HALF YEAR FINANCIAL REPORT

AS AT 30 JUNE 2010

This document has been translated into English for the convenience of readers outside Italy.
The original Italian document should be considered the authoritative version

Meridiana fly S.p.A.
Subject to the management and coordination of Meridiana S.p.A. under Art. 2497-bis of the Italian Civil Code
Registered office in Olbia (OT), Centro Direzionale Aeroporto Costa Smeralda
Share Capital Euro 13,760,975.40 wholly paid-up
VAT no. 03184630964
05763070017 Tax Code and Registration Number in the Sassari Companies Register Italian
www.meridianafly.com

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Introduction

The Half-year Financial Report as at 30 June 2010 (henceforth also the "Half-year Report") has been prepared under the terms of Art. 154 – *ter* of the Italian Consolidated Finance Act (TUF). It aims to provide information on the consolidated financial position and capital, and the consolidated economic performance of the Meridiana fly S.p.A. Group (henceforth also the "Meridiana fly Group" or, more simply, the "Group"). This Half-year Report also aims to illustrate the significant events and operations that took place in the period of reference, along with their effects, on the aforementioned consolidated financial position and capital and consolidated economic performance. The report has been prepared applying the IAS/IFRS international standards and, in particular, the accounting standard IAS 34.

The Half-year Report has been prepared in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union. It has been drawn up by applying "IAS 34 – Interim Financial Statements" and by applying the same accounting standards as those adopted to prepare the individual financial statements at 31 December 2009. It is supplemented by the accounting standards and measurement criteria adopted with reference to the asset and liability, income and expense items of Meridiana S.p.A.'s air transport business unit. These are described in more detail in paragraphs 4.1.2 – Accounting standards and measurement criteria and 4.1.3 – Use of estimates in the Explanatory Notes. This air transport business was acquired following the business combination described in the annual financial disclosure at 31 December 2009, in the quarterly report at 31 March 2010 and in the Disclosure Document and Prospectus prepared under the terms of the TUF and of Regulation 809/2004 in relation to the aforementioned operation and to the capital increase by cash and in kind completed on 24 August 2010.

Moreover, following the aforementioned execution of the contribution of Meridiana S.p.A.'s air transport business unit (henceforth the "Aviation Business") with effect from 28 February 2010, Meridiana fly S.p.A. (henceforth also the "Company") controls 100% of the two subsidiaries Sameitaly S.r.l. and Wokita S.r.l.. Previously 50% was owned without exercising control over, control which, up to the date of effectiveness of the contribution in kind, was exercised by Meridiana S.p.A.. This Half-year Report has been prepared therefore on a consolidated basis. The economic effect of the consolidation from the effective date of the business combination, that is 28 February 2010, uses the consolidation criteria described below in paragraph 4.4 – Consolidation scope and criteria.

The Half-year Report contains the Interim Report on Operations (presented in Chapter 2), the Consolidated Statement of Financial Position as at 30 June 2010, the Consolidated Statement of Comprehensive Income for the first half of 2010, the Consolidated Statement of Cash Flows as at 30 June 2010 and the Consolidated Statement of Changes in Shareholders' Equity as at 30 June 2010 (in Chapter 3), together with the Explanatory Notes (Chapter 4).

With reference to Paragraph 4.2 - Comparability of the accounting data (and also in relation to Chapter 2 - Interim Report on Operations), when examining the specific comparisons of the accounting data (in Chapter 3) it must be remembered that figures are explained with reference to the pro-forma data as at 31 December 2009 and for the first half of 2009. These data – as regards the analysis of the economic performance – take into account the fact that a comparison may be affected by the income statement for the first half of 2010 reflecting four months of operations of the Aviation Business (from 1 March 2010) while the 2009 pro-forma data reflects operations of the above conferred unit for the entire six months. Income and expense items comparisons are therefore not made with absolute amounts but given in terms of a proportion of revenues.

As regards the net financial position, the accounting data as at 30 June 2010 are compared with the data taken from the financial statements as at 31 December 2009, showing, where appropriate, the effects on consolidated assets and liabilities of the contribution in kind of the Aviation Business and of the consolidation of the wholly-owned subsidiaries Wokita and Sameitaly with effect from 28 February 2010.

Unless otherwise indicated, the figures are presented in thousands of Euro (Euro/000), with consequent rounding where necessary.

The main indicators of the consolidated results for the first half of 2010 are presented below, compared with those relating to the first half of 2009 as well as those for the entire financial year 2009, referring respectively to the Company's interim report and the individual annual financial statements, notwithstanding the limits of comparability previously mentioned.

Individual data	*Unless otherwise specified, Euro/000*	*Consolidated data*	*Individual data*
2009	**Key operating indicators**	**1Half 10**	**1Half 09**
42,287	Total flight hours	37,750	20,641
1,585,150	Passengers carried	1,777,207	715,959
2009	**Summary Income Statement**	**1Half 10**	**1Half 09**
290,192	Revenue from sales	245,357	143,065
293,571	Total revenue	260,066	146,102
18,177	EBITDAR (1)	4,939	3,632
6.3%	*As a % on revenue from sales*	*2.0%*	*2.5%*
(23,286)	EBITDA (2)	(20,587)	(19,119)
-8.0%	*As a % on revenue from sales*	*-8.4%*	*-13.4%*
(29,799)	EBIT (3)	(28,068)	(21,887)
-10.3%	*As a % on revenue from sales*	*-11.4%*	*-15.3%*
(34,059)	Net profit (loss) for year	(27,460)	(23,278)
	Summary Balance Sheet	**30.06.10**	**31.12.09**
	Total non-current assets	151,301	50,433
	Total current assets	139,170	76,428
	Total assets	290,471	126,861
	Equity	(11,546)	(3,146)
	Total non-current liabilities	36,742	11,023
	Total current liabilities	265,275	118,984
	Total equity and liabilities	290,471	126,861
2009	**Investments**	**1Half 10**	**1Half 09**
8,129	Investments	5,680	6,039
	Other financial data	**30.06.10**	**31.12.09**
	Net financial position (4)	(12,341)	(19,612)
	Average number employees	1,317	740

(1) EBITDAR: Earnings Before Interest, Taxes, Depreciation, Amortization and aircraft Rentals (that is EBIT including the costs of operating aircraft rentals – excluding wet leases – depreciation, amortization, impairment of non-current assets and the item "Other provisions for impairment", not including "Provisions for risks and charges"). In this regard it should be noted that in previous financial communications, the item "Provisions for risks and charges" did not contribute to determination of EBITDAR (in the first half of 2010 the item "Provisions for risks and charges" was Euro 2,978 thousand while it was Euro 1,145 thousand at 30 June 2009 and Euro 3,290 thousand at 31 December 2009). (2) EBITDA: Earnings Before Interest, Taxes, Depreciation, Amortization. Also with reference to EBITDA it should be noted that, in the preparation of the present Interim Report, this indicator and the related comparative measurements were determined considering "Provisions for risks and charges" as already indicated with reference to EBITDAR (3) EBIT: Earnings Before Interest and Taxes. (4) With respect to the item "Net cash and cash equivalents", the net financial position includes the components detailed in the paragraph "Net financial position".

1. CORPORATE BODIES

BOARD OF DIRECTORS
(In office until shareholder approval of Annual Financial Report for year ended 31 December 2009)

President	Marco	**RIGOTTI (2) (3)**
Chief Executive Officer	Giovanni	**ROSSI (1)**
Vice President	Franco	**TRIVI (4)**
Directors	Luca	**RAGNEDDA (1)**
	Sergio	**ROSA (1)**
	Claudio	**ALLAIS**
	Salvatore	**VICARI (2) (3)**
	Gian Carlo	**ARDUINO (2) (4)**
	Giuseppe	**LOMONACO (2) (3) (4)**

BOARD OF STATUTORY AUDITORS
(In office until shareholder approval of Annual Financial Report for year ended 31 December 2011)

President	Luigi	**GUERRA**
Standing statutory auditors	Cesare	**CONTI**
	Antonio	**MELE**
Substitute statutory auditors	Luca	**BOCCI**
	Guido Giorgio	**ZAFFARONI**

INDEPENDENT AUDITOR — **DELOITTE & TOUCHE S.p.A.**
(Mandate extended to 2008-13 by the AGM of 8 May 2007)

(1) Executive Director
(2) Independent Director
(3) Significant member as indicated in points 3C1 and 3C2 of Corporate Governance Code, independent when appointed
(4) Member of Internal Auditing Committee
(5) Member of Remuneration Committee

2. INTERIM REPORT ON OPERATIONS

2.1. Operating performance and activity

2.1.1. *General performance*

Despite the timid signs of recovery in the economy, the levels of business and in demand for goods and services, the first half of 2010 still remained low. The prospects for GDP growth are rather limited as is consumption in 2010. Uncertainty remains regarding how consumption will evolve in the short-term and whether the financial and economic crisis has indeed definitively passed. Levels of unemployment are expected to rise despite the various actions taken to alleviate this problem, albeit temporarily, through the use of social safety valves (e.g. CIGS temporary redundancy benefits).

In the first half-year of 2010, the price of fuel was more than 50% higher than in the first half of 2009. Meanwhile, the average US Dollar exchange rate, although in line with the first half of 2009, rose to just less than 1.23 against the Euro in the second quarter of the period, following the financial crisis of certain EU member states (Greece in particular).

The air transport industry showed significant signs of recovery in the first half of the year compared with 2009 (which had been an exceptionally poor year, however), recording sales growth in the order of 8-10% (except in April which was marked by repeated shutdowns as a result of the cloud of volcanic ash - see below).

Business traffic, it should be noted, experienced a more rapid recovery, whereas the recovery in leisure traffic seems limited; end customers are paying more attention to the price variable and a trend to book journeys increasingly late with respect to the departure date is developing.

To this must be added the continual pressure on prices, above all on certain Italian scheduled traffic routes, which affects average revenues per passenger (yield) and related margins on certain routes.

In April, the volcanic eruption in Iceland spewed a significant quantity of ash into European skies and led to the closure of many airports for about ten days in that month. This prolonged shutdown of business caused significant losses for airlines operating in the area, including Meridiana fly, owing both to the cancellation of flights and to many passengers deciding to put off or cancel their journeys.

As a result of these trends and extraordinary events, there remains, as a structural feature of the demand for tourist products in Italy, a high seasonal variation with a marked concentration between June and September, which affects the interim results of the companies operating in the industry.

Even in the midst of this economic and financial context, which significantly affected economic performance in the period, the Company in the six-month period ending February 2010, successfully integrated the air transport business unit with that of the parent company, Meridiana S.p.A.. This was achieved through the contribution in kind by the parent company of the relevant business unit (the "Aviation Business ") and through the full support of the reference Shareholder, H.H. Karim Aga Khan, through AKFED (a financial institution controlled by the same) and Meridiana S.p.A. (a company also controlled by the same, which in turn holds the controlling interest in Meridiana fly). At the same time, both the Company and Meridiana S.p.A. companies created a spin-off company (Meridiana Maintenance S.p.A.) from the unit devoted to the aircraft maintenance business (MRO). Consistent with these projects, a cash capital increase of Euro 40 million was launched, mostly carried out as of today and fully concluded on 24 August 2010. This was done to support the Company's recapitalization and to meet the financial requirements needed to implement the Business Plan related to the combination of the Company's and Meridiana's air transport businesses, which was approved by the Board of Directors on 19 November 2009 over the time horizon 2010-2015 (henceforth the “Business Plan”).

Through the combination with Meridiana’s Aviation Business, the Company has acquired larger dimensions and higher standing: turnover is approximately Euro 652 million (2009 pro-forma); there are 1,670 employees; 38 aircraft comprise the total current; and more than 5.2 million passengers were carried in 2009 (pro-forma data). One of the integration's main objectives is to achieve significant economic synergies over the period of the Business Plan.

The Company, now named Meridiana fly S.p.A., is the only airline listed on the Italian stock exchange and is the country's second airline, with a market share of national traffic of approximately 16%, behind the CAI / Alitalia-Airone Group which holds a market share of around 50%. Meridiana fly, which operates out of the main Italian airports on both the scheduled and charter markets, is strongly positioned on connections with Sardinia and holds a leadership position in the so-called leisure transport sector, especially the high-end band, and in particular in relation to destinations in the Indian Ocean/East Africa, Egypt and the Mediterranean basin.

It must be stressed that, during the implementation of the business combination, there was a certain tension between the Company and the trade unions who represent flight staff and maintenance workers. A series of episodes and protests caused stoppages, flight cancellations and delays in services. These events had the effect of reducing productivity and penalizing the Company's results in the six-month period. This is in addition to the negative impacts mentioned previously which also involved other air transport operators (such as the volcanic ash cloud, a reduction in yield and margins).

Finally, it must be noted that some temporary difficulties were experienced in the fleet management owing to problems emerged in the planned early return to a lessor of an A330 (Long Haul) aircraft and to the delay into service of a number of A320 (Medium Haul) aircraft, with consequential significant unforeseen costs.

In the six-month period, the planned reorganization of operations and personnel was launched with the aim of achieving a structure, processes and a network to support the Business Plan's projects.

2.1.2. *2010 interim results*

The Consolidated Income Statement, reclassified according to operating criteria, is presented below. For the first half of 2010, it references the Group's consolidated data (which, for the four months from March to June 2010, also reflect the Aviation Business' operations, contributed by Meridiana, as well as of the subsidiaries Sameitaly and Wokita). For the first half of 2009, however, the figures presented are the pro-forma data, drawn up for the purposes of preparing the Prospectus as part of the disclosure obligations related to the share capital increase by contribution in kind and by cash, with the aims described in paragraph 4.2 – Comparability of accounting data, below. These pro-forma data were subject to a limited independent audit, in accordance with the requirements of the applicable legislation.

€/000	I Half 2010 Consolidated data	% on revenues from sales	I Half 2009 PROFORMA	% on revenues from sales	Change	% change
Revenue from sales	245,357	100.0%	306,169	100.0%	(60,812)	-19.9%
Other revenue	14,709	6.0%	18,051	6.8%	(3,342)	-18.5%
Total revenues	**260,066**	**106.0%**	**324,220**	**106.8%**	**(64,154)**	**-19.8%**
Fuel	(64,864)	-26.4%	(58,413)	-21.6%	(6,451)	11.0%
Materials and maintenance services	(36,099)	-14.7%	(47,379)	-16.8%	11,280	-23.8%
Commercial and sales costs	(9,323)	-3.8%	(10,752)	-3.8%	1,429	-13.3%
Other operating and wet lease costs	(87,787)	-35.8%	(108,064)	-30.4%	20,277	-18.8%
Other operating expeses and services	(15,125)	-6.2%	(29,027)	-10.2%	13,902	-47.9%
Staff costs	(38,951)	-15.9%	(56,416)	-20.2%	17,465	-31.0%
Provision for risks and chares	(2,978)	-1.2%	(4,916)	-1.7%	1,938	-39.4%
EBITDAR	**4,939**	**2.0%**	**9,253**	**1.9%**	**(4,314)**	**-46.6%**
Operating leases rentals	(25,526)	-10.4%	(33,713)	-11.9%	8,187	-24.3%
EBITDA	**(20,587)**	**-8.4%**	**(24,460)**	**-10.0%**	**3,873**	**-15.8%**
Depreciation and amortization	(5,425)	-2.2%	(6,396)	-2.0%	971	-15.2%
Other provision for doubtful receivables	(2,056)	-0.8%	(2,022)	-0.7%	(34)	1.7%
EBIT	**(28,068)**	**-11.4%**	**(32,878)**	**-12.6%**	**4,810**	**-14.6%**
Net financial income (expenses)	916	0.4%	(1,093)	0.6%	2,009	-183.8%
Pre tax profit (loss)	**(27,152)**	**-11.1%**	**(33,971)**	**-12.0%**	**6,819**	**-20.1%**
Income taxes	(308)	-0.1%	(1,134)	-0.4%	826	-72.8%
Net profit (loss)	**(27,460)**	**-11.2%**	**(35,105)**	**-11.5%**	**7,645**	**-21.8%**

As mentioned above, a comparison of the data in absolute terms will be adversely affected by the fact that the Aviation Business was contributed by Meridiana S.p.A. on 28 February 2010, which is to say that the income statement for the first two months of 2010 pertains to the Shareholder Meridiana S.p.A. and does not contribute to the interim performance of the Group.

As mentioned previously, starting from this interim report, the item "Provisions for risks and charges" in the Reclassified Consolidated Income Statement contributes to the EBITDAR calculation, unlike previously when it contributed only to the EBIT calculation. In order to facilitate comparing data, the same reclassifications have been made to the comparative pro-forma data as at 30 June 2009.

Notwithstanding the reduction in average revenues per passenger (attributed to the economic crisis) and the competitive pressure on certain national routes, the economic performance for the first half of 2010 was significantly affected by certain extraordinary operations: the combination with Meridiana's Aviation Business; the transfer of the MRO maintenance unit to the newly-founded company, Meridiana Maintenance S.p.A.; the analogous contribution in kind carried out by Meridiana

S.p.A. (with a negative non-recurrent effect of approximately Euro 1.5 million, deriving from the trade union tensions sparked by these operations); the temporary closure of air spaces caused by the Icelandic volcanic cloud (with one-off losses of approximately Euro 3 million); and a number of delays in the availability of new aircraft (with unforeseen wet leases from other carriers amounting to approximately Euro 1 million). These non-recurrent events are fully commented in paragraph 4.13 – Significant non-recurrent events, in the Explanatory Notes.

Total revenues in the first half of 2010 amounted to Euro 260,066 thousand, compared with Euro 324,220 thousand in the pro-forma first half of 2009.

In terms of revenues from air traffic alone (net of taxes and other ancillary revenues), in the first half of 2010 the relevant turnover was Euro 208,491 thousand compared with Euro 258,703 thousand in the first half of 2009, pro-forma, with an increase in the proportion of Medium Haul from 71.8% to 73.2%. If the first half of 2010 included revenues for the first two months of the Aviation Business, total revenues would be Euro 233,826 thousand, down from the pro-forma first half of 2009 by 9.6% (-4.2% for Medium Haul and -23.4% for Long Haul).

Revenues from sales, of Euro 245,357 thousand (Euro 306,169 thousand in the pro-forma first half of 2009) include revenues generated by scheduled and charter traffic, together with other ancillary revenues. Revenues from Medium Haul operations were Euro 186,664 thousand and from Long Haul Euro 58,693 thousand. It should be noted that Revenues from sales include revenues from code-sharing activities amounting to approximately Euro 3.6 million (significantly down owing to the reduction in business carried out with the carrier Livingston S.p.A.).

Other revenues of Euro 14,709 thousand (compared with Euro 18,051 thousand in the pro-forma first half of 2009), consisted mainly of grants for operating expenses (relating to Public Service obligations' activity), ascertaining contingent assets from pre-paid scheduled traffic deriving from tickets purchased but then not used, and of other lesser revenues for services performed.

EBITDAR (as described above with the contribution of the item "Provisions for risks and charges") amounted to Euro 4,939 thousand (Euro 9,253 thousand in the pro-forma first half of 2009). EBITDAR from Medium Haul operations totalled Euro 14,380 thousand, while that from Long Haul amounted to Euro 5,684 thousand, net of unallocated costs of Euro 15,125 thousand. This figure represents a ratio to turnover of 2.0% (compared with 3.0% in the pro-forma of the first half of 2009).

The ratio of fuel costs to revenues grew from 19.1% in the pro-forma first half of 2009 to 26.4% in the first half of 2010 owing to the higher price for jet fuel (up, on average, by more than 50% in Dollars with respect to the first half of 2009) and lower net income from derivatives on jet fuel; it should be noted, besides, that the ratio of fuel costs to revenues of the Aviation Business is lower than that of the businesses that were run by Meridiana fly because the margin on revenues of the Aviation Business – in particular with specific reference to this cost component – is significantly higher than that of the stand-alone business of Meridiana fly; the proportion of personnel costs declined from 18.4% to 15.9% as a result of the benefit of the "solidarity" which in 2010, unlike in the first half of 2009, involved the entire first half of the year; in this regard it should be noted that the seniority and average remuneration of the employees of Meridiana's Aviation Business is higher than that of the Meridiana fly stand-alone business. Direct commercial costs are characterized by higher brokering costs (agencies and other commercial distribution channels) but did not change as a proportion of revenues in the 2010 consolidated figure compared with the 2009 pro-forma figure, although the ratio of revenues to commercial costs of the Aviation Business was higher than that resulting from the business combination as a consequence of the almost exclusively "scheduled" ex Meridiana business.

The maintenance costs component accounted for a lower proportion (from 15.5% to 14.7%) mostly as a result of the non-recurring costs incurred in the first half of 2009 for the phase-out stage of two Long-Haul aircraft (cost estimated at approximately Euro 3.5 million).

Finally, we also note the lower provisions for risks and charges (down from Euro 4,916 thousand in the 2009 pro-forma to Euro 2,978 thousand in the 2010 interim consolidated accounts) recognized to take into account the evolution of the period of disputes.

EBITDA (also in this case determined with the contribution of the item "Provisions for risks and charges") was a negative Euro 20,587 thousand compared with a negative Euro 24,460 thousand in the pro-forma first half of 2009, worse as a proportion of revenues (-8.4% compared with the figure of -8.0% of the pro-forma first half of 2009). The absolute figure for operating rentals was, however, down by Euro 8,187 thousand, owing not only to two fewer A330 Long Haul aircraft than in the first half of 2009, but also to the lower costs of machines in operating leasing present in the Aviation Business, an aspect attributable to the type and age of the aircraft. EBITDA from Medium Haul operations was a negative Euro 2,507 thousand, while that from Long Haul was a negative Euro 2,955 thousand, including unallocated costs of Euro 15,125 thousand.

EBIT was a negative Euro 28,068 thousand, compared with the negative figure of Euro 32,878 thousand in the pro-forma first half of 2009; the proportion of revenues of the two cost components represented by depreciation, amortization and impairment and by other provisions for impairment worsened in the two periods (from -10.7% in the pro-forma first half of 2009 to -11.4% in the first half of 2010); provisions for impairment of receivables derive from assessment of the recoverability of doubtful receivables as a result of bankruptcies and other arrangement procedures in progress. EBIT from Medium Haul operations was a negative Euro 7,838 thousand, while that from Long Haul was a negative Euro 5,105 thousand, including unallocated structural costs of Euro 15,125 thousand.

In the six months, the financial area achieved a positive balance of Euro 916 thousand (a negative balance in the pro-forma first half of 2009 of Euro 1,093 thousand), mainly as a result of positive net exchange differences. In particular, it should be noted that the precise Euro/Dollar exchange rate at 30 June 2009 and 30 June 2010 was 1.4134 and 1.2271 respectively, while the average exchange rate for the two interim periods was substantially stable (1.3322 in the first half of 2009 compared with 1.3266 in the first half of 2010).

Net of the estimated taxes accruing in the period (primarily IRAP regional business tax), the first half of 2010 ended with a loss of Euro 27,460 thousand compared with a loss of Euro 35,105 thousand recorded in the pro-forma first half of last year. It should be remembered that the synergy expected from the integration should only begin in 2011 and that the profits of the first half of 2010 were adversely affected by the events mentioned above, making the income data appear worse.

At 30 June 2010, after accounting for the capital increase by contribution in kind according to the methods explained more fully in Paragraph 4.6 - Method of recognition of the Aviation Business contribution operation, the consolidated net shareholders' equity was a negative Euro 11,546 thousand (cf. paragraph 4.10 - Analysis of changes in consolidated shareholders' equity).

At 30 June 2010 the Company presented a negative Shareholders' Equity of Euro 4,938 thousand and it is therefore in the condition envisaged in Art. 2447 of the Italian Civil Code (share capital reduced under minimum level). This situation has since been resolved following the cash capital increase of Euro 40 million to be recognized in the Shareholders' Equity items, mostly carried out on this day and fully completed on 24 August 2010. Therefore, on the date these condensed half year consolidated financial statements are approved, the Company no longer finds itself in the above condition as explained in detail in paragraph 2.3.1 - Capital increase.

Net financial debt at 30 June 2010 was Euro 12,341 thousand, compared with net financial debt of Euro 19,612 thousand recorded in the individual financial statements as at 31 December 2009 and with a corresponding indebtedness in the pro-forma figure for the end of 2009 of Euro 16,020 thousand. On this point it is worth noting that, in identifying the assets and liabilities attributed effectively to the Aviation Business, as indicated in the deed of the contribution in kind, cash and cash equivalents and the financial debt typically relating to the air transport business were not included and were therefore not transferred by Meridiana S.p.A. to the Company. The improvement with respect to the individual figure for 31 December 2009 was mainly due, in addition to the consolidation of the positive financial position of the subsidiaries, to the optimization of net working capital, together with the seasonality of the net cash flows in the period.

2.1.3. *Results of second quarter 2010*

Meridiana fly's results for the second quarter 2010 were affected, as noted above, by the volcanic eruption in Iceland in April 2010 and which caused the interruption of European air connections for a number of days. This led to consequential non-recurrent losses of approximately Euro 3 million, as well as a number of delays into service of new aircraft in June (with additional unforeseen wet lease costs in the same month of approximately Euro 1 million). As quarterly figures for the Aviation Business are not available*,* the comparative analyses below present the consolidated data compared with the individual figures with a loss of significance in the comparison since the business parameters in the quarters compared are not equivalent.

Individual data	*Unless otherwise specified, Euro/000*	*Consolidated data*	*Individual data*	
2009	**Key operating indicators**	**2Q 10**	**2Q 09**	**Change**
42,287	Total flight hours	23,514	10,396	13,118
1,585,150	Passengers carried	1,171,770	366,597	805,173
2009	**Summary Income Statement**			
290,192	Revenue from sales	157,172	63,508	93,663
293,571	Total revenue	167,654	64,276	103,378
18,177	EBITDAR (1)	480	(5,093)	5,573
6.3%	*As a % on revenue from sales*	*0.3%*	*-8.0%*	
(23,286)	EBITDA (2)	(14,095)	(16,693)	2,598
-8.0%	*As a % on revenue from sales*	*-9.0%*	*-26.3%*	
(29,799)	EBIT (3)	(19,478)	(18,208)	(1,270)
-10.3%	*As a % on revenues from sales*	*-12.4%*	*-28.7%*	
(34,059)	Net profit (loss) for year	(19,358)	(19,221)	(137)

The consolidated statement of comprehensive income of second quarter 2010, compared with the individual data relating to the same period of 2009 is included in paragraph 3.2 and was not subject to any independent auditing.

2.1.4. *The fleet*

As of today Meridiana fly operates a fleet of eighteen Airbus aircraft (eleven A320s, three A330s and four A319s) all on operating leases and seventeen MD-82s of which seven are on operating leases and ten company-owned (as well as three ATR 42s on wet leases).

Following the integration with the Meridiana's Aviation Business which occurred at the end of February 2010, and which brought in four A319s and seventeen MD-82s, the Company operates a mixed fleet of Airbus and MD82 aircraft. Operations performed by two commercial units (scheduled and charter) are managed in a unified way in order to optimise the use of crews, the fleet and supporting activities (administration, staff and operations).

The composition of the commercial fleet and the changes that occurred up to June 2010 are shown in the following table.

Registration mark	Type	Owned, operating lease, financial lease	Entry in fleet
I-EEZB	A330	Operating lease	Aug-02
I-EEZA	A330	Operating lease	Sep-02
I-EEZJ	A330	Operating lease	May-05
EI-EZL	A330	Operating lease	Dec-06
I-EEZM	A330	Operating lease	Mar-09
I-EEZC	A320	Operating lease	Oct-02
I-EEZD	A320	Operating lease	Feb-03
I-EEZE	A320	Operating lease	Mar-03
I-EEZF	A320	Operating lease	Apr-03
I-EEZG	A320	Operating lease	May-03
I-EEZH	A320	Operating lease	Dec-04
I-EEZI	A320	Operating lease	Dec-04
I-EEZK	A320	Operating lease	Feb-05
EI-EZN	A320	Operating lease	Mar-09
IE-EZO	A320	Operating lease	Mar-09
I-EEZP	A320	Operating lease	May-09
EI-EZR	A320	Operating lease	Jul-10
EI-EZS	A320	Operating lease	Jul-10
EI-DPF	A319	Operating lease	Feb-10
I-EEZQ	A319	Operating lease	Jun-10
EI-DEY	A319	Operating lease	Feb-10
EI-DEZ	A319	Operating lease	Feb-10
EI-DFA	A319	Operating lease	Feb-10
EI-CIW	MD82	Operating lease	Feb-10
EI-CKM	MD82	Operating lease	Feb-10
EI-CRE	MD82	Operating lease	Feb-10
I-SMEC	MD82	Operating lease	Feb-10
EI-CRH	MD82	Operating lease	Feb-10
I-SMED	MD82	Operating lease	Feb-10
EI-CRW	MD82	Operating lease	Feb-10
EI-CNR	MD82	Operating lease	Feb-10
I-SMEN	MD82	Owned	Feb-10
I-SMEL	MD82	Owned	Feb-10
I-SMEM	MD82	Owned	Feb-10
I-SMET	MD82	Owned	Feb-10
I-SMEV	MD82	Owned	Feb-10
I-SMEP	MD82	Owned	Feb-10
I-SMER	MD82	Owned	Feb-10
I-SMES	MD82	Owned	Feb-10
I-SMEZ	MD82	Owned	Feb-10
I-SMEB	MD82	Owned	Feb-10

In particular it is important to note, besides the acquisition of the former Meridiana fleet, the following further changes:

- addition of two A320 aircraft (EI-EZR and EI-EZS) on dry-lease with full operation from July 2010;
- phase-out of an A319 aircraft (EI-DEY) in June 2010, with simultaneous addition of an A319 aircraft (I-EEZQ) leased at more competitive conditions.

As mentioned above, in the management of the fleet, there were a number of temporary problems in aircraft management owing to difficulties that emerged in the planned early return to a lessor of an A330 (Long Haul) aircraft, which did not occur, and to the delay in the acquisition of the A320 (Medium Haul) aircraft, which led to unforeseen costs in this first stage of Euro 1 million, reabsorbable over the period of the Plan.

2.1.5. *Commercial business*

The integration of the air transport business to the Aviation Business through the contribution in kind is the last stage of a process that began in 2007 and that has seen the development of important commercial synergies, significant improvements in terms of service quality provided by Meridiana fly, as well as the achievement of larger dimensions in terms of fleet and capacity offered.

Meridiana fly manages its charter and scheduled businesses as two distinct commercial entities, the products of which are sold separately, on account of the typical features that distinguish the two commercial areas and their corresponding customer segments.

Charter business

In the charter sector, Meridiana fly mainly sells its capacity to tour operators, who use it to build their tour packages (inclusive of other services, such as board and lodging). Sales to tour operators are made a considerable time in advance of the start of the season (summer or winter) and are mainly on a “Dead Freight” basis which means that the risk of filling the aircraft remains with the tour operator and mainly on a “split charter” basis (where several tour operators may be on the same flight sharing the capacity of the aircraft).

To take into account the possible variation of external factors, such as exchange rate trends (Euro/USD) and the cost of fuel, all contracts are indexed to certain parameters and, within certain ceilings or excesses, provide a mechanism whereby prices charged to the tour operator may be automatically adjusted.

It should be noted, however, that this mechanism does not allow for perfect and complete coverage of the risk of changes in the aforementioned factors, not least because of the time difference (approximately two months) between the change in the costs/rates and the application of the adjustments.

Meridiana fly does business with the leading Italian tour operators, with a concentration of approximately 50% of charter turnover with the top 5 customers.

The charter business reaches national and, above all, international destinations, both Medium and Long Haul, with particular reference to the high-end leisure segment, serving people who travel abroad for their holidays.

The charter business can be divided into two areas:

- **Medium Haul business operated with A320 aircraft:** a business which traditionally includes flights which last up to five hours with destinations mainly in Europe and the Mediterranean basin. Some of the more notable Medium Haul destinations operated by the Company are: Sharm El Sheikh, Marsa Alam and Hurgada (Egypt), Rhodes and Crete (Greece), Ibiza, Palma de Majorca, Fuerteventura and Tenerife (Spain), Tel Aviv (Israel), Lourdes (France). The Medium Haul business is characterized by high seasonality, linked to the climate of the regions served by Medium Haul journeys, making these destinations more appealing in the summer season. The destination affected less by seasonal variations is Egypt which explains why the traffic flows are constant and significant in percentage terms.
- **Long Haul business operated with A330 aircraft:** a business which traditionally includes flights lasting more than five hours with mainly intercontinental destinations. The main Long Haul charter destinations currently operated by the Company are: Male (Maldives) and Colombo (Sri Lanka), Mombasa (Kenya), Zanzibar (Tanzania) and Mauritius. The Caribbean destinations (such as the Dominican Republic) and Cancun (Mexico), previously reached directly, are now reached through code-sharing agreements (with the carrier Lauda-Livingston, for example).

Scheduled business

Unlike the charter business described above, the scheduled business involves “Point to Point” connections with flights and destinations fixed in time. In Meridiana fly's 2010 summer season, scheduled business connects approximately 30 destinations in Italy and Europe serving both the leisure sector and the business one, thanks to the market areas covered which, during the summer season, have a strong tourist connotation, whilst in winter present an important presence of business and ethnic traffic.

Among the main destinations served by the Company, we note the numerous connections within Italy starting from various bases (including to and from Sardinia), destinations with a prevailing business attachment (such as flights from Milano Linate to Naples, Palermo, Catania, as well as from Naples to Paris), the connections to Mediterranean countries (Egypt and Greece but also Israel), to Eastern Europe (essentially for traffic of a primarily ethnic nature to the Republics of Moldova and Kosovo, respectively Chisinau and Pristina, and the connections from Bologna to Moscow), to African countries (Senegal), and the scheduled connections to New York (for summer 2010 the connections to New York remain operational only from Naples and Palermo).

As regards, and in particular, the Network based in Florence, the operations are usually performed with A319 aircraft acquired with the Aviation Business conferred by Meridiana. The main destinations served are London Gatwick, Amsterdam, Barcelona and Catania.

It should be noted that Meridiana fly also carries out business subject to the rules of the so-called “Public Service obligations” in relation to the connections with Sardinia – main lines (Milan and Rome), Sicily and Minor Islands, for which, in exchange for particular public service obligations, the Company receives regular public contributions with the aim of ensuring the economic and financial balance of the activities carried out by the carrier.

Considering the application's term period of the Decree on the main lines for Milan/Rome, which expired at the end of October 2008 following the Ministerial Decree of 1 August 2007 published in O.J. No. 192 of 20 August 2007, the Company again won the assignment of rights on the lines from Olbia to Milan Linate and Rome Fiumicino, and in competition with Alitalia/Air One on connections from Cagliari to Milan Linate and Rome Fiumicino starting in Winter 08/09.

Finally, the scheduled business also offers other national and international destinations, thanks to a growing number of commercial code-sharing agreements made in the last two years with, for example, Air Malta, Air Moldova, British Airways (on Florence-London Gatwick operated by Meridiana fly), Finnair (on Florence-Helsinki operated by Meridiana fly and flights operated by the Finnish carrier from Italy to Helsinki, as well as continuation agreements), KLM (on Florence-Amsterdam operated by Meridiana fly), Wind Jet (reciprocal exchange of seats on flights between Turin, Verona, Venice and Catania, Palermo, Bucharest and Pristina) and Iberia (on Florence-Madrid operated by Meridiana fly and on flights operated by the Spanish carrier between Milan Linate and Madrid, as well as continuation agreements).

2.1.6. *Statistics*

The statistics on the business carried out in the half-year period are presented below. We note, as already mentioned in the "Introduction", that:

- the pro-forma data (2009 and 2010) refer to the combined data from the former Eurofly (now Meridiana fly) and the Aviation Business of Meridiana S.p.A. as if the integration had occurred on 1 January of each year;

- the "consolidated" first half of 2010 includes 4 months of effective integrated business with the Aviation Business conferred by Meridiana starting in March 2010;

- the "individual" first half of 2009 regards the effective data of the aviation business operated by the Company as the former Eurofly;

- the "individual" period of January-February 2010 concerns only the effective aviation business carried out by the Company as the former Eurofly.

Flight hours by SBU
flight hours

1Half 10 Pro-forma	%	1Half 09 Pro-forma	%		1Half 10 Consolidated	%	Mar-June 2010 Consolidated	%	Jan-Feb 2010 Individual	%	1Half 09 Individual	%
39, 312	86.6%	40,968	82.5%	**Medium-haul**	31,645	83.8%	27,538	88.8%	4,107	61.1%	11,951	57.9%
6,104	13.4%	8,690	17.5%	**Long-haul**	6,104	16.2%	3,484	11.2%	2,620	38.9%	8,690	42.1%
45,417	**100.0%**	**49,658**	**100.0**	**Total flight hours**	**37,750**	**100.0%**	**31,023**	**100.0%**	**6,727**	**100.0%**	**20,641**	**100.0%**

In the first half of 2010, the number of hours flown was 37,750 (+82.8% over the previous six months), of which 31,023 hours were in the period March-June 2010, with a proportion of Medium Haul operations up to more than 80% (compared with 58% for the first six months 2009).

The changes on Medium Haul operations are determined in large part by the contribution in kind of the Aviation Business of Meridiana, as well as by the greater availability of A320 aircraft in the period (nine Airbus A320s in the first six months of 2010 compared with six to eight machines in the first six months of 2009).

The Long-Haul segment (fully comparable as it is not affected by the Aviation Business) shows a reduction of hours flown of almost 30% due to the reduction of the average number of aircraft in the fleet and the capacity offered.

In terms of the pro-forma result for the entire six-month period for Medium Haul operations, there is a reduction of 1,656 hours flown (-4%) but as a proportion of the total business, it is up to 86.6%.

Fleet productivity

annualized flight hours

2009 Pro-forma Consolidated	2009 Individual		1Half 10 Consolidated	Mar-June 2010 Consolidated	Jan-Feb 2010 Individual	1Half 09 Individual
3,178	3,178	**Fleet A320**	3,270	3,539	2,730	3,265
4,841	4,841	**Fleet A330**	4,286	3,861	5,136	4,937
2,382	0	**Fleet Md82**	2,038	2,038	0	0
2,822	0	**Fleet A319**	2,564	2,564	0	0

Productivity per aircraft, in terms of annualized flight hours, showed a reduction in the half-year on Long Haul of 13.8% owing to cuts in a number of unprofitable rotations (NYC in the winter period), while for the A320 fleet the productivity showed substantial stability.

As regards the MD82 and A319 aircraft conferred by Meridiana, productivity remained lower than the entire previous year of 2009 both as a result of seasonal demand and owing to the aforementioned problems associated with the integration of the Company (e.g. trade union disputes, cancellations and delays in the area of maintenance, etc.).

Passengers carried - scheduled and charter

2009 Pro-forma	%	2009 Individual	%		1Half 10 Consolidated	%	Mar-June 2010 Consolidated	%	Jan-Feb 2010 Individual	%	1Half 09 Individual	%
4,731,106	91,6%	1,148,663	72.5%	**Medium-haul**	1,594,890	89.7%	1,421,403	93.9%	173,487	66.0%	496,332	69.3%
436,487	8.4%	436,487	27.5%	**Long-haul**	182,317	10.3%	93,007	6.1%	89,310	34.0%	219,627	30.7%
5,167,593	**100.00%**	**1,585,150**	**100.00%**	**Total passengers**	**1,777,207**	**100.00%**	**1,514,410**	**100.00%**	**262,797**	**100.00%**	715,959	**100.00%**

The total number of scheduled and charter passengers was 1,777,207, a considerable increase over the first half of 2009 (+1,061,248), owing mainly to contribution of the Aviation Business from March 2010, concentrated exclusively in Medium Haul, which determined a proportion of Medium-Haul out of the total business of around 90%.

As regards Long Haul (a fully comparable segment) the Company carried approximately 17% fewer passengers in the six months owing to the lower capacity offered, but with an improved total load factor (the proportion by which aircraft are filled).

2.2. Significant events in the first half of the year

The main significant events that occurred in the first half of 2010 are presented below.

2.2.1. *Conclusion of the capital increase by contribution in kind*

On 25 February 2010, with effect from 28 February 2010, Meridiana's air transport business was contributed to Eurofly and the related capital increase in kind (with the exclusion of the option rights pursuant to Art. 2441 of the Italian Civil Code) was completed. New 325,247,524 ordinary shares were issued at a price of Euro 0.1616 each (of which Euro 0.02 is used to cover the implicit accounting parity). Following the above mentioned contribution in kind, the Share Capital of Meridiana fly S.p.A. increased to 680,042,294 ordinary shares, of which 536,628,025 (78.91% of the said share capital) are held by Meridiana S.p.A..

On the same date, the name of the company changed from Eurofly to Meridiana fly, with transfer at the same time of the registered office from Milan to Olbia, where the Shareholder Meridiana S.p.A. is also based.

It should be noted that, together with its Aviation Business, Meridiana, also contributed the 50% interest held in the equity of Sameitaly and Wokita. Therefore, from the Business Combination effective date, these companies are 100% controlled by Meridiana fly and the shareholders' agreement signed earlier by Meridiana and Eurofly for the joint control of the two companies consequently became void.

2.2.2. *Bridge loan of AKFED and Meridiana*

With a letter sent to the Company and to Meridiana S.p.A. on 16 February 2010 AKFED (a financial institution controlled by the reference Shareholder of the company and of Meridiana, H.H. Karim Aga Khan), acknowledging the technical time necessary for completion of negotiations with the lending banks, assumed an irrevocable commitment to disburse to Meridiana fly a bridge loan of up to Euro 30 million, of which Euro 15 million could be used to repay the credit facility currently granted to Meridiana fly, and a further Euro 15 million could be used as a revolving credit facility.

With a letter sent to the Company on 22 February 2010, Meridiana also assumed a commitment (up to the limit of Euro 30 million), to obtain the issue, renewal or confirmation of the guarantees (e.g. sureties, letters of credit, etc.) necessary to manage Meridiana fly's air transport business, counter-guaranteed in this up to the same limit of Euro 30 million by AKFED.

For details of other commitments made by AKFED in August 2010 see paragraph 2.3.6 "New commitments by AKFED", below.

2.2.3. *Joint venture agreement and contribution in kind of the maintenance business to Meridiana Maintenance*

On 23 February 2010, the Company's Board of Directors resolved to sign a new joint venture agreement with SFIRS S.p.A. - Società Finanziaria Industriale Rinascita Sardegna - Iberia Lineas Aereas de Espana S.A. and Meridiana S.p.A. for the organization and management of the maintenance business through the newly founded Meridiana Maintenance.

On 25 February 2010, the extraordinary shareholders' meeting of Meridiana Maintenance was held, and, as well as appointing the corporate bodies (directors and statutory auditors) and an independent auditing company, approved the transformation of the company from an S.r.l (limited company) into an S.p.A. (joint-stock company), a capital increase by contribution in kind of the business units involved in the "MRO" services and activities of Meridiana and Eurofly (for Euro 9,972 thousand and Euro 1,967 thousand respectively), and a paid capital increase in cash reserved for the other shareholders (Iberia for Euro 1,999 thousand and Sfirs for Euro 6,000 thousand, subscribed respectively for Euro 16 thousand and Euro 50 thousand). These resolutions came into effect on 28 February 2010.

2.2.4. *Incorporation of Meridiana express S.r.l.*

In accordance with the provisions of the Business Plan, on 9 March 2010, Meridiana express S.r.l. was incorporated, with a minimum capital of Euro 10 thousand and wholly controlled by Meridiana fly.

The plan is for the MD-82 family of aircraft currently in the Meridiana fly fleet to be transferred to Meridiana express S.r.l.. In particular it is envisaged that Meridiana express S.r.l. will rent the above aircraft to Meridiana fly with an ACMI formula (Aircraft, Crew, Maintenance and Insurance), operating according to competitive contracts and terms, with a high level of organizational and economic flexibility. In this way Meridiana fly would thus obtain the benefit of a lower cost than it would incur keeping the aircraft in its own fleet.

Moreover, Meridiana express S.r.l. will also be able to offer a very competitive product on the ACMI/charter market, while still maintaining adequate profit margins.

Currently Meridiana express S.r.l. is not yet operating.

2.2.5. *Trade union disputes in March 2010*

Following the completion at the end of February 2010 of the above extraordinary operations (contribution of the Aviation Business and spin-off of the MRO maintenance activities) there were, for about 10 days starting on 1 March 2010, significant trade union protests by workers which led to the cancellation of more than 80 planned flights, delays on flights in general also due to consequential effects and rotation, with worsening of productivity and the indices of punctuality/regularity.

The above protests died down after negotiations were opened with the trade unions on how best to apply the new employment contracts for Meridiana Maintenance and for the former Meridiana personnel now employed in the Aviation Business and therefore transferred to Meridiana fly. The disputes had a non-recurrent negative impact on the Company's results estimated at approximately Euro 1.5 million.

In this context, we can note that as a consequence of the aforementioned disputes, with reference to the operation and service of the Maintenance area involved in the spin-off, delays occurred in the planned maintenance work on two MD-82 aircraft (EI-CRH and EI-CRW), which were released for operations, not at the end of May as planned, but only towards the end of June. This delay, combined with the unavailability of the fourth A319, which came into service only on 11 June instead of at the end of May as originally planned, and with the delayed entry into service of the first of the "new" A320s, forced the Company to sign a large number of wet leases. The estimate of the higher costs due to the additional wet leases and the costs associated with them in the period of reference (June) amounts to approximately Euro 1 million.

It should be noted that on 3 August 2010 Meridiana Maintenance and all the Trade Unions signed a draft agreement which, following the disclosure of the agreement to Trade Union members, and being confirmed as accepted by the Trade Unions, came into effect on 12 August 2010. The agreement supplements the contractual provisions defined in the agreement of 6/7 May which had been terminated following a referendum carried out among the workers with a negative outcome. The signing of this agreement foreshadows a general improvement in the climate of industrial relations, an essential prerequisite for the re-establishment of an excellent level of service provided by Meridiana Maintenance to Meridiana fly.

2.2.6. *Renewal of the Board of Directors and appointment of the new Chief Executive Officer*

On 30 April 2010, the Shareholders' Meeting renewed the Board of Directors, which will remain in office for one financial year, setting at nine the number of its members. The candidates on the list presented by the parent company Meridiana were elected: Marco Rigotti, appointed Chairman of the Board of Directors, Claudio Allais, Giancarlo Arduino, Massimo Chieli, Giuseppe Lomonaco, Claudio Miorelli, Luca Ragnedda, Franco Trivi and Salvatore Vicari.

On the same date, the Board of Directors conferred powers and responsibilities, appointing Massimo Chieli the new Chief Executive Officer, confirming Franco Trivi as Deputy Chairman of the Company and finally conferring on the director Claudio Miorelli powers to manage the Company's external and press relations.

2.2.7. *Execution of powers to increase the capital in cash*

On 14 May 2010 – on the basis of the powers conferred by the Extraordinary Shareholders' Meeting of 21 December 2009 – the Company's Board of Directors approved a number of terms and conditions for the divisible share cash capital increase with subscription rights, for a maximum total amount of Euro 40 million, inclusive of any premium provided for in these powers – including the methods of payment for the shares to be issued in execution of this increase.

The details of the capital increase are analyzed in paragraph 2.3 - Significant subsequent events, below.

2.2.8. *Eruption of the volcano in Iceland*

Owing to the eruption of the volcano Eyjafjallajökull, in Iceland, which occurred in the middle of April 2010 and of the subsequent emission of ash and silicon dust into the atmosphere, considered dangerous to aviation in Europe, the order was given to close air space: first in Northern Europe and later in Southern Europe. This closure lasted for about 10 days, with air space completely reopening on 20 April 2010. This stoppage to business caused significant losses for the airlines, airports and for the tourist industry in general, as it involved a total of 313 airports. IATA (the International Air Transport Association) estimates that the airlines in general lost revenues of 1.7 billion dollars (Euro 1.26 billion).

The Company suffered significantly from the extraordinary effect of the volcanic cloud because, as well as having to cancel more than 350 flights, almost exclusively Medium Haul, and to reposition its flights on various airports (with no revenues), it organized flights to recover passengers. The lost revenues were estimated at around Euro 4.5 million, while the margin lost, net of the variable cost savings, but including the estimated costs of refunding and repatriating passengers, can be quantified at approximately Euro 3 million.

2.3. Significant events subsequent to half year end

The most significant events subsequent to the end of the period are described below.

2.3.1. *Capital increase*

On 13 July 2010 Consob communicated the authorization to publish the Prospectus relating to (i) the admission to listing of 325,247,524 ordinary shares, issued on 1 March 2010, deriving from the capital increase by contribution in kind, for an amount of approximately Euro 52.56 million carried out at the end of February 2010 and (ii) the offer as option rights to the shareholders and the admission to trading of the shares deriving from the paid divisible cash capital increase, in accordance with the powers conferred by a resolution of the Extraordinary Shareholders Meeting of 3 November 2009, as modified on 21 December 2009.

The capital increase, for a total amount of Euro 39,986,486, provided for the issue of a maximum of 714,044,394 ordinary shares to be offered to shareholders. The unit price of subscription of the newly-issued shares was set at Euro 0.056, of which Euro 0.046 as a share premium and Euro 0.010 to cover the implicit accounting parity; the swap ratio was 21 ordinary shares for every 20 ordinary shares held.

It should be recalled that Meridiana, with a letter sent to the Company on 22 February 2010, among other things, undertook to subscribe and pay up the shares deriving from the capital increase as option rights to an extent such that, at the end of the capital increase, the interest held by the same in the company would not be less than 50.1% of the share capital and would not exceed the threshold of 90% of the share capital of Meridiana fly and in any case for a total amount of no more than Euro 40,000,000.

On 25 August the Company communicated the conclusion of the offer as option rights of the shares deriving from the cash capital increase, including the partial subscription of the rights unopted. Following this operation (i) 663,275,424 newly-issued ordinary shares were subscribed and paid up during the period of offer as option rights, and (ii) 168,000 newly-issued ordinary shares were subscribed and paid up following the offer on the Stock Exchange. Finally, as a result of the commitment to subscribe and pay up made by Meridiana as above, a further 50,600,970 newly-issued ordinary shares will be subscribed and paid up in cash by the same for an amount of Euro 2,833,654.32.

The new share capital of Meridiana fly will therefore be Euro 20,901,419.34, represented by 1,394,086,688 ordinary shares, with no indication of a par value, and Meridiana will hold an interest of 78.05% of the share capital of Meridiana fly.

2.3.2. *Difficulties on connections to Greece*

In the second half of July, for a few days connections between Italian airports and those of the main Greek tourist resorts were affected by a number of technical problems associated with air traffic control. Meridiana fly's business with Greece and, indirectly with Egypt, areas in which it is the leader for leisure traffic from Italy, was also hit by these troubles with delays and cancellations of rotations; the Company's flights directly or indirectly affected by the situation were 44 and the customers involved approximately 8,000, to whom the Company provided constant assistance and information.

2.3.3. *Delayed delivery of A320s*

During July and August the delayed delivery of two A320 aircraft required greater recourse to temporary wet lease contracts. It should be noted that the delay in the delivery of the aircraft was also due to the postponement of the process of integration between Meridiana and Eurofly, so that only in March 2010 was it possible to reactivate the process of selection and negotiation of the rental contracts which had been suspended in the previous months.

The estimate of the higher costs due to the additional wet leases and the costs associated with them in the period of reference (July/August) was approximately Euro 600 thousand.

2.3.4. *Operational inefficiencies*

As mentioned in the Monthly Disclosure pursuant to Art. 144, clause 5, of Lgs. Dec. 58/98, in June and July – owing to strikes by air traffic controllers in France and Spain and by ground staff of various airport companies, and to the congestion both of air traffic and of ground operations at the main Italian airports – Meridiana fly suffered operational inefficiencies and cancellations with negative economic effects on results in the short term.

2.3.5. *Examination of forecast data and approval of the Forecast to June 2011*

The non-recurring events which occurred during the first half of the year – mentioned in paragraphs 2.1.1. and 2.1.2. above, – together with the events mentioned in paragraphs 2.3.2., 2.3.3 and 2.3.4. above, and with new forecasts by specialized third parties on the trend of the Euro/Dollar exchange rate and of jet fuel prices, and on airport traffic in the short and medium term, have led the Directors of the Company to ask the management to update the forecast data for the next 12 months – preparing a Forecast up to 30 June 2011 – in order to corroborate the going concern assumption.

In this context, the management of the Company developed the requested update of the prospective data for the next 12 months, incorporating, besides the negative effects of the events mentioned above, *(i)* new assumptions on the evolution of non controllable variables (Euro/Dollar exchange rate, fuel prices, average unit revenues) on the basis of the forecasts updated in July 2010 by specialized third parties *(ii)* the benefits expected from short-term tactical actions in the commercial offer and in the management of operations defined by the new management to respond to the operational needs that have emerged in the last few months, *(iii)* a review of the collection and payment terms of amounts due from customers and to suppliers *(iv)* the postponement to March 2011 of the sale of the building located in Via Bugatti, Milano, to allow the maximization of the expected income even in a time of recession in the real estate market.

These revisions of the assumptions of the Business Plan with reference to the next 12 months do not modify, however, the strategies of the Business Plan itself or expectations for the achievement of the synergies considered reasonably obtainable and quantifiable at the original amount of Euro 70 million, along the entire period of the plan, declared in the previous financial communications and in the Prospectus prepared with a view to the aforementioned operation for a capital increase by contribution in kind and in cash. In particular, the management of the Company believes that overall the worsening of profitability and net financial position emerging from the Forecast up to June 2011 may in any case be reabsorbed in period covered by the Business Plan without therefore precluding – but at the most delaying – the achievement of the conditions of stable profitability and long-term financial equilibrium of the Company and the Group that the Business Plan itself envisaged starting from 2012. In the light of the above, the Directors, while not seeing any reason to revise the Business Plan and, indeed, confirming the positive valuation about the opportunity of the business combination in particular from the point of view of the synergies deriving from it, invited the new management to present to the Board of Directors the strategic actions planned to better place the Company and the Group in relation to the current market and competitive scenario.

From the revision of the prospective data contained in the Forecast to 30 June 2011, approved by the directors today, emerged the complete erosion of the shareholders' equity of the Company and the Group together with a temporary cash shortage – additional than that originally one included in the Business Plan – of approximately Euro 27 million, to be recovered, as mentioned above, during the explicit period of the Business Plan as dependent on events and trends of non controllable variables which are not likely to stabilize in the long term; this further need was guaranteed by AKFED with letters of irrevocable commitment dated 26 August 2010, the content of which is better explained in paragraph 2.3.6. – New commitments by AKFED, below.

As a result of these additional irrevocable commitments, the Forecast to 30 June 2011 still envisages a condition of short-term capital and financial equilibrium, even in the presence of a worsening of profitability and cash flows expected from operations in the short term.

2.3.6. *New commitments by AKFED*

On 26 August 2010, AKFED (a financial institution controlled by the Shareholder of reference H.H. Karim Aga Khan) reconfirmed its financial and capital support for the Company on the basis of the new needs deriving from the Forecast at 30 June 2011 making new commitments of support in the following terms:

- in view of the original commitment by Meridiana S.p.A. (also controlled by the Shareholder of reference H.H. Karim Aga Khan) to subscribe the portion of the option rights unopted by the market of the share capital increase up to a maximum amount of Euro 40 million, AKFED communicated to the Directors of Meridiana fly its intention not to reduce its total financial commitment to an extent corresponding to the amount subscribed by the market up to the amount of Euro 8.5 million. As an amount of approximately Euro 9.1 million was subscribed by the market, the amount of Euro 8.5 million will be disbursed in the form of a deferred interest-free loan by AKFED or by Meridiana S.p.A., with maturity set at 31 December 2016. This commitment, which will enable Meridiana fly to receive altogether in 2010 total financial resources of Euro 48.5 million, was made with the aim of facilitating the negotiations in progress between Meridiana fly and the banking system;

- with the aim of ensuring to the Company the appropriate capital and financial equilibrium for operating as a going concern for a period of at least 12 months, AKFED communicated to the Directors of Meridiana fly that it was making an irrevocable commitment to provide financial resources to the Company – directly, if it is a shareholder of the Company, or through Meridiana S.p.A. – for an amount of Euro 19 million. This irrevocable commitment may be fulfilled through acceptance of a possible new share capital increase operation resolved by the Company, or in any other form that enables the Company to achieve financial equilibrium appropriate to the going concern assumption. The financial resources may be disbursed to the Company upon request or, if approved, on the occasion of a new share capital increase operation. If the disbursement takes the form of a loan it is envisaged that the same must be repaid by 31 August 2016 or partially or in full before this date but in any case after 31 December 2011, if the Company has structural cash surpluses with respect to the condition of financial equilibrium; the interest will be calculated at the Euribor rate plus 200 basis points with quarterly settlement.

2.4. Business outlook

The general economic trend and the trend in demand in the leading economies are still expected to remain at low levels, affecting the spending capacity of families to a great extent. In this negative scenario, characterized by difficult market conditions and by a high level of competition between operators in the industry, the current year represents an important period of transition for the Company after contribution of the Aviation Business by Meridiana.

As mentioned in Paragraph 2.3.5 – Examination of the forecast data and approval of the Forecast to 30 June 2011, above, in line with the the Business Plan which was confirmed in its fundamental strategic lines, the Company plans to achieve in the next few years significant savings and synergies through the business combination with Meridiana amounting to a total, as already communicated to the market, of Euro 70 million. As of today these savings and synergies have been achieved to a very limited extent, in keeping however with the forecasts included in the Business Plan itself, owing also to the unforeseen events and the effective trends in the economic variables which have already been described in the aforementioned paragraph 2.3.5. and which determined the decision to prepare a Forecast to 30 June 2011. To this must be added the typical initial difficulties in implementing a project of this scope, considering also the complexity of the two companies with not fully uniform traditions, procedures and systems used, as well as the problems and tensions that emerged on the trade union front.

In this context, taking into account the loss incurred as of 30 June 2010 (more than that originally forecasted in the prospective data) and that expected at 31 December 2010 (more than that incurred in the individual financial statements at 31 December 2009) and at 30 June 2011, as resulting from the Forecast until 30 June 2011 approved today (see paragraph 2.3.5.- Examination of the forecast data and approval of the Forecast until 30 June 2011), the Directors believe that the Company and the Group will continue as a going concern in the foreseeable future considering, among other things, the permanent support of the reference Shareholder confirmed with the commitment letters of of August 26, 2010 (see paragraph 2.3.6 – New commitments by AKFED).

To this end, it must be considered that the prospective results and, consequently, the economic and financial equilibrium, show a strong sensitivity *(i)* to the performance of non controllable variables (for example the volatility of jet fuel costs, of exchange rates and of interest rates and the load factor) the evolution of which is difficult to be foreseen, as demonstrated also by the significant fluctuations resulting from the studies published within a short time by the rating agencies and specialized third parties and taken as a reference in the preparation of the forecast data, *(ii)* and/or to the negative trend in litigations, to the solvency of counterparties, or to a possible worsening of credit conditions, of supply terms and over due payable sustainablity. Therefore, the absence in future of the support of the reference Shareholder – which has always been confirmed up to now – could determine a situation of serious difficulty of restoration of the economic and financial equilibrium deriving from the trends in the above components different from the expectations reflected in the forecast data.

The absence of economic and financial equilibrium, among other things, as well as entailing the end of the going concern assumption, would also imply the risk of impairment of specific assets of the Company and of the Group (and, in particular, of the goodwill recognized as a result of Business combination).

As already mentioned, in this context of uncertainty the Directors also believe that there are no uncertainties that may cast doubts about the Company's and the Group's ability to continue as going concerns in the foreseeable future of at least 12 months considering *(i)* the amount of the capital and financial resources found successfully as a result of the finalization of the cash share capital increase operation, *(ii)* the new commitments undertaken by AKFED for the support of the Company on the basis of the short-term forecasts contained in the Forecast until 30 June 2011, (*iii*) the reasonableness of the assumptions on the performance of the non controllable variables the trend of which – for the purposes of preparation of the aforementioned Forecast until 30 June 2011 – was recalculated on the basis of the best knowledge available from reliable third parties, and *(iv)* the evidence that in cases of need occurred in previous years the reference Shareholder provided the equity and financial support needed to re-establish conditions of equilibrium temporarily broken by unforeseeable trends in the economic variables.

2.5. Main risks and uncertainties for the current year

In carrying out their businesses, the Company and the Group are exposed to risks and uncertainties, deriving from external factors connected with the general or specific macroeconomic context of the operating sectors in which the operations are performed, risks deriving from strategic decisions and internal operating risks.

These risks were systematically identified and mitigated by the units involved, enabling timely monitoring of the risks manifested.

In this regard it is opportune to consider that, from a qualitative point of view, the activity of updating the Group risk matrix performed in 2010 did not lead to the identification of new risks with respect to those found in 2009, with the exception of that inherent in the implementation of integration with Meridiana's Aviation Business; on the contrary, it is important to note the positive effect on shareholders' equity and indebtedness of the operations on the capital and of the loan / guarantee commitments made by the Shareholder of reference, for the purposes of assessment of the risks associated with operations and financial continuity.

In the area of business risks, the main risks identified, monitored and managed by the Meridiana fly Group are the following:

1. Risk related to implementation of the business combination

The Company and the Group are the subject of a profound reorganization following the business combination of the air transport activity of Meridiana and Eurofly. The merger of the two businesses from the point of view of organization, procedures, personnel etc., entails risks associated with industrial and operational problems that may emerge in the implementation stage and, slowing down the process of unification of the two entities, may determine a partial or incomplete implementation of the development activities with significant effects on the expected results. The Business Plan provides for the achievement of important group synergies. The failed or incomplete achievement of the synergies deriving from the Business Plan could have significant effects on the expected results and on the breakup value of the assets reported in the financial statements due to accounting for the contribution in kind. (Cf. paragraph 4.6).

2. Risks related to contribution of the Aviation Business and recoverability of goodwill

A significant amount of the assets in the condensed half year consolidated financial statements at 30 June 2010 consists of goodwill (of approximately Euro 56.4 million), accounted for against contribution of the Aviation Business by Meridiana. The value attributed to goodwill depends of the achievement of increased cash flows with respect to the cash flows expected on the basis of the stand-alone business plans of Meridiana and of the Company, due to the synergies expected on the basis of the Business Plan.

The Directors recognized that the motivations that induced them to prepare a revision of the short-term prospective data (cf. paragraph 2.3.5. – Examination of the forecast data and approval of the Forecast to 30 June 2011) constitute external and internal indicators such as to render necessary the performance of an impairment test on the goodwill associated with the activities of Meridiana fly according to the methods provided for in the IFRS standards.

See paragraph 4.7. – Analysis of changes in the consolidated financial position at 30 June 2010 – ref 1 “Intangible assets”, below, for specific observations on recoverability of the goodwill.

3. Risks related to new solidarity agreement

In 2009 both Meridiana fly and Meridiana signed with the main trade unions / professional associations solidarity agreement with the flight personnel (both crews and cabin staff). These agreements, with an annual term, provide for variable maturities during the second half of 2010.

The Business Plan provides for a further three years of recourse to the benefits connected with these solidarity agreement both for flying crews and for cabin staff, structured according to methods already in force for Eurofly employees, conditional on achievement of an agreement with the trade unions / professional associations. If an agreement is not reached for the above new solidarity agreements for the flight personnel, the Company would most probably have to (i) face an increase in personnel costs and (ii) identify alternative solutions to manage excess personnel.

4. Risk related to Public Service obligations activity.

A number of connections made by the Company between the airports of Olbia, Cagliari, Lampedusa and Pantelleria and other Italian airports are governed by the regime of so-called Public Service obligation, a legislative instrument with the aim of guaranteeing, for specific categories of users, favourable conditions of access to air transport services on certain routes, in exchange for public contributions provided to the companies that ensure such connections.

The renewal of the tenders (usually every year) and possible changes relating to the applicable legislation and to the relevant rules by ENAC or by the Regions involved (for example in terms of greater liberalization of the routes) could have significant effects on the business and results of Meridiana fly.

5. Risk associated with financial management

Currently the Company and the Group present a financial situation characterized by the presence of much higher short-term than long-term financial indebtedness. Together with the presence of negative net working capital and a significant amount of past-due payables, this may determine situations of financial tension. Moreover, specific difficulties of the commercial counterparties (tour operators, financial intermediaries involved in the collection of payments by credit card, etc.) may cause delays or failure in the collection of receivables. Finally, additional financial needs deriving from negative changes in uncontrollable external variables – such as the volatility of fuel costs, exchange / interest rates, the load factor, average unit revenues per passenger (scheduled), and income per hour flown (charter) – could entail a negative impact on the ability of the Company and the Group to honour their obligations.

It should be recalled that thanks to the cash capital increase of Euro 40 million completed in August 2010, to the irrevocable commitment of AKFED to provide to Meridiana fly an interest-bearing bridge loan up to a maximum of Euro 30 million and to the new commitments by AKFED described in paragraph 2.3.6 above to cover any further financial needs, the Company and the Group have acquired or are capable of obtaining new financial resources to ensure that the businesses continue as going concerns and to proceed with the integration process in progress.

6. Risks associated with trade union relations

In general, the air transport business can be affected significantly by abstentions from work or other expressions of conflict which can cause interruptions of services or poor services, as in fact occurred in the first half of 2010 following integration of the Meridiana's Aviation Business into Eurofly and the spin-off at the same time of the maintenance work (MRO) to a new company. The industry has historically been subject to repeated periods of tension in industrial relations. It cannot be ruled out that in the future there may be interruptions in the Company's services caused by trade union agitation with consequent negative effects on the operating business and on the economic results of the Company and the Group, in particular in the light of the reduction and reorganization of the personnel that the Business Plan envisages will carried out after the integration.

7. Risks depending on non controllable variables

The results of Meridiana fly are dependent on the performance of a number of macro-economic variables (trend in the economic cycle, exchange rates, interest rates, oil prices), which are not directly controllable. Although it can take advantage of certain contractual and commercial mechanisms (for example tariff adjustments provided for in the agreements with tour operators or fuel surcharges) designed to contain such risks, the Company is in any case partly exposed to the effects of unfavourable trends in the above variables. The occurrence of these circumstances, together with the predominance of fixed with respect to variable costs, may lead to pressure on margins and on overall profitability, as already occurred in financial year 2009 and in the first half of 2010. In view of this, the Company takes action to increase the efficiency of the operational lever designed to mitigate the effect of the reduction of revenues on margins, monitoring impacts on the going concern assumption to activate timely actions needed to ensure that the business remains a going concern.

8. Risk associated with competitiveness

Air transport is characterized by keen competition, which has increased in the last few years owing to the evolution of the industry and to the gradual liberalization of air routes and which involves both operators already present on the market and new airlines or new aircraft. In the current context of a negative economic cycle and of reduction of the capacity of public spending, the Airlines are trying to preserve the volumes of their business, increasing price competition. This is reflected in growing pressure on fares and consequent tension on margins. The company is tackling this situation through intensification of its offer on specific destinations, on which it is strengthening its position, proposing itself therefore as a privileged interlocutor of tour operators and scheduled passengers on these specific routes improving at the same time the quality of in-flight services so as to ensure positioning in line with higher fares.

9. Risks associated with terrorist attacks / calamities / political events or serious incidents

The occurrence of natural calamities, epidemics, terrorist attacks or other negative political events – especially in non-European countries, places which, owing to their particular significance for tourism, are subject to high demand for air transport – may determine, generally in the short-medium term (depending on the seriousness of the events), a significant contraction in the demand for air transport on the part of consumers. Although it diversifies its offer in terms of geographical areas served, the Company is exposed to the risk that the occurrence of these events may lead to negative effects from an economic/financial point of view.

Finally, inherent in the air transport business, there is the risk, although a remote one, of the occurrence of more or less serious incidents relating to the fleet, the occurrence of which may jeopardize the Company's ability to continue as a going concern.

10. Commercial risks

Considering the strong exposure to tour operating, with which Eurofly traditionally worked and which remains an important interlocutor for Meridiana fly's charter business, the Company is exposed to possible negative developments in this sector (such as the trend to disintermediation of the tourism business towards "do-it-yourself" methods or to the concentration of operators, which have gradually become less numerous). In any case thanks to its consolidated presence and profound knowledge of the industry, Meridiana fly has managed to increase the business carried on with the most important and reliable tour operators which guarantee better compliance with contracts (always covered however by guarantee deposits and sureties paid by tour operators and by clauses that provide for collection before the flight and sometimes the possibility of suspending the flight in the event of failure to pay).

Against the benefits of focusing more on larger tour operators in terms of solidity of the counterparty, it must be noted that there is a risk associated with the possible interruption of relations with one of these clients, which have become less numerically but relatively more significant for the Company.

11. Risk associated with occurrence of operating problems

The Company is exposed to the risk of occurrence of operating problems, which may be either problems regarding the fleet – with the risk of temporary suspension of the normal performance of the business – or the failed or partial execution of services / supplies by third-party operators. It should be recalled on this point that the Company makes use of services provided by other companies (air traffic control, management of airport services and ground assistance, catering, maintenance services) for the performance of certain ground operations, which consist of flight preparation activities for passengers, baggage and goods at airports, as well as for the efficient maintenance of aircraft. There is therefore a risk of failure to monitor or inadequate monitoring of the output of services rendered by third parties. The emergence of further operational and commercial complications, which may be accentuated by the seasonality of the business, may make the event difficult to manage, also in terms of costs to compensate passengers. In order to reduce these risks, the Company has developed agreements with other carriers and suppliers which guarantee their support in cases of operating events, above all at foreign airports.

12. Risk of management of operations

The Group is exposed to a series of risks that regard, among others: 1) the possibility of fraud associated with collections of sales made by credit card, which are managed with adequate knowledge of these phenomena, as also with the elimination of the collection channel in the most problematic cases, or with agreements with subjects specialized in the management of these events; 2) the failure to observe regulations, in the case of changes or of inexact interpretation of the same, both in a more strictly business environment, and in the more general area of listed company status, managed through the internal and external audit systems also with the aid of consultants that ensure observance of current laws; 3) the significant dependence on information systems to guarantee adequate and efficient continuity of the air transport service for which the Group has implemented back up and continual assistance procedures also with the help of specialized providers; 4) the significance of relations with trade union organizations, particularly active in the category of flight personnel, which, in the case of trade union tensions, also related to possible restructuring plans, may adversely affect the operations of the company and its expected results. From this point of view, the Group has embarked on discussions with the trade unions with the aim of guaranteeing the observance of workers' rights in the context of effective and efficient management of the processes of value generation for the Group.

13. Financial risks

As regards the financial risks not dealt with above, it should be noted that, although it monitors and manages them in the most effective way, the Company is exposed to the following financial risks associated with its operations:

- credit risk: relating to the possibility of insolvency of a counterparty or any deterioration of the creditworthiness assigned;

- market risks: deriving from exposure to fluctuations of interest rates and exchange rates;
- liquidity risk: in terms of reduction of availability of financial resources and of access to the credit market.

These financial risks have a direct impact on the capacity to manage in the foreseeable future the businesses in a condition of capital and financial equilibrium as a going concern the maintenance of which therefore represents a significant risk for the Group.

14. Environmental and safety risks

As regards environmental risk see paragraph 2.7 – Environment, below.

In relation to the issues of workplace safety, the Company protects this aspect under the terms of both Art. 81/2008 (Consolidated Safety Act), and of the specific laws, also through the introduction of the model of organization, management and control provided for by Italian Lgs. Dec. 231 of 8 June 2001. As regards specifically the issues of health and safety of workers in the workplace, the Company and the Group monitor all the potential risks constantly, the methods of carrying out risk assessments and the characteristics required of models of organization and management in order to ensure prevention and the protection of workers. This is in addition to regular meetings, as provided for by law, where an examination is made of risk assessment documents, trends in injuries and professional illnesses, criteria for decisions, the technical characteristics and effectiveness of individual devices and the information and training programmes for Executives, Managers and Workers.

2.6. Human resources

As shown in the table below, the comparison between the average payroll headcount in the first half of 2010 and the same period of 2009 is not meaningful owing to contribution of the Aviation Business, which entailed a significant transfer of employment relationships from Meridiana (approximately 1,070 employees), as well as the transfer of employees out of the Company as a result of the spin-off of the maintenance unit to Meridiana Maintenance (approximately 80 employees).

For greater clarification we are presenting the average payroll headcount in only the first two months of 2010 of the Company before the integration (comparable with the first half of 2009), together with the average figure for personnel in the period March – June 2010 after the integration (data expressed in FTEs - full time equivalents), from which it can be seen that there were 973 FTE staff more (of which 349 in the category “ground staff” and 624 “flight staff”).

From the comparison between the first two months of 2010 and the first half of 2009 it can be seen that there was a substantial reduction in Ground Staff and Flight Staff (respectively 19 and 55), partly related to seasonality and partly related to the reduction of staff not replaced during the restructuring process.

At 30 June 2010 the precise number of employees (FTE) was 1,632, of whom 1,070 are in the flight staff category.

(average FTE)	1H 10 Consolidated	Mar-June 2010 Consolidated	Jan-Feb 2010 Individual	1H 09 Individual
Managers	19	23	11	12
Office workers	442	554	217	235
Total ground staff	**461**	**577**	**228**	**247**
Pilots	282	354	140	144
Flight attendants	574	711	301	352
Total flight staff	**856**	**1,065**	**441**	**496**
Total staff	**1,317**	**1,642**	**669**	**743**

It should be recalled that, in accordance with the trade union agreements, in the first half of 2010 the Company applied solidarity agreements for the Flight Staff, regarding also the employees transferred from Meridiana through contribution in kind of the Aviation Business, contracts that expire between July and September 2010.

As regards employment contracts (Ground, Pilots and Flight Attendants), it should be noted that the company employment contract of the Company's pilots was extended, by mutual agreement with the trade unions for the category, until August 2010, while the company employment contract of the flight assistants has been extended, by mutual agreement with the most representative trade unions for the category, until 2014.

During the period discussions continued with the Trade Unions and the representatives of the workers at the company level, with the aim of maintaining a relaxed internal climate and identifying agreed solutions for dealing with specific problems both of an ordinary nature and relating to the integration of the Eurofly and Meridiana airlines.

We should note, however, that some trade union tensions and issues in the use of flight attendants arose in the period after combination of the Meridiana air transport business as a result of the application, on the basis of the legislation, of the employment contract of the Company in place of the analogous Meridiana contract, which entailed in the half-year period operating inefficiencies and lower productivity of the flight staff, with effects on the in-flight service and the economic performance.

As regards training initiatives, the negative economic situation, as well as the extraordinary period of integration of the Aviation business, did not enable the development of significant staff training schemes.

The compulsory "technical" training continued, instead, both for Ground Staff and for Flight Staff (for example Basic Courses for non-certified Flight Attendants, Airport Security courses, simulator sessions for Pilots), with a particular focus on training in the use of Airbus aircraft for staff transferred from Meridiana in order to begin to develop the operational synergies envisaged by the Business Plan.

The total cost incurred for external training courses in the six-month period was Euro 695 thousand.

As regards workplace safety legislation (Lgs. Dec. 81/2008), the Company updated the Risk Assessment Document of the various workplaces under the terms of the said law, taking account of the integration that had occurred and of the specific risks of the air transport business, as well as of the special rules on Safety & Security in the same business.

While it was still necessary to maintain a number of operating and commercial structures at Milan and Malpensa, the corporate reorganization consequent to the integration of the air transport business of Meridiana into Eurofly entailed the transfer of the main administrative and management activities, the human resources department and the Head Office to the base in Olbia, with the aim of obtaining the savings on personnel envisaged in the Plan.

2.7. Environment

In consideration also of the degree of modernity which characterizes it, the Airbus fleet used by the Company is adequate for the current environmental requisites, in terms of both atmospheric and acoustic pollution. The Company, therefore, does not believe that there are significant risks associated with respect for the environment which can affect the use of these aircraft by the Company.

It should be noted that the Company is monitoring the specific legislation being introduced on the subject of Emission Trading (Community Directive 2008/101/EC) for which the Airlines will have to comply in the near future with a number of prescriptions from an organizational and procedural point of view in order to contribute at the global level to limitations on the emissions of greenhouse gases. In particular work is in progress on unifying the reports on monitoring provided for in the legislation following the integration of the Aviation business contributed by Meridiana.

As regards the issues relating to acoustic pollution, the aircraft in the Fleet have all been awarded the acoustic certificate, governed by the Navigation Code, Title V of the Second Part "On Air Navigation" and Royal Decree 356 of 11 January 1925, which certifies compliance with both European and American legislation.

2.8. Performance of associate companies

As of 30 June 2010 the Company controls 100% of the share capital of Wokita and Sameitaly, (a 50% stake conferred by Meridiana S.p.A. in the context of the capital increase in kind completed in February 2010), 100% of the share capital of EF USA Inc (not operational), 100% of Meridiana express (incorporated in March 2010, not yet operational), and an associated interest in Meridiana Maintenance of 16.38% (a company controlled by Meridiana S.p.A.).

The performance of the subsidiaries Sameitaly and Wokita, consolidated since March 2010, was affected in the period by the continuation of the economic crisis, by the consequent stagnation of demand, including that of services associated with tourism.

Sameitaly, incorporated at the end of September 2007, performs the role of General Sales Agent for Italy and for the USA of Meridiana fly and of the tour operator Wokita, on the segment of travel agencies, entities and companies with the aim of creating strong group synergies and optimizing the costs of commercial distribution.

Sameitaly achieved in the 2010 interim period a core turnover of approximately Euro 1.9 million (in line with the previous six months), with EBIT showing a slight loss (-Euro 41 thousand), in any case an improvement over the first half of 2009 and substantially in line with the forecast data.

It should be noted that the segment of travel agencies continues to show difficult trends owing to reduced demand increasingly attentive to the price component, which reduces volumes and margins for all parties involved; moreover certain extraordinary external events occurred (effect of the volcanic cloud in April and May), together with events internal to the Group (problems deriving from the start of the integration of Meridiana into Eurofly) which limited the performance of this company.

Sameitaly continued in the period to carry out commercial, promotional and marketing initiatives, expanding its reference market to the USA, trying at the same time to acquire new customers also in segments bordering with the air transport industry.

Wokita, incorporated in February 2006 to promote the development of the tour operating business via the Internet in the context of the Meridiana Group, operates in the creation and marketing of tour packages and in the sale, direct to the final consumer, of single services through its portal. Meridiana fly currently has commercial relations with Wokita for the on-line sale of tickets and packages.

In the first half of 2010 Wokita's total turnover was not particularly high (Euro 1.9 million in the first six months) owing to seasonality and lower demand, and also to the lower availability of allotments on charter flights; considering these factors, at 30 June 2010 EBIT showed a small loss (-Euro 338 thousand), worse than in the first half of 2009, but this negative performance, as of today, cannot be considered such as to jeopardize the achievability of the long-term plan.

In the light of the interim results calculated at 31 March 2010, it should be noted that Wokita had reported an estimated net loss in the first quarter of 2010 of Euro 430 thousand, determining, after taking into account the capital and reserves existing in the financial statements at 31 December 2009, a negative shareholders' equity of Euro 391 thousand and thus placing the Company in the situation pursuant to Art. 2482-ter of the Civil Code (capital less than the legal minimum).

In view of this financial situation, the Company made a capital grant of Euro 500 thousand usable also to cover losses.

The economic situation of the company is particularly difficult, in line with the short-term market scenario which is penalizing the tour operating business, together with the general stagnation of consumption which has led to a reduction in demand for tourism products, with greater sensitivity of consumers to the price component and to competition among the various operators, with consequent reduction of already limited margins. Moreover, the collapse of historical brands such as I Viaggi del Ventaglio created further uncertainty for Italians who perceive greater risk in entrusting their holidays to tour operators.

It should also be recalled that demand of tourism products in Italy is characterized by significant seasonality concentrated in the months between June and September which also affects Wokita's interim results.

Wokita is responding to the non-positive scenario described above reorganizing sales both on-line and off-line also through operational strengthening of services to consumers, and optimizing its product range together with new or renewed initiatives for the marketing and promotion of the products offered (e.g. newsletters).

2.9. Company locations

Following contribution in kind of the air transport business of Meridiana on Eurofly, the registered and administrative office of the company (now named Meridiana fly) was transferred, with effect from 28 February 2010, to Olbia, at the Costa Smeralda Airport Business Centre (Centro Direzionale), headquarters also of the Parent Company Meridiana S.p.A..

On the same date the secondary office in New Delhi (India) was also closed, as it was no longer operational.

Besides the secondary office in New York (USA), the Company maintains the local units of Milan at Via Ettore Bugatti 15 and Malpensa at Terminal T1.

2.10. Research and development activities

Also in view of the nature of the business carried on, in the 2010 period the Company did not carry out significant research and development activity in a strict sense.

2.11. Investments

During the first half of 2010 new investments were made in plant and equipment for a total amount of Euro 5,678 thousand (compared with Euro 6,039 thousand of the individual financial statements for the first half of 2009), consisting of:

- extraordinary maintenance of company-owned aircraft engines and cells of Euro 2,121 thousand (Medium Haul segment)
- rotation materials relating to the company-owned fleet of Euro 840 thousand (Medium Haul segment)
- various improvements and reconfiguration work on aircraft in operating leasing of Euro 2,339 thousand (Medium Haul segment)
- new purchases of IT hardware of Euro 160 thousand
- new furniture and fittings for the Olbia headquarters of Euro 62 thousand related to the integration
- equipment and other assets of Euro 58 thousand.

It should be recalled that as a consequence of the contribution of its Aviation Business by Meridiana last 28 February 2010 a provisional value of goodwill was recognized of Euro 56,371 thousand among intangible assets.

2.12. Macroeconomic scenario

In the early months of 2010 the price of oil continued on the upward trend of the end of 2009 before beginning to decline again in May and June. On average in the period the prices were more than 50% higher than in the first half of 2009.

Crude Oil
USD / barrel

Crude Oil	I Half 10	I Half 09	June 2010	June 2009
WTI - USA	78.22	51.20	75.34	69.60
Brent - Europa	77.38	49.90	74.76	68.60

Source: Energy information administration - US Government

The average USD/Euro exchange rate in the first half of 2010 was in line with the average figure for the first half of 2009. Between the end of December 2009 and the end of June 2010 the Euro weakened, going down from an exchange rate of 1.4406 to 1.2271.

Exchange rate

	I Half 10	I Half 09	30 June 2010	31 Dec2009
EUR/USD	1.3286	1.3322	1.2271	1.4406

Source: Il sole 24 ore

Interest rates fell significantly in terms of average values in the first half of 2010 in comparison with the same period of 2009 as a consequence of the monetary policies put in place by the Central Banks to tackle the economic crisis.

Interest rate (3 m)

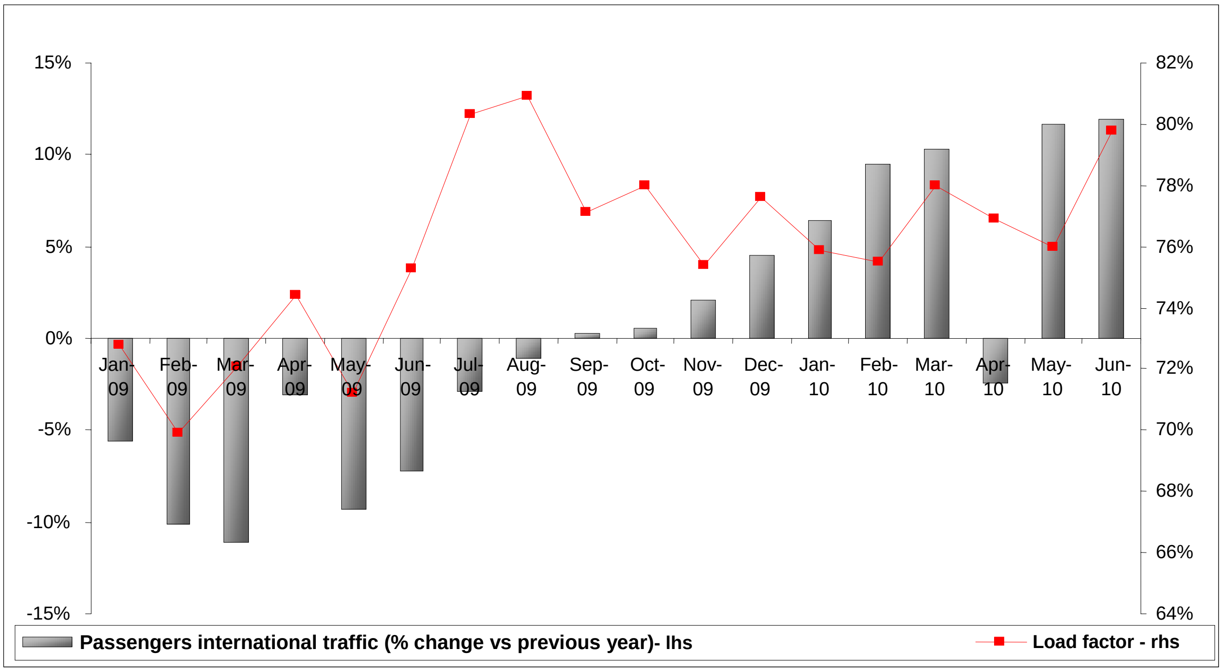
	I Half 10	I Half 09	June 2010	June 2009
EURIBOR	0.683	1.714	0.732	1.261
LIBOR (US$)	0.346	1.044	0.537	0.621

Source: British Bankers Association

2.13. Industry scenario

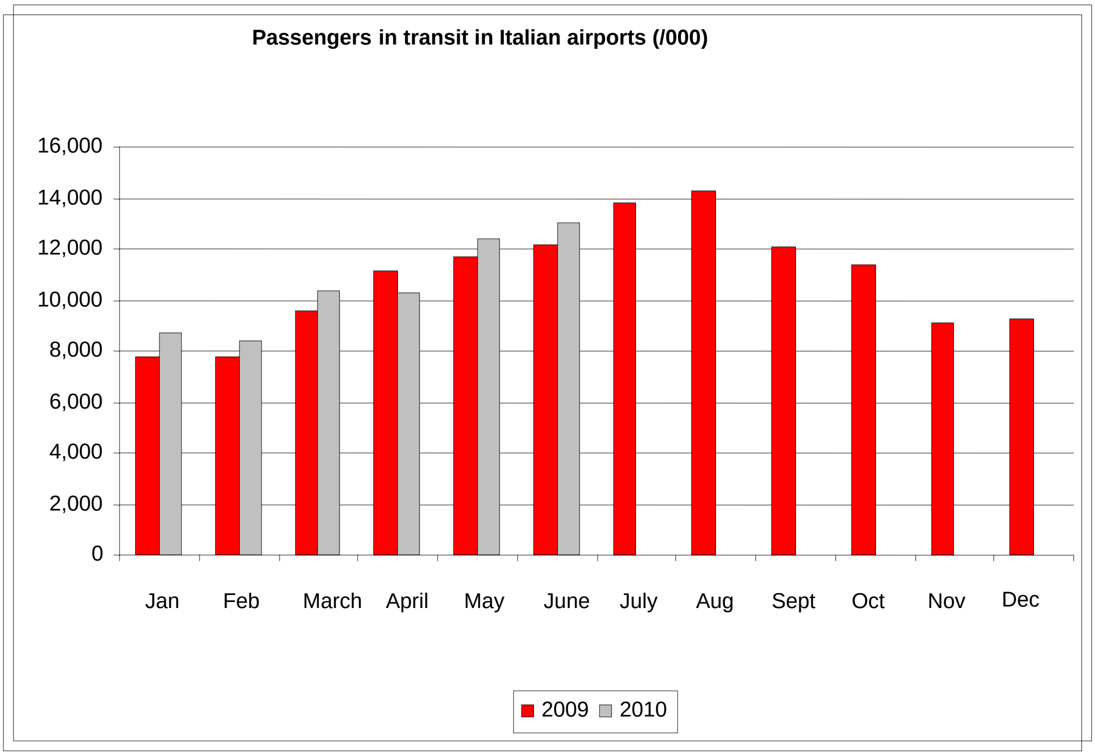
In the first half of the year the number of passengers carried at the global level showed a recovery trend of even more than 10% compared with the same months of 2009, with the exception of April 2010, which was penalized by the eruption of the Icelandic volcano.

The load factor also showed signs of improvement, approaching 80% in June.



Source: International Air Transport Association

Similar evidence of recovery in the period can be seen also examining traffic at the main Italian airports, as shown in the chart below. The Assareoporti statistics show in the six months an increase in the average number of passengers of 8.3% (excluding April in which there was a drop of 7.9% compared with the same month last year, owing to the already noted event of the volcanic eruption in Iceland).



Source: Assaeroporti

2.14. Management and coordination and related-party transactions

Meridiana fly S.p.A. is subject to the management and coordination by Meridiana S.p.A., which, following the capital increase paid-up through contribution in kind of the Aviation Business with effect from 28 February 2010, controls the company with an interest of 78.91% at 30 June 2010.

Following the cash capital increase concluded in August, which will be completed for registration in the Companies Register, Meridiana subscribed 500,879,400 new shares for an amount of Euro 28,049 thousand (of which Euro 10 million through the use of the capital grant already made on 14 May 2010, Euro 10 million through compensation of the interest-free loan disbursed on 24 February 2010 and the remainder in cash). Moreover, Meridiana, as part of its commitment made previously to subscribe the offer not exercised by the market, will pay up 50,600,970 new shares (for an amount of Euro 2,834 thousand), modifying its final controlling interest to approximately 78.05% (from 78.91%).

After the above capital increase operation, the new share capital of Meridiana fly will be Euro 20,901,419.34, represented by 1,394,086,688 ordinary shares, with no indication of the nominal value (of which 1,088,276,395 held by Meridiana).

The operations carried out by Meridiana fly with related parties involved essentially the performance of services and operations of a financial nature with the parent company Meridiana and with AKFED (a financial institution controller by Meridiana's Reference Shareholder), with subsidiaries (Sameitaly, Wokita, consolidated in the present Interim Report from 28 February 2010) and with the other companies controlled by Meridiana S.p.A. (Meridiana Maintenance and Geasar S.p.A.), as well as other related parties of the Group (including Air Mali, Air Uganda, Air Burkina).

The above operations, which were concluded at market values, fall within the ordinary operations of the Company and were performed in the interest of the Company and of the Meridiana fly Group.

It should be noted that in the first half of 2010 Meridiana fly, together with its subsidiaries Sameitaly and Wokita, exercised the option to accept national tax consolidation (as per Articles 117-129 of the Consolidated Income Tax Act) of Meridiana S.p.A. (the consolidator) for the three years 2010-2012.

For further information on related party transactions, see paragraph 4.15 – Transactions with related parties, included in the Explanatory Notes.

2.15. Significant litigation

The Group is involved in a number of commercial legal actions brought by and against it, and in tax litigation against which, as better explained in the Explanatory Notes, provisions for impairment of receivables, for risks and charges and payables recognized in the individual condensed half year consolidated financial statements, although there is uncertainty inherent in any estimation procedure as better described in paragraph 4.1.3 – Use of estimates, are considered congruous.

It should be noted, besides, that, under the terms of the deed of contribution in kind signed on 25 February 2010, any shortfall in the estimated provisions included in the Aviation Business, in relation to disputes involving this unit and recognized by the date of definition of the adjustment provided for in the said deed, would be chargeable to Meridiana. For more information on the adjustment mechanism see paragraph 4.5 - Statement of financial position of contribution of the Aviation Business.

The most significant legal disputes are described below.

Essevi Srl (formerly Teorema Tour S.p.A.)

With reference to the arbitration procedure involving the Company and Teorema Tour S.p.A. for the recovery of a receivable of approximately Euro 3 million and USD 3 million for flights, and of a receivable for penalties due for cancellations of flights, for a total of Euro 14.7 million (which is however not recognized in the accounts), on 25 November 2009 issued its award in favour of the Company ordering Essevi S.r.l. (formerly Teorema Tour S.p.A.) to pay a total amount of more than Euro 11.8 million. Following the bankruptcy, which occurred on 24 September 2009, of Teorema S.a.s. and of its general partner Essevi S.r.l., all the actions in progress launched by the Company to protect its credit claims were interrupted, including the revocatory action related to the sale of a property by Essevi S.r.l.. On 23 December 2009 an application was filed for admission to the estate. At the hearing on 28 April 2010 the credit was admitted for Euro 11,983 thousand. With an order of 16 June 2010 the Bankruptcy Judge declared the enforceable distribution of the estate.

MG Viaggi S.r.l.

Following the arbitration procedure launched by the Company in October 2006, with an award of 26 November 2008 the Arbitration Board ordered MG Viaggi S.r.l. to pay to the Company a total amount of Euro 1.1 million and 75% of the legal costs. The award was declared enforceable and the enforcement procedures were launched for the recovery of the credit.

On 23 June 2009 MG Viaggi S.r.l. was placed in voluntary liquidation. On 25 September 2009, the Company filed an application for MG Viaggi S.r.l. to be declared bankrupt. At the hearing of 15 June 2010 called for the declaration of bankruptcy the Judge, acknowledging the plea for admission to the voluntary arrangement procedure presented by MG Viaggi, adjourned the hearing to 26 October 2010.

Air Comet

At the end of the arbitration procedure launched by the Company, in August 2008, for the recovery of the credit claimed from the airline Air Comet Inc. for failure to pay the instalments of the sub-lease of an A330 (USD 2,763 thousand and Euro 580 thousand), on 30 September 2009 the International Chamber of Commerce, London Office issued an arbitration award accepting all the requests of the Company and ordering Air Comet Inc. to pay a total amount of Euro 1,411 thousand. With an order of 25 March 2010 the Court of First Instance of Madrid made the award enforceable and authorized enforcement against the assets of Air Comet Inc.. On 20 April 2010 the bankruptcy of Air Comet Inc. was declared.

Ministry of Defence

Litigation was launched by the Company for the recovery of the receivable claimed from the Ministry of Defence of approximately Euro 4.2 million, deriving from an agreement signed in July 2004 and concluded in June 2006.

For a part of the above amount (approximately Euro 1.1 million), on 5 October 2007 Meridiana fly obtained from the Court of Rome the issue of an injunction against the Ministry, which was opposed by the latter. The hearing to define the conclusions has been set for 29 April 2011.

For the remainder of the receivable claimed by the Company from the Ministry of Defence (approximately Euro 3.1 million), Unicredit Factoring S.p.A. – to which the Company transferred the receivable with a factoring contract of 11 July 2005 – obtained the issue, by the Court of Rome, of an injunction later opposed by the Ministry of Defence. The case has been adjourned to the hearing on 24 November 2010 for the swearing-in of the duty consultant appointed by the Court.

EF-USA (company wholly owned by Meridiana fly)

Litigation launched by the Company, on 11 September 2009, before the Court of New York, for the recovery of a receivable claimed from EF-USA for approximately USD 2.4 million, relating to sales of air transport services of Meridiana fly made by EF-USA on the American market during 2009 and to the balance of the sales made in 2008 under the terms of the "Service Agreement" in force with the Company.

On 19 October 2009 EF-USA joined the case filing a counterclaim for compensation for damages for a total of USD 935 thousand. This judgment, following disagreements that arose among the shareholders of EF-USA, in particular between Meridiana fly and GCVA, was suspended by the judge in order to enable further legal actions regarding the ownership of and control over EF-USA.

Meridiana fly, which holds 49% of the share capital of EF-USA, in fact, with a letter of 4 February 2010 – following the resignations from their respective positions of the top managers of EF-USA, who were also holders through GCVA of a 51% interest in the share capital of EF-USA – exercised against GCVA the option provided for in the shareholders' agreement signed with the latter, in order to become sole shareholder of EF-USA. As of today GCVA has disputed the above acquisition and on 8 April 2010 Meridiana fly therefore initiated in New York proceedings before the American Arbitration Association, requesting to be declared the owner of 100% of the share capital of EF-USA and to enjoin GCVA to cooperate to ensure full control over the capital and assets of EF-USA by the new management of EF-USA, under the direction of Meridiana fly.

It should be noted that in the meantime the top management of EF-USA initiated an arbitration procedure against EF-USA to obtain USD 639,587 and USD 351,093 respectively in virtue of its employment contracts with EF-USA. Meridiana fly was called into the case as guarantor of the obligations assumed by EF-USA

Maxitraveland S.p.A.

Litigation initiated by the Company for the recovery of the receivable of approximately Euro 5.5 million (for both aircraft rental instalments and contractual penalties) claimed against Maxitraveland S.p.A.. In September 2008, the Court of Milan issued two injunctions against Maxitraveland S.p.A. and granted provisional enforcement in relation to the injunction supported by cheques of an amount of approximately Euro 1.25 million.

In response to the declaration of bankruptcy of Maxitraveland S.p.A., which occurred on 15 October 2008, the Company presented an application for admission to the estate for approximately Euro 6.44 million, of which principal of approximately Euro 5.56 million. At the hearing of verification of 13 February 2009, the Bankruptcy Judge admitted the Company to the estate as an unsecured creditor for an amount of approximately Euro 2.97 million. On 27 March 2009 the Company presented a challenge to the estate and on 21 December 2009 a writ was notified to the Company for bankruptcy revocation for the amount of Euro 426 thousand received from Maxitraveland S.p.A. in the 6 months prior to the declaration of bankruptcy.

At the hearing of 8 April 2010, the judge granted the terms for filing of the pleas, adjourning the case to the hearing on 2 December 2010 for examination of the preliminary arguments.

Financial intermediaries for credit card sales in the USA

Litigation initiated by the Company for the recovery of a receivable of approximately USD 2.2 million (for sales of air tickets) claimed against financial intermediaries involved in the management of credit card sales on the American market. In 2007 the Company notified a writ against FIB/USBC/BOA and a number of natural persons involved and the preliminary stage of the case is currently in progress.

Società Aertre - Aeroporto di Treviso S.p.A.

Litigation initiated by the Company for compensation for damages suffered by the same owing to an event which occurred in 2002 at the airport of Aertre (TV). The Court of Venice, on 25 July 2008, ordered Aertre – Aeroporto di Treviso S.p.A. and the Ministry of Defence jointly to pay the Company damages of Euro 1,290 thousand. In relation to this judgment, on 3 October 2008 Aertre paid the Company the amount of Euro 700 thousand and on 15 June 2009 the further amount of Euro 700 thousand for the part of the Ministry of Defence. In the month of October 2008 the Ministry of Defence lodged an appeal against the judgment of the Court of Venice. The Company, Aertre – Aeroporto di Treviso S.p.A., ENAC and Assicurazioni Generali joined the case. With a ruling on 17 March 2009, the Judge rejected the application for suspension of the provisional enforceability of the judgment, lodged by the Ministry of Defence, and adjourned the hearing to 11 February 2015 for definition of the conclusions.

Società Esercizi Aeroportuali - SEA S.p.A.

Litigation initiated by the Company in 2008 to obtain an order against SEA S.p.A. to repay 35% of the consideration paid in excess from 2001 to 2006 for the use of centralized infrastructures. The amount that the Company requested to be returned was Euro 1,938 thousand. The next hearing was set for 25 November 2010.

As a result of the business combination, the following cases must also be considered:

Mare Club S.r.l.:

Meridiana obtained, against Mare Club S.r.l., an injunction to pay Euro 328 thousand for non-payment and/or partial payment of invoices relating to special air transport contracts signed before the contribution. Mare Club S.r.l. opposed the order, requesting in a counterclaim the payment in its favour of the amount of Euro 277 thousand. Meridiana joined the case requesting confirmation of the injunction for payment. At the hearing held on 14 May 2010, the case was declared interrupted, as the counterparty's lawyer had noted the fact that Mare Club S.r.l. (now Incoming & Outgoing Tour Operating Group S.r.l.) had been declared bankrupt with a ruling of the Court of Bergamo on 7 May 2010. The most opportune actions to be taken in order to recover the receivable claimed are therefore being assessed although following the bankruptcy this is likely to be difficult.

Alitalia Servizi S.p.A. in Receivership

Meridiana requested admission to the estate of the arrangement proceedings of Alitalia Servizi for an unsecured Euro 65 thousand, for receivables deriving from unpaid invoices. It also asked the Official Receiver, with a claim for restitution, the return of a number of MD82 aircraft components on the basis of the technical assistance contract signed on 27 April 2007, with which Alitalia Servizi S.p.A. had undertaken to provide services for the maintenance and reconditioning of aircraft components owned by Meridiana. The proceedings are at the stage of due investigation to verify the basis of this last request.

Alitalia – Linee Aeree Italiane S.p.A. in Receivership

On 14 November 2008, Meridiana filed an application for admission to the estate of Alitalia - Linee Aeree Italiane S.p.A. in Receivership, for an amount of Euro 30,624 thousand or for any higher amount deriving from the prejudicial conduct of Alitalia in relation to the issue of certain Slots on Milan Linate airport. Following the declaration of enforceability of distribution of the estate of Alitalia, we are awaiting the communication on the outcome of the application from the Official Receiver.

In relation to the main disputes brought against the Group by suppliers and other counterparties, the following can be noted:

Alitalia – Linee Aeree Italiane S.p.A. in receivership

The dispute regards 10 injunctions issued in favour of Alitalia in receivership for a total amount of Euro 2.6 million. Following the start of the receivership procedure, all cases of opposition to injunctions initiated by the Company were broken off and then recommenced in the second half of 2009. The nine cases pending before the Court of Rome were adjourned to hearings envisaged between June and November 2010, while the case pending before the Court of Milan was adjourned to October 2010.

As regards the application for admission to the estate of Alitalia for a total amount of Euro 7.3 million, the discussion of the same was adjourned for examination and further investigation to the hearing on 16 December 2009, in which the Bankruptcy Judge stated that a decision would be taken on the merit of each application only at the end of the examination of all the applications presented.

Myair.com S.p.A.

With a writ notified to the Company on 18 April 2008, Myair.com S.p.A. requested payment of Euro 500 thousand as a penalty for delays of Meridiana fly in communications related to the availability of aircraft under a Wet Lease contract. With an order issued by the Court of Vicenza in January 2010 Myair.com S.p.A. was declared bankrupt and consequently the proceedings were broken off; the receiver has not yet resumed the case.

Corporate Aircraft

Writ notified by Corporate Aircraft to the Company in November 2007, to obtain payment of approximately 1 million Euro as consideration for mediation work carried on in relation to sale of a Financial Leasing contract regarding an A319 aircraft, which occurred in June 2007.

At the hearing on 29 October 2009 evidence was heard from witnesses and the case was adjourned to 17 June 2010 for continuation of the witness evidence. At the hearing of 17 June 2010 part of the witness evidence was heard and the Judge adjourned the hearing to 3 March 2011 for the assumption of witness evidence to continue, and for formal questioning of the legal representative of Corporate Aircraft.

ENI S.p.A.

With a writ notified to the Company and to other airlines ENI S.p.A. requested payment of an amount of Euro 242 thousand for the concession fee that it has to pay to airport managers (so-called “fuel royalties”). On 20 April 2007, the Company joined the case requesting rejection of all the demands put forward by ENI S.p.A. and, as a counterclaim, requesting an order for the latter to repay the amounts received from 1997 onwards, as a surcharge on the supply of fuel at airports, for a total of approximately Euro 3.5 million. At the hearing of 3 February 2010, at the request of ENI S.p.A. the judge adjourned the case to the hearing on 10 June 2010 for exhibition of documents and admission of the technical accounting advice requested.

As a result of contribution of the Aviation Business, the proceedings – for the same *causa petendi,* with which ENI S.p.A. requested an order against Meridiana for payment of Euro 352 thousand – must also be considered. At the hearing on 10 June 2010, set for admission of the preliminary evidence, the Judge admitted the technical advice for the accounting evidence and adjourned the hearing to 1 December 2010.

Exxonmobil Petroleum&Chemical S.p.A.

Writ notified to the Company in May 2008 by the oil company, in relation to fuel royalties for an amount of approximately Euro 173 thousand. On 20 April 2007, the Company joined the case asking the Court to reject all the demands put forward by Exxonmobil Petroleum & Chemical S.p.A. and, as a counterclaim, requesting an order for the latter to repay the amounts received from 1998 onwards, as a surcharge on the supply of fuel at airports, for a total of approximately Euro 927 thousand. The Investigating Judge reserved the decision on admission of the evidence requested and adjourned the case for definition of the conclusions.

As a result of contribution of the Aviation Business, the proceedings – for the same *causa petendi,* with which the oil company requested an order against Meridiana for payment of approximately Euro 244,678 – must also be considered. Meridiana joined the case requesting rejection of the plaintiff's demand and, as a counterclaim, the return of the amount already paid of approximately Euro 230,001. At the hearing on 11 June 2010 a decision on the case was withheld.

Servair AirChef S.r.l.

Injunction notified by Servair AirChef S.r.l. to the Company in January 2008 for the recovery of an amount of approximately Euro 55 thousand for catering royalties. Meridiana fly filed a plea in opposition, asking the Court to reject all the demands put forward by the plaintiff. At the hearing on 26 May 2010, set for the definition of the conclusions, the parties requested a short adjournment for negotiations in progress and the judge set the hearing for 7 April 2011.

As a result of contribution of the Aviation Business, the following transferred disputes must also be considered:

Sogaer S.p.A.

Sogaer S.p.A. took Meridiana to court in four proceedings, of which three initiated in 2006 and one on 22 January 2010, for a partial failure to pay the charges for the use of centralized infrastructures at Cagliari Airport, for a total amount of Euro 2,315 thousand. With the writ relating to the fourth proceedings in progress, notified in January 2010, Sogaer S.p.A. accused Meridiana of partial default in the payment of further invoices relating to charges for the use of centralized infrastructures, as well as failure to pay interest pursuant to Lgs. Dec. 231/2002 for a total amount of Euro 322 thousand. Meridiana fly joined the case on 19 March 2010.

These disputes were concluded on 21 July 2010 with a specific agreement between the parties.

Sagat S.p.A.

Sagat S.p.A. obtained an injunction against Meridiana for payment of Euro 610 thousand in relation to an alleged difference in charges for the use of centralized infrastructures at Torino Caselle airport. Meridiana opposed the injunction asserting the illegitimacy of the charges claimed by Sagat S.p.A.. The adversary's application for concession of provisional enforcement of the opposite injunction was rejected, as requested by Meridiana, while the court expert advice was admitted. The case was adjourned to 27 October 2010.

Aironjet Travel S.r.l.

Aironjet Travel S.r.l. sued Meridiana, among others, to gain indemnity and to guarantee it against payment of Euro 210 thousand, requested with the revocatory action initiated by the Official Receiver of Sportiva Calcio Napoli S.p.A. As there was no proof that the writ had been notified, the Judge granted time to Aironjet Travel S.r.l. until 29 April

2010 to enable new notification of the writ, later setting a new hearing for additional cross examination on 28 October 2010.

Employment law litigation

With reference to employment law litigation, it should be noted that, as well as the presence of provisions set aside to reflect in the accounts the best estimate of the liabilities – although the stage of progress of the existing litigation is extremely diversified and in continual evolution – that are likely to derive for the Company in the event of losing the cases in progress (made on the basis of the current legislation on the subject of payment to the counterparties of remuneration deriving from the qualification of permanent employee according to the corresponding degree of seniority), there is in being labour law litigation of a trade union nature the risk of losing which cannot be assessed as of today, since in relation to these cases, on the basis of the opinion of the legal consultants of the Company, there are contrasting legal interpretations that require assumptions of fact associated with specific and unforeseeable evaluations of the judge.

Litigation with passengers

Finally, there are other legal cases, relating also to the Aviation Business, regarding legal actions requesting compensation on the part of passengers, for which the Company, although in the climate of uncertainty surrounding any lawsuit, set aside provisions that it considers adequate to cover the estimated liabilities.

It should be noted that the company is involved in a series of cases in administrative courts among which:

- Appeal to the Regional Administrative Court of Lombardy against SEA S.p.A. for the sub-concession for the use of a hangar to Lufthansa Technik Milan.
- Appeal to the Regional Administrative Court of Lazio against ENAC, together with other airlines, with regard to the application of the regulations on flight and service times of flight personnel.
- Appeal to the Regional Administrative Court of Lazio against ENAC, together with other airlines, with regard to fuel royalties and the catering business.

2.16. Other information

At the date of the present Interim Report there are no shareholders with interests of more than 2% in the share capital besides the parent company Meridiana S.p.A..

Under the terms of Consob Communication No. DEM/6064293 of 28 July 2006 it should be noted that in the first half of 2010 no atypical and/or unusual operations – as defined in the Communication itself – were carried out.

During the period no operations for the purchase or sale of treasury shares were carried out either directly or indirectly. At 30 June 2010 the Company and its subsidiaries do not hold treasury shares. Following the integration of the Aviation Business and the incorporation of Meridiana express, the equity investments held in unlisted companies (not included in the consolidation scope) were modified and are summarized in the table below.

Company name	Registered HQ	Share capital	% owned	Direct/indirect ownership	Equity/000	Profit (loss)/000	Book value/000
					31-Dec-09		
EF USA Inc (1)	New Jersey (USA)	$ 1,000	100.00%	Direct	$(141)	$(141)	$0.49
Meridiana Maintenance S.p.A. (2)	Olbia	€ 12,015,000	16.38%	Direct	9.6	-0.4	1,968
Meridiana express S.r.l. (3)	Olbia	€ 10,000	100.00%	Direct	na	na	10

(1) For this company indicated last data available for 2008 on shareholders' equity and net profit, as litigation is in progress.

(2) Company operational from 28 February 2010. The share capital indicated is that effectively paid up and subscribed at 28 February 2010.

(3) Company incorporated on 9 March 2010, currently non-operational.

Olbia, 27 August 2010

For the Board of Directors

The Chairman

Marco Rigotti

3. CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2010

3.1. Consolidated statement of financial position as at 30 June 2010 (*)

Note	€/000	30.06 2010 *Consolidated data*	31.12 2009 *Individual data*	Change
1	Intangible assets	64,978	1,568	63,411
2	Fleet	31,139	2,500	28,639
3	Other property, plant and equipment	20,778	15,239	5,539
4	Deferred tax assets	9,631	8,680	951
5	Equity investments	1,978	7,120	(5,142)
6	Other non current assets	21,723	13,552	8,171
7	Other non current receivables	1,074	1,774	(700)
	Total non current assets	**151,301**	**50,433**	**100,868**
8	Inventories	1,108	3,902	(2,794)
9	Trade receivables and other current assets	119,619	65,879	53,739
10	Current financial assets	1,333	-	1,333
11	Cash and cash equivalents	17,110	6,647	10,463
	Total current assets	**139,170**	**76,428**	**62,742**
	TOTAL ASSETS	**290,471**	**126,861**	**163,610**
12	Share capital	13,761	11,084	2,677
13	Reserves and profit (losses) carried forward	2,153	19,828	(17,675)
14	Profit (loss) for the period	(27,460)	(34,059)	6,599
	Net equity	**(11,546)**	**(3,146)**	**(8,399)**
15	Long term borrowings	1,871	2,184	(313)
16	Severance indemnity and other defined - benefit funds	12,653	2,478	10,175
17	Non current provision for risks and charges	18,261	6,274	11,987
18	Deferred tax liabilities	3,957	86	3,871
	Non current liabilities	**36,742**	**11,023**	**25,719**
19	Current loans	15,000	13,500	1,500
20	Current loans from parent company	13,310	10,000	3,310
21	Current portion of non current borrowings	603	574	29
22	Current provision for risks and charges	15,228	3,872	11,356
23	Trade payables and other payables	221,134	91,038	130,096
	Current liabilities	**265,275**	**118,984**	**146,290**
	Total current and non current liabilities	**302,017**	**130,008**	**172,009**
	TOTAL EQUITY AND LIABILITIES	**290,471**	**126,861**	**163,610**

Translated from the original version in Italian

(*) The financial position at 31 December 2009, presented for comparative purposes, is that found in the individual financial statements of Meridiana fly S.p.A. at 31 December 2009; see paragraph 4.2. - Comparability of the accounting data for more clarification on the comparability of the data presented in the condensed half year consolidated financial statements at 30 June 2010. The shareholders' equity of the Company at 30 June 2010 was a negative Euro 4,938 thousand; the reconciliation between the shareholders equity of the Meridiana fly Group, resulting from the present condensed half year consolidated financial statements and the shareholders equity of the Company at 30 June 2010 is presented in paragraph 4.10 - Analysis of changes in consolidated shareholders' equity.

3.2. Consolidated statement of comprehensive income for the first half of 2010 and the second quarter of 2010 (*)

Notes	€/000	1Half 10	% on revenue	1Half 09	% on revenue	Change
		Consolidated data		*Individual data*		
24	Revenue from sales	245,357	100.0%	143,065	100.0%	102,291
25	Other revenue	14,709	6.0%	3,036	2.1%	11,673
	Total revenue	**260,066**	**106.0%**	**146,102**	**102.1%**	**113,964**
26	Fuel	(64,864)	-26.4%	(33,464)	-23.4%	(31,400)
27	Materials and maintenance services	(36,099)	-14.7%	(25,099)	-17.5%	(11,000)
28	Operating lease costs	(25,526)	-10.4%	(22,751)	-15.9%	(2,775)
29	Direct commercial costs	(9,323)	-3.8%	(1,933)	-1.4%	(7,390)
30	Other operating costs and wet lease costs	(87,787)	-35.8%	(49,863)	-34.9%	(37,924)
31	Other commercial and overhead costs	(15,125)	-6.2%	(10,644)	-7.4%	(4.481)
32	Staff costs	(38,951)	-15.9%	(20,160)	-14.1%	(18,791)
33	Depreciation and amortization	(5,425)	-2.2%	(1,623)	-1.1%	(3,802)
34	Provisions for liabilities and charges	(2,978)	-1.2%	(1,307)	-0.9%	(1,671)
35	Provision for doubtful receivables	(2,056)	-0.8%	(1,145)	-0.8%	(911)
	Operating profit (loss)	**(28,068)**	**-11.4%**	**(21,887)**	**-15.3%**	**(6,181)**
36	Net financial income (expense)	916	0.4%	(732)	-0.5%	1.648
	Pre-tax profit (loss)	**(27,152)**	**-11.1%**	**(22,619)**	**-15.8%**	**(4,533)**
37	Income taxes	(308)	-0.1%	(659)	-0.5%	351
	Net profit (loss) for year	**(27,460)**	**-11.2%**	**(23,278)**	**-16.3%**	**(4,182)**
	Profit (losses) from actuarial valuations (IAS 19)	-	0.0%	-	0.0%	-
	Tax liability arising from profit (losses)from actuarial valuations	-	0.0%	-	0.0%	-
	Total profit (loss)	**(27,460)**	**-11.2%**	**(23,278)**	**-16.3%**	**(4,182)**

Translated from the original version in Italian

(*) The comprehensive income statement for the first half of 2009, presented for comparative purposes, is that found in the half year condensed financial statements prepared on an individual basis at 30 June 2009; see paragraph 4.2. - Comparability of the accounting data for more clarification on the comparability of the data presented in the condensed half year consolidated financial statements at 30 June 2010.

€/000 - Data not subject to any audit	II Quarter 10 Consolidated data	% on revenue	II Quarter 09 Individual data	% on revenue	Change
Revenue from sales	157,172	100,0%	63,508	100,0%	93,663
Other revenue	10,482	6,7%	767	1,2%	9,715
Total revenue	**167,654**	**106,7%**	**64,276**	**101,2%**	**103,378**
Fuel	(41,537)	-26.4%	(15,470)	-24.4%	(26,067)
Materials and maintenance services	(22,084)	-14.1%	(12,842)	-20.2%	(9,242)
Operating lease costs	(14,575)	-9.3%	(11,599)	-18.3%	(2,976)
Direct commercial costs	(6,437)	-4.1%	(964)	-1.5%	(5,473)
Other operating costs and wet lease costs	(60,347)	-38.4%	(23,145)	-36.4%	(37,202)
Other commercial and overhead costs	(8,962)	-5.7%	(4,987)	-7.9%	(3,975)
Staff costs	(25,145)	-16.0%	(11,046)	-17.4%	(14,099)
Depreciation and amortization	(3,969)	-2.5%	(874)	-1.4%	(3,095)
Provisions for liabilities and charges	(2,662)	-1.7%	(915)	-1.4%	(1,747)
Provision for doubtful receivables	(1,414)	-0.9%	(642)	-1.0%	(772)
Operating profit (loss)	**(19,478)**	**-12.4%**	**(18,208)**	**-28.7%**	**(1,270)**
Net finance income (expense)	229	0.1%	(662)	-1.0%	891
Pre-tax profit (loss)	**(19,249)**	**-12.2%**	**(18,870)**	**-29.7%**	**(379)**
Income taxes	(109)	-0.1%	(351)	-0.6%	242
Profit (loss) on continuing operations	**(19,358)**		**(19,221)**		**(137)**
Net profit (loss) for year	**(19,358)**	**-12.3%**	**(19,221)**	**-30.3%**	**(137)**
Profit (losses) from actuarial valuations (IAS 19)	-	0.0%	-	0.0%	-
Tax liability arising from profit (losses) from actuarial valuations	-	0.0%	-	0.0%	-
Total profit (loss)	**(19,358)**	**-12.3%**	**(19,221)**	**-30.3%**	**(137)**

Translated from the original version in Italian

3.3. Statement of changes in consolidated shareholders' equity as at 30 June 2010 (*)

€/000	Share capital	Share premium reserve	Other reserves	Losses covered within the year	Advance for future capital increase	Reserves and profit (losses) carried forward	Profit (loss) for the year	Net equity
Equity at 31 December 2008	**6,503**	**16,958**	**(555)**	**-**	**29,974**	**(5,943)**	**(18,498)**	**28,438**
- Allocation of 2008 loss						(18,498)	18,498	-
- Destination of advance for future capital increase	29,974				(29,974)			-
- Conclusion of share capital increase January 09	2,701		(267)					2,435
- Coverage of losses carried forward	(8,305)	(16,958)	822			24,441		-
- Jan- August 2009 loss coverage	(19,789)			19,789				-
- Adjustment for actuarial losses (IAS 19)			39					39
-Profit (loss) for the year							(34,059)	(34,059)
Equity at 31 December 2009	**11,084**	**-**	**39**	**19,789**	**-**	**-**	**(34,059)**	**(3,146)**
- Allocation of 2009 loss				(19,789)		(14,270)	34,059	-
- Coverage of losses carried forward	(3,828)					3,828		-
- Capital increase in kind by contribution	6,505	46,055						52,560
- Change in sharegolders' equity recognition accounting effects of contribution		(42,711)						(42,711)
- Costs related to capital increase			(789)					(789)
- Destination of advance for future capital increase					10,000			10,000
- Profit (loss) for the period							(27,460)	(27,460)
Equity at 30 June 2010	**13,761**	**3,344**	**(750)**	**-**	**10,000**	**(10,442)**	**(27,460)**	**(11,546)**

Translated from the original version in Italian

(*) The changes in shareholders' equity in the year ended 31 December 2009, presented for comparative purposes, are those found in the individual financial statements of Meridiana fly S.p.A. at 31 December 2009; see paragraph 4.2. - Comparability of the accounting data for more clarification on the comparability of the data presented in the condensed half year consolidated financial statements at 30 June 2010. The shareholders' equity of the Company at 30 June 2010 was a negative Euro 4,938 thousand; the reconciliation between the shareholders equity of the Meridiana fly Group, resulting from the present condensed half year consolidated financial statements and the shareholders equity of the Company at 30 June 2010 is presented in paragraph 4.10. - Analysis of changes in consolidated shareholders' equity.

3.4. Consolidated statement of cash flows for the first half of 2010

I Half 2009	€/000	I Half 2010	2009
8,849	**Cash and cash equivalents at beginning of financial year**	**(6,854)**	**8,849**
	Effects of contribution of Aviation Unit		
-	Provisional goodwill from contribution of Aviation Unit	56,371	-
-	Other non current assets	41,969	-
-	Current assets	67,583	-
-	Non current liabilities	(22,439)	-
-	Current liabilities	(123,206)	-
-	Payable for contribution adjustment	(3,310)	-
-	Capital increase in kind	(52,560)	-
-	Change in sharegoldes' equity for recognition accounting effects of contribution	35,592	-
-	**Cash flows from contribution of Aviation Unit**	-	-
	Effect of contribution of Sameitaly and Wokita		
-	Provisional goodwill from contribution of Sameitaly and Wokita	(6,876)	-
-	Elimination of value of equity investments	7,630	-
-	Other non current assets	(131)	-
-	Current assets	1,775	-
-	Non current liabilities	109	-
-	Current liabilities	(1,313)	-
	Cash flows from the change in Wokita and Sameitaly perimeters	**1,194**	-
(22,619)	**Pre tax loss**	**(27,152)**	**(31,208)**
	Adjustment for:		
1,623	- Annual depreciation and amortization	5,425	3,222
732	- Net financial gain (losses)	(916)	1,005
14,462	Change in trade and other receivables	12,208	14,024
(496)	Change in inventories	(92)	(686)
6,543	Change in trade and other payables	22,813	(3,106)
(763)	Interest and other financial charges pais	(401)	(1,037)
	Write down of non current assets	-	891
(518)	**Cash flows generated (absorbed) by operating activities**	**11,884**	**(16,895)**
	Investment in non current assets		
(845)	* intangibles	(2)	(895)
(5,194)	* tangibles	(5,678)	(7,234)
(843)	* financial	(6,593)	(1,740)
	* equity investments	(1,977)	(1)
32	Interest received	-	32
279	Change in disposal value of non current assets	-	(871)
(6,572)	**Cash flows generated (absorbed) by investing activities**	**(14,250)**	**(10,710)**
(254)	Payment of loan instalments	(313)	(533)
	Cash in of hedging instruments	1,238	-
-	Shareholders' loan	10,000	10,000
(254)	**Cash flows generated (absorbed) by financing activities**	**10,925**	**9,467**
2,435	Proceeds for capital increase	(789)	2,435
2,435	**Cash flows generated (absorbed) by operations on share captial**	**(789)**	**2,435**
(4,910)	**Net increase (decrease) in cash and cash equivalent**	**8,964**	**(15,703)**
3,939	**Net cash and cash equivalent at financial year end**	**2,110**	**(6,854)**

Translated from the original version in Italian

4. NOTES TO THE FINANCIAL STATEMENTS

4.1. Accounting standards and measurement criteria

4.1.1. *General Considerations*

The present condensed half year consolidated financial statements at 30 June 2010 were prepared in accordance with the IAS / IFRS International Accounting Standards issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union. "IFRSs" means also the International Accounting Standards ("IASs") still in force, and all the interpretative documents issued by the International Financial Reporting Interpretations Committee ("IFRIC") previously known as the Standing Interpretations Committee ("SIC").

The present condensed half year consolidated financial statements are presented in Euro thousands (except where explicitly indicated) and are made up (Chapter 3) of the Consolidated Statement of Financial Position at 30 June 2010, the Consolidated Comprehensive Income Statement for the first half of 2010, the Consolidated Statement of Changes in Shareholders' Equity at 30 June 2010 and the Consolidated Statement of Cash Flows for the first half of 2010, together with the Explanatory Notes (Chapter 4).

It should be noted, in relation to the Financial Statements, that no specific income statement, statement of financial position and statement of cash flows has been included showing evidence of transactions with related parties, as these are not considered significant. The summary statement of the financial and economic transactions with related parties for the first half of 2010 is presented in paragraph 4.15 - Transactions with related parties, below, with an indication of the proportion of these transactions with respect to the total accounting item considered.

With respect to the presentation of the capital asset items of the individual financial statements of Meridiana fly, the integration determined a number of reclassifications of items which were reflected also in the comparative data; in particular:

- Separate presentation of the "Fleet" item, which became significant following the contribution of the owned aircraft and parts, determining the reclassification of Euro 2,500 thousand from "Property, plant and equipment" of improvement on aircraft in operational leasing.
- Incorporation of the item "Financial assets with parent company" into the item "Other non-current financial assets" owing to reduction to zero of the relevant item at 30 June 2010.
- Incorporation of the items "Trade receivables and other receivables from parent company" and "Other assets" into the item "Trade receivables and other receivables" owing to the insignificance of the same following the contribution.
- Separate presentation of the item "Severance indemnities and other defined-benefit funds" with respect to the item "Non-current provisions for risks and charges" owing to the greater significance of the same following the contribution.
- Incorporation of the item "Trade payables and other payables to parent company" into the item "Trade payables and other payables" owing to the insignificance of the same following the contribution.

These reclassifications obviously did not determine effects on the capital deficit at 31 December 2009 or on the loss for the first half of 2009 shown in the comparative data and approved by the competent corporate bodies.

As mentioned in the introductory paragraph, following the execution of the contribution of the Aviation Business with effect from 28 February 2010, the Company controls 100% of the two investee companies Sameitaly and Wokita, formerly 50% owned and controlled by Meridiana S.p.A. Therefore the present half year condensed financial statements at 30 June 2010 are prepared on a consolidated basis, with economic effect from the date of effectiveness of the contribution.

It should be noted that the condensed half year consolidated financial statements do not include all the information required by the accounting standards of the annual financial statements and are subject to limited auditing by Deloitte & Touche S.p.A..

4.1.2. *Accounting standards and measurement criteria*

In preparing the present condensed half year consolidated financial statements, in accordance with IAS 34 – Interim Financial Statements, the same accounting standards were applied as in preparation of the individual financial statements at 31 December 2009 – to which the reader is referred for a precise description – supplemented by the consolidation policies and measurement criteria adopted in the measurement of the financial and economic items the application of which became necessary as a result of contribution in kind of the Aviation Business. The standards and measurement criteria supplementing those adopted on preparation of the individual financial statements at 31 December 2009 are described below.

Fleet and other company-owned assets

The fleet and the other company-owned assets are recognized among the assets only if it is probable that the use of the asset will generate future economic benefits and the cost of the same can be determined reliably. These assets are carried at cost, inclusive of ancillary costs directly attributable and necessary for the commissioning of the asset for the use for which it was purchased; this value is increased, in the presence of legal or implicit obligations, by the present value of the estimated cost for dismantling and removing the asset.

The costs incurred after the purchase are recognized as an increase in the value of the element to which they refer if the cost of the element can be reliably determined and it is likely that the future benefits deriving from the cost incurred will accrue to the Company. If these costs are incurred for the purpose of making replacements, the cost of the replacement is capitalized and the book value of the replaced parts is eliminated as described below. All the other costs incurred subsequently are recognized in the income statement in the year in which they are incurred.

Costs incurred for regular reconditioning of company-owned engines and cells are recognized as an increase in the book value of the asset to which they refer, separately from the physical parts. Any book value net of the cost of the previous reconditioning is derecognized, irrespective of whether the cost of the previous reconditioning was explicitly mentioned in the transaction in which the element was purchase or constructed. In this case, the estimated cost of similar future reconditioning is used as an indication of what the cost of the reconditioning of the existing component was when the element was purchased or constructed.

Depreciation

Items of “property, plant and equipment” are recognized net of the related depreciation accumulated and of any impairment losses determined on the basis of the methods described below. The depreciation, which begins when the asset becomes available for use, is calculated on a straight-line basis according to the estimated remaining useful life for the Company and taking into account the remaining value of the assets at the date of presumed disposal. The useful life is re-examined every year and any changes, if necessary, are made to apply prospectively. If significant parts of property, plant or equipment have different useful lives, these components are accounted for separately.

The useful life of aircraft and their components is estimated in relation to the date of presumed decommissioning of the company-owned fleet which, on the basis of the current forecasts, will be at the end of 2015.

The estimated useful lives for the fleet are as follows:

- Engine maintenance	8 years
- Cell maintenance	15 years
- Undercarriage maintenance	4 years

Derivative financial instruments

In carrying out its business the Company is exposed to the risks of changes in exchange rates (mainly Euro/USD) and in fuel prices. To minimize these risks, derivatives are in place hedging both specific transactions and total exposures, making use of the instruments offered by the market.

Derivative hedging instruments, in keeping with the provisions of IAS 39, are accounted for in accordance with the methods laid down for hedge accounting only when:

- at the start of the hedge there is formal designation and documentation of the hedging relationship;
- the hedge is highly effective;
- the effectiveness can be reliably demonstrated.

When a financial instrument is designated as a hedge of exposure to the variability of cash flows of the hedged transactions (cash flow hedge; e.g. hedging the variability of cash flows of expected future transactions against the effect of fluctuations in exchange rates), the gains and losses deriving from the fair value changes of the hedging instrument are accounted for directly in shareholders' equity for the effective part (any ineffective part is instead accounted for immediately in the income statement under the item gains/(losses) on foreign exchange).

The amounts, recognized in shareholders' equity are then reflected in the income statement of the period in which the effects of the contracts and transactions provided for are manifested in the income statement.

If an instrument is designated as a hedge of exposure to changes in the fair value of hedged instruments (e.g. hedging of the variability of the fair value of receivables and payables in foreign currencies), it is recognized at fair value with the effects booked to the income statement; in keeping with this the hedged instruments are adjusted to reflect the fair value changes associated with the hedged risk.

The fair value changes of derivatives that do not fulfil the conditions to be classified as hedges are recognized in the income statement. In the presence of alternative treatments permitted by IAS 39 for the classification of such transactions, the Company has decided that the change in fair value of contracts on commodities is to be classified in the income statement as an adjustment of the operating costs.

Financial and non-financial contracts are analyzed in order to identify the existence of "embedded" derivatives to be separated out and measured at fair value. The gains and losses deriving from subsequent fair value changes are recognized in the income statement.

Employee benefits

The liability relating to benefits payable to employees and disbursed at the time of or after termination of employment and relating to defined-benefit schemes (severance indemnities) is determined on the basis of actuarial assumptions estimating the amount of the future benefits that the employees have accrued up to the reporting date. The liability is recognized on an accrual basis along the period of accrual of the right. The liability is measured by independent professional actuaries. On the basis of IAS 19, the right attributed to employees and former employees to purchase air tickets at discounted prices with respect to the price list represents a long-term benefit, to be measured with appropriate actuarial techniques. The specific provisions set aside are released periodically, increasing the value of revenues from sales of ordinary tickets. The actuarial gains and losses deriving from changes in the actuarial assumptions used or from changes in the terms of the plan are always recognized in the income statement. As of 30 June 2010 no specific actuarial recalculation has been carried out of the personnel funds and similar provisions under the terms of IAS 19, in consideration of the substantial stability of the actuarial variables in being at 30 June 2010 with respect to those used at 31 December 2009 for the estimate of the personnel funds and similar provisions respectively in the individual financial statements of Meridiana fly S.p.A. and separate financial statements of Meridiana S.p.A.

Grants

Grants are recognized at fair value when there is reasonable certainty that they will be received and that the conditions envisaged for obtainment of the same will be met. Grants for operating expenses are recognized in full in the income statement at the moment in which the conditions for recognition are met. Grants for investment in plants are deducted directly from the purchase cost of the asset to which they refer.

In the explanatory notes to the individual financial statements at 31 December 2009 indications were given of the changes in the main IAS/IFRS international accounting standards applicable in preparation of the individual financial statements starting on 1 January 2010, to which the reader is referred for further details. These changes in the accounting standards and measurement criteria had no impact on the Interim Financial Report.

The other revised IAS/IFRS standards applicable from 1 January 2010 had no effect on the presentation of the condensed half year consolidated financial statements or on the measurement of the financial and economic amounts of the same.

4.1.3. *Use of estimates*

Preparation of the condensed half year consolidated financial statements requires the Directors to carry out estimates and make assumptions which have an effect on the amounts of the revenues, costs, assets and liabilities and on the disclosure related to the potential assets and liabilities at the interim reporting date. If in the future these estimates and assumptions, which are based on the best assessment by the Directors themselves, should differ from the actual circumstances, they would be appropriately modified in the period in which the said circumstances change. This relates in particular to the following estimation processes:

- Assessment of the risk and of the recoverability of receivables and of the risk of an adverse outcome of commercial and employment litigation.
- Estimate of the income from failure on the part of passengers to use tickets paid in advance and useable on flights departing in periods after the reporting date; failure to use the ticket, in particular, determines recognition of income in the moment in which the right to use said ticket ceases. To be able to recognize, in the period of accrual, in the interim reports, the income for failure to use a ticket paid in advance, which would otherwise be recognized only in the last quarter of the year, a potential asset is recognized in quarterly and six-monthly interim reports; this is determined on the basis of the historical trends of failure of use applied to the remaining payable for amount paid in advance at each reporting date.

It should also be note that certain valuation processes, in particular the more complex ones such as the determination of any impairment losses on non-current assets, including the recoverability of prepaid taxes and of the goodwill resulting from the contribution operation, are generally carried out completely only on preparation of the annual consolidated financial statements, when all the information that may be needed is available, except in cases when there is evidence of impairment that requires an immediate measurement of any losses. In these cases (as described more fully in paragraph 4.7. – Analysis of changes in the consolidated financial situation at 30 June 2010 – ref 1 “Intangible assets”, below) on the occasion of preparation of the condensed half year consolidated financial statements at 30 June 2010 and of the update of the Forecast to 30 June 2011 a specific impairment test was carried out on the goodwill recognized in relation to the contribution operation. This test made it possible also to verify the recoverability of non-current tangible and other intangible assets relating to Medium and Long Haul flights. On the contrary no specific internal and external indicators were identified such as to imply the need to develop detailed test of recoverability of the carrying amount of the equity investments in Sameitaly and Wokita and of the goodwill deriving from their consolidation.

Finally, the actuarial valuations necessary for determination of the employee benefit funds are normally carried out on the occasion of preparation of the annual financial statements.

With reference to the present condensed half year consolidated financial statements it should be noted, finally, that the adjustment to be paid under the terms of deed of the contribution in kind to Meridiana S.p.A. was determined for the amount mentioned in paragraph 4.5 – Statement of financial position of contribution of the Aviation Business, below, on the basis of the best knowledge available to the management of the Company, which require however the performance of estimation processes above all with reference to the area of provisions for risks and charges and of ascertainment of income for non-use of prepaid tickets. Recognition of the adjustment in discussions with the conferor has not yet been finalized, as the deadline for this process is 30 September 2010. A different quantification of the adjustment would have no effect on the shareholders’ equity and on the net profit or loss of the Meridiana fly Group as it would be recognized offsetting assets and liabilities redetermined as a result of the recognition procedure but would modify the amount of the financial payable recognized as of today in favour of Meridiana S.p.A. in the statement of financial position at 30 June 2010; this payable is to be settled at the latest by 30 June 2011 and therefore constitutes a short-term cash commitment of the Meridiana fly Group considered in the forecasts for use of cash in the Forecast to 30 June 2011 used for the comments on the validity of the going concern assumption.

4.1.4. *Going concern assumption*

See paragraph 2.4. “Business outlook” of the present Interim Report for a detailed analysis of the considerations on the basis of which, despite various uncertainties, the Directors believe that the Company and the Group can continue to operate as going concern in the foreseeable future of at least 12 months and, consequently, considering therefore appropriate the preparation of the half year financial report on a going concern basis.

4.2. Comparability of financial statements

As mentioned in the paragraph “Introduction” of the present Interim Report, the financial statements, presented in Chapter 3 – Consolidated financial statements for the first half of 2010, above, compare the consolidated financial amounts at 30 June 2010 and the consolidated economic results of the first half of 2010 with the individual data of Meridiana fly S.p.A. respectively at 31 December 2009 and for the comparative half-year ended on 30 June 2009. This is the case also for the statements of changes in consolidated shareholders’ equity at 30 June 2010 and for the statement of cash flows at the same date.

The comparability of the data presented in the above financial statements is obviously affected by the Aviation Business contribution operation, which took place with effectiveness from 28 February 2010, and which entailed a change in the size of the Company and, as a result of the acquisition of control over the subsidiaries Wokita S.r.l. and SameItaly S.r.l., the obligation to prepare the interim report on a consolidated and no longer individual basis.

It should be noted, besides, that, for the purposes of disclosure obligations connected with the execution of the contribution operation and with the subsequent completion of the operation for a share capital increase in kind and in cash, pro-forma financial statements at 30 June 2009 and at 31 December 2009 were prepared and included respectively in the Disclosure Document drawn up as required by Articles 70, clause 4, and 71-bis of Consob Ruling 11971/99 and in the Prospectus as required by Regulation (EC) 809/2004. These pro-forma data were subject respectively to limited auditing and complete auditing in accordance with the provisions of the relevant legislation.

In the present explanatory notes, for a better examination of the economic and financial performance of the Group, the comments on changes in the consolidated financial position contained in paragraph 4.7. are made comparing the consolidated figures at 30 June 2010 presented in Chapter 3 with the pro-forma consolidated figures at 31 December 2009, while the comments on the economic changes contained in paragraph 4.9 are made comparing the consolidated figures presented in Chapter 3 with the pro-forma consolidated figures for the six months to 30 June 2009.

As regards the net financial position, the consolidated data at 30 June 2010 are compared with the data taken from the individual financial statements at 31 December 2009, showing, where appropriate, the effects on consolidated assets and liabilities of the contribution of the Aviation Business and of the consolidation of the wholly-owned subsidiaries Wokita and Sameitaly with effect from 28 February 2010.

In particular, the pro-forma consolidated financial position at 31 December 2009 used for the above purposes is presented below.

€/000	31.12.09 Proforma
Intangible assets	62,071
Fleet	30,090
Other property plant and machinery	20,181
Deferred tax assets	9,111
Equity investments	1
Other non-current financial assets	15,075
Other non-current financial receivables	1,774
Total non-current assets	**138,303**
Inventories	4,207
Trade receivables and other current assets	117,841
Current financial assets	3,849
Cash and cash equivalents	14,476
Total current assets	**140,373**
Total assets	**278,676**
Net equity	**4,749**
Non-current loans	2,184
Severance indemnities and other defined-benefit funds	12,688
Non-current provisions for risks and charges	19,437
Deferred tax liabilities	3,989
Total non-current liabilities	**38,298**
Current loans	20,384
Current loans from parent company	13,136
Current portion of non-current loans	1,574
Current provisions for risks and charges	13,905
Trade payables and other non-current liabilities	186,630
Total current liabilities	**235,629**
Total current and non-current liabilities	**273,927**
Total equity and liabilities	**278,676**

On the contrary, the pro-forma consolidated income statement at 30 June 2009 used for the above purposes is presented below.

€/000	1Half 09 Pro forma data
Revenue from sales	306,169
Other revenue	18,051
Total revenue	**324,220**
Fuel	(58,413)
Materials and maintenance services	(47,379)
Operating lease costs	(33,713)
Direct commercial costs	(10,752)
Other operating costs and wet lease costs	(108,064)
Other commercial and overhead costs	(29,027)
Staff costs	(56,416)
Depreciation and amortization	(6,396)
Provisions for liabilities and charges	(4,916)
Provision for doubtful receivables	(2,022)
Operating profit (loss)	**(32,878)**
Net financial income (expense)	(1,093)
Impairment of financial assets	-
Pre-tax profit (loss)	**(33,971)**
Income taxes	(1,134)
Net profit (loss) for year	**(35,105)**

With reference to the comments in paragraph 4.9, it should also be noted that the comparison of the performance in the consolidated income statement for the first half of 2010 with the pro-forma statement for the first half of 2009 shown above, is in any case affected by the fact that, as the contribution of the Aviation Business occurred with effect from 28 February 2010, the income statement of the first half of the year reflects the operations of this unit for the period of 4 months (from 1 March to 30 June 2010) against a pro-forma 2009 comparative figure which was determined considering a full six months of business of the said Aviation Business. As mentioned in paragraph 2.1.2 – Results of the first half of 2010, above, the comparison in absolute terms loses significance and the trends in the costs and revenues are analyzed comparing, where relevant, the proportions on a percentage basis with respect to revenues.

It should be recalled that the aim of the preparation of the pro-forma data was to represent, according to measurement criteria consistent with the historical data and compliant with the relevant legislation, the effects of the contribution in kind operation on the economic performance and the financial position of the Meridiana fly S.p.A. Group, as if it had virtually taken place on 31 December 2009 or on 1° January 2009 respectively for the Statement of Financial Position and for the Income Statement. However, it must be noted that if the contribution in kind had really taken place at the date assumed, the same results presented in the pro-forma data would not necessarily have been obtained.

It should also be noted that the preparation of the 2009 pro-forma data not including the first two months of activity of the Aviation Business and of that of the subsidiaries Wokita and Sameitaly would not have been possible without the non-economical use of disproportionate resources with respect to the precise informative purposes of the interim reporting.

4.3. Seasonality of the business

The demand for air transport, above all in the leisure/holiday segment, is characterized by significant seasonality. As regards the Meridiana fly Group, the business is concentrated in the third quarter of the year and is more limited in the second and fourth quarter, with the exception of the periods around holidays (Christmas/New Year, Easter and long weekends). The Medium Haul business was particularly significant in the summer period, while the Long Haul leisure business to exotic and tropical destinations has inverse seasonality, as it is concentrated in the winter period (November – April). This seasonality of the business tends to limit the representativity of the performance in the first half of the year as a trend for the entire year.

4.4. Consolidation scope and criteria

The present half year condensed financial statements at 30 June 2010 include the data of the parent company Meridiana fly and those of the companies it controls, Sameitaly and Wokita, prepared at the same date.

A list of the consolidated companies, together with the related information indicated in Art. 38 of Lgs. Dec. 127/91, is provided below:

Company name	Registered HQ	Share capital	% owned			Total interest
			Direct	Indirect	Total	
Parent company:						
Meridiana fly S.p.A.	Olbia	€ 13,760,975.40	-	-	-	-
Fully-consolidated subsidiaries:						
Wokita S.r.l.	Olbia	€ 35,000	100.00%	-	100.00%	100.00%
Sameitaly S.r.l	Olbia	€ 95,000	100.00%	-	100.00%	100.00%
Unconsolidated subsidiaries:						
EF USA Inc	New Jersey (USA)	$1,000	100.00%		100.00%	100,00%
Meridiana express S.r.l.	Olbia	€ 10,000	100.00%	-	100.00%	100.00%

It should be noted that EF USA Inc is not included because the subsidiary is no longer operational and therefore its full consolidation would not determine significant effects. As indicated in the Explanatory Notes, with the same a lawsuit was initiated for the recovery of the receivable in the second half of 2009 when the same was associated at 49%.

It should also be noted that Meridiana express S.r.l. was not consolidated as it was incorporated in March 2010 and is not yet operational. In this case also the full consolidation of the data of the subsidiary would not have a significant effect on the condensed half year consolidated financial statements at 30 June 2010.

“Subsidiaries” means all the companies over which the Meridiana fly Group has the power to determine, directly or indirectly, the financial and operating policies in order to obtain the benefits deriving from their business.

The assessment of the existence of control takes into consideration also the potential voting rights effectively exercisable or convertible, and the positions of “de facto control” on the basis of voting rights, and not only such rights, effectively exercisable at shareholders’ meetings.

The data of the subsidiaries are consolidated starting from the date on which the parent company acquires control and until the date on which this control ceases to exist. The data used for the consolidation are from the financial statements prepared by the Directors of the single companies, possibly already approved by the respective Shareholders’ Meetings, opportunely reclassified and adjusted in order to harmonise them with the accounting standards and measurement criteria of the Meridiana fly Group.

All intra-group balances and transactions, including any unrealized gains deriving from relationships between Group companies, are eliminated. Unrealized losses are eliminated unless they cannot be recovered subsequently.

The consolidation is carried out with the line-by-line method. The criteria adopted for the application of this method include, among others:

- the elimination of the book value of the equity investments in the consolidated companies against the relevant shareholders' equity and the assumption at the same time of all their assets and liabilities;
- the elimination of receivable and payable items and of inter-company operations, including not-yet-realized intra-group gains and losses;
- at the date of 30 June 2010 the difference between the value of the equity investment and the related shareholders' equity at the present value at the date of purchase is provisionally recognized as goodwill as permitted by IFRS 3.

At the date of 30 June 2010 all the subsidiaries consolidated with the line-by-line are held at 100% and there are therefore no portions of shareholders equity pertaining to minority shareholders to be recognized in a specific shareholders' equity item, nor is there a portion of minorities of the net profit or loss of these companies to be recognized separately in the consolidated income statement.

See the next paragraph 4.10 - Analysis of the changes in consolidated shareholders' equity for a detailed analysis of the methods of consolidation of the 50% interest in Wokita and Sameitaly deriving from contribution of the Aviation Business, in combined application of IFRS 3 and OPI 4.

4.5. Statement of financial position of contribution of Aviation Business

Before moving on to comment on the Statement of Financial Position at 30 June 2010 and to the related changes with respect to the end of financial year 2009, it should be recalled that on 28 February 2010, as a result of contribution of the Aviation Business, the Company became the holder of rights, assets and liabilities relating to the above business unit, as identified precisely in the deed of contribution of 25 February 2010. For greater clarification, these rights and relationships consist of:

- employment contracts of personnel (approximately 1,070),
- the company-owned and leased fleet (17 MD-80 and 4 Airbus A319 aircraft) and the other fixed assets for business purposes,
- derivatives hedging the cost of fuel,
- contracts for property rented to the company (Olbia headquarters),
- IT use licence contracts,
- web domains and registered trademarks,
- slots,
- the 50% equity interests in Sameitaly and Wokita,
- the other assets and liabilities attributed to the business unit,
- all the other contracts and rights relating to the business unit.

A number of assets and liabilities were not conferred, including tax receivables and payables, other equity investments, cash at banks and loan agreements.

In accounting terms, a statement of financial position of contribution at 28 February 2010 (henceforth "Statement of

Financial Position") was provisionally prepared by the conferor Meridiana S.p.A..

This Statement of Financial Position was subsequently adjusted and supplemented by the management of the Company as determined by the Directors on the basis of the provisional estimates made for the purposes of preparation of the present condensed half year consolidated financial statements as better described in paragraph 4.1.3 – Use of estimates, above, for the recognition of a financial payable to the parent company Meridiana as a provisional adjustment of Euro 3,310 thousand, different from that which would have derived from the Statement of Financial Position determined in the first instance by the conferor Meridiana, of Euro 8,931 thousand.

The provisionally adjusted Statement of Financial Position is presented below, together with that used by the expert in preparing the valuation at 31 August 2009.

	28.02.10	**31.08.09**
€/000	*Contribution by Meridiana S.p.A.*	*Valuation of Aviation Business*
Intangible assets	584	706
Fleet	27,441	26,306
Other property, plant and machinery	4,656	2,585
Deferred tax assets	591	591
Equity investments	7,119	7,123
Other financial non-current assets	1,578	1,589
Total non-current assets	**41,969**	**38,900**
Inventories	161	219
Trade receivables and other current assets	64,851	63,218
Financial current assets	2,571	2,154
Total current assets	**67,583**	**65,591**
Total assets	**109,552**	**104,491**
Non-current loans		
Severance indemnities and other defined-benefit funds	10,273	9,816
Non-current provisions for risks and charges	8,295	18,132
Deferred tax liabilities	3,871	3,699
Total non-current liabilities	**22,439**	**31,647**
Current portion of non-current loans	29	101
Current provisions for risks and charges	11,624	-
Trade payables and other current liabilities	111,553	102,504
Financial current liabilities	-	7,330
Total current liabilities	**123,206**	**109,935**
Total current and non-current liabilities	**145,645**	**141,582**
Total equity	**(36,093)**	**(37,091)**
Estimated amortization/depreciation 31 August 2009-28 February 2010 not considered in the adjustment	**2,312**	
Provisional payable from adjustment	**3,310**	

As provided for in the deed of contribution, this provisional Statement of Financial Position may be subject to further changes and revisions in the next few weeks, also in consideration of the specific audits in progress by the Directors of the Company and of the conferor Meridiana S.p.A., supported in this work by the auditing firms appointed for the independent auditing of the financial statements of Meridiana fly S.p.A. and Meridiana S.p.A. and possibly, in the event of a failure of the parties to agree on a final version, by a third auditing firm, which would be appointed for the purpose as an arbitrator.

Following definition of the final Statement of Financial Position, to be completed by the contractual deadline of 30 September 2010, a mechanism of financial adjustment is provided for, based on the difference between the capital deficit of the Aviation Business at 28 February 2010 and that existing at 31 August 2009 as determined in the valuation of the expert appointed under the terms of Art.2343-ter of the Civil Code, net of the effect of the amortization and depreciation of the Aviation Business in the period and taking into account the indemnity of Meridiana S.p.A. which will compensate Meridiana fly S.p.A. for any negative differences in the accounting shareholders' equity occurring between 31 August 2009 and 31 December 2009.

The payable due to adjustment, recognized provisionally in the present condensed half year consolidated financial statements as Euro 3,310 thousand as a financial payable of Meridiana fly to the conferor Meridiana, must be settled in accordance with the terms provided for in the deed of contribution, that is by 31 December 2010 or if the Statement of Financial Position of contribution becomes definitive after that date, by 30 June 2011.

4.6. Method of recognition of the Aviation Business contribution operation

The contribution in kind of the Aviation Business is identified as a "business combination of entities under common control" as Meridiana S.p.A., already before the business combination, held 59.58% of the shares of the Company.

Since "business combinations of entities or businesses under common control" are excluded from the scope of the application of IFRS 3, in the absence of guidance at the IFRS-IFRIC level, for the purposes of recognition of the operation in the condensed half year consolidated interim financial statements the business combination has been recorded according to the rules defined by the document OPI 1 - *Orientamenti Preliminari Assirevi* (Preliminary Guidance of the Italian Auditors' Association) on the IFRSs entitled "Trattamento contabile delle *business combinations of entities under common control* nel bilancio d'esercizio e nel bilancio consolidato", ("Accounting Treatment of business combinations of entities under common control in annual financial statements and consolidated financial statements"), the aim of which is precisely to identify the appropriate accounting treatment according to the IFRSs of business combinations of entities under common control.

In particular, the presence of economic substance is the discriminating factor for recognizing the business combination at fair value and not at book value (that is at "historical values") .

Under the terms of OPI 1, the economic substance is demonstrated when the sum of the results and of the cash flows resulting from the two stand-alone business plans of the Company and of Meridiana is significantly less than the result and cash flow forecast in the Business Plan.

In this specific case, this condition seems to be met with reference to the explicit forecast period considered (2010-2015) and consequently it is possible to recognize the net assets acquired at fair value.

Also with reference to the two subsidiaries Wokita and Sameitaly, which carry out commercial businesses, from the business combination incremental results and cash flows associated with the development of the business or from new commercial strategies.

From another point of view, with reference to the identification of the assets and liabilities acquired, it seems important to identify whether the Aviation Business or the Company is the acquirer in the contribution operation. From this point of view it must be noted that, in the absence of reference standards for "business combinations of entities under common control", the provisions of IFRS 3 were applied by analogy in determining the acquirer entity.

From this application by analogy it emerged that the acquirer was the Aviation Business, because it was larger than the Company in terms both of the amount of revenues and of the present value of net assets, considering to this end also the net cash attributable to the unit on the basis of the historical evidence of cash and liquidity attributable to the said unit, even though the same was not assigned on identification of the assets and liabilities contributed, in consideration of the significant amount of the capital increase envisaged after the business combination.

The accounting method applied for the recognition of the effects of the business combination entailed, therefore, the recognition at fair value of the net assets of the Company, recording at book value the contributed net liabilities of the Aviation Business. Consequently, the increase in the shareholders' equity of the Company recognized for the purposes of the present condensed half year consolidated financial statements of Euro 17 million (gross of ancillary expenses of the operation) corresponds to the difference between the gain deriving from the recognition at fair value of the net assets of the Company at 28 February 2010, of Euro 56.4 million and the net liabilities of the Aviation Business, as determined by the Directors at the date of 31 August 2009, of Euro 37.1 million, adjusted for the depreciation of the Aviation Business recorded in the period according to the provisions of the deed of contribution in kind and the fair value of which, while not determining accounting effects due to the accounting method adopted, was determined for the purposes of the contribution in kind in Euro 52.56 million.

It should be remembered finally that, considering the limited period of time that between the date of approval of the business combination and the preparation of the present document, the gain determined by the accounting method described above was temporary attributed to Goodwill.

The effects of the definition of the fair values of the identifiable assets and liabilities of Meridiana fly under the application of IFRS 3 are still being identification and analysis.

The completion of these activities could determine changes to the amount of goodwill also in relation to the identification and quantification of other separately identifiable assets which may be recognized to adjust the value provisionally determined in the present condensed half year consolidated financial statements until all the next financial communications including those at 31 December 2010.

4.7. Analysis of the changes in the consolidated financial position at 30 June 2010

Non-current assets

The non-current assets at 30 June 2010 amounted to Euro 151,301 thousand, an increase of Euro 12,998 thousand with respect to the pro-forma value of 31 December 2009, of Euro 138,303 thousand.

Ref. 1 – Intangible assets

The intangible assets amounted to Euro 64,978 thousand, an increase of Euro 2,907 thousand with respect to the pro-forma figure of 31 December 2009 (Euro 62,071 thousand pro-forma at 31 December 2009). The breakdown of the intangible assets is detailed below.

"Goodwill", estimated at approximately Euro 63,249 thousand, includes the effects of the contribution of the Aviation Business and of the consolidation of Sameitaly and Wokita according to methods which in this regard provided for:

- The recognition of a provisional goodwill of Euro 56.4 million deriving (*i*) from the accounting at fair value and not "in continuity of values" (that is at "historical values") of the above contribution operation in application of the provisions of the OPI 1 document on the subject of "business combination of entities or businesses under common control" and (*ii*) from the identification of the Aviation Business as the acquirer in the business combination, as it was larger than Meridiana fly in terms of both the amount of revenues and of present value of net assets. For more details on the method of recognition of the contribution operation of the Aviation Business see paragraph 4.6 above.

- The recognition of provisional goodwill of Euro 6.8 million deriving from the line-by-line consolidation of Sameitaly and Wokita.

The Directors recognized that the motivations that induced them to prepare a revision of the short-term prospective data (cf. paragraph 2.3.5. – Examination of the forecast data and approval of the Forecast to 30 June 2011) constitute external and internal indicators such as to render necessary the performance of an impairment test of the goodwill associated with the activities of Meridiana fly according to the methods provided for in the IFRS standards. The supporting document for the impairment test was approved by the Board of Directors today at the same time as it approved the present Interim Report.

In particular the recoverable value of goodwill was estimated through determination of the value in use, by means of discounting to the present the expected cash flows. These expected operating cash flows derive from the forecasts incorporated into the Forecast to 30 June 2011 approved by the Board of Directors today and into the Business Plan, opportunely adjusted for the sole purpose of performing the test in question to take account of the changes in the basic assumptions relating to the macro-economic parameters of reference.

The estimates were made taking into consideration the indications on the trends in the evolution of the macro-economic variables deducible from rating agencies and specialized third parties and drawing up reasonable forecasts on the future performance of the industry of reference. In particular, with reference to the new macroeconomic scenario two different scenarios were developed on the basis of two authoritative external sources (the **Economist Intelligence Unit**, henceforth the “EIU” and Bloomberg) on the basis of different projections on the future trend of the Euro/Dollar exchange rate. In particular it was assumed that the increase in cost due to the strengthening of the US currency would be allocated entirely to the charter business at 100% starting from the first year (2011), as permitted by the existing contracts and done in the past; with reference to the scheduled business, it was assumed that the impact of the change in the exchange rate would be recovered gradually in three years because the automatic mechanism described for the charter business is not applicable to the scheduled business. With a view to making the forecasts more reasonable, finally, a reduction of revenues was envisaged due to a potential loss of the market share of the Company following an increase in the yield (scheduled business) and in the income (charter business) to recover the higher costs due the strengthening of the Dollar against the Euro.

To these flows was added the so-called terminal value, expressing the operating flows that the Group will be able to generate starting from the fifth year, determined on the basis of the perpetual yield. This terminal value was estimated on the basis of the forecasts formulated for the last year of the explicit forecast (2015), opportunely adjusted for the trends highlighted previously. For the estimate of the terminal value a growth rate of 2% was assumed; this is substantially in line with the inflation rate.

It should be noted that the terminal value as determined represents a significant portion of the “value in use”, calculated on the basis of a discount rate of 9.83%.

The “value in use” determined on the basis of the assumption of the valuation techniques mentioned above, did not reveal the need to recognize any impairment, with reference both to the EIU scenario, and to the Bloomberg scenario.

The use of lower or higher discount rates and growth rates would have determined a different value in use, as shown in the following table (expressed in millions of Euro) which shows in detail the changes on the positive difference between the value in use and net invested capital.

EIU scenario		Discount rate		
		9,3%	***9,8%***	***10,3%***
	1,5%	27,7	19,3	11,9
Growth rate	***2,0%***	35,1	25,7	17,5
	2,5%	43,7	33,1	23,9

Bloomberg scenario		Discount rate		
		9,3%	***9,8%***	***10,3%***
	1,5%	36,3	27,9	20,4
Growth rate	***2,0%***	43,8	34,3	26,0
	2,5%	52,3	41,7	32,4

As can be seen from the sensitivity analyses carried out with reference to both the scenarios envisaged, in no case is a negative difference found between value in use and value of the net invested capital of the Group.

The significant sensitivity of the value in use to a change in the discount rate or the growth rate (and consequently of the difference between the latter and the value of the net invested capital of the Group), in a context in which the trend in revenues (volume and value) and of the operating costs, as well as of the discount rate itself, is dependent on the evolution of variables of macroeconomic scenario not controllable by the Company and the Group, leads the Board of Directors not to rule out, in future, different trends in these variables with respect to those reasonably foreseeable on the basis of the current knowledge and forecasts for the evolution of the scenario variables deducible from third party sources, used for the assumptions underlying the prospective data, may determine the need to recognize impairment losses on the book value of the provisional goodwill recognized.

As already mentioned, it should be recalled, finally, that the capital gain determined by the accounting method described above was provisionally attributed to goodwill. Precise determination and identification of the effects relating to the definition of the present values of the identifiable assets and liabilities of Meridiana fly in the light of the application of IFRS 3 are still in progress. The completion of these activities could determine changes in the amount of goodwill also in relation to the identification and quantification of other separately recognizable assets and to the definitive determination of the adjustment in accordance with the provisions of the deed of contribution.

Moreover, with reference to the goodwill associated with the consolidation of the assets of Sameitaly and Wokita, it must be observed that the substantial alignment of the final losses of the subsidiaries Sameitaly and Wokita in the period to the prospective data illustrated in paragraph 2.8 – Performance of investee companies, above, does not lead us to believe that there will be any need for a writedown of the book value of the subsidiaries (and consequently of the goodwill allocated to the same in the present condensed half year consolidated financial statements), determined on the basis of the valuation data of the contribution of the Aviation Business; the attention of the management to the performance of the companies and to short-term corrective actions remains high, however, in order to identify promptly any signs that would bring into doubt the development forecasts that underlie the book value of the equity investments in the Company's financial statements and of the related goodwill recognized in the condensed half year consolidated financial statements of the Group.

"Concessions, licences, trademarks and similar rights", of 810 thousand (of which contributed with the contribution on kind Euro 583 thousand), decreased by Euro 253 thousand compared with pro-forma 31 December 2009 (Euro 1,063 thousand at pro-forma 31 December 2009).

They include the market value of the Company's trade mark, costs incurred for the use of software licences, the implementation/updating of the website platform and the purchase of software.

"Start-up and expansion costs", of Euro 47 thousand (Euro 183 thousand at 31 December 2009, pro-forma), include mainly costs for pilot training the expense of which is guaranteed by a surety in favour of Meridiana fly in the event of resignation of the personnel in the three years following attendance at the course itself.

"Other intangible assets", of Euro 874 thousand (Euro 1,026 thousand at 31 December 2009, pro-forma), relate mainly to the residual net value of the ancillary expenses incurred for the entry into the Fleet of the A320 and A330 type aircraft acquired through operating lease contracts.

<u>Ref. 2 Fleet</u>

Within the Aviation Business ten company-owned MD-82 aircraft were conferred on Meridiana fly. Following this the net book value of the fleet at 30 June 2010 was Euro 31,139 thousand (Euro 30,090 thousand at 31 December 2009, pro-forma). The new investments incurred by the Company in the first half of 2010 for extraordinary maintenance and purchases of rotation material were Euro 2,961 thousand.

With reference to the "Fleet" item, recognized in the accounts as a separate item following the contribution of the Aviation Business and deriving mainly from this operation, it should be noted – on the basis of the assumptions included in the Business Plan – that the date of decommissioning (the so-called "phase-out") of the aircraft is set at 2015. To cover the phase-out expenses the relevant provisions for risks and charges have been set aside in compliance with the IAS / IFRS accounting standards. We believe we can confirm the recoverable value of these aircraft, identified by the Directors as the value in use for the duration of the plan and as the final value (phase-out value) at the end of the same.

<u>Ref. 3 Other property, plant and equipment</u>

The "Other property, plant and equipment" amounted to Euro 20,778 thousand, an increase of Euro 597 thousand compared with the pro-forma figure at 31 December 2009 (Euro 20,181 thousand at 31 December 2009, pro-forma). Investments in the half-year period amounted to Euro 2,717 thousand.

This item includes:

- "Land and buildings" (Euro 7,546 thousand), relating to a great extent to the civil building at Via Ettore Bugatti, 15, Milan, for which there is a total mortgage of Euro 10,000 thousand in favour of the lending bank. Also in consideration of the transfer of the registered office to Olbia, which occurred in the early months of 2010, and of the organizational changes in progress, which provide for the transfer to Olbia of the general and administrative structures currently present at the Milan office, the recoverability of the book value of the property was verified by the Directors with reference to its market value on the basis of an estimate of the fair value, net of the selling costs, carried out with the support of the opinion of a third party. From this audit no impairment losses emerged, taking account also of the valuations still in progress on the use of the building in the current context of the property market.

- “Systems on leased aircraft” (Euro 8,982 thousand), which refer to the net value of the improvements made to the fleet held in operating leasing, and of the net value of the maintenance provisions for the restoration and release (phase-out) of aircraft recognized as an increase in the value of the investments and depreciated on a straight-line basis.
- “Plant and Equipment” (Euro 910 thousand) which include rolling components, improvements on leased aircraft in the fleet and costs of capitalized maintenance.
- “Industrial equipment” (Euro 1,326 thousand), which mainly relate to operating equipment in use at the Company’s bases.
- “Other assets” (Euro 1,898 thousand), which include the net book value of electronic complexes (approximately Euro 1.1 million), and the residual net value of furniture, fittings, motor vehicles and other assets in use.

The statement of the changes in the intangible and tangible assets between 31 December 2009 on an individual basis and 30 June 2010 on a consolidated basis is presented below. In this statement “Change in scope” includes the values of the contribution of the Aviation Business, and the transfer of the fixed assets to Meridiana Maintenance, both operations completed at the end of February 2010.

Summary statement of changes in intangible and tangible assets (from the individual data of 31 December 2009 and the consolidated data of 30 June 2010):

(€/000)	Historical cost						Depreciation						Write-down/Write-back			Net book value	
Intangible assets	31.12.09	Increases	Decreases	Change of scope	Other movements	30.06.10	31.12.09	Increases	Decreases	Change of scope	Other movements	30.06.10	31.12.09	Change of scope	30.06.10	31.12.09	30.06.10
Goodwill	-	63,247	-	-	-	63,247	-	-	-	-	-	-	-	-	-	-	63,247
Start-up and expansion costs	5,673	-	-	(169)	-	5,504	(5,490)	(33)	-	66	-	(5,457)	-	-	-	183	47
Development costs	463	-	-	-	-	463	(459)	(4)	-	-	-	(463)	-	-	-	4	-
Concessions, licenses, trademarks and similar rights	2,161	2	-	5,035	-	7,198	(1,712)	(224)	-	(4,452)	-	(6,388)	-	-	-	449	810
Other intangible assets	1,694	-	-	276	-	1,970	(763)	(117)	-	(216)	-	(1,096)	-	-	-	931	874
Total	**9,991**	**63,249**	**-**	**5,142**	**-**	**78,382**	**(8,424)**	**(378)**	**-**	**(4,602)**	**-**	**(13,404)**	**-**	**-**	**-**	**1,567**	**64,978**

(€/000)	Historical cost						Depreciation						Write-down/Write-back			Net book value	
Fleet	31.12.09	Increases	Decreases	Change of scope	Other movements	30.06.10	31.12.09	Increases	Decreases	Change of scope	Other movements	30.06.10	31.12.09	Change of scope	30.06.10	31.12.09	30.06.10
Aircraft	-	-	-	211,479	-	211,479	-	(561)	-	(175,170)	-	(175,731)	-	(24,810)	(24,810)	-	10,938
Aircraft	-	2,121	-	32,557	-	34,678	-	(618)	-	(20,731)	-	(21,349)	-	-	-	-	13,329
Rollling material	4,565	840	-	31,990	-	37,395	(2,065)	(584)	-	(27,301)	-	(29,950)	-	(573)	(573)	2,500	6,872
Total	**4,565**	**2,961**	**-**	**276,026**	**-**	**283,552**	**(2,065)**	**(1,763)**	**-**	**(223,202)**	**-**	**(227,030)**	**-**	**(25,383)**	**(25,383)**	**2,500**	**31,139**

(€/000)	Historical cost						Depreciation						Write-down/Write-back			Net book value	
Other property, plant and machinery	31.12.09	Increases	Decreases	Change of scope	Other movements	30.06.10	31.12.09	Increases	Decreases	Change of scope	Other movements	30.06.10	31.12.09	Change of scope	30.06.10	31.12.09	30.06.10
Systems on others' aircraft	12,727	2,339	-	11,707	10,444	37,217	(7,246)	(2,629)	-	(9,465)	(8,895)	(28,235)	-	-	-	5,481	8,982
Land, buildings and work on others' property	8,881	10	-	1,606	-	10,497	(1,210)	(188)	-	(1,553)	-	(2,951)	-	-	-	7,671	7,546
Plant and machinery	1,245	104	-	1,291	-	2,640	(599)	(74)	-	(1,057)	-	(1,730)	-	-	-	646	910
Equipment	1,675	65	-	6,384	6	8,130	(715)	(83)	-	(6,006)	-	(6,804)	-	-	-	960	1,326
Other assets	2,455	199	-	11,343	-	13,997	(1,987)	(310)	-	(9,802)	-	(12,099)	-	-	-	468	1,898
Investments in progress	14	-	-	126	(24)	116	-	-	-	-	-	-	-	-	-	14	116
Total	**26,997**	**2,717**	**-**	**32,457**	**10,426**	**72,597**	**(11,757)**	**(3,284)**	**-**	**(27,883)**	**(8,895)**	**(51,819)**	**-**	**-**	**-**	**15,240**	**20,778**

Ref 4 Deferred tax assets

This item amounted to Euro 9,631 thousand and increased by Euro 520 thousand compared with 31 December 2009 pro-forma (Euro 9,111 thousand at 31 December 2009 pro-forma), owing mainly to prepaid taxes connected with the temporarily differences originating from recognition at shareholders' equity of the ancillary expenses for the capital increase in kind and cash.

Deferred tax assets include the benefit relating to the estimated recovery of previous tax losses of the years 2006-2007-2008-2009 for an amount of Euro 7.3 million corresponding to future taxable income of Euro 33.4 million envisaged for the period of retainment of the losses (up to 2014) in the stand-alone Business Plan of the former Eurofly.

No amounts were recognized for further deferred tax assets on previous tax losses for the purposes of preparation of the present condensed half year consolidated financial statements to take account of the greater future taxable incomes envisaged in the Business Plan, as the related valuation was still in progress as part of the process of allocation of goodwill provisionally accounted for as permitted by IFRS 3.

Ref 5 Equity investments

Equity investments amounted to Euro 1,978 thousand at the end of the period compared with Euro 1 thousand at 31 December 2009, pro-forma.

The item increased with respect to the pro-forma figure owing to the investment in Meridiana Maintenance following contribution of the maintenance business unit (Euro 1,967 thousand) and to the investment in Meridiana express (Euro 10 thousand).

Ref 6 Other non-current financial assets

Non-current financial assets amounted to Euro 21,723 thousand compared with a figure at 31 December 2009, pro-forma, of Euro 15,075 thousand. They consist mostly of guarantee deposits paid to lessors of aircraft and other guarantee deposits paid to other suppliers (Euro 18,277 thousand), as well as the tied bank deposit at Intesa Sanpaolo S.p.A. for the issue of sureties in favour of lessors of aircraft (Euro 3,446 thousand).

Ref 7 Other non-current receivables

The amount of Euro 1,074 thousand (Euro 1,774 thousand at 31 December 2009, pro-forma) relates to the portion of receivables of a non-current nature with Airbus for the purchase of aeronautical goods and services as a consequence of the agreement to terminate the purchase contract for three A350 Long Haul aircraft signed in previous years.

Current assets

At 30 June 2010 current assets amounted to Euro 139,170 thousand, a decrease of Euro 1,203 thousand compared with the pro-forma amount of 31 December 2009, when they were Euro 140,373 thousand.

Ref 8 Inventories

Inventories amounted to Euro 1,108 thousand (Euro 4,207 thousand at 31 December 2009, pro-forma).

Ref 9 Trade receivables and other current assets

"Trade receivables and other current assets" amounted to Euro 119,619 thousand, recording an increase of Euro 1,778 thousand compared with the pro-forma 31 December 2009 (Euro 117,841 thousand at 31 December 2009, pro-forma). The details are shown in the table below.

€/000	30.06.10	31.12.09 pro-forma	Change
Trade receivables	88,263	92,297	(4,034)
Bad-debt provision	(19,857)	(18,251)	(1,606)
Total trade receivables	**68,406**	**74,046**	**(5,640)**
Receivable "solidarity" contract fund	13,936	11,721	2,215
Receivables for ENAC contributions	10,676	8,450	2,226
Accrued income and prepaid expenses	5,219	6,826	(1,607)
Receivables vs parent company	3,789	1,327	2,462
Current AIRBUS receivable	1,304	934	370
Other current assets	16,289	14,537	1,752
Total other current assets	**51,213**	**43,795**	**7,418**
Total trade receivables and other current assets	**119,619**	**117,841**	**1,778**

Trade receivables consist mainly of receivables from tour operator customers, private customers, airlines and agencies. They are adjusted with the provisions for the impairment of receivables, the changes in which, starting from the individual financial statements at 31 December 2009, were are follows:

€/000	31.12.09	Provisions	Utilizations	Change of Scope	Other movements	30.06.10
Impairment of trade receivables	(12,844)	(2,000)	394	(5,407)	-	(19,857)
Total impairment of receivables	**(12,844)**	**(2,000)**	**394**	**(5,407)**	**-**	**(19,857)**

Trade receivables include receivables from related parties, which are presented in detail in paragraph 4.15 – Transactions with related parties.

In view of the litigation examined – with reference to the most significant cases – in paragraph 2.15, the Directors believe that the provisions for impairment of receivables reflected in the condensed half year consolidated financial statements are adequate to cover the risk of uncollectability of the receivable positions claimed against the counterparties. It is important to note, however, the presence of guarantees issued by trade counterparties in favour of the Meridiana fly Group made up of guarantee deposits and sureties.

The “Receivables of the solidarity agreement fund” of the personnel refers to the amounts accrued in the period and still to be refunded by the competent public pension agencies on the basis of the procedure provided for in the solidarity agreements. In the first half of 2010 Euro 6.2 million was collected for receivables of this kind.

The item “Receivables for ENAC contributions” includes the receivables claimed from the ENAC in relation to the balances of the contribution for Public Service obligations’ activity of Sardinia and Sicily due for the periods 2007-2010, mostly conferred with the Aviation Business.

“Accrued income and prepaid expenses” amounted to Euro 5,219 thousand and fell by Euro 1,607 thousand compared with the amount at 31 December 2009, pro-forma, of Euro 6,826 thousand as a result of the decrease in prepaid expenses on operating costs.

The “Receivable from the parent company” of Euro 3,789 thousand refers to amounts that the parent company Meridiana S.p.A. received for claim refunds from lessors of aircraft in relation to maintenance that the parent company will transfer to the Company, since the same has become the owner of the Fleet following contribution of the Aviation Business.

The “Current portion of Airbus receivable” of Euro 1,304 thousand relates to the portion of short-term receivables for the purchase of aeronautical goods and services consequent to the agreement to terminate the purchase contract for three A350 Long Haul aircraft.

The item “Other current assets” mainly includes the potential contingent assets on prepaid tickets recognized in part to account for the balances from contribution of the Aviation Business (Euro 1,829 thousand) and in part offsetting in equity the recognition of revenues in the income statement for the estimated benefit relating to tickets pre-paid but unused by final customers (Euro 3,657 thousand), advances to suppliers (Euro 1,611 thousand), receivables from intermediaries for sales with credit cards (Euro 5,019 thousand), and income tax receivables (Euro 882 thousand) (cf. paragraph 4.1.3. – Use of estimates).

Ref 10 Current financial assets

The “Current financial assets” amounted to Euro 1,333 thousand (Euro 3,849 thousand at 31 December 2009, pro-forma) and relate to the measurement at fair value of derivatives on jet fuel transferred by Meridiana on contribution of the Aviation Business.

Ref 11 Cash and cash equivalents

Cash and cash equivalents at 30 June 2010 amounted to Euro 17,110 thousand compared with the figure of Euro 14,476 thousand of 31 December 2009, pro-forma.

Shareholders’ equity

The consolidated shareholders’ equity at the date of 30 June 2010 was a negative Euro 11,546 thousand; as already mentioned the shareholders’ equity of the Company at the same date was also negative by Euro 4,938 thousand (cf. paragraph 4.10 for the reconciliation between the shareholders’ equity of the Meridiana fly Group and the shareholders’ equity of the Company at 30 June 2010).

At 30 June 2010 the Company therefore falls within the category pursuant to Art. 2447 of the Civil Code (reduction of the share capital under the legal limit), a situation later overcome as a result of the cash capital increase completed in August 2010 for an amount of Euro 40 million to be recognized among the items of Shareholders’ Equity. Thus at the date of approval of the present condensed half year consolidated financial statements the Company is not in the condition described above.

For changes in shareholders’ equity see paragraph 4.10 - Analysis of changes in consolidated shareholders’ equity.

Non-current liabilities

At 30 June 2010 non-current liabilities amounted to Euro 36,742 thousand, down by Euro 1,556 thousand compared with the pro-forma amount of 31 December 2009, which was Euro 38,298 thousand.

Ref 15 Long term borrowings

“Long terms borrowings” consist of the payable to Banca Profilo for the mortgage loan taken out in 2003. The payable is guaranteed by a mortgage on the property at Via Bugatti 15, Milan, for Euro 10 million. The six-monthly instalments of the above loan all mature within five years, as the last is in January 2014. At 30 June 2010 they amounted to Euro 1,871 thousand (compared with Euro 2,184 thousand at 31 December 2009, pro-forma) and decreased compared with the figure at 31 December 2009 by Euro 313 thousand as a result of payment of the six-monthly instalment of the loan made in January 2010.

Ref 16 Severance indemnities and other defined-benefit funds

This item amounted to Euro 12,653 thousand and decreased by Euro 35 thousand compared with the figure at 31 December 2009, pro-forma. The details are as follows:

€/000	30.06.10	31.12.09 pro-forma	Change
Severance indemnities	11,195	11,074	121
Subsidised ticket fund	1,458	1,614	(156)
Total	**12,653**	**12,688**	**(35)**

With contribution of the Aviation Business of Meridiana the employees (approximately 1,070) and their employment contracts were transferred to Meridiana fly, together with the provisions for subsidized tickets.

These provisions include severance indemnities to be paid to employees on termination of employment and provisions for subsidised tickets granted to retired former employees of Meridiana (and their spouses) with at least ten years of service. Both these liabilities are considered "defined-benefit plans" and are therefore determined at the end of the year, using actuarial methods in accordance with the provisions of IAS 19. It is considered that for the purposes of preparation of the present condensed half year consolidated financial statements the estimate of these liabilities in accordance with the provisions of IAS 19 would not have had a significant impact on the Consolidated Statement of Comprehensive Income and on the Shareholders' Equity of the Group.

Ref 17 Provisions for non-current risks and charges

Provisions for non-current risks and charges amounted to Euro 18,261 thousand (Euro 19,437 thousand at 31 December 2009, pro-forma), down by Euro 1,176 thousand compared with the pro-forma figure of 31 December 2009.

They consist of maintenance provisions for the restoration and release (phase-out*)* of aircraft in operating leasing.

The changes, starting from the figure in the individual financial statements at 31 December 2009, are shown in the table below.

€/000	31.12.09	Provisions	Utilization	Change of scope	Other movements	30.06.10
Provisions for restoration of rented Airbus aircraft	6,274	848	(231)	926	-	7,817
Provisions for restoration of rented MD aircraft	-	1,549		8,895	-	10,444
Total Non-Current Provisions for risks and charges	**6,274**	**2,397**	**(231)**	**9,821**	**-**	**18,261**

While the utilizations related to the phase-out of an Airbus A319 aircraft in June, the increases regarded accounting for the provisions relating to aircraft included in the contribution of the Aviation Business of Meridiana (MD-82s and A319s).

Ref 18 Deferred tax liabilities

Provisions for deferred taxes amounted to Euro 3,957 thousand, down from the pro-forma figure at 31 December 2009 by Euro 3,989 thousand. They are made up of the provisions received on contribution of the Aviation Business, relating in particular to the non-deductible revaluation of assets (the MD-82 fleet) and other assets temporarily not fiscally recognized (including the adjustment of severance indemnities under the terms of IAS 19).

Current liabilities

The current liabilities at 30 June 2010 amounted to Euro 265,275 thousand, an increase of Euro 29,646 thousand compared with the pro-forma figure for 31 December 2009 (Euro 235,629 thousand at 31 December 2009, pro-forma).

Ref 19 Current loans

"Current loans" amounted to Euro 15,000 thousand, down by Euro 5,384 thousand in comparison with the end of 2009, pro-forma, and regard the stand-by revolving cash loan facility granted by a pool of banks and subject to financial covenants, which at the reporting date of 31 December 2009 and of the present Interim Report were not being observed, with particular reference to the circumstance that at the reporting date the Company has a situation of capital deficit. In this regard the lending banks have the right to request advance repayment of the amount lent, repayment of which is contractually set at October 2010. The Company is currently negotiating with the banks for the renewal of the credit facilities and of the guarantees in the context of the process of combination with the Aviation Business. In particular, the Company has formally asked the said banks not to exercise the right to demand early repayment. Besides, on the basis of the irrevocable commitment made by AKFED and Meridiana to provide to Meridiana fly an interest-bearing bridge loan up to a maximum of Euro 30 million (cf. paragraph 2.2.2), the Company has the financial resources to comply with any request for repayment of the currently existing credit facilities.

Ref 20 Current loans from parent company

Current loans from the parent company amounted to Euro 13,310 thousand, an increase of Euro 174 thousand in comparison with the end of 2009, pro-forma, and regard:

- “Loans from parent company”**,** of Euro 10,000 thousand, consisting of the interest-free loan granted by Meridiana S.p.A. on 24 February 2010 in the context of the operation for a capital increase in kind and cash (cf. paragraph 2.2.7 - Execution of powers to increase the capital in cash).
- “Payable to Meridiana S.p.A. for contribution adjustment”, of Euro 3,310 thousand, which relates to the payable adjustment item calculated provisionally as agreed in the deed of contribution (cf. paragraph 4.5. - Statement of financial position of contribution of the Aviation Business and paragraph 4.6 – Method of recognition of the Aviation Business contribution operation).

Ref 21 Current portion of non-current borrowings

The current portion of non-current loans, of Euro 603 thousand, down by Euro 971 thousand in comparison with the pro-forma figure for 31 December 2009 for the settlement of the payables for trading derivatives carried out before contribution by the conferor, includes the short-term portion of the mortgage loan (Euro 596 thousand) and a number of instalments for financial leasing of electronic complexes (Euro 7 thousand).

Ref 22 Provisions for current risks and charges

“Provisions for current risks and charges” amounted to Euro 15,228 thousand, up by Euro 1,323 thousand from the pro-forma figure at 31 December 2009. The changes, starting from the figure in the individual financial statements at 31 December 2009, are shown in the table below.

€/000	31.12.09	Provisions	Utilizations	Change of scope	Other movements	30.06.10
Provisions for legal disputes	1,800	2,705	(738)	10,099	(490)	13,376
Provisions for maintenance	456	-	-	-	-	456
Other provisions for risks	1,616	273	(493)	-	-	1,396
Total Current Provisions for risks and charges	**3,872**	**2,978**	**(1,232)**	**10,099**	**(490)**	**15,228**

These provisions increased, owing not only to the transfer of the relevant provisions for contribution of the Aviation Business (change in scope of Euro 10,099 thousand, mainly for employment law litigation, for passenger disputes and other lawsuits as per paragraph 2.15 Significant litigation), but also to the amounts set aside in the first half of 2010 of Euro 2,978 thousand to cover the risks deriving from lawsuits and various disputes in progress with passengers, personnel, suppliers and other counterparties. These provisions were related to the prudent assessment of risks of existing litigation on the basis of an analysis carried out by the management with the support of external legal opinions. Reference can be made in particular to the litigation described in paragraph 2.15, for which, although in a context of intrinsic uncertainty of assessment as better explained in the paragraph 4.1.3 - Use of estimates, above, it is considered that the Company and the Group cannot incur further liabilities with respect to those already reflected in the provisions for risks and charges accounted for in the present condensed half year consolidated financial statements.

Ref 23 Trade payables and other current liabilities

Trade payables and other current liabilities amounted to Euro 221,134 thousand, an increase of Euro 34,504 thousand in comparison with the pro-forma figure for 31 December 2009 as illustrated below.

€/000	30.06.10	31.12.09 pro-forma	Change
Trade payables	133,250	120,968	12,282
Amounts due to social security & pension agencies	3,548	4,084	(536)
Accrued expenses and deferred income	67,564	49,743	17,821
Payments received on account	899	845	54
Other payables	15,873	10,990	4,883
Total trade payables and other current liabilities	**221,134**	**186,630**	**34,504**

“Trade payables” include payables to related parties, which are presented in detail in paragraph 4.15 - Transactions with related parties.

“Accrued expenses and deferred income” regard mainly the liability for prepaid tickets and the associated airport taxes (Euro 66,527 thousand), relating to sales made and collected but with flights still to be provided or, if provided, not used by the customers themselves, against which a total receivable is recognized of Euro 5,486 thousand (cf. Ref 9 Trade receivables and other current assets).

“Advances” relate to payments received for services still to be rendered.

The item “Other payables” refers mainly to “payables to employees” in relation to payables for holidays not taken and additional monthly payments (Euro 7,832 thousand), “payables for tax withholdings and VAT” (Euro 4,764 thousand), “payables for income taxes” (Euro 260 thousand), and guarantee deposits received, emoluments to Directors and Statutory Auditors and other lesser payables.

At 30 June 2010 injunctions are pending for an amount of Euro 2.7 million, of which Euro 2.6 million relating to Alitalia in receivership and the remainder to three smaller counterparties.

4.8. Economic performance of Wokita S.r.l. and Sameitaly S.r.l.

Before commenting on the consolidated economic performance in the first half of 2010 (cf. paragraph 4.9. - Analysis of the consolidated economic results, below), it should be noted that, with the contribution on 28 February 2010 of the Aviation Business, the Company controls the subsidiaries Wokita and Sameitaly and, therefore, prepares the condensed half year financial statements on a consolidated basis. The consolidated income statement of the first half of 2010 consequently reflects the contribution of the consolidation of the economic data relating to the business carried on by the said subsidiaries in the period March-June 2010.

For more information a summary statement prepared for operating purposes, is provided, showing the economic performance of these subsidiaries in the period March – June 2010 subject to consolidation.

Reclassified income statement March-June 2010	Sameitaly	Wokita
(€/000)		
Revenue from sales and services	1,428	837
Other revenue	117	320
Total revenue	**1,545**	**1,157**
Direct commercial costs	(108)	(912)
Revenue net of direct commercial expenses	**1,437**	**245**
Staff costs	(897)	(141)
Materials and maintenance services	(3)	(2)
Other commercial and overhead costs	(375)	(172)
EBITDAR	**162**	**(70)**
Aircraft operating lease costs	0	0
EBITDA	**162**	**(70)**
Depreciation and amortization	(12)	(11)
Provision for doubtful receivables	0	0
Provisions for liabilities and charges	0	0
EBIT	**150**	**(81)**

4.9. Analysis of the consolidated economic results

Ref 24 Revenues from sales

Revenues from sales were Euro 245,357 thousand (Euro 143,065 thousand in the first half of 2009 on an individual basis and Euro 306,169 thousand in the pro-forma consolidated statement for all six months of 2009).

These are inclusive of revenues from direct flights (scheduled / charter), of airport taxes, of income from activities in code-sharing, of ACMI revenues and of other ancillary traffic revenues.

It should be noted that sales revenues from code-sharing activities in the period were approximately Euro 3.6 million, significantly down owing to the reduction in business carried on with the carrier Lauda-Livingston on Long Haul.

The table below shows a breakdown of revenues from air traffic alone by segment (prepared internally for operating purposes), net of airport taxes and other ancillary revenues.

Revenues, flight only by segment – operating data

€/000	1Half 10 consolidated	%	1Half 09 pro-forma	%	Change	Change %
Medium-haul	152,709	73.2%	185,861	71.8%	(33,152)	-17.8%
Long-haul	55,782	26.8%	72,843	28.2%	(17,061)	-23.4%
Total	**208,491**	**100.0%**	**258,703**	**100.0%**	**(50,212)**	-19.4%

In terms of business segments, it should be noted that Medium Haul flight revenues decreased by 17.8% compared with the first half of 2009, pro-forma; Long Haul flight revenues decreased by 23.4% in comparison with the first half of 2009, pro-forma, and less business was done in code sharing with Lauda-Livingston, owing also to less availability of aircraft and the consequent lower capacity offered on the scheduled and charter markets.

For more information on the comparison of flight revenues between the two half-year periods, the table below shows the pro-forma data on flight revenues (internal operating data) simulating the combination of the companies starting from 1 January of each year.

Revenues, flight only by segment – operating data						
€/000	1Half 10 (*)	%	1Half 09 pro-forma	%	Change	Change %
Medium-haul	178,044	76.1%	185,861	71.8%	(7,817)	-4.2%
Long-haul	55,782	23.9%	72,843	28.2%	(17,060)	-23.4%
Total	**233,826**	**100.0%**	**258,703**	**100.0%**	**(24,877)**	**-9.6%**

(*) includes the entire business of the Meridiana Aviation Unit in the period

In particular it can be seen that Medium Haul flight revenues recalculated on the entire period would be reduced by 4.2% compared with the first half of the previous year, while Long Haul shows the same changes as above, as this business is carried on only by the former Eurofly.

Ref 25 Other revenues

"Other revenues", of Euro 14,709 thousand (Euro 3,036 thousand in the first half of 2009, individual statement), are summarized in the table below and decreased in comparison with the first half of 2009, pro-forma, by Euro 3,342 thousand as then they amounted to Euro 18,051 thousand.

€/000	1Half 10	1Half 09 pro-forma	Change
Contributions for operating expenses	6,329	7,937	(1,608)
Income from prepayment	3,657	4,514	(857)
Other intra-group income	2,059	1,836	223
Contingent assets	471	169	302
Income from AKFED	205	-	205
Aircraft rented out	33	2,064	(2,031)
Others	1,955	1,531	424
Total	**14,709**	**18,051**	**(3,342)**

Grants for operating expenses consist of revenues for Public Services obligation activity of Sicily and Sardinia (of the Meridiana Aviation Business), while prepaid income relates to revenues deriving from the partial reversal of the payable for the sale in advance of scheduled tickets non used by final customers within the contractual deadlines.

The decrease in "Aircraft rented out" derives mainly from lower income from sub-leasing of an A330 aircraft (contract terminated in March 2009).

Ref. 26 Fuel

The cost of fuel, of Euro 64,864 thousand compared with Euro 58,413 thousand in the first half of 2009, pro-forma (Euro 33,464 thousand in the first half of 2009, individual), represented a proportion of revenues of 26.4% (19.1% in the first half of 2009, pro-forma) owing to the considerable increase in the price of jet fuel per barrel, more than 50% higher on average compared with the first half of 2009, as well as lower gains from fair value on fuel derivatives of Euro 368 thousand in the first half of 2010 (Euro 2,888 thousand in the first half of 2009, pro-forma).

Ref. 27 Maintenance materials and services

Expenses for maintenance materials and services amounted to Euro 36,099 thousand compared with Euro 47,379 thousand in the first half of 2009, pro-forma (Euro 25,099 thousand in the first half of 2009, individual) and the ratio to revenues was 14.7% compared with 15.5% in the first half of 2009, pro-forma.

The change is related, not only to the not full comparability of the data in the first half of 2010 which includes maintenance services outsourced for only 4 months to Meridiana Maintenance, but also to non-recurrent expenses incurred in the first half of 2009 for the phasing out of two A330s returned to the lessor (approximately Euro 3.5 million).

Ref. 28 Operating rentals

Operating rentals, which amounted to Euro 25,526 thousand compared with Euro 33,713 thousand in the first half of 2009, pro-forma (Euro 22,751 thousand in the first half of 2009, individual) show a proportion to revenues of 10.4% compared with 11.0% in the first half of 2009, pro-forma, thanks in particular to the reduction of two A330s (present for almost the whole of the first half of 2009) and to the lower cost of the rented aircraft conferred by Meridiana.

Overall the costs of renting aircraft relating to the Aviation Business for the period March-June 2010 amounted to approximately Euro 4.4 million.

Ref. 29 Commercial costs of sales

The direct commercial costs of sale, made up of fees and other broking expenses of the various distribution channels, amounted to Euro 9,323 thousand, compared with Euro 10,752 thousand in the first half of 2009, pro-forma (Euro 1,933 thousand in the first half of 2009, individual).

In terms of proportion of turnover, this item shows substantial stability, going up from 3.5% to 3.8% in the two periods compared.

Ref. 30 Other operating and wet lease expenses

Operating and wet lease expenses amounted to Euro 87,787 thousand compared with Euro 108,064 thousand in the first half of 2009, pro-forma (Euro 49,863 thousand in the first half of 2009, individual), with a decrease of Euro 20,277 thousand, as in the following table.

€/000	1Half 10	1Half 09 pro-forma	Change
Handling	51,706	67,439	(15,733)
Route tax	16,565	20,230	(3,665)
Wet leases and blocked spaces (purchase of seats from other carriers)	11,255	15,749	(4,494)
Handling and wet leases with related parties	2,800	2,145	655
Passenger assistance and compensation for damages	601	1,890	(1,289)
Others	4,860	611	4,249
Total	**87,787**	**108,064**	**(20,277)**

The proportion of turnover was 35.8% compared with 35.3% in the pro-forma statement of the first half of 2009.

It is important to note however the lower costs of wet leases above all for the purchase of seats on flights operated by Lauda-Livingston (Long Haul), which fell significantly compared with the first half of 2009 owing to a difference in commercial operations.

Ref. 31 Other operating expenses and other services

“Other operating expenses and other services” amounted to Euro 15,125 thousand compared with Euro 29,027 thousand in the first half of 2009, pro-forma (Euro 10,644 thousand in the first half of 2009, individual), showing a decrease of Euro 13,902 thousand compared with the previous six-month period. The proportion of turnover was 6.2% compared with 9.5% in the first half of 2009, pro-forma.

This item includes the costs of advice and sundry collaborations, advertising and promotion, insurance, utilities, leasing, sundry rentals and other services, as well as various contingent liabilities.

Ref. 32 Staff costs

The staff cost amounted to Euro 38,951 thousand (it was Euro 20,160 thousand in the first half of 2009, individual, and Euro 56,416 thousand in the first half of 2009, pro-forma), showing, as a result of the business combination, a proportion of revenues of 15.9% compared with 18.4% in the first half of 2009, pro-forma, as a result of the benefit of application of solidarity agreement which in 2010, unlike in the first half of 2009, involved the entire first half of 2010.

As a result of the combination with the Aviation Business and the simultaneous spin-off of the MRO maintenance unit, the employees rose in terms of FTEs by approximately 1,000, reaching 1,632 employees at the end of June 2010.

Ref. 33 Amortization, depreciation and impairment losses

These amounted to Euro 5,425 thousand compared with Euro 6,396 thousand in the first half of 2009, pro-forma (Euro 1,623 thousand in the first half of 2009, individual). The increase is associated with the contribution of the di Meridiana Aviation Business, which contributed a considerable amount of assets (company-owned fleet of aircraft and other fixed assets of more than Euro 32 million).

Ref 34 Allocations to provisions for risks and charges

In the half-year period this item amounted to Euro 2,978 thousand compared with Euro 4,916 thousand in the first half of 2009, pro-forma (1,307 thousand in the first half of 2009 individual). It includes the amounts allocated to cover legal disputes in progress with passengers, personnel, suppliers and other counterparties in consideration of the specific assessments carried out with the support of legal opinions, which led to more prudent allocations in the half-year period in question.

Ref. 35 Other adjusting provisions

The "Other adjusting provisions" amounted in the period to Euro 2,056 thousand compared with Euro 2,022 thousand in the first half of 2009, pro-forma (Euro 1,145 thousand in the first half of 2009, individual). They include to a greater extent the impairment losses booked to receivables of doubtful collectability (Euro 2,000 thousand) on the basis of the historic experience and of a precise analysis of the single non-performing items.

Ref. 36 Net financial expenses

The balance of "Net financial expenses" was a positive Euro 916 thousand compared with a negative balance of Euro 1,093 thousand in the first half of 2009, pro-forma (compared with a negative balance of Euro 732 thousand in the first half of 2009, individual). This amount derives mainly from net positive exchange differences (Euro 1,581 thousand), net of interest and other financial expenses (Euro 665 thousand). The details of the item are shown in the table below.

Finance income

€/000	1Half 10	1Half 09 pro-forma	Change
Bank interest income	6	47	(41)
Foreign exchange gains	5,591	411	5,180
Other income	104	9	95
Total	**5,701**	**467**	**5,234**

Finance expense

€/000	1Half 10	1Half 09 pro-forma	Change
Interest expense for bank loans/overdrafts	91	81	10
Foreign exchange losses	4,010	955	3,055
Interest expense on mortgage loans	29	63	(34)
Commission on surety ships	121	83	38
Other expense	534	378	156
Total	**4,785**	**1,560**	**3,225**
Net finance income	**916**	**(1,093)**	**2,009**

Ref. 37 Taxes for the period

The taxes for the period amounted to Euro 308 thousand compared with Euro 1,134 thousand in the first half of 2009, pro-forma (Euro 659 thousand in the first half of 2009, individual) and mainly include the component relating to current IRAP (regional business tax) as a consequence of the negative result for the period for IRES (income tax) purposes. It should be recalled that Meridiana fly has in any case notable retainable past losses of approximately Euro 90 million, the deductibility of which will be assessed at the moment of the definitive allocation capital gains deriving from the recognition of the contribution of the Aviation Business.

4.10. Analysis of changes in consolidated shareholders' equity

Following the Extraordinary Shareholders' Meeting held on 21 December 2009, which resolved to cover the losses accrued in the period 1 September 2009 – 31 October 2009, amounting to Euro 3,828,247 by using this amount of the share capital, the same was reduced by 7,256,024.92 without altering the number of shares. It should be noted that this latter reduction of the share capital was effectively recorded with Milan Companies Register on 10 February 2010.

Furthermore, as of 28 February 2010, the capital was increased in kind, with the exclusion of option rights pursuant to Art. 2441 of the Italian Civil Code, as resolved by the Extraordinary Shareholders' meeting held on 21 December 2009 and paid up by means of contribution of the Aviation Business by Meridiana S.p.A..

More specifically, 325,247,524 shares were issued at a unit price of Euro 0.1616, of which Euro 0.02 to cover implicit accounting parity and Euro 0.1416 as a premium, for a total amount of around Euro 52.56 million.

Consequent to this operation, the capital and reserves underwent a net increase of Euro 52,560 thousand (respectively Euro 6,505 thousand and Euro 45,055 thousand), adjusted of accounting effects of the contribution in kind for Euro 42,711 thousand (see paragraph 4.5 - Method of recognition of the Aviation Business contribution operation).

Furthermore, in the first half of 2010, costs were sustained, directly linked to the capital increase in kind, as described above, which, net of the tax effect, amount to Euro 789 thousand, booked as a direct reduction of the increase in shareholders' equity.

Finally, it should be noted that as the Company finds itself in the situation described by Art. 2446 of the Italian Civil Code (losses in excess of one third of the capital) as of 31 March 2010, Meridiana S.p.A. has communicated that it will be converting the non-interest bearing loan of Euro 10 million disbursed on 21 December 2009 into a payment of the same amount for a future capital increase, thereby increasing the Company's shareholders' equity reserves.

In view of the above transactions and the overall net loss of the first half of 2010 of Euro 27,460 thousand, the shareholders' equity as of 30 June 2010 is a negative Euro 11,546 thousand (in terms of the individual company, shareholders' equity is a negative Euro 4,938 thousand).

The table below reconciles the shareholders' equity and loss for the period of the parent company Meridiana fly S.p.A. and the equivalent consolidated data.

Reconciliation of Shareholders' Equity

€/000	**SE 30.06.10**	**Profit (loss) for the period**
Parent Company Meridiana fly	**(4,938)**	**(27,970)**
Profit of the consolidated companies from 28 February 2010 to 30 June 2010	10	10
Elimination of book value of consolidated equity investments	(6,618)	500
Consolidated Meridiana fly	**(11,546)**	**(27,460)**

Total adjustments of Euro 6,608 thousand - made during consolidation to the value of investments - derive from the application of the provisions of Standard OIC 4 for recognition in continuity of values - respectively with the individual and consolidated financial statements of Meridiana S.p.A. - the contribution of the 50% interest in Sameitaly and Wokita (conferred in the Aviation Business) and the elimination from the accounts of the into capital payment in Wokita made by Meridiana fly (Euro 500 thousand at the end of June 2010).

As described in paragraph 4.5 above - Method of recognition of the Aviation Business contribution operation, this unit has been identified as the 'acquirer' in the recognition of the contribution in kind effects in accordance with IFRS3.

Consequently, the book values – in the company's separate and consolidated financial reporting – must take place in continuity of value with respect to those resulting respectively from the separate and consolidated reporting of the Aviation Business itself. As, in preparing its own consolidated financial statements, Meridiana S.p.A. neutralises the benefit recognized on the shareholders' equity of its separate financial statements, by virtue of the measurement of the said investments at fair value (amounting to Euro 7.1 million), the said recognition must be made by the Company in accordance with Standard OIC 4 in its own separate and consolidated statements.

As such, against the recognition of the investment in Wokita and Sameitaly on the Company's separate financial statements at the value resulting from the contribution in kind (corresponding to that stated in the separate financial statements of Meridiana S.p.A. with the application of measurement at fair value), for the purpose of preparing these condensed half year consolidated financial statements, the positive effect on the consolidated shareholders' equity, as resulting from the contribution in kind has been neutralised for Euro 7.1 million, corresponding to the stated benefit of recognition of the investment conferred at cost, equal to that resulting from the measurement at fair value in the financial statements of the conferor Meridiana S.p.A..

As already mentioned previously, the Company's individual shareholders' equity as of 30 June 2010 is a negative Euro 4,938 thousand, and the Company is in the situation pursuant to Art. 2447 of the Italian Civil Code (reduction of the share capital to below the legal limit). However, in view of the cash capital increase, which was completed in August 2010 for a total amount of Euro 40 million, to be recognized in the items of shareholders' equity, as of the date of approval of these condensed half year consolidated financial statements, the Company does not find itself in this situation.

4.11. Consolidated cash flow statement

As shown by the statement of cash flows, which shows the change in cash and other available funds during the year using the indirect method, the first half of 2010 featured an increase in liquid funds of Euro 8,964 thousand.

The main changes in cash flow are analysed below.

- **Effects of the contribution of the Aviation Business**

This contribution in kind has not resulted in any financial effects given that the act of contribution in kind involved the exclusion of financial entries – notably cash and cash equivalents and current financial debt – from the items conferred. See also paragraph 4.6 for a more detailed description of the method used to recognize the Aviation Business contribution in kind operation.

- **Effects of consolidation of the Sameitaly and Wokita subsidiaries**

With the consolidation of the Sameitaly and Wokita subsidiaries as from 28 February 2010, there was a final net positive change of Euro 1,194 thousand, corresponding to the cash and cash equivalents deriving from the consolidation.

- **Cash flows deriving from operations**

During the half year, operations determined a positive net change of Euro 11,884 thousand, specifically due to the positive change to the net capital, partially offset by the loss for the period before tax.

- **Cash flows absorbed by investing activities**

This area has led to a negative change of Euro 14,250 thousand, mainly due to the net change in property, plant and equipment and new guarantee deposits to lessors as a guarantee of the handover of former Meridiana lease agreements.

- **Cash flows deriving from financing activities**

During the period, cash flows generated by financing activities were a positive Euro 10,295 thousand, mainly due to a further loan of Euro 10 million granted by Meridiana to be converted into capital once the capital increase for cash has been completed.

- **Cash flows deriving from operations on capital**

During the period, negative flows were generated in relation to the recognition in shareholders' equity of expenses related to the increase of capital in kind.

4.12. Consolidated net financial position

The consolidated net financial position as of 30 June 2010 is a negative Euro 12,341 thousand. The changes as compared with the financial debt of Euro 19,612 thousand reported in the individual financial statements as of 31st December 2009 are highlighted below.

€/000			30.06.10 Consolidated	31.12.09 Individual	Change
A	Cash and banks	(1)	17,110	6,647	10,463
B.	Derivative contracts included in cash & cash equivalents	(1)	-	-	-
C.	**Cash & cash equivalents (A) + (B)**		**17,110**	**6,647**	**10,463**
D.	**Current financial receivables**		**1,333**	**-**	**1,333**
E.	Current bank debt	(1) (2)	15,000	13,501	1,499
F.	Derivative contracts included in bank debt	(1) (2)	-	-	-
G.	Current portion of non-current debt		603	574	29
H.	Other current financial debt		13,310	10,000	3,310
I.	**Current financial debt (E) + (F) + (G) + (H)**		**28,913**	**24,075**	**4,838**
J.	**Net current financial debt (I) - (C) - (D)**		**10,470**	**17,428**	**(6,958)**
K.	**Non-current financial receivables**		**-**	**-**	**-**
L.	Non-current bank debt		1,871	2,184	- 313
M.	Bonds issued		-	-	-
N.	Other non-current debt		-	-	-
O.	**Non-current financial debt (L) + (M) + (N)**		**1,871**	**2,184**	**- 313**
P.	**Net financial debt (J) - (K) + (O)**		**12,341**	**19,612**	**- 7,271**

Reconciliation with cash flow statement and balance sheet:

		30.06.10	31.12.09	Change
(1)	Cash and cash equivalents	2,110	(6,854)	8,964
(2)	Bank debt	15,000	13,501	1,499

More specifically, with reference to letters C, D, I, K and O of the table above, we would specify as follows:

C – Cash and cash equivalents

Cash and cash equivalents as of 30th June 2010 amounted to Euro 17,110 thousand and comprise cash and the balances of bank current accounts.

D – Current financial receivables

The fair value, amounting to Euro 1,333 thousand as of 30 June 2010, of trading derivatives relating to hedging operations for the price of jet fuel in USD, has been included in this entry.

I – Current financial debt

This amounts to Euro 28,913 thousand and consists of: i) amounts payable to banks of Euro 15,000 thousand, for short-term revolving loans; ii) the current portion of non-current debts of Euro 603 thousand; (iii) the non-interest bearing loan granted by Meridiana to the Company on 24 February 2010 for a total of Euro 10,000 thousand (see paragraph 2.3.1 - Capital increase); and (iv) the financial payable due to the parent company Meridiana for the provisional balance of the contribution of the Aviation Business, amounting to Euro 3,310 thousand.

O – Non-current financial debt

Non-current financial debt comprises non-current bank payables of Euro 1,871 thousand represented by the portion beyond 12 months of the mortgage loan taken out with Banca Profilo for the purchase of the company-owned property situated in Milan.

4.13. Significant non-recurrent events

4.13.1. *Solidarity agreement*

As already mentioned, solidarity agreement are in place for flight personnel (pilots and flight assistants) in accordance with the Category Trade Unions, envisaged amongst the instruments alternative to collective redundancy pursuant to Italian Law no. 223/91.

The result of the first half 2010 has therefore benefitted from this positive contribution, which can be estimated, gross of the tax effect, at approximately Euro 6.5 million (Euro 2 million in the first half of 2009), not reflected in corporate liquidity, insofar as it is yet to be repaid by the relevant entities.

4.13.2. *Operating events of early March 2010*

Following on from the comments in the Interim Report on Operations (see paragraph 2.2.5), immediately after the completion at the end of February 2010 of the extraordinary corporate operations, as from 1 March 2010, there were around 10 days of significant trade union protests by workers, involving the cancellation of more than 80 scheduled flights and delays in flights in general, also consequentially and by virtue of rotation, with a worsening of productivity and punctuality/regularity indexes.

The above protest had non-recurrent negative impacts on the Company's results for the first half of 2010 that can be estimated as approximately Euro 1.5 million, gross of the tax effect.

In order to provide a complete picture, we should remind you that in the first half of 2009, due to a technical problem involving a Long Haul aircraft, the Company had sustained non-recurring costs for re-protections and other related costs of Euro 0.8 million, gross of the tax effect.

4.13.3. *Eruption of the volcano in Iceland*

Due to the significant eruption that took place mid April 2010 of an Icelandic volcano, closures were ordered of airspace first in Northern Europe and then in Southern Europe for around 5 days. Complete re-opening occurred as from 20 April 2010. This block entailed significant losses for airlines, including Meridiana fly, for airports and for the tourist industry in general.

The Company had to cancel more than 350 flights, almost exclusively Medium-Haul, and reposition the flights in various airports (without revenues) in addition to re-protecting passengers. The lost revenues were estimated at approximately Euro 4.5 million, while the margin lost, net of the variable cost savings, but including the estimated costs of refunding and re-protecting passengers, can be quantified at approximately Euro 3 million.

4.13.4. *Extraordinary wet leases*

As already mentioned in the Interim Report on Operations, at the end of the interim period, the Company had to resort to temporary wet lease contracts with various operators in order to deal with the lack of availability of machines, both due to trade union problems in Meridiana Maintenance (where 2 MD-82 aircraft were in maintenance) and to the delayed entry into service of two new A320 aircraft (also due to the combination process), thereby incurring additional, unforeseen costs that can be quantified as approximately Euro 1 million for June alone (Euro 0.6 million in July and August), gross of the tax effect.

4.14. Segment reporting

As already stated in the Company's individual financial statements at 31 December 2009, in application of IFRS 8 on segment reporting, the operating segments considered by management as necessary to assessing the operating performance and take all relevant and consequent decisions, are those of Medium-Haul and Long-Haul, reporting separately the central commercial and structural costs, which are remunerated by the stated operating activities, with no option of directly allocating to each of the operating segments.

The following table presents the data for the operating segment relating to the effective interim statements (consolidated 1st half of 2010 and individual 1st half of 2009).

	1Half 10				1Half 09			
€/000	*Medium-haul*	*Long-haul*	*Non allocated*	*Total*	*Medium-haul*	*Long-haul*	*Non allocated*	*Total*
Revenue from sales	186,664	58,693		245,357	64,810	78,255		143,065
Other revenue	13,519	1,190		14,709	1,214	1,822		3,036
Total revenue	**200,183**	**59,883**	**-**	**260,066**	**66,024**	**80,077**	**-**	**146,101**
Fuel	(44,185)	(20,679)		(64,864)	(13,534)	(19,930)		(33,464)
Materials and maintenance services	(27,620)	(8,479)		(36,099)	(9,835)	(15,264)		(25,099)
Direct commercial costs	(8,152)	(1,171)		(9,323)	(938)	(995)		(1,933)
Other operating costs and wet lease costs	(73,561)	(14,226)		(87,787)	(22,728)	(27,135)		(49,863)
Other commercial and overhead costs	-	-	(15,125)	(15,125)	-	-	(10,643)	(10,643)
Staff costs	(30,018)	(8,933)		(38,951)	(10,288)	(9,872)		(20,160)
Provisions for liabilities and charges	(2,267)	(711)		(2,978)	-	-	(1,307)	(1,307)
EBITDAR	**14,380**	**5,684**	**(15,125)**	**4,939**	**8,701**	**6,881**	**(11,950)**	**3,632**
Operating lease rentals	(16,887)	(8,639)		(25,526)	(8,735)	(14,016)		(22,751)
EBITDA	**(2,507)**	**(2,955)**	**(15,125)**	**(20,587)**	**(34)**	**(7,135)**	**(11,950)**	**(19,119)**
Depreciation and amortization	(3,743)	(1,682)		(5,425)	(767)	(856)		(1,623)
Provision for doubtful receivables	(1,588)	(468)		(2,056)	(911)	(234)		(1,145)
EBIT	**(7,838)**	**(5,105)**	**(15,125)**	**(28,068)**	**(1,712)**	**(8,225)**	**(11,950)**	**(21,887)**

This internal reporting structure continues to be used, although from an organisational and functional viewpoint charter activity is managed individually without any separate, dedicated structures or decision-making centres between Medium and Long-Haul and regardless of the consideration that – in the current economic context of reference of charter activities (focussed on the tour operating sector, which has been in crisis for some time now) - Long Haul basically plays an accessory role to Medium-Haul, constituting an element by which to complete the Medium-Haul offer of tour operators.

4.15. Related-party transactions

The table below summarises relations of the Meridiana fly Group with related parties as of 30th June 2010, identified in accordance with IAS 24, in addition to some further details on the main operative and trade relations enjoyed with said related parties.

€/000	30.06.10 Receivables	Payables
Geasar S.p.A.	524	4,746
Meridiana S.p.A.	3,789	13,414
Cortesa S.r.l.	2	169
Eccelsa S.r.l.	19	32
Prima S.r.l.	3	-
Meridiana Maintenance S.r.l.	549	7,581
EF USA Inc.	2,468	441
AKFED	650	-
Finaircraft	3,633	850
Air Burkina	130	-
Air Uganda	486	-
CAM (Compagnie Aerienne Du Mali)	154	-
Total	**12,407**	**27,233**

€/000	1Half 10 Costs	Revenue
Geasar S.p.A.	3,105	172
Meridiana S.p.A.	1,020	3,016
SameItaly S.r.l.	126	-
Alisarda S.r.l.	208	-
Cortesa S.r.l.	155	5
Eccelsa S.r.l.		2
Meridiana Maintenance S.r.l.	11,685	1,127
AKFED	-	205
Total	**16,299**	**4,527**

€/000	Total	To related parties	%
Trade receivables and other current assets	119,619	12,407	10%
Current loans from parent company	13,310	13,310	100%
Trade payables and other current liabilities	221,134	13,923	6%

€/000	Total	To related parties	%
Revenues	245,357	2,514	1%
Other revenue	14,709	2,013	14%
Materials and maintenance services	36,099	11,999	33%
Direct commercial costs	9,323	182	2%
Other operating costs and wet lease costs	87,787	2,800	3%
Other operating expenses and other services	15,125	1,318	9%

Relations with Meridiana S.p.A.

After contribution in kind, relations with the parent company Meridiana are linked to financial-type agreements (temporary loans in view of the capital increase operation and guarantee by means of letter of patronage issued by Meridiana on the financial payable of Meridiana fly due to a pool of banks).

Relations with Geasar

Relations with Geasar (a subsidiary of Meridiana S.p.A.) are currently related to the following activities carried out by Meridiana fly:

1. services of an advertising nature and trade contributions;

2. employee payslip management services;

3. computer management services.

Passive relations currently concern the following activities performed by Geasar:

1. handling/catering services for aircraft and passengers at Olbia airport;

2. use of offices and other spaces (e.g. VIP rooms) at Olbia airport;

3. concession of advertising spaces at Olbia airport.

Relations with Meridiana Maintenance

Passive relations in place with Meridiana Maintenance (subsidiary of Meridiana S.p.A. and held 16.38% by Meridiana fly) concern maintenance, technical management and other services related to the management of specific maintenance contracts relating to the Meridiana fly fleet.

There are active relations carried out by Meridiana fly in relation to:

1. administrative, legal and corporate management services;

2. employee payslip management and human resource management services;

3. other global services.

Relations with Finaircraft

Active relations with this company, which is entirely controlled by AKFED, regard maintenance services on aircraft used by the African companies of the Group supplied by Finaircraft and charged back to them.

Relations with AKFED

There is an agreement in place with AKFED for the supply of consultancy services in the air transport sector by Meridiana fly. In order to provide a complete overview, we should note the financial commitments made by AKFED under the scope of the company restructuring operation, as better described in paragraphs 2.2.2).

Relations with Alisarda

Passive relations with Alisarda (subsidiary of Meridiana S.p.A.) currently refer to the lease of offices and accessories at the Olbia Management Centre and other spaces at Olbia airport, whilst active relations concern various administrative services provided by Meridiana fly.

Relations with Cortesa

Passive relations with Cortesa (a subsidiary of Meridiana S.p.A.) relate to catering services at Olbia offices and the use of airport parking, whilst active relations concern employee payslip management services.

Relations with Air Uganda, Air Burkina and Air Mali

Relations with these airlines, subsidiaries of AKFED, relate to technical management services of websites provided by Meridiana fly.

Relations with EF USA.

The activity of EF-USA (controlled 100% by Meridiana fly but not consolidated – see paragraph 4.4) consisted in intermediation for scheduled sales, on the Company's behalf, exclusively for the territory of North America, with fees represented by sales commissions. As already mentioned previously, the agency relationship with this company ceased on November 2009 and a dispute is currently underway with the Company as specified in the paragraph concerning the main disputes underway.

4.16. List of equity investments

In accordance with Consob Resolution 11971 Art. 126, the following are the investments held in unlisted companies for more than 10% of the capital with voting rights as of 30 June 2010.

Company name	Registered HQ	Share capital (4)	% owned	Direct/indirect ownership	Shareholders' equity last financial year	Profit/loss last financial year ('000)	Book value/000
Sameitaly S.r.l.	Olbia	€ 95,000	100%	Direct	652.4	89.3	8,942
Wokita S.r.l.	Olbia	€ 35,000	100%	Direct	39	-153.9	5,296
EF USA Inc (1)	New Jersey (USA)	$ 1,000	100%	Direct	$ - 141	$ - 141	$ 0,49
Meridiana Express S.r.l. (2)	Olbia	€ 10,000	100%	Direct	na	na	10
Meridiana maintenance S.p.A.	Olbia	€ 12,015,000	16.38%	Direct	9.63	-0.37	1,968

(1) Last data available at 2008. Company not operational. Litigation in p
(2) Company incorporated in March 2010, currently not operational.
(3) Company fully operational from March 2010.
(4) Share capital subscribed and paid up

4.17. Directors' and Statutory Auditors' Fees

Fees accrued in favour of the members of the Board of Directors and Board of Auditors are stated in the table below.

€/000	1Half 10	2009	Change	Change %
Directors	872	593	279	47%
Board of Statutory Auditors	78	133	(55)	-41%
Total	**950**	**726**	**224**	**31%**

4.18. Other information

At the date of this Interim Report there are no shareholders with interests of more than 2% in the share capital besides the parent company Meridiana S.p.A..

Under the terms of Consob Communication No. DEM/6064293 of 28 July 2006 it should be noted that in the first half of 2010 no atypical and/or unusual operations – as defined in the Communication itself – were carried out.

During the period no operations for the purchase or sale of treasury shares were carried out either directly or indirectly. As of 30 June 2010, Meridiana fly and the other companies of the Meridiana fly Group did not hold any treasury shares.

Considering the shares comprising the Share Capital as of 30 June 2010, the net loss per share for the interim period is Euro 0.04.

These condensed half year consolidated financial statements have been authorised for publication by the meeting of the Company's Board of Directors held in Olbia on 27 August 2010.

Olbia, 27 August 2010

For the Board of Directors

The Chairman

Marco Rigotti

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5. Statement of the Manager Responsible for Corporate Financial Reporting

1. The undersigned Massimo Chieli, Managing Director, and Maurizio Cancellieri, Manager Responsible for Corporate Financial Reporting of Meridiana fly S.p.A., attest, taking account also of the provisions of Art. 154-*bis*, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998:

- the adequacy with regard to the characteristics of the company, and
- the effective application

of the administrative and accounting procedures followed in the period ended on 30 June 2010 in preparing the condensed half year consolidated financial statements.

2. In this regard no significant aspects emerged.

3. We can also confirm that the condensed half year consolidated financial statements at 30 June 2010:

   a) were prepared in compliance with the applicable international accounting standards endorsed by the European Union with Regulation (EC) N° 1606/2002 of the European Parliament and Council of July 19th, 2002 and, specifically, IAS 34 – Interim financial statements;

   b) correspond to the data in the accounts and book-keeping entries;

   c) are capable, insofar as we are aware, of providing a true and fair picture of the assets and liabilities, income and expenses and financial position of the Company and of the group of companies included in the consolidation.

The Interim Report on Operations includes a reliable analysis of references to significant events that occurred in the first six months of the year and their impact on the condensed half year consolidated report, together with a description of the main risks and uncertainties for the remaining six months of the year. The Interim Report on Operations also includes a reliable analysis of information on significant transactions with related parties.

Olbia, 27 August 2010

Massimo Chieli	Maurizio Cancellieri
Managing Director	Manager Responsible for
	Corporate Financial Reporting
______________________________	______________________________