QUARTERLY REPORT at 31 March 2012

Meridiana fly S.p.A
Company subject to management and coordination by Meridiana S.p.A. pursuant to Article 2497-bis of the Italian Civil Code
Registered office in Olbia (OT), Costa Smeralda Airport Headquarters
Share Capital € 20,901,419.34 fully paid-up
VAT No. 03184630964
Tax Code no. and Sassari Companies Register no.05763070017
www.meridianafly.com

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Introduction

This Quarterly Report at 31 March 2012 (hereinafter also "Quarterly Report") has been prepared pursuant to Article 154 -*ter* of Legislative Decree 58/98 (Consolidated Finance Act - CFA) in order to provide information about the consolidated financial position and results from operations of Meridiana fly S.p.A. Group. (hereinafter "Meridiana fly Group" or simply "the Group") in the first quarter of 2012, as well as to give account of material events and transactions that took place during the reporting period, together with their impact on the consolidated financial position and comprehensive income mentioned above.

The Quarterly Report has been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the *International Accounting Standards Board* ("IASB") and endorsed by the European Union and has been prepared in accordance with "IAS 34 - Interim Financial Reporting", as well as by applying the same accounting standards and measurement criteria adopted in preparing the consolidated financial statements at 31 December 2011.

We would like to point out that in 2011 the Group carried out the acquisition of Air Italy (the transaction was finalised on 14 October 2011) and that, as a result, the comparison of data between the two quarters is not relevant in absolute terms.

Consequently, the key performance indicators and the summary Income Statement are relevant for comparative purposes only in terms of percentage impact on revenues and not in absolute value.

In order to provide more complete information for comparative purposes a pro-forma interim report was prepared internally for the first quarter of 2011 (not audited) - see Section 4.2 - comparability of accounting data and pro forma data - which therefore includes Air Italy Group financial data for the first quarter of 2011.

With regard to the net financial position and equity, the figures at 31 March 2012 are compared with data taken from the consolidated financial statements at 31 December 2011, without the comparability limitations mentioned for the quarterly income statement data.

This Quarterly Report at 31 March 2012 consists of the Interim Management Report (presented in Chapter 2 below), the Consolidated Statement of Financial Position, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows and the Statement of Changes in Consolidated Equity (presented in Chapter 3 below), and the Notes (Chapter 4).

Data are shown, except where otherwise indicated, in thousands of Euro (€/000), resulting in rounding of the accounting items and their amounts.

The key indicators of consolidated results for the first three months of 2012 are presented below, in comparison with those for the first three months of 2011, as well as those for the full year 2011, referring respectively to the consolidated interim report and the consolidated financial statements of the Group; as mentioned above the income statement data are affected by comparability limitations.

Full Year 2011	Key performance indicators	I Quarter 2012	I Quarter 2011
40	Fleet at the end of the period	38	35
88.452	Total flight hours	19.242	20.204
4.369.617	Passengers carried	752.874	852.694

Full Year 2011	Summary income statement	I Quarter 2012	I Quarter 2011
616.558	Sales revenue	134.567	127.360
646.818	Total revenue	141.167	137.929
(27.651)	EBITDAR (1)	(6.206)	(17.387)
-4,5%	*As a % of revenue from sales and services*	*-4,6%*	*-13,7%*
(84.947)	EBITDA (2)	(21.778)	(31.597)
-13,8%	*As a % of revenue from sales and services*	*-16,2%*	*-24,8%*
(103.708)	EBIT (3)	(25.673)	(35.405)
-16,8%	*As a % of revenue from sales and services*	*-19,1%*	*-27,8%*
(110.664)	Net Profit (loss) for the year / period	(28.222)	(37.218)

31.12.2011	Summary balance sheet	31.03.2012	31.03.2011
319.517	Total non-current assets	315.255	137.536
144.054	Total current assets	141.381	143.022
463.571	Total assets	456.636	280.558
61.888	Equity	33.398	122
65.993	Total non-current liabilities	104.779	52.042
335.690	Total current liabilities	318.459	228.394
463.571	Total equity and liabilities	456.636	280.558

Full Year 2011	Investments	I Quarter 2012	I Quarter 2011
7.727	Investments in non-current tangible and intangible assets	1.185	3.610

31.12.2011	Other data	31.03.2012	31.03.2011
(94.400)	Net financial position (4)	(129.541)	(25.426)
1.662	Average number of employees	1.414	1.674

(1) EBITDAR: Earnings Before Interest, Taxes, Depreciation, Amortization and aircraft Rentals (i.e. EBIT before costs of aircraft operating leases - excluding wet leases - depreciation, write-downs of non-current assets as well as the item "Other adjusting provisions "; the latter does not include "Provision for liabilities and charges"). (2) EBITDA: Earnings Before Interest, Taxes, Depreciation, Amortization. For the purposes of drafting this Interim Report, with reference to the EBITDA indicator and its comparative measurements, the "Provision for liabilities and charges" was treated as mentioned above with reference to EBITDAR. (3) EBIT: *Earnings Before Interest and Taxes* (4) With regard to the item “Net cash and cash equivalents”, the net financial position includes the items described in section "Net Financial Position"

1. CORPORATE BODIES

BOARD OF DIRECTORS.
(in office from 27 February 2012 until shareholders' approval of Annual Financial Report for year ended 31 October 2012)

President	Marco	**RIGOTTI**
Chief Executive Officer:	Giuseppe	**GENTILE (1)**
Vice President	Franco	**TRIVI**
Directors	Alessandro	**NOTARI (1)**
	Silvio	**PIPPOBELLO**
	Romolo	**PERSIANI**
	Mario	**PORCARO**
	Carlo Stefano	**ROTA**
	Roberto	**SCARAMELLA**
	Salvatore	**VICARI (2) (3) (4) (5)**
	Vincenzo	**DE BUSTIS FIGAROLA (2) (3) (4) (5)**
	Giuseppe	**LOMONACO (2) (3) (4) (5)**

BOARD OF STATUTORY AUDITORS
(in office until shareholders' 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**
(Mandate extended to 2008-13 by the AGM;of 8 May 2007)

(1) Executive Director
(2) Independent Director
(3) Member of the Internal Control Committee
(4) Member of the Compensation Committee

2. PERFORMANCE AND OUTLOOK

2.1. Performance and operations

2.1.1. *Overall trends*

Meridiana fly results for the first three months of 2012 show a loss for the period which is substantially in line with the budget forecasts, reflecting the negative seasonality of air transport demand; the results, however, show a significant improvement over the first quarter of 2011.

Performance should be analysed in light of the overall macroeconomic situation, political events and exogenous variables that have significant influence on the performance of aviation companies.

In the first quarter of 2012, the Italian economy continued to stagnate, with negative effects on transport demand by both businesses, focused on reducing operating costs wherever possible, and households, faced with increasing unemployment and the decline in spending capacity, especially on non-essential goods. Furthermore, the widespread uncertainty about the future tends to discourage the demand for goods and services across the board.

In this negative macroeconomic environment, the aviation sector continues to experience strong price competition, especially from Low-cost carriers and excess capacity in the intermediate periods (so-called shoulder periods) between the various seasons (winter/summer); as a consequence airline companies seek to optimize the use of production factors, despite high fixed costs and the resulting reduced flexibility.

Fuel prices increased over the first quarter of 2011 (+10/13% in USD) as per the following table and, despite the economic crisis, remained stably above 100 USD per barrel, due to tensions on the markets reflecting international political events; this situation adversely impacts on airlines given that fuel cost weighs heavily on corporate income statements (about 34% globally - source IATA).

Crude Oil

USD for a barrel

Crude Oil	I Quarter 2012	I Quarter 2011	mar-12	mar-11
WTI - USA	102,88	93,54	106,16	102,86
Brent - Europe	118,49	104,96	125,45	114,64

Source: Energy Information Administration - US Government

The USD currency appreciated over the Euro, by approximately 4% on average, in the two quarters under comparison.

Change

	I Quarter 2012	I Quarter 2011	31-mar-12	31-mar-11
EUR/USD	1,3110	1,3669	1,3356	1,4207

Source: UIC

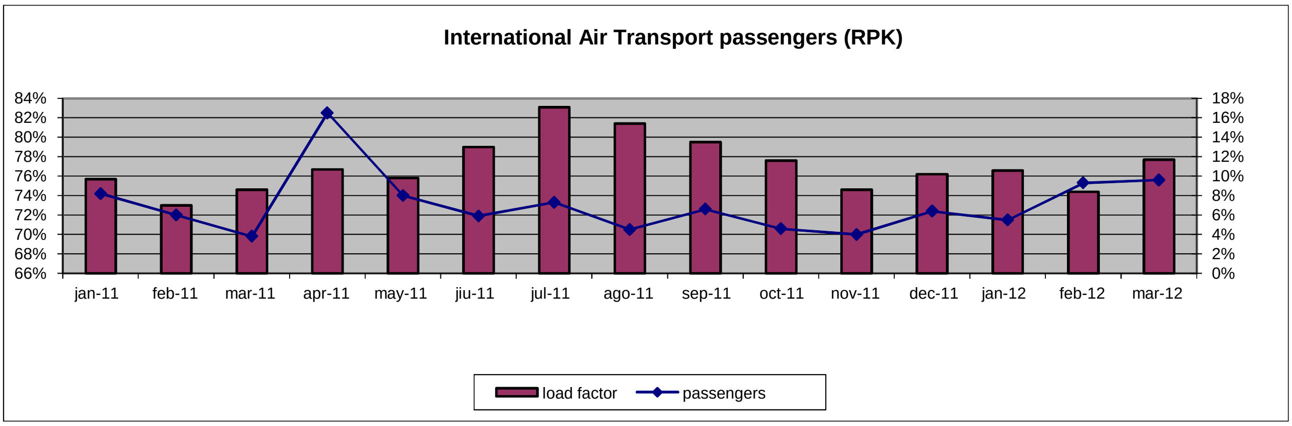
The downturn kept interest rates at very low levels during the first three months of 2012, but access to credit for businesses remains difficult and increasingly expensive.

Interest rates (3m)

	I Quarter 2012	I Quarter 2011	mar-12	mar-11
EURIBOR 3M	1,043	1,101	0,858	1,179

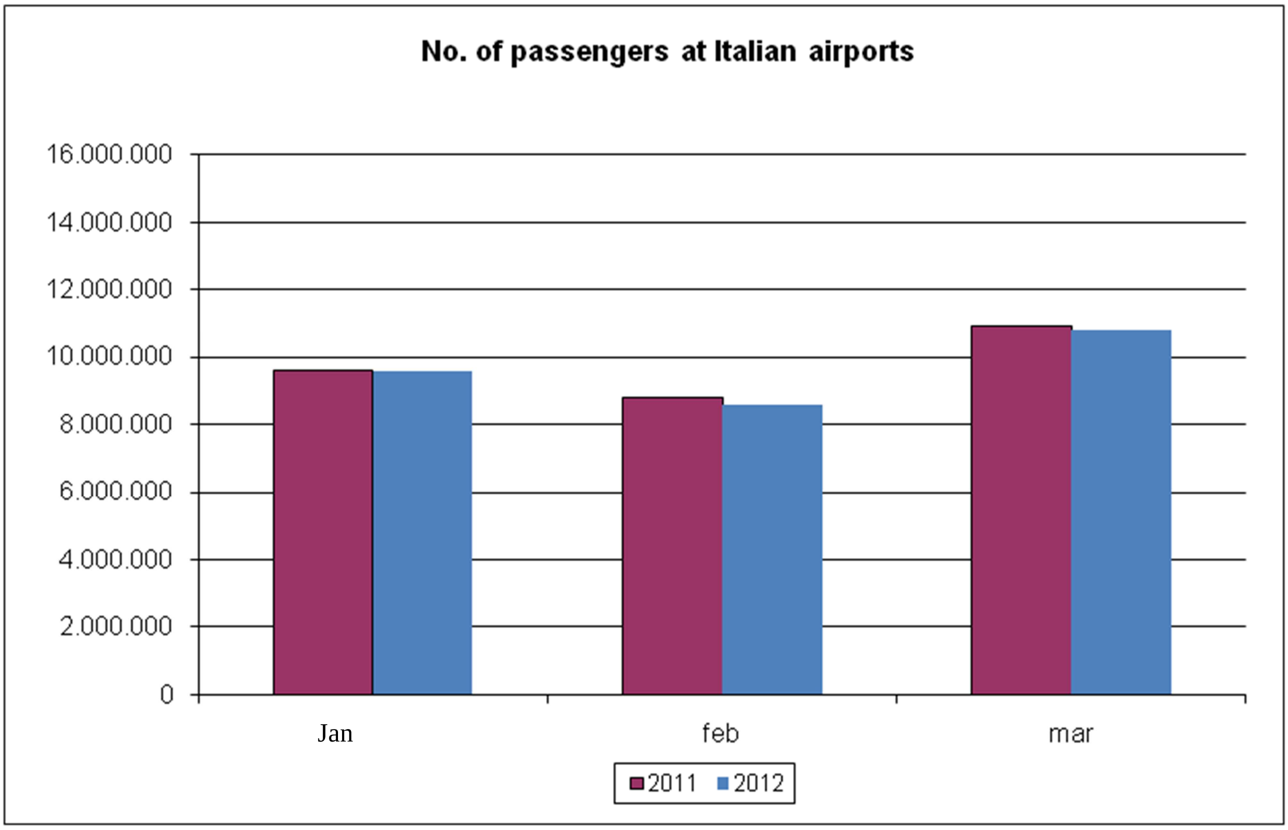
Source: EBF European Banking Federation

The air transport sector has shown global growth rates in the first quarter of 2012 of about 8% over the same period in 2011, albeit with differences between the various macro-areas. Moreover, the comparison is influenced by political events (e.g. the so-called "Arab Spring" in the Middle East and North Africa) or natural events (tsunami in Japan in March 2011) that had depressed passenger traffic in the first quarter of 2011.



Source: IATA - International Air Transport Association

In the first three months of 2012 the number of transit passengers at Italian airports (national/international) showed a decline for each month of comparison, bringing the trend on a quarterly basis to a 1.3% negative balance over the same quarter in the prior year.



Source: Assaeroporti

After integration of the aviation operations with Air Italy, the Group, with the full support of AKFED and Meridiana S.p.A. (holding parent), is implementing the turnaround of the Company and the Group, through the actions envisaged in the new 2012-2015 Integrated Business Plan, approved on 20 April 2012 (the "Integrated Business Plan"), in order to regain profitability and management efficiency, as explained later on in this Report.

Despite the difficult economic and competitive environment, Meridiana fly Group has in fact implemented the important restructuring measures envisaged in the Integrated Business Plan; these measures were already positively reflected in Q1 2012 results, which show a significant reversal of trend compared to Q1 2011.

While recording a loss, partly because of the negative seasonality of the Group target markets (including, in particular traffic in the leisure segment), when compared to the same period last year, net profit improved by approximately €9 million, from a net loss of €37.2 million in the Interim report for Q1 2011 to a net loss of €28.2 million in Q1 2012.

Furthermore, on a like-for-like basis (i.e., including Air Italy results for Q1 2011 as per specific pro-forma - see. Section 4.2) the improvement is even more significant, as net loss decreased by approximately €14.7 million.

The achievement of this result, which is broadly in line with the 2012 Budget, approved on 20 April 2012, was made possible in particular by: i) implementing the operating network rationalization and optimization strategy, with cuts and cancellations of rotations to recover efficiency and profitability; ii) strong focus on matching available capacity with actual demand; iii) reducing operating fixed costs and structure costs both through renegotiation of staff employment contracts and contracts with key suppliers (including lease and maintenance) and the use of the (CIGS) temporary redundancy fund for staff, in particular the crew, as well as iv) by cutting expenses considered as unnecessary.

2.1.2. *Results Q1 2012*

The Reclassified Consolidated Income Statement is presented below, showing the group consolidated data. As mentioned, given that Q1 2011 does not include the contribution of Air Italy, the pro forma data for Q1 2011 were added in the table below,(see Section 4.2) in order to comment on the changes, not only in terms of percentage of sales revenues but also in absolute value with respect to the pro forma data of Q1 2011 (all quarterly data are unaudited).

€/000	I Quarter 2012	*% revenues from sales*	I Quarter 2011	*% revenues from sales*	Change	I Quarter 2011 *Proforma*	*% revenues from sales*	Change
Sales revenue	134.567	100,0%	127.360	100,0%	7.207	181.233	100,0%	(46.666)
Other Revenue	6.600	4,9%	10.569	8,3%	(3.969)	14.242	7,9%	(7.642)
Total revenues	**141.167**	**104,9%**	**137.929**	**108,3%**	**3.238**	**195.475**	**107,9%**	**(54.308)**
Fuel	(52.350)	-38,9%	(43.898)	-34,5%	(8.452)	(65.383)	-36,1%	13.033
Materials and maintenance services	(22.182)	-16,5%	(23.182)	-18,2%	1.000	(34.733)	-19,2%	12.551
Selling expenses	(4.666)	-3,5%	(5.255)	-4,1%	589	(6.161)	-3,4%	1.495
Other operating costs and wet leases	(37.993)	-28,2%	(45.814)	-36,0%	7.821	(59.015)	-32,6%	21.022
Sundry costs and other services	(7.835)	-5,8%	(7.654)	-6,0%	(181)	(11.891)	-6,6%	4.056
Staff costs	(21.578)	-16,0%	(26.827)	-21,1%	5.249	(33.343)	-18,4%	11.765
Provision for liabilities and charges	(769)	-0,6%	(2.686)	-2,1%	1.917	(2.686)	-1,5%	1.917
EBITDAR	**(6.206)**	**-4,6%**	**(17.387)**	**-13,7%**	**11.181**	**(17.736)**	**-9,8%**	**11.530**
Operating lease	(15.572)	-11,6%	(14.210)	-11,2%	(1.362)	(16.451)	-9,1%	879
EBITDA	**(21.778)**	**-16,2%**	**(31.597)**	**-24,8%**	**9.819**	**(34.187)**	**-18,9%**	**12.408**
Amortisation, depreciation and write-downs	(3.826)	-2,8%	(3.272)	-2,6%	(554)	(4.851)	-2,7%	1.025
Other provisions for doubtful receivables	(69)	-0,1%	(536)	-0,4%	467	(536)	-0,3%	467
EBIT	**(25.673)**	**-19,1%**	**(35.405)**	**-27,8%**	**9.732**	**(39.574)**	**-21,8%**	**13.901**
Net financial income (expenses)	(2.712)	-2,0%	(1.891)	-1,5%	(821)	(3.078)	-1,7%	366
Pre-tax profit (loss)	**(28.385)**	**-21,1%**	**(37.296)**	**-29,3%**	**8.911**	**(42.652)**	**-23,5%**	**14.266**
Income taxes	163	0,1%	78	0,1%	85	(272)	-0,2%	435
Net profit (loss)	**(28.222)**	**-21,0%**	**(37.218)**	**-29,2%**	**8.996**	**(42.924)**	**-23,7%**	**14.701**

The results for Q1 2012, although still recording a loss, show a significant improvement over the same period last year reflecting the streamlining and optimization actions envisaged in the Integrated Business Plan; these results were achieved despite the adverse global economic situation, the persistent fierce competition on some domestic and international routes and the unfavourable trend of some exogenous variables, such as increasing fuel prices (not fully recovered through sales prices) and the appreciation of the Dollar against the Euro.

Total Revenue for Q1 2012 amounted to €141,167 thousand compared to €195,475 thousand in pro forma Q1 2011 (€137,929 thousand in the Interim Report for Q1 2011).

Sales revenue*,* including revenue from scheduled and charter air traffic, along with other ancillary revenue, amounted to €134,567 thousand compared to €181,233 thousand in the pro forma first quarter 2011 (€127,360 thousand in the First Quarter Report for 2011), down by €46,666 thousand over the pro-forma 2011 (- 25.8%) due to reduced capacity supply to adjust to weak demand resulting from the general economic crisis and to unprofitable routes/rotations that were cancelled.

EBITDAR was negative for €6,206 thousand compared to a negative balance of €17,736 thousand in Q1 2011 pro-forma (negative balance of €17,387 thousand in the first quarter of 2011 where, as mentioned, Air Italy Group was not included).

EBITDAR margin went from -9.8% in the pro forma first quarter of 2011 (-13.7% in the first three months of 2011) to -4.6% in the first three months of 2012, thus showing a considerable improvement in industrial operations efficiency, and a general reduction in the impact of operating costs, with the exception of fuel costs.

Indeed*,* **fuel costs impact on revenues was up to 38.9%** compared to 36.1% in pro forma first quarter 2011 (in the first quarter of 2011 this ratio amounted to 34.5%), due to the higher average price level of jet fuel (on average +10/13% in

USD) and the appreciation of the Dollar against the Euro during the period, which were not fully recovered through sales prices owing to the economic crisis and fierce competition between carriers.

The **purchases of materials and maintenance services** weighted for 16.5%, down from 19.2% in pro forma first quarter 2011 (18.2% in the first Quarter Report of 2011), due to reduced planned maintenance according to technical planning and savings arising from renegotiations with MRO suppliers.

Selling expenses in the first quarter of 2012 were 3.5% of revenues compared to 3.4% in the pro forma first quarter 2011 (4.1% in the Interim Report for Q1 2011).

Other operating costs and wet leases were 28.2% of revenues against 32.6% in pro forma first quarter 2011 (36% in the 2011 First Quarter Report) owing to the rationalization and optimization of the operating network.

The **other operating expenses and other services** showed a 5.8% ratio to revenues in the first quarter of 2012 against 6.6% in pro forma first quarter 2011 (6% in the Interim Report for Q1 2011), improving due to savings in general expenses and overhead costs.

Personnel costs amounted to 16% of revenue, compared to 18.4% in pro forma first quarter 2011 (it was 21.1% in the first Quarter Report of 2011), as a result of the significant use of CIGS (state temporary redundancy fund) by Meridiana fly, in line with the Integrated Business Plan, and benefits arising from the new labour agreement signed in November 2011, which provides for employment and wages conditions more favourable for the Group than in previous years.

The **provisions for liabilities and charges** (amounting to €769 thousand) decreased both in absolute and relative terms, given the significant provisions already recognised in 2011 to meet potential liabilities from currently ongoing litigation and labour disputes.

EBITDA was negative for €21,778 thousand, posting a substantial improvement of €12,408 thousand compared to pro forma first quarter 2011 (negative balance of €31,597 thousand in the first Quarter Report of 2011); the corresponding margin on sales was negative at -16.2% against - 18.9% in pro forma first quarter 2011 (- 24.8% in the first Quarter Report of 2011).

On the contrary **the impact of operating lease costs increased** (11.6% versus 9.1% in pro forma first quarter of 2011 and 11.2% in the First Quarter Report of 2011) reflecting decreased activity which did not allow to fully recover these fixed industrial costs and the adverse performance of the U.S. dollar; these effects were only partially offset by cost savings resulting from renegotiation of the lease agreements and returning some of the aircraft (especially MD-82).

EBIT was a negative €25,673 thousand compared to a negative €39,574 thousand in the pro forma first quarter 2011 (-€35,405 thousand in the 2011 first Quarter Report), posting a robust improvement on a like-for-like basis of €13.9 million (+9.7 million compared to the First Quarter Report of 2011). EBIT margin moved from -21.8% in the pro forma first quarter of 2011 (-27.8% the first Quarter Report of 2011) to -19.1% in the first quarter of 2012.

Depreciation, amortization and other adjusting provisions were stable at approximately 3%.

In the first quarter of 2012 financial operations presented a negative balance of €2,712 thousand compared to -€2,373 thousand in pro forma first quarter 2011 (-€1,891 thousand in the first Quarter Report of 2011).

Net of taxes for the period, (positive for €163 thousand on account of the positive effects of the implementation of fiscal consolidation), in the first quarter of 2012 the Company reported a **consolidated net loss of** €28,222 thousand compared to a net loss of €42,924 thousand in the pro forma first quarter 2011 (net loss of €37,218 thousand in the first Quarter Report of 2011).

The parent company Meridiana S.p.A. in the separate financial statements reported a net loss of €26,627 thousand for Q1 2012.

At 31 March 2012 **consolidated shareholders' equity** amounted to €33,398 thousand compared to €61,888 thousand at 31 December 2011; in the separate financial statements, Meridiana fly S.p.A. Shareholders' equity was €42,495 thousand (€69,390 thousand at 31 December 2011).

Consolidated Net debt at 31 March 2012 amounted to €129,541 thousand compared to €94,400 thousand at 31 December 2011; details on this item are provided in section 4.9 - Net financial position. The worsening of €35,141 thousand reflects in particular new non-current loans of €38.6 million by the parent Meridiana, supported by AKFED, to cover the Group's financial requirements and to continue operations on a going concern basis.

2.1.3. *The fleet*

At the end of Q1 2012 and after the integration with Air Italy, Meridiana fly Group operates with a fleet of 38 commercial aircraft (plus two ATR 42 in *wet lease* for Sicily "territorial continuity"), consisting of:

- 16 Airbus (eleven A320, two A330 and three A319), all under operating lease;

- 10 MD-82, owned by the company;

- 12 Boeing (four B767, two owned, two leased - one finance lease and one operating lease - and eight B737 aircraft under operating lease).

The details are shown in the table below.

MERIDIANA FLY FLEET

Registration number	Type	Owned, Operating Lease, financial Lease	Fleet entrance	Leasing maturity	
I-EEZJ	A330	Operating Lease	May-05	May-12	
EI-EZL	A330	Operating Lease	Dec-06	Dec-14	
I-EEZM	A330	Operating Lease	Mar-09	Mar-14	
I-EEZE	A320	Operating Lease	Mar-03	Mar-15	(*)
I-EEZF	A320	Operating Lease	Apr-03	Apr-13	
I-EEZG	A320	Operating Lease	May-03	May-13	
I-EEZH	A320	Operating Lease	Dec-04	Dec-15	
I-EEZI	A320	Operating Lease	Dec-04	Dec-15	
I-EEZK	A320	Operating Lease	Feb-05	Sep-16	
EI-EZN	A320	Operating Lease	Mar-09	Mar-14	
EI-EZO	A320	Operating Lease	Mar-09	Mar-14	
I-EEZP	A320	Operating Lease	May-09	Jun-15	
EI-EZR	A320	Operating Lease	Jul-10	Jun-15	
EI-EZS	A320	Operating Lease	Jul-10	Apr-15	
EI-EZT	A320	Operating Lease	Aug-10	Apr-15	
EI-DFP	A319	Operating Lease	Jun-04	Jun-14	
I-EEZQ	A319	Operating Lease	Jun-10		
EI-DEY	A319	Operating Lease	May-04		
EI-DEZ	A319	Operating Lease	Apr-04	Apr-15	
EI-DFA	A319	Operating Lease	Apr-04	May-15	
EI-CIW	MD82	Operating Lease	Jun-09		
EI-CKM	MD82	Operating Lease	Mar-98		
EI-CRE	MD82	Operating Lease	Dec-98		
I-SMEC	MD82	Operating Lease	Oct-98		
EI-CRH	MD82	Operating Lease	Feb-99		
EI-CRW	MD82	Operating Lease	Apr-99		
EI-CNR	MD82	Operating Lease	Jul-07		
I-SMEN	MD82	Owned	Jan-99		
I-SMEL	MD82	Owned	Jul-84		
I-SMEM	MD82	Owned	Jul-84		
I-SMET	MD82	Owned	May-87		
I-SMEV	MD82	Owned	Jul-88		
I-SMEP	MD82	Owned	Aug-89		
I-SMER	MD82	Owned	Mar-91		
I-SMES	MD82	Owned	Feb-92		
I-SMEZ	MD82	Owned	Apr-93		
I-SMEB	MD82	Owned	May-98		

AIR ITALY FLEET

I-AIGG	Boeing B767	Operating Lease	Oct-11	Aug-16
I-AIGJ	Boeing B767	Financial lease	Oct-11	May-17
I-AIGH	Boeing B767	Owned	Oct-11	
I-AIGI	Boeing B767	Owned	Oct-11	
I-AIGM	Boeing B737	Operating Lease	Oct-11	May-12
EI-IGR	Boeing B737	Operating Lease	Oct-11	Apr-16
EI-IGS	Boeing B737	Operating Lease	Oct-11	May-16
I-AIMR	Boeing B737	Operating Lease	Oct-11	Apr-15
EI-IGP	Boeing B737	Operating Lease	Oct-11	Feb-14
EI-IGT	Boeing B737	Operating Lease	Oct-11	Apr-17
EI-IGU	Boeing B737	Operating Lease	Oct-11	May-17
EI-EOJ	Boeing B737	Operating Lease	Oct-11	Apr-14

(*) advace redelivery in 2012

During the quarter one A330 and one A320 ceased operations, to undergo overhaul operations in view of their planned return to lessors.

In the second quarter, also one B737-300 should be returned with consequent phase-out and delivery to lessors according to contract terms, while another B737-800 is expected to be returned from a sub-lease to a third party.

2.1.4. *Network and commercial business*

Meridiana fly Group operates in the national and international air transport business, in both the scheduled and charter segments, with a strategic focus on leisure and selected business customers.

After the completion of the acquisition of Air Italy Holding - a company that controls 100% of Air Italy - which took place on 14 October 2011, Meridiana fly Group represents a single business unit which manages aviation activities in an integrated manner, with no separate divisions or units such as to constitute autonomous decision-making systems.

While maintaining the charter and scheduled sales channels separate, from a strictly commercial viewpoint, the Integrated Business Plan of Meridiana fly Group envisages an integrated network between charter and scheduled operations. Thus the fleet operates in an integrated way and is managed in such a way that the various types of aircraft are flexibly used on different destinations depending on passenger demand in the various periods of the year.

Charter business

There are two distinct areas of activity in the charter business:

- **Medium Haul service**: this business traditionally includes flights lasting less than 5 hours with destinations mainly in Italy, Europe and the Mediterranean basin. Among the major Medium Range routes operated by Meridiana Group there are Egypt, Greece, the Balearics, Canaries, Tel Aviv (Israel), Lourdes (France). The medium haul traffic is characterized by high seasonality (excluding Egypt) associated with the climatic characteristics of these regions, which make these destinations more popular during the summer than in winter.
- **Long Haul service**: this business traditionally includes flights longer than 5 hours mostly serving intercontinental destinations. The main long-haul routes currently operated by the Group under *charter* arrangements, concern the Indian Ocean area (such as the Maldives, Sri Lanka, Kenya, Zanzibar, Mauritius, Madagascar), Brazil, Caribbean (e.g. Dominican Republic, Cuba, Honduras, etc..).

Scheduled flights

Scheduled flights, unlike charter flights, are based on "Point to Point" routes, with regular and frequent flights and destinations such as to constitute a systematic series of flights.

Meridiana scheduled "network" is operated mainly in Italy; besides the activity relating to the Territorial Continuity from and to Sardinia, the Group operates scheduled flights between major Italian cities such as Milan, Verona, Turin, Naples. Meridiana fly is the second largest carrier in the Milan Linate Airport operating connections to Naples, Bari and Catania, in addition to Olbia and Cagliari.

Meridiana also covers some international routes, such as from Palermo/Naples to New York (operated in the summer), from Milan and Verona to Pristina (Kosovo) and Chisinau (Moldova), from Florence to London, from

Cagliari to Paris Charles de Gaulle (in summer), from Bologna to Moscow, from Milan Malpensa to Dakar (Senegal), Israel and Egypt.

During the summer, Meridiana fly also operates some international routes from Sardinia: besides the historical service on the Cagliari-Paris Charles de Gaulle and Olbia- Nice routes, the Company operates flights from Olbia and Cagliari to Moscow.

Business under the "territorial continuity" regime

It should be noted that Meridiana fly also carries out activities covered by the so-called "territorial continuity" regime, covering flights to and from Sardinia and several cities of the peninsula, Sicily and Minor Islands; within this regime, Meridiana fly fulfils special public service obligations against which it receives periodic government grants designed to ensure the economic and financial balance of the activities carried out by the carrier.

In particular, Meridiana fly is currently the assignee for Sardinia routes, from Olbia and Cagliari to Rome and Milan Linate as well as for the peripheral routes Olbia-Bologna, Olbia-Verona, Cagliari-Bologna, Cagliari-Turin Cagliari-Verona, Cagliari-Florence , Cagliari-Naples and Cagliari -Palermo. It should be noted that the concession of rights from Cagliari to Milan Linate and Rome Fiumicino is simultaneously granted also to CAI-Alitalia.

Under the territorial continuity regime, Meridiana fly also operates fights from Pantelleria and Lampedusa to Sicily using two ATR42 aircraft in wet lease as well with a directly owned MD-80.

During the summer Meridiana fly also operates the routes from Olbia to Florence, Turin and Venice, as well as from Cagliari to Venice.

The current system of territorial continuity for Sardinia expired at the end of March 2012 for routes other than those with destination to Milan Linate/Rome Fiumicino; the regime is currently being extended for the summer season (until October 2012) at the current rates set in the existing decree, pending the establishment of new service charges.

It should be noted instead, that for destinations to Milan Linate/Rome Fiumicino, Meridiana fly did not participate in the new tender of the Sardinia Region for the routes involved, which expired on 11 April 2012, as the conditions laid down in the tender made this business not financially viable. As, in practice, the tender could not take place for lack of bids from the carriers, we are waiting for new instructions from the Ministry of Infrastructure and Transportation and the Sardinia Region.

The system of territorial continuity of Sicily and the minor islands had expired at the end of March 2012. Thereafter the company operated these routes under an "extended regime" upon specific request of the Civil Aviation Authority pending the establishment of new service charges until 5 May 2012. Following a subsequent request for further extension from the Civil Aviation Authority, Meridiana accepted to continue providing the service against financial consideration determined by the Civil Aviation Authority for the period 6 May to 27 October 2012.

***Code-sharing* activities**

The scheduled service covers additional domestic and international destinations, thanks to commercial Code Sharing agreements developed in recent years, which currently include Air Malta (flights from the major Italian airports to Malta and traffic arrangements for connecting flights), Air Moldova (mutual exchange of seats between Milan Malpensa, Rome Fiumicino, Verona and Chisinau), British Airways (on the Florence- London Gatwick route operated by Meridiana fly), Iberia (on flights operated by the Spanish carrier on the Milano Linate-Madrid route, and connecting flights arrangements on the Madrid-Rome Fiumicino route).

Since 2011 Meridiana fly has also code sharing agreements with Air Berlin for all flights operated by the latter between Italy and Germany (in this case Meridiana fly operates as marketing carrier) and with Royal Jordanian for flights operated by the latter to Amman from Rome Fiumicino and Milan Malpensa (also in this case Meridiana fly operates as marketing carrier) and the route Verona -Rome operated by Meridiana fly (connecting to Amman).

As from 3 May 2010 the subsidiary Air Italy started a "Code Sharing" programme with Alitalia for the operation of some domestic routes, in particular from Naples, Turin, Verona and Olbia. These agreements, which were extended to the 2011-2012 winter season, in addition to "*Code Sharing*", also provide for Interline agreements (i.e. an agreement between airlines allowing passengers to book several flight segments, each with a different airline, and to transfer their luggage from one plane to another) on Alitalia's domestic routes for feeder operations (i.e. intake of traffic to a *Hub*), on Air Italy scheduled flights in the "*leisure"* segment departing from Rome (especially to Brazil, Kenya, Santo Domingo, and Madagascar).

ACMI activities

It is industry practice to acquire or dispose of operational capacity through Wet Lease agreements, typically in the ACMI form (Aircraft, Crew, Maintenance and Insurance). This is done both for very short periods, in order to "cover" the temporary unavailability of fleet aircraft for various reasons (such as maintenance, malfunctions, downtime), and for longer periods in order to adapt operational capacity to market demand, due to seasonality, especially during "shoulder" periods.

Following the integration with Air Italy, which over the years has developed an intense network of relationships with international airlines for the sale of capacity during the low season, the company is better able to balance supply with demand.

Marketing and product initiatives

In early 2012, also due to the high level of innovation brought by the integration project with Air Italy, the Group implemented several new commercial and marketing initiatives, including the following:

- Strategic repositioning of the subsidiary Wokita from a pure Web Tour Operator to an Incoming tour operator dedicated to Sardinia, targeting customers from Northern Europe, Scandinavian and Baltic countries, in order to develop the low season business in Sardinia. For this purpose a new managing director was appointed and a new three year business plan was drawn up (2012-2014) approved by the Board of Directors of Wokita on 18 April 2012.
- As from February 2012, launch of a new ticket campaign that include return tickets to some destinations (from Milan Linate to Bari and Naples, from Turin to Rome and Naples and from Verona to Rome) with discounts from 12% to 20% on the final price.
- Launch for the summer season 2012 of some new products such as: direct flights from Rome-Fiumicino to Yerevan, Armenia's most ancient city, starting from April with two flights a week; from May, a new route from Hamburg to Olbia 2 times a week; from June, flights from Olbia to London and Paris were resumed; a new route from Cagliari to Moscow on a weekly basis; with regard to Sardinia, beside the traditional summer flights which remain pivotal in the network, flights from Bari, Catania and Genoa to Olbia airport and from Milan - Malpensa, Bergamo and Venice to Cagliari were added; new route

operated towards Pemba (Mozambique); as last year, reprogramming, of the charter flights connecting various parts of Japan to Rome and Milan.

- From 2012 the business class service was improved with restyling of the interiors in the Privilege Business Class of the Boeing 767 used on long haul flights operated by the Group, with greater comfort of the 12 seats in the cabin and an innovative in-flight entertainment service via the built-in Tablet (9.7-inch screen with LED backlight and *Multi-touch* support).
- From 16 April 2012 a summer promotion was launched dedicated to families travelling with children (aged 0 to 12 years), which provides for free child on some domestic and international flights during the period 7 May to 22 July 2012.
- Promotional on-line sale campaigns with discounts at various levels (20% -30% -42%) of numerous domestic and international destinations for some limited periods.
- Launch of the "*Companion*" Fare that can be purchased on-line from 5 to 15 April 2012 to fly with a companion from 16 April to 22 July 2012 on certain domestic and international flights included in the promotion, for which the chosen companion can save 50% of the fare applicable at that time.
- Extraordinary incentives to travel agents from 12 March 2012 to 29 April 2012 on all tickets issued under the WTS system (*Web Trade System*) on the main business routes (e.g. from Milan-Linate to Bari/Naples and from Turin to Rome/Naples).
- From April 2012 launch of new prepaid "Buy & Fly" Web Carnets offered on websites for business and leisure customers with a wide range of combinations: favourite destination (Sardinia, domestic flights, or mix of dedicated routes), validity (from 6 to 12 months), preselected number of beneficiaries (one to three, or more), price fixed when the ticket is purchased.

2.1.5. *Statistics*

Statistical data on activities performed during Q1 2012 are shown below; please note that the first quarter of 2011 did not include the activities of Air Italy Group acquired in October 2011.

For consistent comparison, *Pro forma* data for Q1 2011 - developed internally and including three months of Air Italy operation - are presented in a separate column.

Flight hours Analysis
Figures in flight hours

	I Quarter 2012	I Quarter 2011	I Quarter 2011 pro-forma
Total flight hours	**19.242**	**20.204**	**28.068**

In the first quarter of 2012 the number of hours flown totalled 19,242, decreasing compared to the same period of the prior year. On a like-for-like basis, comparing data of the pro-forma 2011, there was a significant reduction in activity (-8,826 hours equal to -31.4%) reflecting the cut of unprofitable rotations and optimization of the Group's network.

Passengers carried -Scheduled and charter

	I Quarter 2012	I Quarter 2011	I Quarter 2011 pro-forma
Total Passengers	**752.874**	**852.694**	**1.019.384**

The number of embarked passengers, including scheduled and charter flights, amounted to 752,874, down in comparison with the first three months of 2011, notably with a decline on like-for-like basis of 266,510 passengers (- 26.1% versus pro forma), for the same reasons mentioned above with reference to the trend in flight hours. Remarkably, the decrease in the number of passengers was less than proportional with respect to the cut in operations in terms of flight hours, pointing to a recovery of productivity and improvement of the load factor.

2.2. Staff

As a result of the acquisition of the Air Italy Group and use of the temporary redundancy fund (CIGS) in Meridiana fly, the comparison of the average workforce in the first three months of 2012 and the same period of 2011 is not significant.

The following table shows the average number of staff expressed in full-time equivalent (FTE), i.e. the number of staff based on full contract hours; the table does not include staff covered by the temporary redundancy fund (CIGS zero hours or rotation).

Full time equivalent	I Quarter 2012	I Quarter 2011
Ground staff	**551**	**529**
Pilots	308	335
Flight Attendants	555	810
Flight staff	**864**	**1.145**
Total staff	**1.414**	**1.674**

As additional explanation, data on workforce at the end of the quarter, net of staff included in the temporary redundancy procedure, is shown below.

Full time equivalent	mar-12	mar-11
Ground staff	**553**	**526**
Pilots	296	332
Flight Attendants	565	858
Flight staff	**861**	**1.190**
Total staff	**1.414**	**1.716**

In March 2012 the Air Italy Group had a staff of 428 FTE employees, while Meridiana fly staff under the temporary redundancy procedure in March 2012 amounted to 697 FTE employees, mostly crew (573 employees).

Given the situation of economic crisis declared by the Company, on 23 June 2011, at the Ministry of Labour and Social Policy, an agreement was reached with all the trade unions that provides for the use of (CIGS) the temporary redundancy fund for a total period of 48 months with respect to a maximum of 845 employees, effective 27 June 2011, of which 432 workers with a "zero-hours" arrangement and 413 workers in rotation on the basis on the various staff categories (land staff, cockpit and cabin crew), also making use of the support provided by the Special Fund for the aviation staff pursuant to Law 291/04.

The granting of the temporary redundancy procedure (CIGS) was approved by Decree of the Ministry of Labour and Social Policy of 23 September 2011, published in the Official Gazette no. 236, on 10 October 2011.

Moreover, there is still a considerable amount of pending labour disputes (mostly relating to requests for recognition of permanent contracts and seniority for past periods), for which the Group has allocated a significant provision for liabilities and charges, as outlined in this Report and the Explanatory Notes.

2.3. Capital expenditure

In the first three months of 2012 new expenditure in tangible and intangible assets were carried out for a total amount of € 1,185 thousand (compared to € 3,610 thousand in 1Q 2011); they consisted of:

- equipment on aircraft owned of €350 thousand;
- major maintenance on engines and airframes of owned aircraft amounting to €51 thousand;
- rotable material relating to the owned fleet amounting to €174 thousand;
- equipment on leased aircraft of €579 thousand;
- Equipment for €3 thousand;
- new purchases of IT hardware for €28 thousand.

Given the nature of the activities performed by the Company and the Group there were no significant research and development activities during the quarter.

2.4. Management and coordination activities and transactions with related parties

Meridiana fly S.p.A. is subject to management and coordination by Meridiana S.p.A., which holds a controlling interest of approximately 78.05%.

Following the reverse stock split completed on 19 December 2011, the share capital of Meridiana fly is € 20,901,419.34, represented by 5.576.346 ordinary shares, with no par value (of which, 4.352.432 are owned by Meridiana).

At the end of the first quarter of 2012 there were no other shareholders holding ordinary shares in excess of 2%.
With regard to transactions carried out by Meridiana fly and Meridian fly Group with related parties, they mainly refer to the provision of services and financial transactions with the parent company Meridiana and AKFED, as well as with subsidiaries of Meridiana S.p.A. (Meridiana Maintenance, Geasar, Alisarda) and other related parties of the Group.

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

It should be noted that in 2010 Meridiana fly, together with its subsidiaries Sameitaly and Wokita, exercised the option to be included in the National Tax Consolidation Regime (referred to in Articles 117-129 of the Income Tax Code) applied by Meridiana S.p.A (the Consolidating entity) for the period 2010-2012.

For additional information on related party transactions, please refer to section 4.11- Transactions with related parties - included in the Notes.

2.5. Significant events in Q1 2012

The most significant events occurred in 1Q 2012 are highlighted below, of which we already provided ample information in the Financial Report at 31 December 2011 approved by the Board of Directors on 24 April 2012. .

2.5.1. *General Meeting of 15 February 2012 and new Board of Directors*

The ordinary and extraordinary General Meeting held on 15 February 2012 resolved, among others, (i) to increase from eleven to thirteen the maximum number of members of the Board of Directors, (ii) that, for the purposes of adopting the resolutions of the Board of Directors, in the event of a tie, the vote of the Chairman of the Board of

Directors prevails and certain resolutions of the Board of Directors should be passed with the favourable vote of at least 9 directors in office, provided that the Board is composed of at least 10 members.

In addition, under the arrangements with Air Italy contained in the Shareholders' Agreement, the same General Meeting approved the appointment of a new Board of Directors, setting the number of members, their term of office and remuneration, in addition to the appointment of the Chairman of the Board of Directors; this Board is composed of 12 members and will expire on the date of the meeting convened to approve the financial statements for the year ending 31 October 2012.

The same General Meeting, pursuant to Article 2390 of the Italian Civil Code, passed resolution authorizing all appointed directors to take (or maintain, in the case of existing offices) the office of director or manager in companies that carry out activities in competition with that of the Company, provided that such positions are taken as part of partnerships and/or strategic agreements to which the Company is or will be party to, or that such positions are taken in companies within the same group of the Company.

The new Board of Directors effectively took charge on 27 February 2012 following registration with the Sassari Register of Companies of the resolution amending the by-laws passed by the General Meeting on 15 February 2012; on the same date the Board of Directors held a meeting in which it confirmed Franco Trivi as Vice-President and Captain Giuseppe Gentile as Chief Executive Officer of Meridiana fly. The Board of Directors also appointed director Alessandro Notari, as executive director, with responsibility for commercial activities.

In compliance with the Code of Conduct for Listed Companies, the Board of Directors has verified the requirements of independence of directors Salvatore Vicari, Vincenzo De Bustis Figarola and Giuseppe Lomonaco. On 27 February 2012, they were also appointed members of the Audit and Risk Committee and the Remuneration and Appointments Committee (both composed by independent directors Salvatore Vicari, President, Vincenzo De Bustis Figarola and Giuseppe Lomonaco) and the Committee for Related Party Transactions (Giuseppe Lomonaco, President, Vincenzo De Bustis Figarola and Salvatore Vicari).

2.5.2. *Maintenance Contracts*

In February 2012 a LOI - Letter of intent - was signed with which the Meridiana fly - Air Italy group undertakes to sign a new contract with Meridiana Maintenance for the exclusive supply of maintenance services for the aviation fleet. This contract, which will replace the existing one, will take effect during the 2012 - 2016 period and will be renewable for a further 5 years.

Due to litigation incurred with Lufthansa Technik for maintenance service on aircraft of the Airbus family (various *Check*s, components, trucks and APU), the contract was terminated in March 2012; consequently, the Company signed a temporary agreement with Iberia until May 2012 to ensure the availability of maintenance services and therefore ensure that business operations are carried out according to the rules and regulations in force, with a view to define final contracts with Iberia or other partners for the final assignment of the maintenance services in question.

2.6. Significant litigation

The Group is involved in a number of commercial and legal disputes, as a plaintiff or as a defendant, for which the Group has recognised provisions for doubtful debts, provisions for liabilities and charges, in addition to the liabilities recognised in the accounts. Despite the uncertainty inherent in any estimation procedure, as better described in section 4.1.3 - Use of estimates - the amounts allocated can be considered as reasonable and appropriate.

For a complete analysis of pending litigation, please refer to the comments in the Annual Report at 31 December 2011.

The most significant updates to the mentioned litigation, are presented below.

- Ministry of Defence With regard to litigation, initiated by Meridiana fly to recover its receivable from the Ministry of Defence amounting to approximately €4.2 million, after the injunction issued by the Court of Rome against the Ministry of Defence for approximately €1.1 million in October 2007, the Court of Rome, at the hearing of 8 February 2012, adjourned the case to 2 November 2012 for the conclusions on the objection to the decree raised by the Ministry.
- Aviapartner S.r.l. (a company with which Meridiana fly had entered into a contract for handling services and other ancillary services at the airport of Rome Fiumicino, subsequently interrupted on the initiative of Meridiana fly). This supplier had initiated legal proceedings in order to receive compensation for the termination of this contract, requesting payment of a total amount of €1,273 thousand. At the hearing, set by the Court of Civitavecchia on 20 April 2012 for admission of evidence, Meridiana fly's lawyer insisted on having the claims made in his pleadings accepted and the single judge reserved his decision.
- Labour litigation With regard to labour litigation, Meridiana fly has seen a further increase compared to the end of last year in the number of claims, both in court and out of court, largely related to the recognition of permanent contracts and the demand for recognition of accrued seniority by staff with a permanent contract in the company. The Company has updated its best estimate of total liabilities in case of defeat in the litigation in progress, taking account of legislation and case law on this matter. Given the diversity of disputes, and their continued evolution, some additional risks not currently determinable cannot be ruled out, taking also into account the conflicting interpretations of case law.

2.7. Significant events after the close of the quarter

The main events that occurred after the close of the period are presented below.

2.7.1 Termination of business relationship with O.R.P.

Due to contractual breaches by Opera Romana Pellegrinaggi - O.R.P., including the non-payment of receivables by way of invoices for services rendered by Meridiana fly S.p.A., as well as failure to comply with the obligation to pay a minimum annual guaranteed amount of 80% of the contractually agreed annual turnover, Meridiana fly on 2 April 2012 notified O.R.P. the termination of the multi-year cooperation agreement concerning transportation services for pilgrimages to places of religious and cultural interest.

According to the contractually agreed terms, in the absence of an amicable settlement, Meridiana fly has agreed to establish an arbitration procedure during the month of April 2012, appointing its arbitrator, in order to recover the amounts due, including, in particularly outstanding receivables of approximately €2 million and additional €2 million as a refund of promotional contribution already paid by Meridiana fly on the date of signing the Agreement, in addition to the payment of the balance of the guaranteed minimum and contractual penalties, without prejudice to claim further damages as they may result from the investigation.

2.7.2 Rights issues

Following Consob's approval on 15 March 2012 of the publication of the prospectus for a paid capital increase for a maximum amount of €142.2 million, with combined Warrants Shares, the rights issue was offered which provided that subscription rights should be exercised, subject to expiration, during the period between 19 March 2012 and 5 April 2012 inclusive.

The final terms of the offer were determined by the Board of Directors held on 15 March 2012 as follows:

- Subscription price of each new issued ordinary share: €1.275 per share, including share premium of €1.025 per share;

- Subscription ratio: no. 20 new shares for every 1 share owned;

- maximum number of shares offered: 111,526,920

- total value of the offer: €142,196,823.

By letter of 16 March 2012 Meridiana S.p.A., Marchin Investments B.V., Pathfinder S.r.l. And Zain Holding S.r.l. (These last three companies referred to collectively as "Former Air Italy Holding Shareholders") announced to Meridiana fly that - in implementation of the provisions of the agreements for the business combination of 18 July 2011 - they had signed an over-the-counter agreement for the purchase of subscription rights in relation to the increase in capital in question, following which Meridiana, effective from the date of commencement of the subscription period (i.e. 19 March 2012), sold its rights as follows:

(i) No. 1,495,423 subscription rights for a price of €655,070.25 to Marchin Investments B.V.,

(ii) No. 320,448 subscription rights for a price of €140,364.00 to Path finder S.r.l.

(iii) No. 320,448 subscription rights for a price of €140,364.00 to Zain Holding S.r.l.

In accordance with the agreements for the business combination, the prices listed above are paid by assignment of the corresponding portion of the "reserve for future capital increase" set up in favour of the Former Air Italy Holding Shareholders, and originally set up for conversion of the receivable accrued by them by virtue of the business combination agreements.

Meridiana and Former Air Italy Holding Shareholders subscribed to the capital increase, by using the remaining net reserves for future capital increase already "earmarked" for each shareholder.

At the end of the offer period (19 March 2012-5 April 2012) therefore, a total of 92,952,780 new ordinary shares were subscribed, amounting to 83.35% of the offer, for a total consideration of €118.5 million, of which No. 5,904,140 shares for a total of €7.5 million (about 24% of the rights available to the market), refer to entities other than Meridiana and former Air Italy Holding shareholders, as per the following table.

Share Holders	N. Shares	Amount (€)	% subscribed on total Offered
Meridiana S.p.A.	44.322.260	56.510.881,50	39,74%
Marchin Investments B.V.	29.908.460	38.133.286,50	26,82%
Pathfinder S.r.l.	6.408.960	8.171.424,00	5,75%
Zain Holding S.r.l.	6.408.960	8.171.424,00	5,75%
Market	5.904.140	7.527.778,50	5,29%
Total	**92.952.780**	**118.514.795**	
Total Offered	**111.526.920**	**142.196.823**	

As at the date of this Report, there have been no further subscriptions.

Pursuant to Article 2441 of the Italian Civil Code. the no. 18,574,140 new Meridiana fly shares for which the rights were not exercised and not yet subscribed, with as many "*Warrants* ordinary shares Meridiana fly 2012 - 2013" combined free of charge, can be offered for subscription by the Company to third parties until 30 June 2012, final date set by resolution of the Extraordinary Shareholders' Meeting held on 5 December 2011.

It should be noted that the shareholder Meridiana S.p.A. agreed to subscribe and pay any portion of the Capital Increase that at 30 June 2012, is not subscribed by persons other than the Meridiana S.p.A. and Marchin Investments B.V., Pathfinder S.r.l. and Zain Holding S.r.l., up to a maximum total of €10 million (so called "*Underwriting Commitment*").

The amount of subscriptions of shares for which the rights remained unexercised (including subscriptions in compliance with the *Underwriting Commitment*) and the final results of the Capital Increase will be announced by the Company, when performing the related legal fulfilments, according to the terms set forth therein.

Therefore, given that the Capital Increase launched on 19 March 2012 is still ongoing, the current share capital at the date of this report is €20,901,419.34 consisting of no. 5,576,346 ordinary shares without expressed nominal value.

In light of the statement made by Meridiana fly on 20 April 2012 in relation to the partial results of the first of the capital increases and the possibility that the newly issued shares for which the rights were unexercised, may be offered for subscription to third parties until 30 June 2012, deadline for subscription of the first of the Capital Increases, on 30 April 2012 Meridiana and Former Air Italy Holding Shareholders, agreed to postpone the exercise of the *Warrants* - by way of exception therefore to what was originally envisaged in the Framework Agreement - to a time after 30 June 2012, and in any case within the deadline of 31 May 2013 provided for by Regulation " *Warrants* Ordinary Shares Meridiana fly 2012 - 2013 ". Except for the above specification, any other provision of the Framework Agreement remains unchanged.

It should also be noted that the sums to be used for the full payment of Meridiana fly ordinary shares that will be subscribed by Meridiana and the Former Air Italy Holding Shareholders in connection with the exercise of the *Warrants,* in the ratio of no. 1 ordinary share for every no. 2 *Warrants,* are already available to Meridiana fly in the form of reserves for a future capital increase.

2.7.3 Call for tenders for territorial continuity with Sardinia

With reference to the call for tenders for the new territorial continuity with Sardinia, due to expire on 11 April 2012, which provided, among others, the establishment of a single reduced tariff for residents and non-residents for flights to and from Milan Linate and Rome Fiumicino throughout the year, Meridiana fly, on that day, informed the market it had decided not to participate in the new tender for Territorial Continuity organized by the Sardinia Region, as the tender does not provide for a sufficient compensation in terms of contributions and/or operational flexibility which would allow the aircraft operator to make up for the resulting losses.

The Company therefore estimated the financial impact of the new tender on the forecast data in the Integrated Plan and deemed participation in the tender as not viable as the award of the contract would have determined a negative impact in terms of EBIT of around 20 million euro per year.

As, in practice, the tender could not take place for lack of bids from the carriers, we are waiting for new instructions from the Ministry of Infrastructure and Transportation and the Sardinia Region.

2.7.4 Closing of the subsidiary Sameitaly

In the context of the major reorganization and turnaround of the Meridiana fly Group, it was decided to rationalize the commercial structure of the Group and, therefore, to close the subsidiary Sameitaly, according to the terms and conditions specified in the agreement signed with the unions on 11 April 2012.

In particular, this agreement provides as follows:

- absorption of the entire Sameitaly staff by Meridiana fly (as per commitment in the agreements of 12 September 2007) under the same employment conditions, and recognition of seniority and transfer of accruals and severance pay (TFR);
- with regard to the staff absorbed, application for the fixed part of the salary of the employment contract for the ground staff of Meridiana fly (agreement dated 18 November 2011);
- maintaining only a limited number of organizational roles within Meridiana fly business structure, with simultaneous use for most of the staff (about 25 employees out of 39) of the zero hour redundancy procedure (CIGS), taking advantage of social benefits already in place for Meridiana fly, subject to the signing of the agreement before the relevant Ministry.

The subsidiary will be placed in liquidation during 2012 according to the procedures laid down by the applicable legislation.

2.7.5 Debt renegotiation with banks

Meridiana fly Group asked banks to restructure credit facilities and the related terms and conditions granted by the banks to the Company and its subsidiaries and Air Italy Holding and Air Italy, including a review of financial *covenants*, in order to support the Group's implementation of the New Integrated Business Plan.

Moreover, in view of the non-compliance at 31 December 2011 of the covenant "Net Debt/EBITDAR" of 1.35 provided for by the syndicated loan agreements of Meridiana fly with the group of banks, Meridiana fly asked the banks involved to waive the exercise of contractual remedies granted to the banks. The request was accepted by the three banks involved with a formal notice of 23 April 2012, subject to the suspensive condition that an agreement be reached not later than 25 June 2012 on the form, terms and conditions of the debt restructuring of Meridiana fly - Air Italy group, for which negotiations are under way with the banks.

2.7.6 New Budget 2012 and updated Integrated Business Plan

The Board of Directors of Meridiana fly, in consideration of the worsened performance of the variables related to the general economic crisis which accentuated in the fall of 2011 and the most recent forecasts of macroeconomic variables, as well as the restructuring actions already under way for the Group reorganization, at the meeting of 20 April 2012, reviewed and approved a new 2012 Budget until 31 October 2012 (date of early closing of the financial year), and an update of the Integrated Business Plan of 18 July 2011 (Integrated Business Plan); at the same meeting, for the purposes of evaluating the going concern basis, a projection of monthly results and cash flow needs was approved with a time horizon of 12 months to March 2013, taking as baseline actual monthly data of March 2012 resulting from the management control system.

While confirming the strategies and actions included in the Integrated Business Plan, in developing the new forecasts, the following assumptions, actions and information were specifically taken into account:

- Update of the underlying assumptions with regard to the performance of the EUR/USD exchange rate and the cost of *Jet Fuel* in line with the most recent forecasts issued by third parties and showing a worsening compared with the assumptions of the integrated business plan of 18 July 2011.

- Update of other variables such as load factor, average revenue per passenger and per flight hour.
- Renegotiation (completed) of operating lease agreements of aircraft in line with current market costs.
- Review of other operational services contracts, especially with some *key suppliers* (Airport services/MRO, etc..).
- Savings on staff costs, due, in addition to the application of the temporary redundancy procedure (CIGS), also to the new agreement with the unions of 18 November 2011 that allows for an adjustment of employment conditions to those provided in the Air Italy employment contract and European *standards* and review of remuneration and contribution conditions.
- New commitment by Meridiana for €9,000,000 in addition to outstanding commitments made in December 2010 and October 2011.

As a result of this update, the aim of breaking even (EBIT) in the year 2013 is still considered as achievable as is the structural financial rebalancing in the long term.

2.7.7 New Meridiana/AKFED commitments for the going concern

During the year 2011, based on the commitments made by Meridiana with the support of AKFED, in particular with reference to the recent commitments of 18 July 2011 as subsequently amended and supplemented, Meridians has made payments for future capital increases for €81.4 million, including €8.5 million from the conversion of an interest-free loan granted in 2010.

In its capacity as shareholder, Meridiana also granted new funding as from 18 July 2011 and up to date for €55.5 million as provided for by the recalled commitments of 18 July 2011, to support Meridiana fly financial needs, so that there remains a residual commitment of € 0.5 million.

According to contracts relating to the integration with Air Italy Group, Meridiana undertook to subscribe and pay, in cash and/or by conversion of existing reserves for a future capital increase, the portion of the capital increased not subscribed by persons other than Meridiana and the Former Air Italy Holding Shareholders up to a maximum amount of €10 million.

On the basis of forecasts about the financial performance and results for the12 month period, for the purposes of evaluating the going concern basis, reviewed by the Board of Directors on 20 April 2012, taking into account the outcome of the Capital Increase and negotiation with the banks, as well as Meridiana's residual commitments as mentioned above, the shareholder Meridiana, with the support of its parent AKFED, formally notified the Company on 23 April 2012 of an additional discretionary commitment to provide financial resources to ensure Meridiana fly continued operation as a going concern for a period of at least 12 months and up to €9,000,000 in the form of interest-bearing shareholder loans, which, according to the provisions of the Framework Agreement of 18 July 2011, shall not be used to subscribe additional Meridiana fly capital increases for at least 36 months in order to avoid dilution effects of the controlling shareholders.

Therefore, based on the above, and following the completion of the financing transactions occurred up to today, Meridiana fly will benefit from additional funding from Meridiana totalling €9.5 million (residual commitment of € 0.5 million and new commitment of €9 million), which are always backed by similar commitments by AKFED.

It should be recalled that, again in order to support the financial needs related to the going concern operation of the company, the guarantee commitments made by Meridiana S.p.A. are still in place (backed by AKFED) on outstanding loan agreements (€22.55 million for Meridiana Fly syndicated loan, for €9 million with the bank that finances Air Italy Holding), in addition to the commitment to provide additional funding to Meridiana fly up to a maximum of further €7.5 million if and insofar Meridiana fly does not reach agreements to obtain new bank financing up to the said amount; in this last respect, in view of the drawdown of the mixed credit line obtained from a bank for about €1.5 million, at 31 March 2012, Meridiana's commitment is still in place for about €6 million.

2.8. Other information

At the date of this Interim Report there are no shareholders with holdings exceeding 2% of the share capital, beside Meridiana S.p.A., which currently controls the company with a 78.05% stake.

Pursuant to Consob communication no. DEM/6064293 of 28 July 2006 it is hereby stated that in the first three months of 2012 no atypical and unusual transactions have been carried out as defined by the above Communication.

No purchases or sales of treasury shares were made, directly or indirectly, during the period. At 31 March 2012 the Company and its subsidiaries do not hold treasury shares.

Investments in unlisted companies (not included in the consolidation scope) as at 31 March 2012 are summarized in the following table.

	Registered office	Share capital	Percentage owned			Total
			Direct	Indirect	Total	Ownership
Meridiana Express S.r.l.	Olbia (OT)	10.000,00	100,00%	-	100,00%	100,00%
Air Italy Brasil S.A.	Rio de Janeiro-Brasile	16.892,00	-	100,00%	100,00%	100,00%
Meridiana Maintenance S.p.A.	Olbia (OT)	12.015.000,00	16,38%	-	16,38%	16,38%

2.9. Business Outlook

The general economic and demand performance in Italy remains sluggish and 2012 is expected once again as a year of stagnation, with GDP forecast to decline by 1.3% to 1.5%.

This prevailing low demand and widespread uncertainty can adversely impact the air transport, which is already characterized by high price competition between operators, both Low-cost and traditional carriers.

Political tensions at the international level do not allow for a decrease in oil price, which continues to remain high (above 100 dollars a barrel); this, to some extent, may affect airlines performance in the current year, as this factor accounts for a significant portion of operating costs.

The year 2012 is an important turnaround year for the Group after the integration with Air Italy, aimed at implementing the New Integrated Business Plan, as amended by the Board of Directors on 20 April 2012 on the basis of the most recent actual and expected macroeconomic exogenous variables, the evolution of the industry and the target markets and the results achieved so far.

it should be noted that an important part of the reorganization measures have already been implemented, including the review of the network, the new labour agreement and the temporary redundancy fund (CIGS) agreement, the renegotiation of aircraft leases and other operating services (e.g. maintenance - MRO), the revision of the terms of use of the fleet and operating bases. It should be noted that an important part of the reorganization measures has already been achieved, including the review of *network* The new contract of employment of staff and the agreement of CIGS, the renegotiation of leases of aircraft and other operational services (e.g. maintenance - MRO), the revision of the terms of fleet utilization and operating bases.

As previously mentioned, in light of the restructuring actions initiated and following an update of the short-term Budget and the medium-long term Business Plan, the Directors confirm the EBIT break-even target for 2013.

In support of this assumption, in the first quarter of 2012, despite the negative seasonality and the difficult macroeconomic environment, the company's results are substantially in line with data contained from the 2012 Budget and mark a significant improvement over the first quarter of 2011; this is evidence that the actions taken in view of the reorganization of the Group are appropriate.

It should be emphasized that the forecasts included in the 2012-2015 Integrated Business Plan and, consequently, the financial and capital balance of the company, are significantly dependent on the performance of external non-controllable factors, and/or the actual implementation of the planned reduction in operating and overhead costs, and/or by the outcome of litigations, the creditworthiness of counterparties, or a possible worsening of credit and supply conditions or in the management of overdue payables to suppliers as well as the confirmation of support by banks, with reference to Air Italy uncommitted facilities. These uncertain and uncontrollable variables may result in significant deviations between forecasts and actual values.

Failure to meet the objectives set in the Integrated Business Plan may have negative effects on the financial and equity position and results of Meridiana fly and its business, and a possible impact on the going concern basis; they can also impact on the risk of impairment of some specific assets of the Company and the Group, in particular its investments and goodwill.

Despite this context of uncertainty, - on the basis of the best estimates to date - taking into account the commitments made by Meridiana/AKFED, and the reasonable expectation that the banks will support the Group's business plan, by confirming the credit lines, the Directors believe that the Group and the Company will continue to operate as a going concern and will be able to meet their obligations in the foreseeable future.

This is also in consideration of the fact that if, for any reason during the plan, financial needs exceeding those estimated in the Integrated Business Plan should emerge and cash-flow generated were not sufficient, the Group may resort to other sources of funding, including a new request to Meridiana/AKFED that, although there is no specific commitment to that effect, have never in the past denied this type of support to the Company .

Consequently the Directors consider it appropriate to prepare the Interim Report at 31 March 2012 on the going concern basis.

Olbia, 14 May 2012

On behalf of the Board of Directors:

President

Marco Rigotti

3. CONSLIDATED FINANCIAL STATEMENTS

3.1. Consolidated statement of financial position

€/000	31.03 2012	31.12 2011	Change
Intangible assets	146.564	146.748	(184)
Fleet	121.487	123.487	(2.000)
Other Property, plant and equipment	14.816	15.273	(457)
Deferred tax assets	11.101	11.153	(52)
Equity investments	1.995	1.995	-
Other non-current financial assets	19.292	20.861	(1.569)
Non-current assets	**315.255**	**319.517**	**(4.262)**
Inventories	3.004	2.909	95
Trade receivables and other current assets	128.580	131.185	(2.605)
Current financial assets	5.991	5.958	33
Cash and cash equivalents	3.806	4.002	(196)
Current assets	**141.381**	**144.054**	**(2.673)**
TOTAL ASSETS	**456.636**	**463.571**	**(6.935)**
Share capital	20.901	20.901	-
Reserves and retained earnings (losses) carried forward	40.719	151.651	(110.932)
Profit (loss) for the period	(28.222)	(110.664)	82.442
GROUP NET EQUITY	**33.398**	**61.888**	**(28.490)**
Long-term borrowings	66.211	28.712	37.499
Trade payables and other non current liabilities	4.149	3.501	648
Post-employment benefits and other defined benefit funds	13.183	13.258	(75)
Non-current provisions for liabilities and charges	12.495	12.578	(83)
Deferred tax liabilities	8.741	7.944	797
Non Current liabilities	**104.779**	**65.993**	**38.786**
Current loans	34.640	35.188	(548)
Current portion of long-term borrowings	35.017	36.491	(1.474)
Current provision for liabilities and charges	19.704	23.035	(3.331)
Trade payables and other current liabilities	227.672	239.048	(11.376)
Current financial liabilities	1.426	1.928	(502)
Current liabilities	**318.459**	**335.690**	**(17.230)**
Total current and non-current liabilities	**423.239**	**401.683**	**21.556**
TOTAL EQUITY AND LIABILITIES	**456.636**	**463.571**	**(6.935)**

3.2. Consolidated Statement of Comprehensive Income

€/000	I Quarter 2012	*% revenues from sales*	I Quarter 2011	*% revenues from sales*	Change
Sales revenue	134.567	100,0%	127.360	100,0%	7.207
Other Revenue	6.600	4,9%	10.569	8,3%	(3.969)
Total revenues	**141.167**	**104,9%**	**137.929**	**108,3%**	**3.238**
Fuel	(52.350)	-38,9%	(43.898)	-34,5%	(8.452)
Materials and maintenance services	(22.182)	-16,5%	(23.182)	-18,2%	1.000
Operating leases	(15.572)	-11,6%	(14.210)	-11,2%	(1.362)
Selling expenses	(4.666)	-3,5%	(5.255)	-4,1%	589
Other operating and wet leases costs	(37.993)	-28,2%	(45.814)	-36,0%	7.821
Sundry costs and other services	(7.835)	-5,8%	(7.654)	-6,0%	(181)
Staff costs	(21.578)	-16,0%	(26.827)	-21,1%	5.249
Amortisation, depreciation and write-downs	(3.826)	-2,8%	(3.272)	-2,6%	(554)
Provision for liabilities and charges	(769)	-0,6%	(2.686)	-2,1%	1.917
Other adjustment provisions	(69)	-0,1%	(536)	-0,4%	467
Operating Profit (loss)	**(25.673)**	**-19,1%**	**(35.405)**	**-27,8%**	**9.732**
Net financial income (expense)	(2.712)	-2,0%	(1.891)	-1,5%	(821)
Pre-tax profit (loss)	**(28.385)**	**-21,1%**	**(37.296)**	**-29,3%**	**8.911**
Income taxes	163	0,1%	78	0,1%	85
Net profit (loss)	**(28.222)**	**-21,0%**	**(37.218)**	**-29,2%**	**8.996**
Gains / (losses) from actuarial valuations (IAS 19)	-	0,0%	-	0,0%	-
Tax effect of profit (loss) from actuarial valuations	-	0,0%	-	0,0%	-
Total Profit (loss)	**(28.222)**	**-21,0%**	**(37.218)**	**-29,2%**	**8.996**

NOTE The comprehensive income for Q1 2011, presented for comparative purposes, is that resulting from the Interim Report at 31 March 2011. The reader should refer to Section 4.2 - Comparability of accounting and pro forma data - for more clarifications on the comparability of data presented in this Interim Report.

3.3. Statement of changes in consolidated equity

€/000	Share capital	Share premium reserve	Other reserves	Losses covered during the year	Reserves and retained earnings (losses) carried	Net Profit (loss) for the year	Net Equity
Balance at 31 December 2010	**20.901**	**41.669**	**2.722**	**-**	**(10.443)**	**(46.411)**	**8.439**
- Prior years net profit (loss)				-	(46.411)	46.411	-
- Payments for future capital increase			164.050				164.050
- Total profit (loss)			62			(110.664)	(110.602)
Balance at 31 December 2011	**20.901**	**41.669**	**166.835**	**-**	**(56.853)**	**(110.664)**	**61.888**
- Prior years net profit (loss)				-	(110.664)	110.664	-
- Costs related to capital increase			(268)				(268)
- Payments for future capital increase			-				-
- Total profit (loss)						(28.222)	(28.222)
Balance at 31 March 2012	**20.901**	**41.669**	**166.567**	**-**	**(167.517)**	**(28.222)**	**33.398**

3.4. Consolidated Statement of Cash Flows

I Quarter 2011	€/000	I Quarter 2012	Financial Year 2011
5.328	**Net cash and cash equivalents at beginning of period**	**(31.186)**	**5.328**
	Effects of the Air Italy consolidation		
-	Provisional Goodwill from Air Italy consolidation	-	(87.823)
-	Equity Investment elimination	-	87.164
-	Other non-current assets	-	(104.778)
-	Current assets	-	(28.728)
-	Non-current liabilities	-	24.250
-	Current liabilities	-	83.370
-	**Cash flows from Air Italy consolidation**	-	**(26.546)**
(37.296)	**Pre-tax profit (loss)**	**(28.385)**	**(111.146)**
	Adjustments for:		
3.272	- Depreciation and write-downs for the year	3.826	13.789
	- Goodwill impairment	-	2.134
1.891	- Net financial income (expense)	2.712	7.438
(10)	- Gains on disposal of assets	-	(102)
3.274	Change in trade receivables and other current assets and other non-current	2.605	29.967
131	Change in inventories	(95)	100
(5.596)	Change in trade payables and other payables (incl.risks provision)	(14.670)	(30.662)
(672)	Payment of interest and other financial charges	(1.514)	(3.849)
(35.006)	**Cash flows absorbed by operating activities**	**(35.522)**	**(92.330)**
	Net change in non-current assets:		
-	* Intangible	(0)	(243)
(3.581)	* Tangible	(1.185)	(7.268)
3.593	* Financial	1.569	6.025
12	**Cash flow generated (absorbed) by investment activities**	**384**	**(1.486)**
(306)	Payment of loan instalments	(304)	(602)
230	Other changes in loans	(2.759)	2.096
465	Loans from Meridiana	38.586	11.016
-	Cash in (out) of Hedging derivatives	(33)	(1.562)
389	**Cash flows generated from financing activities**	**35.490**	**10.948**
28.901	Payments for future capital increase	-	72.900
28.901	**Cash flow generated from share capital transactions**	**-**	**72.900**
(5.704)	**Net increase in Cash and cash equivalents**	**352**	**(36.514)**
(376)	**Cash and cash equivalents at end of period**	**(30.834)**	**(31.186)**

4. NOTES

4.1. Accounting standards and measurement criteria

4.1.1. *General Considerations*

This Interim Report as at 31 March 2012 have been prepared in accordance with International Accounting Standards IAS / IFRS issued by the *International Accounting Standards Board* (IASB) and endorsed by the European Union as well as the measures implementing art. 9, of Legislative Decree No. 38/2005. "IFRS" also include International Accounting Standards (IAS) still in force, and all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC).

This Interim Report is drawn up in Euro as this is the currency in which the Group operates.

The Interim Report is presented in thousands of Euros - € / 000 (except where indicated), taking into account the rounding of individual items, and consists of (Chapter 3) the Consolidated Statement of Financial Position at 31 March 2012, the Consolidated Statement of Comprehensive Income for Q1 2012, the Statement of Changes in Consolidated equity at 31 March 2012 and the consolidated statement of cash flows for the first three months of 2012, as well as the Explanatory Notes (Chapter 4).

With reference to the identification in separate lines items of related party transactions, as required by Consob Resolution No.15519 of 27 July 2006, in the income statement,statement of financial position and statement of cash flows there is no separate evidence of transactions with related parties, as these were deemed insignificant. The summary statement of financial transactions with related parties for the year 2012 is provided in Section 4.11 - Related Party Transactions, with evidence of the impact of these transactions on the total amount reported in the corresponding line item.

In the consolidated statement of comprehensive income those gains and losses arising from non-recurring transactions or events that occur infrequently in the ordinary management of the Group, due to their non-significance, were not reported separately. These items however are described in section 4.10. "Significant non-recurring items for the quarter."

The Interim Report does not include all the information required by the annual financial statements and is not subject to audit.

4.1.2. *Accounting standards and measurement criteria*

This Interim Report, drawn up in accordance with IAS 34 - Interim Financial Reporting - was prepared using the same accounting principles and measurement criteria adopted in preparing the Annual Financial Report at 31 December 2011, to which the reader is referred for a detailed analysis.

The accounting standards, amendments and interpretations effective from 1 January 2012, had no impact on the presentation or evaluation of the assets and liabilities, cash flows and income statement data contained in this Interim Report at 31 March 2012.

As of 31 March 2012 no specific actuarial recalculation was made for employee benefits provisions and other provisions in accordance with IAS 19, given the substantial stability of actuarial variables as at 31 March 2012 compared to those used at 31 December 2011 in order to estimate these personnel funds.

This report is prepared based on the historical cost, adjusted as required for the measurement of certain financial instruments, and on the going concern basis, which was confirmed by the Directors on the basis of the considerations in section 2.9 - Business Outlook.

4.1.3. *Use of estimates*

The preparation of the consolidated Interim Report required management to make estimates and assumptions that affect the reported amounts of income and costs, assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date. If in the future such estimates and assumptions, which are based on the best assessment by the Directors, should differ from actual circumstances, they would be modified as appropriate in the period in which the circumstances change. This in particular refers to the following estimates:

- Assessment of the risk of collectability of receivables and the related provision for doubtful accounts;
- Assessment of adverse outcome in the business, legal and labour litigation, and related provisions for liabilities and charges;
- risk assessment of the costs of reorganization and related provision;
- assessment of recoverability of non-current assets, including goodwill and investments;
- estimate of income resulting from passengers not using tickets paid in advance which can be used on flights departing in periods subsequent to the reporting date.

It should also be noted that certain valuation processes, in particular the most complex ones, such as the determination of any impairment of non-current assets, including the recoverability of deferred tax assets, goodwill and investments, are generally carried out only when preparing the annual consolidated financial statements, when all necessary information is available, except in cases where there are indications of impairment requiring an immediate assessment of any impairment losses.

On the basis of the performance of 1Q 2012 and the evolution of the Group internal and external data, the management did not deem it necessary to update the impairment *test* at 31 March 2012.

Finally, also actuarial valuations for calculating provisions for employee benefits are usually made when preparing the annual financial statements.

4.1.4. *Going concern assumption*

Please refer to section 2.9 “Business Outlook" of this Interim Report for 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 for at least 12 months, therefore considering appropriate the preparation of financial disclosures on a going concern basis.

4.2. Comparability of accounting and pro-forma data

As mentioned in the Introduction section of this Interim Report, the financial statements, presented in the previous Chapter 3 - Consolidated Financial statements for Q1 2012, compare amounts in the consolidated statement of financial position at 31 March 2012 and the consolidated statement of income for the first quarter of 2012 with the consolidated data of Meridiana fly S.p.A .as at 31 March 2011 for the income statement data and 31 December 2011 for the financial position.

The comparability of the data shown in the above statements is, as already shown, undermined by the acquisition of Air Italy Group on 14 October 2011, which led to a change in the Group's size and became effective for accounting purposes on November 2011. Therefore, while with regards to the net financial position the consolidated results as at 31 March 2012 are fully comparable with data taken from the consolidated financial statements at 31 December 2011, this is not true for the for income statement, because the comparison in absolute terms between the two quarters loses significance and the trends in costs and revenues can be analysed by comparing, where relevant, the percentage impact on sales revenues.

For better information and analysis of the changes in income statement in absolute value measured on a like-for-like basis, we considered it useful to provide a pro-forma management income statement for the first quarter of 2011, which also includes the income statement data of Air Italy Group, as shown in the table below

€/000	I Quarter 2011 *Proforma*	*% revenues from sales*
Sales revenue	181.233	100,0%
Other Revenue	14.242	7,9%
Total revenues	**195.475**	**107,9%**
Fuel	(65.383)	-36,1%
Materials and maintenance services	(34.733)	-19,2%
Selling expenses	(6.161)	-3,4%
Other operating costs and wet leases	(59.015)	-32,6%
Sundry costs and other services	(11.891)	-6,6%
Staff costs	(33.343)	-18,4%
Provision for liabilities and charges	(2.686)	-1,5%
EBITDAR	**(17.736)**	**-9,8%**
Operating lease	(16.451)	-9,1%
EBITDA	**(34.187)**	**-18,9%**
Amortisation, depreciation and write-downs	(4.851)	-2,7%
Other provisions for doubtful receivables	(536)	-0,3%
EBIT	**(39.574)**	**-21,8%**
Net financial income (expenses)	(3.078)	-1,7%
Pre-tax profit (loss)	**(42.652)**	**-23,5%**
Income taxes	(272)	-0,2%
Net profit (loss)	**(42.924)**	**-23,7%**

Please note that the pro forma data, prepared internally, have not been audited and that the data presented are built on management assumptions, which means that actual data may indeed have differed.

4.3. Seasonality of the business

The demand for air transport, above all in the leisure/holiday segment, is characterized by significant seasonality. As for the Meridiana Group, the activity is concentrated in the third quarter and is more limited in other quarters, except for periods close to the holidays (Christmas / New Year, Easter and long weekends). The Medium Haul business is 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). Due to this seasonality Q1 2012 results are not particularly indicative of the trend for the entire year.

4.4. Consolidation scope and criteria

This Interim Report at 31 March 2012 include data of the parent Meridiana fly and those of its subsidiaries (Air Italy Holding, Sameitaly and Wokita), prepared at the same date.

A list of the consolidated companies, together with the related information set out in in Art. 38 of Legislative Decree 127/91, is provided below:

	Registered office	Share Capital	Percentage owned			Total Ownership
			Direct	Indirect	Total	
Parent Company:						
Meridiana Fly S.p.A.	Olbia (OT)	€ 20.901.419,34	-	-	-	-
Fully consolidated subsidiaries:						
Air Italy Holding S.r.l.	Gallarate (VA)	€ 14.310.000,00	100,00%	-	100,00%	100,00%
Air Italy S.p.A.	Gallarate (VA)	€ 6.666.667,00	-	100,00%	100,00%	100,00%
Wokita S.r.l.	Olbia (OT)	€ 35.000,00	100,00%	-	100,00%	100,00%
SameItaly S.r.l.	Olbia (OT)	€ 95.000,00	100,00%	-	100,00%	100,00%
AEY Aviation Ltd	Dublino-Irlanda	€ 500,00		100,00%	100,00%	100,00%
Associates accounted for with equity method:						
Meridiana express S.r.l.	Olbia (OT)	€ 10.000,00	100,00%	-	100,00%	100,00%
Air Italy Brazil	Rio de Janeiro - Brasile	€ 16.892,00	100,00%	-	100,00%	100,00%

It should be noted that Meridiana express S.r.l. (100% owned subsidiary) was not included in the scope of consolidation, as it was founded in March 2010 and is still not operational.

The subsidiary (in an indirect way) Air Italy Brasil is not consolidated, as it was formed solely to acquire an identification number in Brazil in order to be able to operate commercially on site, and, therefore, it is not operational.

Therefore, the line-by-line consolidation of data from these subsidiaries would not have led to significant effects on this Report at 31 March 2012.

Subsidiaries are all companies for which the Meridiana fly Group has the power to determine, directly or indirectly, the financial and operating policies in order to obtain benefits from their activities.

In the evaluation of control, we also consider the potential voting rights currently exercisable or convertible, as well as the positions of "actual control" on the basis of the voting power, and not only, exercisable at the shareholders' meeting.

Subsidiaries data are consolidated from the date on which the parent obtains control and until the date that control ceases to exist. The data used for the consolidation are those prepared for each company, appropriately reclassified and adjusted in order to comply with the accounting principles and measurement criteria of the Group Meridiana fly.

All intercompany balances and transactions, including any unrealized profits arising from transactions between Group companies are eliminated. Unrealised losses are eliminated except where they cannot later be recovered.

The consolidation is done using the line-by-line consolidation method. The criteria for the application of this method include, among other things:

- eliminating the carrying value of investments in consolidated companies against the related equity and concurrently recording all their assets and liabilities;

- the elimination of payables and receivables and inter-company transactions, including intra-group unrealized profits and losses;
- as of 31 March 2012 the difference between the value of the investment and its equity value at the date of purchase is recorded as goodwill.

As of 31 March 2012 all the subsidiaries that are consolidated using the line-by-line method are wholly-owned subsidiaries; therefore there are no net assets attributable to non-controlling interests to be included as a separate component of equity, nor is there a share of profit or loss attributable to non-controlling interests to be highlighted separately in the consolidated income statement.

4.5. Analysis of the statement of financial position as at 31 December 2010

Non-current assets

Non-current assets at 31 March 2012 amounted to €315,255 thousand, down by €4,262 thousand compared to €319,517 thousand at 31 December 2011, as commented below.

- **Intangible assets** amounted to €146,564 thousand compared to €146,748 thousand at December 31, 2011, a net decrease of €184 thousand exclusively as a result of amortization for the quarter. This item includes goodwill of €145,236 thousand, the same value at the end of 2011. No significant purchases were made in the period, or adjustments due to *impairment* .
- The **fleet** item, amounting to €121,487 thousand, show a decrease of €2,000 thousand as a result of the recognition of depreciation for the quarter (€2,575 thousand), net of new expenditures made during the first three months of 2012 for extraordinary maintenance and purchases of rotable material for approximately €575 thousand.
- The **other property, plant and equipment** amounted to €14,816 thousand, down by €457 thousand compared to the end of 2011, as a result of depreciation charges in the quarter (€1,067 thousand), net of capital expenditure in the quarter (€610 thousand).
- D**eferred tax assets**, amounting to €11,101 thousand, had no significant changes compared to the previous year-end.
- **Investments** , amounting to €1,995 thousand, had no variations from year-end 2011 and consist of the investment in Meridiana Maintenance S.r.l. (€1,968 thousand), the investment in Meridiana Express S.r.l. (€10 thousand) and the investment in Air Italy Brasil (€17 thousand).
- The **Other non-current financial assets**, amounting to € 19,292 thousand, primarily consist of security deposits in favour of lessors for use of aircraft and other security deposits in favour of other suppliers (€16,073 thousand) as well as the fixed-term deposit with Intesa Sanpaolo S.p.A. for the issuance of sureties in favour of the aircraft lessor (€3,219 thousand). The net decrease of €1,569 thousand is primarily related to net repayments for the period and the adjustment of deposits in USD.

Current assets

Current assets at 31 March 2012 amounted to €141,381 thousand, recording a decrease of €2,673 thousand compared to data at 31 December 2011. The main changes are discussed below.

- The **Inventories** ,amounting to €3,004 thousand, increased by €95 thousand compared to the figure at 31 December 2011.

- **Trade receivables and other current assets** amounted to €128,580 thousand, recording a decrease of € 2,605 thousand compared to 31 December 2011 (€131,185 thousand) Trade receivables include receivables from related parties which are described in detail in Section 4.11 - Related Party Transactions. In view of the disputes examined with various counterparties, the Directors believe that the amounts allocated to the provisions for doubtful receivables reflected in this Interim Report are appropriate to represent the risk of default of the receivables. Receivables are adjusted by the provision for doubtful receivables, which amounted to €16,430 thousand at 31 March 2012 (€17,258 thousand at December 31, 2011).

  Among other current assets we point out the "Receivable for solidarity agreement" of €8,172 thousands which refers to amounts accrued up to September 2010 and for which the company is still waiting reimbursement from social security institutions in accordance with the procedure laid down in solidarity agreements with the staff. In the first quarter of 2012 there were repayments of €130 thousand.

  In addition, as at 31 March 2012 "Receivables for CIGS Advances" have accrued for €10,255 thousand (€3,051 thousand at 31 December 2011) for advance payments made on a monthly basis to employees under the temporary redundancy arrangement (CIGS zero hour and rotation) following the reorganization procedure initiated in September 2011 by the parent Meridiana fly; formalities to obtain reimbursement from INPS and the Aviation Special Fund are ongoing.

  Finally the item includes "Receivables for ENAC contributions" relating to the contributions for the territorial continuity of Sardinia and Sicily due to the Company for a total of €16,880 thousand (€18,469 thousand at 31 December 2011); these amounts are currently being evaluated by the Aviation Authority, which in the first quarter of 2012 has paid approximately €2.9 million in settlement of previous periods of activity (2007 and part of 2008).

- **Current financial assets** at 31 March 2012 amounted to €5,991 thousand (up by €33 thousand compared to 31 December 2011), consisting of €3,947 thousand for receivables from the parent bearing interest at market rates and €2,044 thousands for security deposits to aircraft lessors that have become "current", as return of the aircraft is expected in 2012 with consequent reimbursement of the deposits.

- **Cash and cash equivalents** at 31 March 2012 amounted to € 3,806 thousand compared to € 4,002 thousand at 31 December 2011.

Net equity

At 31 March 2012, consolidated equity amounted to €33,398 thousand compared to €61,888 thousand at 31 December 2011, a decrease of €28,490 thousand due to the consolidated loss for the period amounting to €28,222 thousand and for the costs of the capital increase recognized directly in equity (€268 thousand); the equity of the Company on a separate basis, amounted to €42,495 thousand (see section 4.7 for reconciliation between the Meridiana fly Group's net assets and Company's equity at 31 March 2012).

Share capital, fully subscribed and paid up, amounted to €20,901 thousand.

For additional details on shareholders' equity, please refer to section 4.7 - Analysis of changes in equity.

Non-current liabilities

Non-current liabilities at 31 March 2012 amounted to €104,779 thousand, up by €38,786 thousand compared to the amount at 31 December 2011 (€65,993 thousand), as commented below.

- **Long-term borrowings**, amounting to €66,211 thousand, increased by €37,499 thousand compared to the end of 2011 due to new loans granted by the parent Meridiana for €38,586 thousand (including accrued interest), net of repayment of the loan instalment in January 2012 (€314 thousands) and payment of finance leases (€773 thousand). They consist of the non-current portion of the mortgage loan (€642 thousand), the non-current portion of debt for finance leases for aircraft and parts (€15,967 thousand), as well as the medium-term loans granted by the parent Meridiana (€49,602 thousand).
- **Trade payables and other non-current liabilities**, amounting to €4,149 thousand, increased by €648 thousand compared to the value of the previous year-end reflecting the recognition as non-current liabilities of payables to suppliers, for which expiration was renegotiated over 12 months. This item includes the non-current liability of €3,547 thousand relating to the payable to former Air Italy Holding shareholders as *Earn-out* on the purchase price recognized under the terms of the agreements for the business combination with Air Italy, corresponding to 50% of the capital increase subscribed by the market, with payment due starting May 2013.
- **Provisions for post-employment benefits (TFR) and other defined benefit plans** amounting to €13,183 thousand, decreased by €75 thousand and consist of the TFR -severance indemnity provision (€11,507 thousand) and the Subsidised tickets provision (€1,676 thousand).
- **Provisions for non-current liabilities and charges** amounted to €12,495 thousand, with a net decrease of €83 thousand compared to the figures at 31 December 2011. They consist of medium-long term maintenance provisions for reconditioning and phase-out of aircraft under operating leases(€9,034 thousand), provision for restructuring costs relating to CIGS costs to be paid by the company to INPS (€1,661 thousand), as well as provisions for tax liabilities due to tax disputes (€1,800 thousand).
- **Deferred tax liabilities** amounted to €8,741 thousand, increasing over the figure at 31 December 2011 by €797 thousand reflecting reabsorption of tax differences on depreciation/amortization and other adjustments due to changes in IAS/IFRS.

Current liabilities

Current liabilities at 31 March 2012 amounted to €318,459 thousand, down by €17,230 thousand compared to 31 December 2011, when they amounted to €335,690 thousand, as commented below.

- **Short-term borrowings**, amounting to €34,640 thousand, decreased by €548 thousand compared with the end of 2011, reflecting lower utilization of credit lines. They refer to the stand-by revolving cash loan, granted by a syndicate of banks (€7,612 thousand) and bank debt for advances on invoices/charter agreements and other short-term loans (€27,028 thousand).
- The **current portion of long-term borrowings** amounting to €35,017 thousand, was down by €1,474 thousand compared to the data at 31 December 2011. This item includes the current portion of a mortgage loan (€623 thousand), a bank loan of €9,000 thousand, due to banks for loans with a maturity of 36 months (€14,673 thousand) recognized as current liabilities on account of non-compliance with the financial covenants at 31 December 2011, a short-term loan bearing interest granted by Zain Holding for €3,150 thousand, as well as the short-term portions of debt for finance leases on aircraft (Boeing 767 and other aviation parts) and financial payables to some aircraft and motors suppliers for purchases with deferred payment, for a total of €7,571 thousand.

- **Provisions for current liabilities and charges** amounted to €19,704 thousand posting a net decrease of Euro 3,331 thousand compared to the figure at 31 December 2011 due to use of the provisions in the quarter following the return of some aircraft (€1,447 thousand), payment of reorganization expenses (€84 thousand) and settlement of a number of disputes, with workers, passengers and other parties (€2,569 thousand), net of net allocations to the income statement of €769 thousand. These provisions are generally set up against potential liabilities arising from litigation in progress with passengers, employees, suppliers and other counterparties, based on a conservative judgment on the risks involved in those disputes. Changes in the provisions related to labour litigation reflected the increase in the number of pending disputes. They include provisions for various legal disputes (€17.3 million), current provision for aircraft phase-out (€2.1 million), current portion of the company restructuring provision (€0.4 million).

- **Trade payables and other current liabilities** amounted to €227,672 thousand, down by €11,376 thousand compared to 31 December 2011, as shown below.

  Trade payables include amounts due to related parties which are described in detail in Section 4.11 - Related Party Transactions.

  Current liabilities include payables for prepaid/pre-invoiced tickets and taxes, mainly concerning the liability for prepaid tickets and associated boarding fees, relating to sales already billed and collected for flights still to be made or, if performed, not used by customers, as well as the pre-invoiced charter flights to tour operators for flight operations to be carried out after the first quarter of 2012. This item also includes payables to staff for holidays not taken, additional month payments and deposits received as collateral, remuneration to directors and statutory auditors and other smaller debts.

  At 31 March 2012 there were pending injunctions for an amount of €0.4 million for which amicable agreements have been reached with the counterparties.

- **Current financial liabilities** amounting to €1,426 thousand, down from year-end 2011 by €502 thousand, consisting of €246 thousand for the liability arising from fair value measurement of interest rate hedging instruments and €1,180 thousand for debts secured by bills of exchange in relation to deferred payment granted on some trade payables.

4.6. Analysis of operating performance in the first quarter

In Q1 2012 **revenues from sales** totalled €134,567 thousand compared to €181,233 thousand in the 2011 pro-forma income statement.(€127,360 thousand in Q1 2011). These revenues include revenues from direct flights (scheduled/charter), boarding fees, income from code-sharing activities, ACMI revenues and other ancillary traffic revenues.

The decrease of €46,666 thousand over Q1 2011 pro-forma reflects the reduction in capacity offered against lower demand and the cut of unprofitable routes and network optimization.

The **other revenues** amounted to €6,600 thousand compared to €14,242 thousand in Q1 2011 pro forma (€10,569 thousand in the first quarter of 2012), down by €7,642 thousand over Q1 2011 pro forma reflecting reduced activities carried out and lower contributions on territorial continuity, as well as the lower estimate of income from prepayments.

They include operating grants consisting of the proceeds for the territorial continuity of Sicily and Sardinia, the revenues associated with prepayments which result from the estimate of income from tickets issued and not used, made on the basis of inside information and historical trends, and other income minor.

Jet fuel cost amounted to €52,350 thousand compared to €65,383 thousand in Q1 2011 pro forma (€43,898 thousand in the first quarter of 2011) due to decreased activities. Its impact on revenues was 38.9% compared to 36.1% in Q1 2011 pro forma (against 34.5% in the Interim Report at 31 March 2011), due to the increase in average jet fuel price (10/13% in USD) and appreciation of the dollar against the Euro during the period not fully recovered on sales prices. The Group has no derivative contracts on fuel, as it enjoys an indirect, albeit not total, cover through price adjustment clauses in active *charter agreements* and change in the price of the ticket for scheduled flights (so-called *fuel surcharge*).

The **costs for materials and maintenance services** amounted to €22,182 thousand compared to €34,733 thousand in Q1 2011 pro forma (€23,182 thousand in the Interim Report at 31 March 2011) and their impact on revenues was 16.5% against 19.2% in Q1 2011 pro-forma (18.2% in first quarter 2011), with a saving of €12,551 thousand compared to Q1 2011 pro forma, owing in particular to reduced scheduled maintenance in the quarter based on technical planning and savings from the renegotiation of financial conditions with maintenance suppliers (MRO).

Operating leases amounted to €15,572 thousand compared to €16,451 thousand in Q1 2011 pro forma (€14,210 thousand in the Interim Report at 31 March 2011), with a savings of €879 thousand compared to Q1 2011 pro-forma. Their impact on revenues was 11.6% versus 9.1% in Q1 2011 pro forma (11.2% in first quarter 2011) reflecting decreased activity which did not allow to fully recover these fixed industrial costs and the adverse performance of the U.S. dollar; these effects were only partially offset by cost savings resulting from renegotiation of the lease agreements and returning some of the aircraft (especially MD-82).

Selling expenses, consisting of commissions and other direct brokerage costs of the various distribution channels (agents / booking systems / credit cards, etc..), amounted to €4,666 thousand (compared to €6,161 thousand in the first quarter of 2011 and pro-forma €5,255 thousand in the Interim Report at 31 March 2011).

Their impact on revenues went from 3.4% (pro forma 2011) to 3.5% in the first quarter of 2012.

The **other operating costs and *wet leases*** amounted to €37,993 thousand compared to €59,015 thousand in Q1 2011 pro forma (€45,814 thousand in the Interim Report at 31 March 2011), decreasing by €21,022 thousand compared to Q1 2011 pro forma as a result of the rationalization measures and the network optimization. This item includes Handling and Landing services, Airport taxes, shipping charges, passenger assistance and re-booking, *Block space* (purchase of seats from other carriers), wet leases (purchase of operating capacity from other carriers), and overnight accommodation and transportation costs of crews. Their impact on sales revenues stood at 28.2% against 32.6% in Q1 2011 pro forma (36% in first quarter 2011).

Other operating costs and other services amounted to €7,835 thousand compared to €11,891 thousand in Q1 2011 pro-forma (€7,654 thousand in the Interim Report at 31 March 2011). Their impact on sales revenues stood at 5.8% against 6.6% in Q1 2011 pro forma (6% in first quarter 2011).

This item includes the costs for consulting and collaboration services, advertising and promotion, insurance, utilities, leases, other rentals, and various other services, and various extraordinary losses.

Staff costs amounted to €21,578 thousand compared to €33,343 thousand in Q1 2011 pro forma (€26,827 thousand in the Interim Report at 31 March 2011), recording savings in absolute value of €11,765 thousand compared to Q1 2011 pro forma, resulting from widespread application of the (*CIGS*) temporary redundancy arrangements to Meridiana fly staff in the first quarter of 2012 (staff under CIGS arrangement in late March 2012 on an FTE - *full-time equivalent* basis, were approximately 700), as well as the positive effects of applying the new company labour contract defined on 18 November 2011.

Their impact on sales revenues therefore decreased to 16% against 18.4% in Q1 2011 pro forma (21.1% in first quarter 2011).

Depreciation and write-downs amounted to €3,826 thousand compared to €4,851 thousand in Q1 2011 pro forma (€3,272 thousand in the Interim Report at 31 March 2011); impact on revenues was in line with the comparative quarters.

Allocation to the provision for liabilities and charges in the first quarter of 2012 amounted to €769 thousand compared to €2,686 thousand in Q1 2011 pro forma (€2,686 thousand in the Interim Report at 31 March 2011), decreasing by €1,917 thousand. This item includes the provisions set aside against the legal disputes outstanding with various counterparties, especially with the staff, and resulting from the revised estimates of risks associated with labour disputes (pending disputes on the recognition of permanent employment contracts and accrued seniority).

Other adjustment provisions amounted in the period to €69 thousand compared to €536 thousand in Q1 2011 pro-forma (€536 thousand in the Interim Report at 31 March 2011). This item mainly consists of the write-downs to doubtful receivables based on historical experience and detailed analysis of individual non-performing receivables.

Net financial expenses were negative for €2,712 thousand (€- 3078 in Q1 2011 pro forma and €- 1,891 thousand in the Interim Report at 31 march 2011). This item consists mainly of net interest expense and other financial charges (€1.5 million), fees on loans and other bank charges (€0.4 million) and net negative foreign exchange differences (€0.8 million).

Income taxes for the period were positive for €163 thousand compared to a negative balance of €272 thousand in Q1 2011 pro forma (positive balance of €78 thousand in the Interim Report at 31 March 2011). They mainly include the estimated income from fiscal consolidation with the parent Meridiana (€1.2 million) and the reversal of deferred taxes (€0.8 million), as well as the estimate of current taxes (IRAP) of €0.2 million.

4.7. Analysis of changes in equity

During the first quarter of 2012, the changes in shareholders' equity were due to the net loss recorded in the first quarter of 2012 amounting to €28,222 thousand and the costs of the capital increase of €268 thousand. It should also be noted that at 31 March 2012 the first stage of the capital increase was still in progress (completed in April 2012).

Shareholders' equity at 31 March 2012 therefore amounted to €33,398 thousand (taken separately, the company's shareholders' equity amounted to €42,495 thousand, consisting of:

- Share Capital €20,901 thousand;
- Share premium reserve of €41,669 thousand;
- Other reserves of €166,567 thousand;
- Retained earnings (accumulated losses) €-167,517 thousand;
- Loss for the quarter €28,222 thousand.

The following table presents a reconciliation of shareholders' equity with the loss for the period of the Parent Meridiana fly S.p.A.as well as the corresponding consolidated figures.

Equity Reconciliation

€/000	**Equity 31.03.2012**	**Total profit (loss) for the period**
Parent Company Meridiana fly	**42.495**	**(26.627)**
Losses from controlled Entities	(1.595)	(1.595)
Equity investments elimination	(7.502)	-
Consolidated accounts Meridiana fly	**33.398**	**(28.222)**

Taking into account the ordinary shares issued amounting to no. 5,576,346, the net loss per share in the first quarter of 2012 amounted to €5.06. The losses of the consolidated companies are considered as temporary and therefore they did not result in impairment of the carrying value of the subsidiaries in the separate interim financial statements of Meridiana fly.

4.8. Financial management

As shown in the consolidated statement of cash flows, which illustrated the changes in cash and cash equivalents with the indirect method, Q1 2012 was characterized by an increase in cash of €325 thousand.

The main changes in cash flows are analysed below.

- **Cash flow absorbed by operations**

In the first quarter of 2012 operations resulted in a net negative change of €35,522 thousand, which was due, in particular, to the negative change in net working capital and the pre-tax loss for the period.

- **Cash flow generated from investments**

This area did not result in significant changes as a whole, having generated liquidity of €384 thousand.

- **Cash flows generated from financing activities**

In the first quarter of 2012, financing activities generated cash of €35,490 thousand, including the new loans disbursed by the parent Meridiana for €38,586 thousand.

4.9. Net financial position

The consolidated net financial position at 31 March 2012 for the Meridiana fly group was negative for €129,541 thousand. The changes in net debt compared to €94,400 thousand reported in the separate financial statements at 31 December 2011 are highlighted below.

€/000	31.03.2012	31.12.2011	Change
A Cash and deposits with bank (1)	3.806	4.002	(196)
B. Derivative Instruments included in cash equivalents (1)	-	-	-
C. Cash and cash equivalents (A) + (B)	**3.806**	**4.002**	**(196)**
D. Current financial receivables	**3.947**	**3.917**	**30**
E. Current Bank loans (1) (2)	34.640	35.188	(548)
F. Current portion of long-term borrowings	35.017	36.491	(1.474)
G. Other current financial liabilities	1.426	1.928	(502)
H. Current financial debt (E) + (F) + (G)	**71.083**	**73.607**	**(2.524)**
I. Net current debt (H) - (D) - (C)	**63.330**	**65.688**	**(2.358)**
J. Long-term borrowings (2)	642	956	(314)
K. Bonds issued	-	-	-
L. Other non-current financial liabilities	65.569	27.756	37.813
M. Non-current financial debt (J) + (K) + (L)	**66.211**	**28.712**	**37.499**
N. Net financial debt (I) + (M)	**129.541**	**94.400**	**35.141**
Reconciliation with statement of cash flow and statement of financial position:			
(1) Net cash and cash equivalents	(30.834)	(31.186)	352
(2) Due to banks	34.640	35.188	(548)

In particular, with reference to letters C, D, H and M of the table above, the following should be noted:

<u>C - Cash and cash equivalents</u>

Cash and cash equivalents at 31 March 2012 amounted to €3,806 thousand and consisted of cash on hand and positive balances on bank current accounts. The bank current accounts of the Company have been seized for approximately €0.4 million as a result of lawsuits brought by third parties.

D - Current financial receivables

The current financial receivables amounting to €3,947 thousand, refer to receivables from the parent Meridiana, for which deferred payment has been granted with interest at market conditions.

H- Current financial debt

It amounted to € 71,083 thousand and consisted of: (i) amounts due to banks of €34,640 thousand, for short-term stand-by revolving loans granted by a syndicate of banks for €7,612 thousand and bank debt for advances on invoices/charter agreements and other overdrafts for €27,028 thousand, (ii) the current portion of non-current debt for €35,017 thousand, composed as follows:

- short-term portions of a mortgage loan with Banca Profilo for €623 thousand;
- bank loan of € 9,000 thousand;
- payables to banks for loans with 36 month maturity, amounting to €14,673 thousand, recognized as current liabilities due to failure to comply with the financial covenants at 31 December 2011 in the absence of waiver by the lenders on that date as required by IAS/IFR;
- Current interest-bearing loan granted by Zain Holding for €3,150 thousand;
- short-term portion of debt for finance leases of an aircraft (Boeing 767 and other aviation parts) and certain trade payables with aircraft and parts suppliers for purchases with deferred payment, for a total of €7,571 thousand.

(iii) other current financial liabilities amounting to €1,426 thousand, consisting of €246 thousand for the liability arising from fair value measurement of interest rate hedging instruments and €1,180 thousand for debts secured by bills of exchange in relation to deferred payment granted on some trade payables.

With regard to Meridiana loans for which covenants were nor complied with at the end of 2011, the banks involved issued the *Waiver* upon early repayment in a letter dated 23 April 2012, subject to the suspensive condition that an agreement be reached by 25 June 2012 on the form, terms and conditions of the debt restructuring of the Meridiana fly - Air Italy group, for which negotiations are under way with the banks.

M- Non-Current financial debt

The non-current financial debt amounting to €66,211 thousand, consisting of (i) long-term borrowings of €642 thousand, consisting of the over-12 month portion of the mortgage loan with Banca Profilo for the purchase of the owned property located in Milan, (ii) non-current loans granted by the parent Meridiana for a total of €49,602 thousand, (iii) non-current portion of debt for finance leases on a Boeing 767 and other parts for €15,967 thousand.

4.10. "Significant non-recurring items for the quarter."

There were no significant non-recurring events that occurred during the quarter which had significant impact on the financial position, equity and earnings of this Interim Report.

4.11. Related party transactions

At 31 March 2012 Meridiana fly S.p.A is controlled by Meridiana S.p.A. Which holds a 78.05% stake.

Transactions at 31 March 2012 with Related Parties identified in accordance with IAS 24, as well as some details on the main commercial and operational relationships with related parties are summarised in the tables below.

Assets & Liabilities Vs related parties

€000	Total as of end of 31.03.2012	Geasar S.p.A. Amount	%	Meridiana S.p.A. Amount	%	Alisarda S.r.l. Amount	%	Cortesa S.r.l. Amount	%	Eccelsa S.r.l. Amount	%	Meridiana Maintenance S.p.A. Amount	%	DALF Business Service S.r.l. Amount	%
Current financial assets	19.292	-	0,0%	3.947	20,5%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%
Trade receivables and other current assets	128.580	383	0,3%	326	0,3%	-	0,0%	37	0,0%	38	0,0%	2.778	2,2%	-	0,0%
Long-term borrowings	66.211	-	0,0%	49.602	74,9%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%
Trade payables and other non current liabilities	4.149	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%
Trade payables and other current liabilities	227.672	9.780	4,3%	19	0,0%	-	0,0%	1.228	0,5%	32	0,0%	21.436	9,4%	24	0,0%

€000	AKFED Amount	%	Finaircraft Amount	%	Air Uganda Amount	%	Air Burkina Amount	%	Compagnie Aerienne Du Mali Amount	%	Marchin Investments B.V. Amount	%	Pathfinder Corporation S.A. Amount	%	Total related parties **Amount**	**%**
Current financial assets	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	**3.947**	**20,5%**
Trade receivables and other current assets	1.484	1,2%	25	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	**5.071**	**3,9%**
Long-term borrowings	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	**49.602**	**74,9%**
Trade payables and other non current liabilities	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	2.483	59,8%	532	12,8%	**3.015**	**72,7%**
Trade payables and other current liabilities	130	0,1%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	525	0,2%	113	0,0%	**33.287**	**14,6%**

Revenues & Costs Vs related parties

€000	Total I Quarter 2012	Geasar S.p.A. Amount	%	Meridiana S.p.A. Amount	%	Alisarda S.r.l. Amount	%	Cortesa S.r.l. Amount	%	Eccelsa S.r.l. Amount	%	Meridiana Maintenance S.p.A. Amount	%	DALF Business Service S.r.l. Amount	%
Other Revenue	6.600	13	0,2%	24	0,4%	-	0,0%	3	0,0%	1	0,0%	256	3,9%	-	0,0%
Materials and maintenance services	(22.182)	(53)	0,2%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	(7.118)	32,1%	-	0,0%
Operating leases	(15.572)	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%
Selling expenses	(4.666)	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%
Other operating and wet leases costs	(37.993)	(1.310)	3,4%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%
Sundry costs and other services	(7.835)	(59)	0,8%	(89)	1,1%	(134)	1,7%	(40)	0,5%	-	0,0%	(1)	0,0%	(72)	0,9%
Net financial income (expense)	(2.712)	-	0,0%	(284)	10,5%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%

€000	AKFED Amount	%	Finaircraft Amount	%	Air Uganda Amount	%	Air Burkina Amount	%	Compagnie Aerienne Du Mali Amount	%	Marchin Investments B.V. Amount	%	Pathfinder Corporation S.A. Amount	%	Total related parties **Amount**	**%**
Other Revenue	-	0,0%	-	0,0%		0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	**297**	**4,5%**
Materials and maintenance services	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	**(7.171)**	**32,3%**
Operating leases	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	**-**	**0,0%**
Selling expenses	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	**-**	**0,0%**
Other operating and wet leases costs	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	**(1.310)**	**3,4%**
Sundry costs and other services	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	**(395)**	**5,0%**
Net financial income (expense)	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	**(284)**	**10,5%**

Cash flows Vs related parties

€000	Total I Quarter 2012	Geasar S.p.A. Amount	%	Meridiana S.p.A. Amount	%	Alisarda S.r.l. Amount	%	Cortesa S.r.l. Amount	%	Eccelsa S.r.l. Amount	%	Meridiana Maintenance S.p.A. Amount	%	DALF Business Service S.r.l. Amount	%
Cash flows absorbed by operating activities	(35.522)	(390)	1,1%	(448)	1,3%	(134)	0,4%	(1)	0,0%	(1)	0,0%	(8.029)	22,6%	(72)	0,2%
Cash flow generated (absorbed) by investment activities	384	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%
Cash flows generated from financing activities	35.490	-	0,0%	38.586	108,7%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%
Cash flow generated from share capital transactions	-	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%

€000	AKFED Amount	%	Finaircraft Amount	%	Air Uganda Amount	%	Air Burkina Amount	%	Compagnie Aerienne Du Mali Amount	%	Marchin Investments B.V. Amount	%	Pathfinder Corporation S.A. Amount	%	Total related parties Amount	%
Cash flows absorbed by operating activities	19	-0,1%	298	-0,8%	6	0,0%	10	0,0%	1	0,0%	-	0,0%	-	0,0%	(8.740)	24,6%
Cash flow generated (absorbed) by investment activities	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%
Cash flows generated from financing activities	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	38.586	108,7%
Cash flow generated from share capital transactions	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%	-	0,0%

Relations with Meridiana

Relations with the parent Meridiana mainly concern commitments relating to the subscription and payment of the capital increases, as well as financial arrangements (cash loans and guarantees on Meridiana fly's loans to Meridiana fly's Lending Banks). Meridiana charges Meridiana fly with the fees for the guarantees given to third parties on behalf of Meridiana fly, as well as for other minor services performed in favour of the latter. On the income side, relations with Meridiana concern administrative management services, payroll services and other general services, as well as receivables arising from agreed deferred payment terms on the reimbursement of Maintenance "claims" received by Meridiana and attributable to Meridiana fly.

Relations with Geasar

Supply transactions with Geasar (controlled by Meridiana) relate to commercial services, payroll services and computer management.

Purchasing transactions relate to handling/catering services for aircraft and passengers at the Olbia airport, and services at the Olbia airport . Overdue payables to this company were subject to a rescheduling agreement.

Relations with Meridiana Maintenance

Purchasing transactions with Meridiana Maintenance (a subsidiary of Meridiana and 16.38% owned by Meridiana fly) cover maintenance services, technical management and other services related to the management of special service agreements relating to the fleet of Meridiana fly. Overdue payables to this company were subject to a rescheduling agreement.

Meridiana fly acts as service provider to Meridiana Maintenance with regard to administrative, legal and corporate services, human resources and payroll services, other "*global services".*

Relations with Finaircraft

Transactions with this company, wholly owned by AKFED, concern maintenance services on aircraft in use at the African companies controlled by AKFED, provided by Finaircraft and charged back to the latter.

Relations with AKFED

AKFED undertook to provide Meridiana with the financial resources - in the form of loans and payments for future capital increase, or a combination of the two - necessary to enable Meridiana to fulfil its commitments with regard to Meridiana - Air Italy integration, as per agreements of 18 July 2011, as amended, also relating to the going concern issue.

An agreement is in place with AKFED for the provision of consulting services in the field of air transport by Meridiana fly.

Relations with Alisarda

Services provided by Alisarda (a subsidiary of Meridiana) concern the leasing of offices and equipment at the Olbia Headquarters and other spaces at the Olbia airport; Meridiana fly, on the other and, provides various administrative services.

Relations with Cortesa

Services provided by Cortesa (a subsidiary of Geasar) are related to the canteen services at the Olbia Headquarters and the use of airport parking, while Meridiana provides payroll services.

Relations with Eccelsa

Transactions with Eccelsa (a subsidiary of Geasar) concern the provision of administrative payroll services to Eccelsa.

Relations with Air Uganda, Air Burkina, Air Mali

Relations with these airlines, controlled by AKFED, concern the technical management of Web sites carried out by Meridiana fly.

Relations DALF Business Service

A strategy consulting agreement is in place whereby this company provides services to its subsidiary Air Italy in the commercial, financial and business strategy fields. DALF Business Service S.r.l. is 49% owned by Alessandro Notari, *Chief Commercial Officer* the Company.

Relations with Former Air Italy Holding shareholders

At 31 March 2012 payables to the three Air Italy Holding former shareholders (Marchin Investments BV, Pathfinder Corporation S.r.l) refer to the "*Earn-out*" liability associated with the acquisition of Air Italy, and consisting of a fixed component (€750 thousand) and a variable part (€3,547 thousand valued at amortized cost versus a nominal value of €3,764 thousand), representing 50% of the proceeds from the market subscription of the Capital Increase (first stage completed in April 2012), and broken down as follows:

- €3,008 thousand in favour of Marchin Investments SA of which Giuseppe Gentile is the sole shareholder and sole director;

- €645 thousand in favour of Pathfinder Corporation S.r.l., of which. Alessandro Notari is the sole shareholder;

- €645 thousand in favour of Zain Holding S.r.l. (which is traceable to Lawyer Borgognoni Vimercati). It should be noted that this company is not yet a related party as it has not yet completed the capital increase with the associated registration in the Companies' Register; moreover, there are agreements in place with the law firm Borgognoni-Vimercati-Romano & Partners (BVR) for the provision of legal advice in favour of the Meridiana fly.

4.12. Guarantees given, commitments and other contingent liabilities

Sureties and other guarantees given

At 31 March 2012 the guarantees given to third parties by banks on behalf of the Group amounted to approximately € 48.9 million. These bank sureties mainly refer to guarantees issued in favour of Credit Card Providers, ENAC for tender participation on the routes under "territorial continuity", aircraft lessors, airport management companies, jet fuel suppliers and other suppliers of operational and financial services.

At 31 March 2012, a surety issued by an insurance company in favour of the Ministry of Defence to guarantee the charter contract of € 2.4 million, and a pledge in favour of a bank for a total of USD 4.2 million, were outstanding.

A first mortgage of the value of € 10 million is recorded on the Company's registered office in 15 Via Bugatti, Milan, in favour of the lending bank Banca Profilo.

At the end of March 2012 there are outstanding bills for a total of €1,180 thousand as a guarantee for the rescheduling of trade payables during the year 2012.

Commitments and other agreements

Commitments for aircraft operating leases at 31 March 2012 amounted to approximately €158 million, taking into account all maturities until 2017. The annual commitments for real estate leases amounted to approximately €2.7 million.

It should also be noted that outsourcing agreements with Meridiana Maintenance for the provision of exclusive maintenance services determine a financial commitment which varies according to the maintenance activities carried out.

Contingent liabilities

The Company and the Group are involved in litigation of various kinds. Although the Group may be required to pay higher amounts than those allocated to the provision for liabilities and charges, it is not possible to reasonably predict the outcome of the proceedings and assess the likelihood of additional charges weighing on the group's accounts.

4.13. Segment reporting

With reference to IFRS 8 on segment reporting, the operating segments that are deemed as necessary by the management for the purposes of assessing operating performance and making consequential decisions, are currently identified in the overall Group's business.

Indeed, following the completion of the strategic business combination with the aviation activities of Air Italy, - the Meridiana fly - Air Italy group is now a single business unit which cannot be "split" into different CGUs.

Therefore there are no production units within the aviation business carried out by the Group such as to represent independent decisions making systems with respect to the entity and therefore to be identified as distinct reporting segments pursuant to IFRS 8.

Therefore, in these notes, there are no data or tables presented for distinct business segments at a more detailed level than that of the entire Group.

This Interim Report was authorized for publication by the Board of Directors of the Company at its meeting held on 14 May 2012 and will be disclosed to the public.

Olbia, 14 May 2012

On behalf of the Board of Directors:

President

Marco Rigotti

5. Declaration by the Financial reporting officer

The undersigned Maurizio Cancellieri, in his capacity as Financial Reporting Officer, declares, pursuant to paragraph 2 of Article 154-bis of Legislative Decree no.58 of 24 February 1998 (Consolidated Finance Act), that the accounting information contained in this Quarterly Report at 31 March 2012, corresponds to the documentary evidence and the accounting books and records.

Olbia, 14 May 2012

Maurizio Cancellieri

Financial reporting officer

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