be attributed mainly to the good performance of medium range scheduled flights from Milan Linate to Naples, Catania and Palermo, which were started up last November in codesharing with Meridiana, to lessen the seasonal effect typical of the medium range destinations served by the Company (cf. Para. 1.1.3). As already mentioned, compared with the first quarter of 2007, long-range business was penalized by the political unrest in Kenya; on the other hand, it should be remembered that in the first quarter of 2007 the Rome-Delhi link was active, and then subsequently suspended. Revenues from both medium and long range also benefited from tariff adjustments following the increase in fuel costs, which meant a lessening in the effect of the increase in the price of crude oil described in the macroeconomic reference variables. The increase in other revenues derived from the sublease of the fifth A330 aircraft, which entered the fleet at the end of March 2007 and was immediately rented to the Spanish company Air Comet (cf. also Para. 1.1.2).
EBITDAR, of 10,408 thousand Euro, showed an increase of 4,131 thousand Euro on March 2007. In this case, too, the improvement can be attributed to medium-range business (EBITDAR of 3,652 thousand Euro in the first quarter of 2008 as against an EBITDAR of 494 thousand Euro in the previous financial period). This Business Unit had an increased EBITDAR deriving both from the greater volume of operations carried out in the quarter, and from improved profit margins, also up because of the reduction in costs of maintenance materials and services, operating services and personnel (deriving from the application of the solidarity contract). EBITDAR for long-range

operations, of 6,756 thousand Euro, increased by 974 thousand Euro compared with the same period in 2007, which was penalized by the start-up costs for links with India and Mauritius.

Operational rental costs were slightly up, mainly due to the entry into the fleet of the fifth A330 aircraft. On the other hand, the weakening of the dollar against the Euro had a positive effect on this cost item.

As a result of the above, the negative EBITDA of 657 thousand Euro showed an improvement of 3,636 thousand Euro compared with the first quarter of 2007, in line with the improvement in EBITDAR.

The greater provision for bad debts made in the first quarter of 2008 relating to objections to or deteriorations in litigations that occurred during the quarter or after approval of the accounts for the period, affected the operating loss, which was anyway down to 3,103 thousand Euro, compared with 5,389 thousand Euro for the first quarter of 2007. The net loss was 4,167 thousand Euro compared with 7,429 thousand Euro for the first quarter of 2007. During the first quarter of 2007, the management of the A319 Business Unit, classified in the item “Result of disposal of assets”, determined a loss of 1,347 thousand Euro; conclusion of the agreement with Alba–Servizi Aerotrasporti S.p.A. for the temporary use by Eurofly of the aircraft up to the end of January 2008 (cf. Para. 1.1.2), on the other hand, allowed a positive profit margin of 217 thousand Euro to be achieved in the first quarter of 2008, recorded in the management of continuous assets.

Net equity at 31 March 2008 was 12,931 thousand Euro compared with the deficit of 5,406 thousand Euro at 31 December 2007; the increase was the result of the successful conclusion of the capital increases in cash (14,991 thousand Euro) and in kind (8,000 thousand Euro) carried out in the first quarter of 2008, net of the incidental expenses for the increases of 710 thousand Euro. Net financial indebtedness amounted to 8,520 thousand Euro compared with 17,065 thousand Euro at 31 December 2007, with a performance that will be explained more clearly later on in this Quarterly report.

1.1.2. The fleet

In the first quarter of 2008 the fleet setup remained unchanged compared with the first quarter of 2007. The medium-range fleet comprises 8 A320 aircraft and the long-range fleet, 4 A330 aircraft, all in operational leasing. It should be remembered that at the end of March 2007, a fifth A330 aircraft entered the fleet, which was assigned in operational leasing to the Spanish company Air Comet until March 2008 and subsequently to the Israeli company Israir Airlines & Tourism LTD for one year, renewable for a further 12 months.

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.

The Eurofly fleet from January 2007 to March 2008 is summarised in the table below. The A319 aircraft is part of the Eurofly fleet, being sub-leased by Alba as stated above.

Registration mark	Type	Entry in fleet	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
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															

1.1.3. 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 business in the third quarter of the year, while the periods of lesser activity are in the second and fourth quarters, except 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 be taken in more exotic countries, which are popular 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 the Winter 2007/08 season 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 excursions for Italian tourists within the packages acquired by them;

ii) safeguarding its presence on the Canaries market – another destination with annual programming - again with the aim of improving aircraft productivity and encouraging market alternatives to the Red Sea, with Malpensa-Tenerife and Malpensa and Verona-Fuerteventura direct flights;

iii) starting up code sharing operations, from 28 October 2007, with Meridiana for the following scheduled flights:
   - Milan Linate-Naples (two flights per day as operating carrier, one flight per day as marketing carrier);
   - Milan Linate-Catania (two flights per day as operating carrier);
   - Milan Linate–Palermo (one flight per day as operating carrier);
   - Milan Linate–Rome (two flights per day as marketing carrier);
   - Milan Linate–Paris (two flights per day as marketing carrier);

- Naples-Paris (one flight per day as operating carrier);
- Milan Malpensa-Pristina (one flight per day as operating carrier: this flight was suspended in January 2008)

iv) starting up, from 18 March 2008, the first scheduled Bologna-Moscow link, programmed to operate twice-weekly each Tuesday and Friday and envisaging the resumption of Naples-Moscow scheduled flights from May 2008

v) a presence on the ad-hoc flights markets for incentives and conventions, as well as developing contacts with the Interior Ministry for transfers of staff or for repatriation requirements.

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

i) launch of the new scheduled Milan-Seychelles route from mid-February 2008. The new link was programmed to start on 23/2/08 with destination Mahé (via Mauritius) with one flight per week (Saturday);

ii) continuing twice-weekly Rome Fiumicino-New York scheduled flights for the whole 2007/2008 winter season (Fridays and Sundays from 28 October 2007). Since January, flights to and from New York have also been on sale to continue with an intensified programme from mid-May 2008, to and from 7 regional airports (Bari – newly introduced for 2008 - Bologna, Lamezia Terme, Naples, Pescara, Palermo and Rome);

iii) 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 Malpensa-Mombasa (Kenya) flight on Fridays.

These flights complete the main long-range charter programming, with four more flights to the Maldives, two to Zanzibar and Mombasa from Milan, Rome and Bologna and a flight to Cancun (Mexico) from Rome Fiumicino and Milan Malpensa. It should be noted that part of the capacity freed by reducing flights to Kenya as a result of the well-known problems of political instability and public order, was used in flights to Zanzibar and the Seychelles/Mauritius.

Statistical data

Flight hours by type

Flight hours

2007		I quarter 2008	I quarter 2007	Change	% Change
46,085	**Block hours (a)**	10,690	10,458	232	2.2%
591	**ACMI (b)**	163	285	-122	-42.7%
468	**REPRO (c)**	83	71	12	17.3%
47,144	**Total flight hours**	**10,936**	**10,814**	**122**	**1.1%**

(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		I quarter 2008	I quarter 2007	Change	% Change
26,259	**Medium Range**	6,034	4,905	1,129	23.0%
20,308	**Long Range**	4,871	5,455	-584	-10.7%
577	**All Business**	31	454	-423	-93.1%
47,144	**Total flight hours**	**10,936**	**10,814**	**122**	**1.1%**

In the first quarter of 2008 the number of flight hours remained substantially unchanged compared with the first quarter of 2007. As shown by the analysis per B.U., medium-range flight hours increased by 1,129 units, thanks to the new scheduled operations linking Italian cities. In long-range operations, on the other hand, there was a drop of 584 hours, linked to the above-quoted contraction in operations in Kenya, as well as the suspension in September 2007 of the Rome-Delhi link, which started up in January 2007.

Fleet productivity *Annualized flight hours*					
2007		I quarter 2008	I quarter 2007	Change	% Change
3,255	**Medium Range**	3,255	3,097	158	5.1%
5,015	**Long Range**	5,015	5,318	-302	-5.7%

Fleet productivity shows a significant increase in medium-range, which flew 23% more hours for the same number of aircraft, while long-range fell almost 10%, in line with the reduction in hours flown, again in this case as a result of the reduction in capacity made available to Kenya.

Passengers carried					
2007		I quarter 2008	I quarter 2007	Change	% Change
1,851,288	Eurofly	431,490	356,920	74,570	20.9%
28,001	Other carriers	6,630	13,486	-6,856	-50.8%
1,154,601	Medium Range	292,695	211,832	80,863	38.2%
721,403	Long Range	144,955	156,514	-11,559	-7.4%
3,285	All Business	470	2,060	-1,590	-77.2%
1,879,289	**Total passengers**	**438,120**	**370,406**	**67,714**	**18.3%**

The number of passengers carried by Eurofly showed a growth of around 18.3%, thanks to the contribution of medium-range operations where the increase in passenger numbers was 38.2%. Passengers carried in long-range operations went down by 7.4%.

Passengers carried - NY route					
2007		I quarter 2008	I quarter 2007	Change	% Change
133,051	Passengers carried	9,045	0	9,045	-
186,804	Seats offered	12,972	0	12,972	-
71.2%	Load factor	69.7%	-		-

Passengers carried - Milan Linate/ South Italy / Paris					
2007		I quarter 2008	I quarter 2007	Change	% Change
67,146	Passengers carried	107,959	0	107,959	-
115,200	Seats offered	168,390	0	168,390	-
58.3%	Load factor	64.1%	-	-	-

In 2008 the Rome Fiumicino-New York operation was carried out in the winter months as well. In the first quarter of 2008 passengers on this route numbered 9,045 and the flight had a load factor of almost 70%.

Medium-range scheduled flights, including the Milan Linate-Naples, Palermo and Catania links as well as the link between Naples and Paris Charles De Gaulle, had a load factor of 64% and carried 107,959 passengers.

1.2. Significant events occurring in first quarter 2008

- ***Fuel cost trend***

As detailed in the paragraph relating to the macroeconomic scenario, during the first quarter of 2008 fuel costs, which represent around 35% of Eurofly's turnover, increased very significantly. This trend has also continued into the subsequent months, in which the price of crude oil has risen to over 120 dollars a barrel. It should be remembered that, as regards fuel costs in charter contracts stipulated by the Company with tour operators, there is the possibility of adjusting the agreed prices in accordance with the effective cost at the time of the flight. This cover has some limitations, depending on the time difference between the negotiation of contracts and the performance of the flights, the presence of exemptions, and also, in cases where the exogenous variables show strong variations, a limit in the capacity of the market to absorb the increases. While these covering mechanisms have been effective up to now, further increases in fuel costs may have an effect on the Company's results in negotiations for future charter contracts.

With regard to scheduled operations, fuel surcharges in the air transport industry are applied to the ticket price, with the aim of recovering at least a part of the above cost, consistent with motives of commercial opportunity and in line with the conduct of competitors.

- ***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. Tensions among supporters of opposing ethnic groups, fuelled by divisions between the political factions, led to violent clashes in consequence of which the Italian Foreign Ministry, along with other European foreign ministries, issued a "travel warning" – an invitation to its citizens to postpone already-planned journeys to Kenya.

Operations to this destination felt the effects of these events and, from 7 January 2008 onwards, the capacity offered was reduced by seven to four connections per week. In addition, to guarantee the safety of operations, it was decided to base activities in neighbouring Zanzibar, with a consequent rise in costs.

- ***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%. Incidental expenses for the quoted company capital increase were 414 thousand Euro.

- ***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 million Euro was reserved, in accordance with Article 2441, Para. 4 of the Italian Civil Code, 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 million 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 realization 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.

- ***Agreements 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 limits 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 A350s 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 outflows for Eurofly.

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

As already mentioned in Para. 1.1.2, 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 through a sublease. 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***

As already mentioned in Para. 1.1.2, at the end of March 2008 the hire contract of 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, which started at the beginning of April 2008, will last for one year and is renewable for a further 12 months.

- ***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 links, launched in November 2007 after some initial difficulties in starting up flights in the low season, 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 started offering flights to the Seychelles. The Company was also appointed by ENAC as assignee of scheduled rights 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 related to Eurofly S.p.A.) and 49% owned by Eurofly S.p.A., to replace, from 1 April 2008, the previous *General Sales Agent* for the North American market, whose contract would expire at the end of March 2008.

1.3. <u>Subsequent events</u>

- ***Positive assessment by the auditing firm on the accounts as of December 2007***

On 11 April 2008 the auditing firm Deloitte & Touche S.p.A. issued a positive assessment of Eurofly's year-end accounts as of 31 December 2007. It should be remembered that on 13 April 2007 Deloittes declared that they were not able to express a judgement relating to the accounts as of 31 December 2006 as a result of the elements of uncertainty that were still present regarding the hypothesis of the Company's future development, along with the unavailability of the 2007/2009 Business Plan.

1.4. <u>Management outlook on operations</u>

Referring to operational performance in the first quarter of 2008, the Company's operating results are lower than the forecasts in the Business Plan, mainly due to (i) social and political disturbances affecting Kenya; (ii) the increase in fuel costs, with reference to scheduled operations; (iii) larger adjustment provisions. These effects were partly lessened by the better-than-forecast performance of medium range charter operations to Egypt. 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.

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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 balance in net results. In particular, the improvement in operating result is substantially attributable to Long Range operations.

In the 2010 financial year, the Company expects the network, commercial and management setup to be consolidated, guaranteeing a significant increase in profitability.

This Quarterly Report as of 31 March 2008 has been prepared on a going concern basis in the light of the confirmation of the reasonableness of the projections and assumptions on which the Business Plan is based. Carrying out the Business Plan, finally, also affects the compliance with financial covenants set out in the long term financing contract stipulated in November 2007 allowing the Company to maintain financial breakeven in the period covered by the plan.

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 assets receivables at 31 March 2008, and to fulfill its obligations at values corresponding to those reflected in the Quarterly Report as of 31 March 2008.

1.5. Macroeconomic picture

In the first quarter of 2008, European and US economies showed signs of reduced growth. In the same period, the price of energy products increased exceptionally, as shown in the table below.

Crude Oil

US dollar per barrel

Crude Oil	I quarter 2008	I quarter 2007	March 08	March 07
WTI - USA	97.9	58.1	105.5	60.4
Brent - Europe	96.9	57.8	103.6	62.1

Source: Energy Information Administration - US Government

The Euro strengthened significantly against the dollar both in spot exchange terms between end-December 2007 and end-March 2008, and in average exchange terms between the first quarter of 2007 and the first quarter of 2008.

Exchange rate

	I quarter 2008	I quarter 2007	31 March 08	1 Jan 08
EUR/USD	1.50	1.31	1.58	1.47

Source: Il Sole 24 ore

Interest rates showed a tendency to rise in the Euro zone but to contract in the United States.

Interest rates (3m)

	I quarter 2008	I quarter 2007	March 08	Jan 08
EURIBOR	4.5%	3.8%	4.6%	4.5%
LIBOR (US$)	3.3%	5.4%	2.8%	3.8%

Source: British Bankers Association

1.6. Sector scenario

During the period January-March 2008 a slow-down in the number of passengers carried was recorded at world traffic level. In its periodic report relating to the first quarter of 2008, IATA reported a growth of 6.6% in passengers carried compared to the same period in 2007 and compared to the 7.4% growth recorded in the year 2007, as well as a load factor of 75.6%, slightly down on the 77% of 2007.

Similar data can be found in Italy. Assoaeroporti statistics show a growth rate of 7.4% in the period January-March, compared with a growth of 11% overall for 2007.

2. ACCOUNTS FOR FIRST QUARTER 2008

2.1. Balance sheet

Balance sheet

31.03.07	Rif.	*Euro/000*	31.03.08	31.12.07	Change
55,012	1	Tangible fixed assets	14,121	19,567	(5,446)
3,718	2	Intangibles	2,270	2,559	(289)
19,467	3	Other long-term and financial investments	13,682	10,945	2,737
6,501	4	Deferred tax assets	9,229	9,072	157
0	5	Participations	8,000	0	8,000
84,698		**Total non-current assets**	**47,301**	**42,142**	**5,159**
2,943	6	Stock	2,908	2,876	32
59,557	7	Trade receivables and other receivables	58,002	58,976	(974)
8,998	8	Other assets	8,165	12,334	(4,169)
2,982	9	Net cash and equivalents	10,842	6,955	3,887
74,480		**Total current assets**	**79,917**	**81,141**	**(1,224)**
159,177		**Total assets**	**127,218**	**123,283**	**3,934**
13,355	10	Share capital	6,503	1,023	5,480
3,347	10	Reserves	10,595	15,328	(4,732)
(7,429)	10	Profit / (Loss)	(4,167)	(21,757)	17,590
9,274		**Total net equity**	**12,931**	**(5,406)**	**18,337**
27,198	11	Loans	3,018	3,275	(256)
509	12	Deferred tax liabilities	128	128	0
9,118	13	Provisions for risks and charges	8,225	8,163	62
36,826		**Total non current liabilities**	**11,371**	**11,566**	**(195)**
90,989	14	Trade payables and other liabilities	85,447	94,700	(9,253)
11,350	15	Bank debt	15,818	15,914	(96)
2,346	16	Current portions of long-term loans	526	514	11
4,500	17	Loans	0	4,323	(4,323)
3,893	18	Provisions for risks and charges	1,124	1,672	(548)
113,078		**Total current liabilities**	**102,915**	**117,123**	**(14,208)**
159,177		**Total net equity and liabilities**	**127,218**	**123,283**	**3,934**

2.2. Income statement

We give below the income statement relating to the first three months of 2008 compared with the same period in 2007:

2007	% on revenues	Rif.	Income statement	I quarter 2008	% on revenues	I quarter 2007	% on revenues	Change	% change
			Euro/000						
322,290	100.0%	19	Revenue from sales and services	79,445	100.0%	72,272	100.0%	7,174	9.9%
9,405	2.9%	20	Other revenue	3,656	4.6%	450	0.6%	3,205	711.5%
331,695	**102.9%**		**Total revenue**	**83,101**	**104.6%**	**72,722**	**100.6%**	**10,379**	**14.3%**
7,671	2.4%	21	Direct commercial expenses	1,386	1.7%	1,352	1.9%	34	2.5%
98,243	30.5%	22	Jet fuel	27,396	34.5%	20,809	28.8%	6,587	31.7%
38,354	11.9%	23	Staff costs	9,208	11.6%	10,386	14.4%	-1,178	-11.3%
45,365	14.1%	24	Materials and maintenance services	10,471	13.2%	10,294	14.2%	177	1.7%
92,941	28.8%	25	Other operating costs and wet lease	19,836	25.0%	19,845	27.5%	-9	0.0%
17,935	5.6%	26	Other commercial and corporate costs	4,396	5.5%	3,760	5.2%	636	16.9%
45,852	14.2%	27	Operative rentals	11,064	13.9%	10,569	14.6%	495	4.7%
3,951	1.2%	28	Depreciation and amortization	948	1.2%	936	1.3%	13	1.4%
0	0.0%	29	Write-off of non-current assets	0	0.0%	0	0.0%	0	#DIV/0!
2,820	0.9%	30	Other provisions	1,310	1.6%	0	0.0%	1,310	100.0%
852	0.3%	31	Provisions for risks and charges	188	0.2%	161	0.2%	28	17.2%
353,984	**109.8%**		**Total costs**	**86,204**	**108.5%**	**78,111**	**108.1%**	**8,093**	**10.4%**
(22,289)	**-6.9%**		**Operating result**	**(3,103)**	**-3.9%**	**(5,389)**	**-7.5%**	**2,286**	**-42.4%**
2,474	0.8%	32	Financial (income)/charges	721	0.9%	300	0.4%	421	140.7%
(24,763)	**-7.7%**		**Pre-tax profit**	**(3,824)**	**-4.8%**	**(5,688)**	**-7.9%**	**1,865**	**-32.8%**
3,006	0.9%	33	Tax charges	(343)	-0.4%	(393)	-0.5%	50	-12.6%
1	0.0%	34	Result from discontinued operations	0	0.0%	(1,347)	-1.9%	1,347	-100.0%
(21,757)	**-6.8%**		**Result of the period**	**(4,167)**	**-5.2%**	**(7,429)**	**-10.3%**	**3,261**	**-43.9%**

2.3. 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)**
Allocation of 2007 result						(5,943)	(15,814)	21,757	**0**
Capital increase in cash	5,231	9,476							**14,707**
Capital increase in anture	249	7,548							**7,797**
Loss of the period								(4,167)	**(4,167)**
Net equity at 31 March 2008	**6,503**	**17,025**	**0**	**(486)**	**0**	**(5,943)**	**0**	**(4,167)**	**12,931**

2.4. Cash flows statement

2007	Euro/000	I quarter 2008	I quarter 2007
(4,124)	**Net cash and equivalents at the beginning of the period**	**(8,960)**	**(4,124)**
-		-	-
(24,763)	Pre-tax loss	(3,824)	(5,688)
1	Profit/(loss) from sales of assets	-	(1,347)
593	Tax effects on sales of assets	-	-
-	Provisions for:	-	-
3,951	- Depreciation	948	1,376
1,115	- (Gain)/Loss on exchange rates due to transactions in foreign currency	297	49
1,359	- Other financial charges	424	800
-	- Gains from sales of fixed assets	-	(1,886)
(9,737)	Change in trade receivables and other receivables	4,986	11
78	Change in stock	(32)	4,709
9,251	Change in trade payables and other liabilities (incl. current funds)	(10,480)	(872)
(1,582)	Interest and other financial charges paid	(474)	-
(946)	Taxes paid	-	1,746
1,420	Realized gain/(loss) on exchange rates due to transactions in foreign currency	23	(1,795)
(2,535)	Unrealized gain/(loss) on exchange rates due to transactions in foreign currency	(320)	-
-	Write-offs of non-current assets	-	-
(916)	Net variation of staff leaving indemnity	159	152
254	Cash flow from the A319 BU operations	-	-
(22,458)	**Cash flow from operations**	**(8,293)**	**(2,746)**
	Investments in fixed assets		
(148)	* intangible	(64)	(53)
(1,236)	* tangible	(79)	(620)
(867)	* financial	(2,837)	(346)
223	Collected interests	50	72
16,849	Cash flow from the A319 BU disposal	-	-
1,185	Disposal value of other fixed assets	5,029	138
16,006	**Cash flow from investments**	**2,100**	**(809)**
(486)	Payment of loan instalments	(245)	(243)
(898)	Payment of A319 loan instalments	-	(446)
1,616	**Cash flow from financial activity**	**(245)**	**(689)**
-	Other variations	5,231	-
-	Share capital variations connected with the finalization of the listing process	5,191	-
-	**Cash flow from operations on equity**	**10,421**	**-**
(4,836)	**Increase (decrease) of net cash and equivalents**	**3,983**	**(4,244)**
(8,960)	**Net cash and equivalents at the end of the period**	**(4,976)**	**(8,368)**

2.5. Net financial position

I quarter 2007	Euro/000				I quarter 2008	2007	Change
2,982	A	Cash	(1)		10,842	6,955	3,887
-	B.	Derivative contracts included in cash	(1)		-	-	-
2,982	**C.**	**Net cash and equivalents (A) + (B)**			**10,842**	**6,955**	**3,887**
3,000	**D.**	**Current financial receivables**			-	-	-
11,350	E.	Current bank debt	(1)	(2)	15,818	15,914	(96)
-	F.	Derivative contracts included in bank debt	(1)	(2)	-	-	-
2,346	G.	Current portion of non-current debt			526	514	11
4,500	H.	Current financial debt			-	4,323	(4,323)
18,196	**I.**	**Current financial debt (E) + (F) + (G) + (H)**			**16,344**	**20,751**	**(4,408)**
12,214	**J.**	**Net current financial debt (I) - (C) - (D)**			**5,502**	**13,797**	**(8,295)**
8,000	**K.**	**Non-current financial receivables**			-	-	-
3,531	L.	Non-current bank debt			3,018	3,268	(250)
-	M.	Bonds issued			-	-	-
23,668	N.	Other non-current debt			-	-	-
27,198	**O.**	**Non-current financial debt (L) + (M) + (N)**			**3,018**	**3,268**	**(250)**
31,412	**P.**	**Net financial debt (J) - (K) + (O)**			**8,520**	**17,065**	**(8,545)**
	Reconciliation with cash flow and balance sheet tables:						
(8,368)	(1)	Net cash and equivalents			(4,976)	(8,960)	3,392
11,350	(2)	Bank debt			15,818	15,914	4,468

3. NOTES TO THE ACCOUNTS

3.1. Accounting principles

The Quarterly Report as of 31 March 2008 have been prepared according to the same accounting principles adopted in the preparation of the Annual Report as of 31 December 2007 to which reference should be made for a detailed analysis.

It is however important to note that the preparation of interim accounts requires estimates and assumptions to be made by the administrators, which influence the values of revenues, costs, balance sheet assets and liabilities and the information given relating to potential assets and liabilities at the quarterly accounts date. If in the future these estimates and assumptions, which are based on the best evaluation by the administrators themselves, should differ from the effective circumstances, they would be modified appropriately in the period in which the circumstances themselves vary.

We would also point out that these evaluation procedures, in particular the more complex ones such as determining possible losses in value of non current assets, are generally carried out fully only when the annual accounts are drawn up since at this time all the necessary information is available, except in cases where there are impairment indicators requiring the immediate evaluation of possible losses in value. Similarly, actuarial evaluations necessary for determining Funds for employee benefits are normally worked out when the annual accounts are prepared.

The Quarterly Report has been prepared on a going concern basis and depends on the objectives in the 2008-2010 Business Plan being achieved. The plan has been drawn up on the basis of forecasts of the Company's prospective profitability, which are significantly influenced by the trend of not controllable macroeconomic and economic variables. The objectives for 2008/2010, as detailed in the paragraph relating to management outlook on operations, have been confirmed by the Board of Directors despite the fact that, with reference to asset performance in the first quarter of 2008, operating results are lower than the forecasts in the Business Plan, mainly because of (i) social and political disturbances affecting Kenya; (ii) the increase in fuel costs, with reference to scheduled operations; (iii) higher provisions. These effects were partly lessened by the better-than-forecast performance of medium range charter operations to Egypt.

3.2. Comparability of accounts

We would point out that the entries in the income statement at 31 March 2007 and at 31 December 2007 relating to the "All Business" Business Unit, given for the purposes of comparison, are shown in application of accounting principle IFRS No. 5 – "Non current assets held for sale and discontinued operations" – because of the disposal of the leasing contract for the A319 carried out in June 2007.
The result of managing the aircraft on behalf of the assignee (cf. Para. 1.1.2) was 217 thousand Euro in the first quarter of 2008 and is reflected in the result of continuous assets, being linked to the provision of a service independent of the previous direct management of the "All Business" Business Unit.

3.3. Disclosure on balance sheet items

Non current assets

Non current assets at 31 March 2008 amounted to 47,301 thousand Euro, up on the value at 31 December 2007, mainly as a consequence of the granting of 50% shareholdings in Wokita and Sameitaly, in the context of the capital increase by contribution in kind.

Tangible fixed assets, of 14,121 thousand Euro, mainly relate to the civil building in Via Ettore Bugatti 15, Milan, the Company's headquarters. They showed a decrease of 5,023 thousand Euro as a result of the mobilization of payments on account to the supplier Airbus, following the termination of the agreement described in Para. 1.2.

Intangibles, of 2,270 thousand Euro, are substantially in line with the value at 31 December 2007.

Other long term and financial investments were 13,682 thousand Euro, an increase on the year-end figure of 10,945 thousand Euro due to the creation of a new security deposit to a lessor, to partly replace guarantees comprising letters of credit not renewed by financial institutions, and made necessary by contractual renewals for the Gecas A320s.

Deferred tax assets amounted to 9,229 thousand Euro, in line with the figure at 31 December 2007.

Participations, of 8 million Euro, relates to the 50% shareholding in Wokita and Sameitaly, granted by Meridiana for 2,925 thousand Euro and 5,075 thousand Euro respectively, in the context of the capital increase by contribution in kind that was carried out during the quarter-year.

Current assets

Current assets at 31 March 2008 amounted to 79,917 thousand Euro, slightly down on the figure for 31 December 2007.

Stock, of 2,908 thousand Euro, is in line with the figure at 31 December 2007.

Trade receivables and other receivables, of 58,002 thousand Euro (net of the bad debts provision of 13,517 thousand Euro), remained substantially unchanged compared with 31 December 2007.
With regard to the main existing legal disputes, 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. for around 3 million Euro and 3 million USD, as well as penalty fines for flight cancellations, of 14.7 million Euro (the latter are not shown in the accounts and the quarterly reports). 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 the first arbitration hearing took place on 12 July 2006. 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 the arbitration procedure was started up in October 2006; 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 deadlines for filing further 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 deadline for filing the award to 30 September 2008. At the 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 Board reserves its decision and has fixed the next hearing for 14 May 2008.

- 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 31.12.06, were examined with legal support.
- Eurofly filed a petition for a first injunction against the Ministry of Defence for part of the above amount on 5 October 2007. The Rome Court issued the relative injunction in early November. On 11 January 2008 the Ministry of Defence notified its opposition to the injunction. The first hearing with appearance of the parties, prescribed in the writ for 23 May 2008, was fixed officially for 24 September 2008.

  For the remaining amount, on 26 November 2007 a second petition for injunction was filed, for which the Rome court issued the relative injunction on 22 January 2008. On 21 March 2008 the Ministry of Defence notified its opposition to this second injunction. The first hearing with appearance of the parties, prescribed in the writ, will be on 25 July 2008.

In order to give complete information, we would point out the following:

- some credit positions are in the process of being examined, also with legal means, for a value of around 2 million USD claimed from financial brokers involved in managing credit card sales on the American market;

- In August 2005 a writ was served on the Company by a tour operator for payment of an amount of around 1.1 million Euro for alleged non-fulfilment of obligations and infringements by the company. At the hearing on 1 January 2008, the case was assigned for judgement, not yet filed at today's date;
- a writ of summons was served in November 2007 for an amount of around 1 million Euro, for alleged failure to provide payment for brokerage activities for the transfer of the A319 aircraft financial leasing contract, which took place in June 2007. At the hearing on 30.04.2008 Eurofly provided for its appearance in court and the judge fixed the first hearing for appearance on 15 October 2008;
- with reference to the writ of summons served in September 2007 for an amount for damages of around 1 million Euro, requested for late consignment of baggage, an agreement with the other party was reached in March, by which Eurofly provided for payment of a all-inclusive sum of around 30 thousand Euro;
- referring to the petition presented by a client airline company, who had asked for the issue of a restraining measure on the request for payment of guarantees put forward by the Company, as security for its debts, to the issuing bank, the judge initially, on 28 September 2007, issued an order temporarily allowing the measure to be issued, preventing the issuing bank from paying the sums claimed by the Company and preventing the latter from claiming the above guarantees. However, on 21 December 2007 he 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. On 18 April 2008 the client airline company instituted a case of merit by serving a writ of summons on the Company. The hearing for first appearance, prescribed in the writ, will be on 18 September 2008.

With regard to the above-quoted commercial legal cases and the credit positions that expired on 31 March 2008, the provisions set aside for bad debts in the period and in previous financial periods – also according to the opinions 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.

Other assets, of 8,165 thousand Euro, show a reduction compared with the figure for the end of 2007, resulting from the decrease in prepaid expenses of 12,334 thousand Euro at 31 December 2007.

Net cash and equivalents are 10,842 thousand Euro, an increase compared with end-December 2007 due to incomes deriving from the capital increase in cash.

Non-current liabilities

Non current liabilities at 31 March 2008 amounted to 11,371 thousand Euro, in line with the figure for 31 December 2007.

Loans included the medium-long term share of the Banca Profilo mortgage loan and amounted to 3,018 thousand Euro, in line with the value at 31 December 2007.

Deferred tax liabilities, of 128 thousand Euro, remained unchanged compared with the previous period.

Provisions for risks and charges were 8,225 thousand Euro and relate to the non current share of phase out funds linked to fleet renewal and to the fund for TFR.

Current liabilities

These amounted to 102,915 thousand Euro at 31 March 2008, down in relation to 31 December 2007.

Trade payables and other liabilities amounted to 85,447 thousand Euro. The decrease for the period was mainly due to the reduction in debts to suppliers.

With reference to 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 to 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 the hearing of 8 January 2008, due to ENI S.p.A.'s failure to appear. At this hearing, the judge granted the deadline for filing preliminary briefs by 31 March 2008. The next hearing is fixed for 19 November 2008.

- At 31 March 2008 there were injunctions for a total amount of 5.9 million Euro. These injunctions mainly concern Alitalia (10 injunctions for 2.6 million Euro) and the Verona Valerio Catullo Airport (injunctions for 2.1 million Euro), as well as another seven minor opposing parties. With reference to the injunctions with Alitalia, the judge to whom the injunction No. 5996 for 251,987.14 Euro was allocated, with an order of 9.05.2008, granted the provisional enforcement of the opposing injunction and returned the file to the president for the appropriate instructions regarding the petition to combine all the ongoing processes, which will be discussed at the next hearing on 29 May 2008. It should also be mentioned that one of the other opposing parties has obtained provisional enforcement towards which the Company presented a petition for revocation, discussed at the hearing of 14 March 2008. The judge reserves his decision on this petition and on further claims. In default of the hearing this opposing party served a writ of third party attachment for a value of 580 thousand Euro. The effects of current account unavailability at 31 March 2008 consequent on the above-mentioned writ of attachment are shown in Para. 3.6.2 below. The Company has presented opposition to all the injunctions served, objecting, according to each case, to the compensation with receivables claimed, and pleading the groundlessness of these requests 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 injunction with an appeal lodged on 22 February 2008. The judge fixed the hearing for the parties to appear on 12 June 2008. With the above act of opposition, Eurofly S.p.A. requests payment of its own debt from the opposing party and equal to a total of 453 thousand Euro.

We would note the presence of guarantees given to suppliers for a total amount of 6.3 million Euro. With regard to the above-quoted commercial legal cases, and also according to the opinions 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 31.03.08 because of recognition of its obligations towards opposing parties.

Bank debts, of 15,818 thousand Euro, are substantially in line with the figure at 31 December 2007.

Current portions of long term loans were 526 thousand Euro, referring to the share expiring within the year of the mortgage on the building at Via Ettore Bugatti 15, Milan, the Company's headquarters.

Loans, of 4,323 thousand Euro at 31 December 2007 were represented by existing shareholders' loans to Meridiana. This item was reduced to zero at 31 March 2008 following the repayment of the loan by Meridiana in the context of Eurofly's capital increase in cash that took place in the first quarter of 2008.

Provisions for risks and charges (current share) were 1,124 thousand Euro and show no significant change in value from 31 December 2007. They mainly comprise allocations for periodic maintenance costs incurred by the Company.

In order to give complete information, we would point out that a partial fiscal inspection was begun on 23 May 2006 for the year 2004, for income tax purposes, 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, and partly to excessive provisions for invoices receivable, and a small part relate to ascribing costs to unrelated periods. 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. As regards the 2002 tax year, the Company has settled the Revenue Office claims by means of a payment for tax and sanctions of around 10 thousand Euro. As regards the other years, no notices of assessment have been served. At today's date the risk connected to this situation is not objectively quantifiable.

3.4. Disclosure on income statement items

Revenue

Revenue from sales and services was 79,445 thousand Euro, an increase of 9.9% on the same period last year. This positive performance was produced mainly by revenues from medium range operations, which increased due to the good results of the scheduled links between Italian cities that were started up last November. As opposed to this, revenues from long range operations decreased because of reduced activity to Kenya and suspension of the link to India.

Revenues form sales and services
Euro/000

	I quarter 2008	I quarter 2007	Change	% change
Medium Range	34,828	23,522	11,306	48.1%
Long Range	44,617	48,750	-4,133	-8.5%
Total	**79,445**	**72,272**	**7,173**	**9.9%**

The growth in other revenues, of 3,205 thousand Euro in the first quarter, can be attributed to income for aircraft hire linked to the sublease of an A330.

Costs

Direct commercial costs amounted to 1,386 thousand Euro, in line with the figure for the first quarter of 2007.

The increase of over 30% in the cost of jet fuel, equal to 27,396 thousand Euro, was caused both by the increase in the crude oil price and by the greater activity carried out in the first quarter of 2008 compared to the same period of 2007. Along with this increase, the cost of jet fuel, quoted in dollars, benefited from the more advantageous performance of the Euro/Dollar exchange rate.

The decrease in staff costs, amounting to 9,208 thousand Euro, was determined by the application of the solidarity contract from April 2007. As detailed in the table below, the number of average remunerated workforce grew by around 61 units. The comparison between the average workforce in the first quarter of 2007 and the same period of 2008 shows an increase in staff mainly due to the progressive insertion of flight personnel and technical-operational personnel needed to cope with the entry into the fleet of a new A330 Airbus at the end of 2006. Further slight increases in ground staff resources were due to the changing of some operational staff from a 16-hour/day timetable to a 24-hour timetable.

2007	Categories	I quarter 2008	I quarter 2007	Change
11	Managers	13	12.2	0.8
191.2	Office workers	211.7	188.4	23.3
202.2	***Total ground staff***	***224.7***	***200.6***	***24.1***
139.3	Pilots	144	133	11
354.5	Flight assistant	365.3	339.6	25.7
494	***Total flight staff***	***509***	***472.6***	***36.7***
696	***Total staff***	***734***	***373.2***	***60.8***

Costs of Materials and maintenance services, of 10,471 thousand Euro, were substantially the same between the first quarters of 2008 and 2007. The increase in materials and maintenance services costs, deriving from growth in business, was offset by the favourable performance of the Euro/Dollar exchange rate.

Other operating costs and wet lease, were 19,836 thousand Euro. It should be remembered that wet lease costs in the first quarter of 2007 included charges relating to the purchase of seats established by commercial agreements with the Livingston airline company.

2007	*€/000*	I quarter 2008	I quarter 2007	Change	% change
84,291	Other operating costs	19,420	16,679	2,741	16.4%
8,651	Weat lease	416	3,166	-2,750	-86.9%
92,942	**Total operating and wet lease costs**	**19,836**	**19,845**	**-9**	**0.0%**

The growth in operating costs was determined by the greater activity carried out in the period, by the reduction in ACMI activity (characterised by operating costs borne by third parties), as well as by the increase in some specific unit costs (including passenger taxes) and the repro pax item, which was affected by operating events involving the fleet during the year.

Other commercial and corporate costs show a growth of 16.9% and amount to 4,396 thousand Euro.

The performance of operative rentals is shown in the following table:

2007		I quarter 2008	I quarter 2007	Change	% change
20,206	Medium Range	4,700	5,271	(572)	-10.8%
25,646	Long Range	6,365	5,298	1,067	20.1%
45,852	**Totale**	**11,064**	**10,569**	**495**	**4.7%**

Rentals for the A320 fleet were reduced as a consequence of the Euro/Dollar exchange rate, the US dollar being the currency in which operative rental contracts are denominated. Costs relating to the A330 fleet increased because of the rental for the fifth A330, which entered the fleet at the end of March 2007 and was immediately subleased.

Depreciations, amortizations and provisions for risks and charges increased to 2,446 thousand Euro because of the greater allocations made to bad debts reserve in the first quarter of 2008 compared with 2007 relating to objections to or deteriorations in litigations that occurred during the quarter or after approval of the accounts for the period.

Financial (income)/charges amounted to 721 thousand Euro, an increase on the figure for the first quarter of 2007.

Tax charges for the period amounted to 343 thousand Euro and included 277 thousand Euro for IRAP.

Result from discontinued operations at 31 March 2007 was negative at 1,347 thousand Euro and included all the income components accrued in the first quarter of 2007. The result of management operations for the aircraft on behalf of the assignee (cf. Para. 1.1.2) was 217 thousand Euro in the first quarter and is reflected in the context of continuous assets since it is linked to the performance of a service independent of the previous direct management of the "All Business" Business Unit.

2007	Euro/000	I quarter 2008	I quarter 2007
1.890	Revenue from sales and services	0	1.602
3.052	Other revenue	0	3
4.942	**Total revenues**	**0**	**1.605**
(246)	Direct commercial expenses	0	(22)
(572)	Jet fuel	0	(555)
(801)	Staff costs	0	(462)
(409)	Materials and maintenance services	0	(354)
(641)	Other operating costs and wet lease	0	(410)
(24)	Other commercial and corporate costs	0	(87)
2.247	**EBITDAR**	**0**	**(1.890)**
(1.833)	Operative rentals	-	-
414	**EBITDA**	**0**	**(285)**
(887)	Depreciation and amortization	0	(440)
(167)	Other provisions	0	0
(73)	Provisions for risks and charges	0	(73)
(712)	**EBIT**	**0**	**(798)**
(1.099)	Financial income/(charges)	0	(549)
2.405	Gains on A319 disposal	-	-
(593)	Tax charges	-	-
1	**Result from discontiuned operations**	**0**	**(1.347)**

3.5. Disclosure on items in the scheduled variation in net equity

During the first quarter of 2008 capital increases in cash and in kind were completed. Details of these are as follows:

- for the capital increase in cash 11,129.418 shares were issued, at a unit price of 1.347 euro (of which 0.47 to cover the implied accounting par value and 1.877 in premium). Following this operation the company share capital was 6,253,995.46 Euro with a total of 24,484,720 shares without expressed nominal value;
- for the capital increase in kind 3,558,718 shares were issued, at a unit price of 2,248 euro (of which 0.07 to cover the implied accounting par value 2.178 in premium). Following this operation the company share capital was 6,503,105.72 Euro with a total of 28,043,438 shares without expressed nominal value.

Incidental expenses for the capital increases were entered as a direct reduction on the amounts of the capital increases to which they referred, in application of IAS/IFRS accounting principles, and amounted to around 710 thousand Euro.

Following the above operations and the result of the period, net equity at 31 March 2008 of 13,529 thousand Euro, is structured as follows:

- company share capital of 6,503,105.72 Euro;

- share premium reserves of 17,025 thousand Euro; this item, which benefited from the capital increases in cash and in kind, is net of costs for consultancies incurred in carrying out these increases, net of related taxes.
- legal/statutory and other reserves, of a negative amount of 486 thousand Euro;
- losses carried forward of 5,943 thousand Euro;
- result of the period of -4,167 thousand Euro.

3.6. Financial management

3.6.1. Disclosure on cash - flows items

As shown in the cash flows statement, illustrating the changes in net cash and equivalents with indirect method during the period, the first months of 2008 were characterised by an increase in cash of 3,893 thousand Euro. The cash flows for the period are analysed in detail below.

- Cash flow from operations

This cash flow in the period was negative at 8,293 thousand Euro. Cash flow absorption was mainly due to the pre-tax loss in the period, of 3,824 thousand Euro, the significant decrease in trade receivables and other receivables of 10,480 thousand Euro, to be explained by larger payments to suppliers, due to the realignment of previous positions and stricter settlement terms for current positions.

- Cash flow from investments

These flows were positive at 2.1 million Euro, mainly as a consequence of the mobilization of payments on account for the A350 Airbuses.

- Cash flow from financial activity

Cash flow from financial activity in the period was negative at 245 thousand Euro, resulting from the net effect of the mortgage instalment payment.

- Cash flow from operations on equity

Flows generated from operations on equity in the period were 10.4 million Euro in the period and relate to net cash flows deriving from the capital increases, in cash and in kind, concluded during the first quarter of 2008.

3.6.2. Net financial position

At 31 March 2008 net financial indebtedness was 8,520 thousand Euro, down on the figure of 17,065 thousand Euro at 31 December 2007, mainly due to the capital increase in cash, concluded in February 2008, which guaranteed liquidity of around 10.4 million Euro and the cancellation of the shareholders' loan to Meridiana.

The net financial position components are detailed as follows:

C – Net cash and equivalents

Net cash and equivalents at 31 March 2008 were 10,842 thousand Euro, an increase on the 6,955 thousand Euro at 31 December 2007, and comprised current bank account balances and benefited from income from the capital increase of 10.7 million Euro.

It should be noted that at 31 March 2008 there were around 2.5 million Euro unavailable following the attachment order applied following a legal dispute with a supplier, as commented on in the note "Current liabilities". Because of this, a similar amount of net cash shown in the accounts was unavailable at 31 March 2008. At the hearing on 23 April 2008 the judge assigned to the opposing party the sum disclosed by the third party and also provided for freeing the residual amount and the remaining sums subject to third-party attachment. At the date of this report, there is therefore a pledge of 580 thousand Euro.

I – Current financial debt

This amounts to 16,344 thousand Euro, a drop compared with 31 December 2007, and is represented by: i) debts payable to banks of 15,818 thousand Euro, for current account overdrafts; ii) the current part of the non-current debt relating to the mortgage for an amount of 526 thousand Euro. At 31 December 2007 this item also included shareholders' loans of 4.3 million Euro to Meridiana, used by the latter for the capital increase.

O – Other non current debt

Non current financial indebtedness is made up of non current bank loans for 3,018 thousand Euro, represented by the share beyond 12 months of the mortgage loan contracted with Banca Profilo.

3.7. Significant non recurring events

Certain significant non recurring events with consequences that are reflected in the operating 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)	**12,931**		**-4,167**		**-8,520**		**-4,976**	
Solidarity agreement	-1,872	-14.5%	-1,872	44.9%	0	0.0%	0	0.0%
Tax charges due to events above	*513*	4.0%	*513*	-12.3%		0.0%	*0*	0.0%
Total non recurring operations (B)	**-1,359**	**-10.5%**	**-1,359**	**32.6%**	**0**	**0.0%**	**0**	**0.0%**
Gross imputed balance sheet value (A+B)	**11,572**		**-5,526**		**-8,520**		**-4,976**	

(*) 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 the quarter was affected by the unrest in Kenya, which determined a contraction in revenues of around 5.9 million Euro compared with forecasts.

3.7.1. Solidarity agreement

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. The solidarity contract provides, in the case of days of reduced activity with abstention from work, for a set of financial indemnities in favour of the worker and the company from Labour Ministry funds (according to Law 236/93) and from a special INPS fund for the air transport sector (according to Law 291/04). The methods for calculating the financial benefit consist in applying to the days not worked, in compliance with the provisions of the agreement, a cost coefficient agreed with the Ministry of Labour. This had a positive effect on the quarterly result, of around 1.9 million Euro, not reflected in company liquidity because not yet encashed.

3.8. <u>Segment reporting</u>

According to IAS 14 instructions, Eurofly supplies segment reporting based on the distinction by activity between medium and long range, since the risks and benefits to the business are significantly affected by the differences in the two activities. The main characteristics of the two 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. Since November 2007, North-South Italy flights, operated in code sharing with Meridiana, have been added to the traditional tourist links.
2) Long Range: includes flights of over 7 hours' duration. The main destinations are the Maldives, Kenya, Mexico, Mauritius and Santo Domingo, with scheduled connections from Italian provincial airports (Palermo, Naples and Bologna) to New York, extended in 2006 to Rome departures as well. Because of the places reached, long range business is characterised by a less accentuated seasonality. In addition, scheduled operations to New York (offered in 2006 from May to November) compensate further for the winter peak of charter flights to exotic "beach" destinations. The flights are operated with the A330 fleet. The Company has recently obtained scheduled rights from ENAC to carry out flights to the Seychelles.

The table below gives a breakdown of revenues and results based on the distinction between medium and long range operations.

Euro/000	Medium Range				Long Range				Total			
	I quarter 2008	I quarter 2007	*Change*	*% Change*	I quarter 2008	I quarter 2007	*Change*	*% Change*	I quarter 2008	I quarter 2007	*Change*	*% Change*
Total revenue	**36,331**	**23,808**	**12,523**	*52.6%*	**46,770**	**48,914**	**-2,144**	*-4.4%*	**83,101**	**72,722**	**10,379**	*14.3%*
Direct commercial expenses	-938	-539	-400	*74.1%*	-448	-813	365	*-44.9%*	-1,386	-1,352	-34	*2.5%*
Revenue net of direct comm	**35,393**	**23,269**	**12,124**	*52.1%*	**46,322**	**48,101**	**-1,779**	*-3.7%*	**81,715**	**71,370**	**10,345**	*14.5%*
Jet fuel	-9,942	-6,034	-3,908	*64.8%*	-17,454	-14,775	-2,679	*18.1%*	-27,396	-20,809	-6,587	*31.7%*
Staff costs	-3,979	-3,912	-67	*1.7%*	-5,229	-6,474	1,245	*-19.2%*	-9,208	-10,386	1,178	*-11.3%*
Materials and maintenance s	-4,055	-3,717	-338	*9.1%*	-6,416	-6,576	161	*-2.4%*	-10,471	-10,294	-177	*1.7%*
Other operating costs and w	-11,399	-7,732	-3,666	*47.4%*	-8,437	-12,112	3,675	*-30.3%*	-19,836	-19,845	9	*0.0%*
Other commercial and corpo	-2,367	-1,379	-988	*71.6%*	-2,029	-2,381	352	*-14.8%*	-4,396	-3,760	-636	*16.9%*
Subtotal costs	**-31,741**	**-22,775**	**-8,966**	*39.4%*	**-39,566**	**-42,318**	**2,753**	*-6.5%*	**-71,307**	**-65,094**	**-6,213**	*9.5%*
EBITDAR	**3,652**	**494**	**3,158**	*639.5%*	**6,756**	**5,783**	**974**	*16.8%*	**10,408**	**6,277**	**4,131**	*65.8%*
Operative rentals	-4,700	-5,271	572	*-10.8%*	-6,365	-5,298	-1,067	*20.1%*	-11,064	-10,569	-495	*4.7%*
EBITDA	**-1,048**	**-4,778**	**3,730**	*-78.1%*	**391**	**485**	**-94**	*-19.3%*	**-657**	**-4,293**	**3,636**	*-84.7%*
Depreciation and amortizati	-270	-278	8	*-3.0%*	-679	-658	-21	*3.2%*	-948	-936	-13	*1.4%*
Other provisions	-975	0	-975	*n.a.*	-335	0	-335	*n.a.*	-1,310	0	-1,310	*n.a.*
Provisions for risks and char	-27	-10	-17	*176.3%*	-161	-151	-10	*6.7%*	-188	-161	-28	*17.2%*
EBIT (operating result)	**-2,320**	**-5,066**	**2,746**	*-54.2%*	**-783**	**-323**	**-459**	*142.1%*	**-3,103**	**-5,389**	**2,286**	*-42.4%*

3.9. Related parties transaction

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. Meridiana is a Eurofly reference shareholder of with a share of 46.10%. It should be noted that Eurofly is subject to activities of management and coordination by this company. The related parties transactions are shown below.

€/000

Description	I quarter 2008	Related parties	
		Absolute value	%
Trade receivables	58,002	1,516	2.6%
Non-current financial assets	0	0	-
Current financial assets	10,842	0	-
Trade payables	85,447	0	0.0%
Non-current financial liabilities	3,018	0	-
Current financial liabilities	16,344	0	0.0%

Description	I quarter 2008	Related parties	
		Absolute value	%
Total revenue	83,101	555	0.7%
Total costs	86,204	1,113	1.3%
Financial (income)/charges	721	0	-

Description	I quarter 2008	Related parties	
		Absolute value	%
Cash flow from operations	(8,293)	(2,348)	28.3%
Cash flow from investments	2,100	0	-
Cash flow from financial activities	(245)	0	-
Cash flows from capital increase	10421	4323	41.5%

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Daniele Renna, as Manager responsible for preparing Company's financial report, hereby certifies that, according to Para. 2 of Article 154 bis of the Consolidated Financial Law ("Testo Unico della Finanza"), the accounting information contained in this report corresponds to the results in documents, in the account books and in the written accounting records.