eurofly

Report on operations in the first quarter of 2006

Eurofly S.p.A. – Registered Office in Milan (MI), Via Ettore Bugatti, 15 – Share Capital Euro 13,355,302
R.E.A. (Economic-Admin. Roll) Milan No 1336505 – Company Register Milan No 05763070017
VAT No 03184630964 – Tax Code No 05763070017

INDEX

BOARD OF DIRECTORS REPORT ON OPERATIONS IN THE FIRST QUARTER OF 2006

Introduction 3
1. SCENARIO AND OPERATIONS 6
1.1. Macro-economic scenario 6
1.2. Industry scenario 6
1.3. Operations and operating activity 7
1.3.1. Commercial activity 7
1.3.2. Aircraft fleet 10
1.3.3. Creation of a newco to manage maintenance services in joint venture with a leading industrial partner 11
1.3.4. Livingston Aviation Group S.p.A. acquisition project 11
1.3.5. Growth initiatives in Egypt 11
2. ANALYSIS OF FINANCIAL RESULTS 13
3. STAFF 17
4. FINANCIAL INCOME AND EXPENSES 19
4.1. Net financial position 19
4.2. Cash flow statement 22
5. RESEARCH AND DEVELOPMENT 24
6. TREASURY SHARES 24
7. RELATIONSHIPS WITH SUBSIDIARIES, AFFILIATES, HOLDINGS AND COMPANIES SUBJECT TO THEIR CONTROL 25
8. RELATIONSHIPS WITH RELATED PARTIES 25
9. RELATIONSHIPS WITH BANCA PROFILO 25
10. IMPORTANT EVENTS OCCURRED AFTER FISCAL YEAR END AND PREDICTABLE DEVELOPMENT OF ACTIVITIES 27
10.1. The Dahab attack 27
10.2. Evolution of relationships with Teorema Tour S.p.A. 27
10.3. Livingston Aviation Group acquisition project 27
10.4. A319 CJ aircraft and relationship with the MiMa association 28
10.5. Restructuring of financial relationships 29
10.6. Predictable evolution of operations 29
IAS/IFRS APPLICATION AND EFFECTS 30
Overview 31
Main differences between the Italian accounting principles previously used and IAS/IFRS 32
Accounting treatments chosen by the Company among the accounting options envisaged by IAS/IFRS. 35
Optional exemptions envisaged by IFRS 1 and adopted by the Company 35
Reconciliation between previously used Italian accounting principles and IAS/IFRS 35
Explanatory notes to reconciliation tables of net result and net equity according to previous criteria and IAS/IFRS 37
Accounting principles and valuation criteria used in the quarterly report at March 31, 2006 46

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

Registered Office in Milan – Via E. Bugatti, 15

Share Capital Euro 13,355,302 fully paid up

Registered in the Milan Company Register No 05763070017 - R.E.A. No 1336505

BOARD OF DIRECTORS REPORT ON OPERATIONS IN THE FIRST QUARTER OF 2006

Explanation added for English translation purposes

The Report on operations in the first quarter of 2006 has been translated into English from the original version in Italian. It has been prepared in accordance with the International Financial Reporting Standards (IFRS).

Introduction

This quarterly report at March 31, 2006 has been prepared in accordance with the Italian National Commission for Listed Companies and the Stock Exchange (CONSOB) Regulations No 11971 and subsequent modifications, with the goal to provide information about the Company's economic and financial situation. Through Resolution No 14990 of April 14, 2005 CONSOB allowed companies to draw up their quarterly reports according to the national accounting standards in the first year of IAS/IFRS application, along with the preparation of reconciliation tables of equity and net income, as prescribed by IFRS 1 – First-time adoption of IAS/IFRS. Based on art. 81-bis and 82-bis of CONSOB Issuers' Regulations as introduced by the aforementioned Resolution, Eurofly S.p.A. has therefore prepared its quarterly report as of March 31, 2006, the first following the expiry of the transitional period introduced by art. 81-bis, adopting the IAS/IFRS issued by IASB (International Accounting Standards Board) for the preparation of accounting records and financial statements. Furthermore, based on provisions of art. 82-bis of the above-mentioned Regulations, the quarterly report has been presented according to the pre-existing layout. Appendix **"IAS/IFRS APPLICATION AND EFFECTS"** includes the information envisaged by the afore-said CONSOB Resolution in regard to first-time adoption of IAS/IFRS. In this Report, the first quarter 2006 financial figures are compared with those of the same period in the past fiscal year, while the net financial position and balance sheet items at March 31, 2006 are compared with the corresponding final results as of December 31, 2005.

Considering the importance of some events occurred after the closing of fiscal year 2005 and supplemental to this Report, please see chapter 13 (important events occurred after fiscal year end and predictable development of activities) of the 2005 Report on Operations approved by the Board of Directors on March 27, 2006.

We are presenting the main balance sheet and income statement figures and business indicators for the first quarter of 2006 compared with those of first quarter of 2005 and December 31, 2005.

Unless otherwise specified, Euro/000

2005	Significant information	I Quarter 06	I Quarter 05	Change	Change %
42.060	Total flight hours	9.221	9.512	(291)	-3,1%
1.603.240	Passengers carried	351.001	330.139	20.862	6,3%
136	Available fleet rented and in wet lease (machine months)	33	34	(1)	-3,6%
5.441	Productivity Long Haul fleet (in flight hours) (1)	5.267	5.866	(600)	-10,2%
5.335	Productivity Long Haul fleet incl Wet Lease (in flight hours) (1)	5.267	5.365	(99)	-1,8%
3.192	Productivity Medium Haul fleet (in flight hours) (1)	2.636	2.583	53	2,0%
2005	**Summary Statement of profits and losses**	**I Quarter 06**	**I Quarter 05**	**Change**	**Change %**
271.475	Revenue from sales and services	61.353	61.089	264	0,4%
277.461	Total revenue	62.500	61.151	1.350	2,2%
30.823	EBITDAR (2)	7.141	4.746	2.395	50,5%
11,4%	Percentage on total revenue	11,6%	7,8%		
3.789	EBITDA (3)	(1.706)	(691)	(1.015)	-146,8%
1,4%	Percentage on total revenue	-2,8%	-1,1%		
(3.607)	EBIT (4)	(3.572)	(2.270)	(1.302)	-57,3%
-1,3%	Percentage on total revenue	-5,8%	-3,7%		
(2.775)	Result of the year	(4.392)	(1.533)	(2.859)	-186,6%
31.03.05	**Summary Balance Sheet**	**31.03.06**	**31.12.05**	**Change**	**Change %**
58.784	Total Fixed Assets	90.178	103.009	(12.831)	-12,5%
79.042	Total Current Assets	78.889	95.282	(16.393)	-17,2%
-	Non current assets held for sale	-	-	-	-
137.826	Total assets	169.067	198.291	(29.224)	-14,7%
14.692	Net equity	41.464	43.477	(2.013)	-4,6%
7.521	Total non current liabilities	38.007	38.107	(99)	-0,3%
115.614	Total current liabilities	89.595	116.707	(27.112)	-23,2%
137.826	Total net equity and liabilities	169.067	198.291	(29.224)	-14,7%
2005	**Investments**	**I Quarter 06**	**I Quarter 05**	**Change**	**Change %**
68.700	Investments	736	8.967	(8.231)	-12,0%
31.03.05	**Other financial data**	**31.03.06**	**31.12.05**	**Change**	**Change %**
3.478	Net financial position (5)	(10.234)	(4.093)	(6.141)	150,0%
(2.554)	Net cash and equivalents (short-term net financial debt)	16.291	11.875	4.416	37,1%
14.692	Net equity	41.464	43.477	(2.013)	-4,6%

(1) Productivity of periods shorter than a year is annualised to facilitate comparisons between different periods.
(2) EBITDAR: *Earnings Before Interest, Taxes, Depreciation, Amortization and aircraft Rentals* (i.e. EBIT gross of aircraft operative rentals – excluding wet lease – and of amortisation and provisions for risks and charges).
(3) EBITDA: *Earnings Before Interest, Taxes, Depreciation, Amortization.*
(4) EBIT: *Earnings Before Interest and Taxes.*
(5) Compared to net cash and cash equivalents (short-term net financial debt), the net financial position includes financial fixed assets and the non-current portion of borrowings.

While the trend of the above-mentioned data is analysed thoroughly in the following paragraphs, we feel it is now important to describe the operations on Share Capital and Net Shareholders' Equity that took place in the quarter.

As is well-known, the Company successfully completed its IPO on December 21, 2005 and its shares were admitted to trading on the MTA market organized and managed by Borsa Italiana S.p.A.

On January 26, 2006, at the end of the stabilization period, the Coordinators of the Global Offer exercised their right to underwrite 390,000 shares at the offer price (Greenshoe). As a result, the share capital was increased by another 390,000 shares at the price of Euro 6.40 each. Subsequent to such increase, the share capital amounts to Euro 13,355,302.00, split in 13,355,302 shares having a par value of Euro 1.0 each.

Hence, movements in net equity were following.

Euro/000	**Share capital**	**Share premium**	**Legal reserve**	**Statutory reserve**	**Profit (loss) carried forward**	**Profit (loss) of the year**	**Total**
Net equity 31 December 2005	**12.965**	**29.127**	**478**	**3.681**	-	**(2.775)**	**43.477**
Appropriation on 2005 results					(2.775)	2.775	
Greenshoe exercise	390	1.989					2.379
1 quarter 2006 net loss						(4.392)	(4.392)
Net equity 31 March 2006	**13.355**	**31.116**	**478**	**3.681**	**(2.775)**	**(4.392)**	**41.464**

1. SCENARIO AND OPERATIONS

1.1. Macro-economic scenario

The quarter was characterized by a strong increase of energy costs. The price of crude oil has been under pressure in the first months of 2006, particularly due to the worsening of the USA-Iran crisis.
The oil price has been quoted above 60 dollars/barrel, expected to rise further. As represented in the following table, the average Brent value was up ca. 29% ($ 61.75) in the first quarter of 2006 compared to the same period in 2005 ($ 47.70).

Crude oil
US$/barrel

2005	Crude oil	1 Quarter 2005	1 Quarter 2006	06/05 %
56,64	WTI-USA	49,73	63,27	27%
54,57	Brent-Europe	47,70	61,75	29%

Source: Energy Information Administration – US Government 2005

In the first quarter of 2006 the Euro/US dollar exchange rate highlighted a recovery of the Euro with respect to the last months of 2005. Compared to the same period of the previous year the exchange rate however showed a significant strengthening of the US dollar.
Indeed, the average exchange rate was equal to 1.2021 in the first quarter of 2006 versus 1.3111 in the same period of 2005.
The rising trend of interest rates was confirmed both in the United States and in Europe.

1.2. Industry scenario

Global air traffic showed a sharp increase in the number of passengers carried in the first quarter of 2006. The quarterly report of IATA (International Air Transport Association) pointed to a 5.9% increase in passengers carried versus previous year, compared with a 4.9% offer expansion, with a resulting improvement of the load factor worldwide. Similar data are recorded in Italy as well. Statistics by Assaeroporti (Italian airport association) highlighted a 6.2% traffic growth in the quarter with a sharper increase of international traffic (7.2%) compared to domestic traffic, according to a long-established trend.
Turning to Eurofly's reference sector, the Astoi Observatory (Italian tour operator association) noted an extremely sustained growth of the Maldives destination of approximately 10% compared to the first quarter of 2004. Comparison with 2005 is not meaningful due to the Tsunami effect. Positive signals are coming from Egypt too, where in March passengers finally equalled the 2004 level (please note that the

first quarter of 2005 had been penalized by a decrease of passengers compared to the previous year following the Taba attack in October 2004).

1.3. Operations and operating activities

1.3.1. Commercial activity

The commercial activity in the quarter was aimed at minimizing the impact of:

- the terrorist attack in Sharm El Sheik in July 2005
- the hurricanes in the Caribbean area at the end of 2005
- the lacked renewal of the agreement with Teorema Tour

In particular, the offer of capacity in the Medium Haul leisure market decreased, since in 2005 the Company decided to lease two aircraft to the My Way carrier in ACMI [1]mode. This business, launched for strategic purposes, will be continued in the future, given its good results. Through this action and a stronger-than-expected recovery of demand for Egyptian destinations, Eurofly did not suffer much from the lacked renewal of the agreement with Teorema Tour. On the other hand, the stop of business with Teorema Tour had a stronger impact on the Long Haul segment. The contract that Eurofly was negotiating with Teorema Tour provided for Long Haul sales of ca Euro 11 million in the winter season, partly through rotations wholly acquired from the Tour Operator and partly through allotments (share of aircraft seats). While the rotations that had to be bought entirely have not been replaced, as this turned out to be impossible just ahead of departures, almost all allotments have been sold through a massive use of multichannel distribution. Indeed, Eurofly has equipped itself with the necessary instruments to sell its flights to Tour Operators, travel bureaus and final users through various sales channels (call centres, internet website, distribution with all GDS both in Italy and in flight destination countries), through which they managed to increase its seat offer dramatically, obtaining good results in terms of loading.

[1] A.C.M.I is the acronym for Aircraft, Crew, Maintenance and Insurance. It is a type of contract to lease aircraft from or to third parties, whose rent is inclusive of aircraft, crew, maintenance and insurance costs.

Statistical data and unit revenues

Statistic data

2005		I Quarter 06	I Quarter 05	Change	Change %
42.060	Total flight hours	9.221	9.512	-291	-3,06%
27.996	Medium Haul	5.271	5.488	-217	-3,95%
14.064	Long Haul	3.950	4.024	-74	-1,84%
1.603.240	Passengers carried	351.001	330.139	20.862	6,32%
1.496.293	Eurofly	291.186	330.139	- 38.953	-11,80%
106.947	Other carriers	58.815	-	58.815	0,00%
1.199.611	Medium Haul	230.896	196.475	34.421	17,52%
403.629	Long Haul	120.105	133.664	- 13.559	-10,14%

The flight hours' trend in the first quarter of 2006 is substantially aligned with the first quarter of 2005.
In this respect it is worth noting that the mix of Medium Haul flight hours has varied significantly, since flight hours operated on behalf of third carriers (ACMI for the company My Way) increased and, consequently, flight hours for scheduled flights and charters operated under the Eurofly code declined.
Also, we highlight that the last draft contract that was being negotiated with the client Teorema Tour, envisaged approximately 950 Medium Haul flight hours in the first quarter of the year. It follows that the loss of the contract did not affect Medium Haul productivity in a considerable way.
The analysis of Long Haul shows that approx. 400 flight hours were cancelled in the first quarter of 2005 due to a reduction of traffic to and from the Maldives. These hours have been fully recovered during 2006, which recorded 500 flight hours more than in the previous year for this destination. The substantial alignment of flight hours with the first quarter of 2005 was the result of the lacked renewal of the agreement with Teorema Tour, which involved the acquisition of two weekly rotations on Caribbean destinations for a total of approx. 500 flight hours in the first quarter of 2006.
As to passenger data, we highlight that the 2005 Long Haul figure was influenced by the different configuration of aircraft A330 in wet lease[2] compared to Eurofly's A330. This aircraft, leased from the French company STAR, had 364 seats vs. 282 of Eurofly's aircraft.

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[2] Wet lease is the lease of an aircraft with crew from third parties (ACMI mode)

Fleet productivity

Flight hours

2005		I Quarter 06	I Quarter 05	Change	Change %
3.192	**Medium Haul**	2.636	2.583	53	2,04%
5.441	**Long Haul**	5.267	5.866	-600	-10,22%

Fleet productivity (including wet lease)

Flight hours

2005		I Quarter 06	I Quarter 05	Change	Change %
5.335	**Long Haul**	5.267	5.365	-99	-1,84%

The analysis of fleet productivity (either related to Eurofly's aircraft alone or to wet-leased aircraft) indicated a performance substantially in line with the previous year and consistent with the flight hours trend. It should be noted that the figure for the first quarter of 2005 related to Eurofly's aircraft alone, prevents a like-for-like comparison, because the Company tried to concentrate activities on Eurofly's two aircraft instead of using the three available aircraft more homogeneously, following the cancellation of operations on the Maldives.

Revenues per flight hours

Euro/000

2005		I Quarter 06	I Quarter 05	Change	Change %
5.439	Medium Haul	5.024	4.660	364	7,81%
8.255	Long Haul	9.042	8.423	619	7,35%
6.417	**Total**	**6.928**	**6.252**	**676**	**10,81%**

Unit revenues are only based on revenues deriving from flight activities directly. The table does not take these revenues and related hours into account, since the ACMI business generates much lower revenues per flight hour.

The increase of 10 percentage points in average revenues - despite a trend of declining unit revenues for the sector or, as per IATA's latest report on first quarter 2006 estimates, flat revenues – should be considered as a positive result, especially given the difficult quarter, and it helped reduce the incidence of the exogenous increase of some cost items, in particular fuel costs.

1.3.2. Aircraft fleet

In the first quarter of 2006 the availability of the Medium Haul aircraft fleet was substantially aligned with the previous year. The fleet comprises eight A320 aircraft. Such a fleet configuration was reached during the first quarter of 2005, after the eighth A320 was delivered and the disposal of the MD 80 fleet was completed.

The Long Haul fleet consisted of three A330 aircraft in the first quarter of 2006. The fleet availability was similar in the same period of 2005, even if the two A330 aircraft under operative leasing were integrated by the wet lease of another A330 in order to bring fleet configuration to three aircraft in advance and to satisfy market demand.

In the first quarter of 2006 the A319 Corporate Jetliner aircraft was leased to the Saudi company NAS, which had already operated it in 2005. The contract expired on April 5, 2006 (see also chapter 10 of this Report). The following table summarises the fleet configuration in 2005 and in the first quarter of 2006. The table does not show aircraft A319 CJ, since it was leased to another carrier through operative leasing in 2005 and for the entire first quarter of 2006.

Registration mark	Type	Entry in fleet	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Agu 05	Sep 05	Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06
I-EEZB	A330	Agu 02															
I-EEZA	A330	Sep 02															
I-EEZJ	A330	May 05															
I-EEZC	A320	Oct 02															
I-EEZD	A320	Feb 03															
I-EEZE	A320	Mar 03															
I-EEZF	A320	Apr 03															
I-EEZG	A320	May 03															
I-EEZH	A320	Dec 04															
I-EEZI	A320	Dec 04															
I-EEZK	A320	Feb 05															
I-DAVD	MD-82	May 04															
I-DAVC	MD-82	Jun 04															

The following table shows the capacity acquired through wet lease in the same period as represented in the previous table.

Registration mark	Type	Entry in fleet	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Agu 05	Sep 05	Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06
Medium Haul	MD-82																
Medium Haul	MD-82																
Long Haul	A330-300																

1.3.3. Creation of a newco to manage maintenance services in joint venture with a leading industrial partner

In the quarter the Company pursued negotiations with EADS Sogerma Services, a worldwide leader in aircraft maintenance, for the creation of a company based at the Malpensa airport and the offer of maintenance services to all carriers present at the airport, amongst which Eurofly and Livingston Aviation Group. This project will allow the Company to increase the efficiency and quality of its fleet maintenance at lower costs.

1.3.4. Livingston Aviation Group S.p.A. acquisition project

On March 17, 2006 the Company forwarded an expression of interest for Livingston Aviation Group, a carrier that operates in the same market segment as Eurofly and is controlled by I Viaggi del Ventaglio S.p.A. In the same date the Board of Directors of I Viaggi del Ventaglio S.p.A. acknowledged the expression of interest and conceded twenty days of exclusive talks. On March 27 the Company approved a “term sheet” preparatory to the signing of a letter of intent for the definition of a sale contract. The term sheet also defined an enterprise value for 100% of LAG equal to Euro 50 million and a three-year business agreement between LAG / Eurofly and I Viaggi del Ventaglio S.p.A. providing for minimum guaranteed sales worth Euro 100 million / year and the entry of I Viaggi del Ventaglio in Eurofly’s capital with a stake up to ca. 15%.

1.3.5. Growth initiatives in Egypt

Eurofly intends to strengthen its leadership in Egypt, to grasp business opportunities also regarding connections between other European countries and the Red Sea area, and to improve its efficiency in terms of fleet operativeness and cost structure.

After postponing local cooperation hypotheses – that appeared unfeasible or even too complicated at the moment - the Company is looking with interest at the new Egyptian regulations that allow the creation of a foreign-capital charter carrier, as well as at the local political mood that seems favourable to such an initiative.
To this purpose the Company is verifying the feasibility and profitability of such an opportunity. The outcome will be submitted to the Company's Board of Directors and, in case of approval, the Company will proceed with the creation of an Egyptian flag company controlled by Eurofly.
It will take eight to twelve months for the new carrier to start operations in winter 2006/2007, if all goes well. A preliminary analysis supported by local advisors and supervised by PWC Advisory Services is currently being conducted.

2. ANALYSIS OF FINANCIAL RESULTS

2005	% on revenues	Riclassified Income Statement	I Quarter 06	% on revenues	I Quarter 05	% on revenues	Change	Change %
		Euro/000						
271.475	100,0%	Revenue from sales and services	61.353	100,0%	61.089	100,0%	264	0,4%
5.986	2,2%	Other revenue	1.148	1,9%	62	0,1%	1.086	1758,5%
277.461	**102,2%**	**Total revenue**	**62.500**	**101,9%**	**61.151**	**100,1%**	**1.350**	**2,2%**
2.674	1,0%	Direct commercial costs	467	0,8%	357	0,6%	110	30,8%
274.786	**101,2%**	**Revenue net of direct commercial cos**	**62.033**	**101,1%**	**60.793**	**99,5%**	**1.240**	**2,0%**
72.788	26,8%	Jet Fuel	18.774	30,6%	14.795	24,2%	3.980	26,9%
39.143	14,4%	Staff costs	9.514	15,5%	9.394	15,4%	120	1,3%
33.253	12,2%	Materials and maintenance services	9.181	15,0%	8.150	13,3%	1.031	12,7%
84.449	31,1%	Other operating costs and wet lease	14.056	22,9%	20.531	33,6%	-6.475	-31,5%
14.330	5,3%	Other commercial and corporate costs	3.367	5,5%	3.178	5,2%	189	5,9%
243.963	**89,9%**	**Subtotal costs**	**54.893**	**89,5%**	**56.048**	**91,7%**	**-1.155**	**-2,1%**
30.823	**11,4%**	**EBITDAR**	**7.141**	**11,6%**	**4.746**	**7,8%**	**2.395**	**50,5%**
27.034	10,0%	Rentals	8.847	14,4%	5.437	8,9%	3.410	62,7%
3.789	**1,4%**	**EBITDA**	**-1.706**	**-2,8%**	**-691**	**-1,1%**	**-1.015**	**-146,8%**
4.836	1,8%	Depreciation and amortization	1.622	2,6%	726	1,2%	897	123,6%
2.000	0,7%	Other provisions	0	0,0%	0	0,0%	0	0,0%
559	0,2%	Provisions for risk and charges	244	0,4%	853	1,4%	-609	-71,4%
7.396	**2,7%**	**Subtotal costs**	**1.866**	**3,0%**	**1.579**	**2,6%**	**287**	**18,2%**
-3.607	**-1,3%**	**EBIT**	**-3.572**	**-5,8%**	**-2.270**	**-3,7%**	**-1.302**	**-57,4%**
225	0,1%	Financial income/(charges)	-1.126	-1,8%	-167	-0,3%	-958	-572,4%
1.581	0,6%	Profit on sales of assets	0	0,0%	1.373	2,2%	-1.373	-100,0%
711	0,3%	Extraordinary income/(Charges)	76	0,1%	37	0,1%	40	108,2%
-1.090	**-0,4%**	**Profits before taxes**	**-4.622**	**-7,5%**	**-1.028**	**-1,7%**	**-3.594**	**-349,6%**
1.685	0,6%	Tax charges	-230	-0,4%	505	0,8%	-734	-145,6%
-2.775	**-1,0%**	**Result of the year**	**-4.392**	**-7,2%**	**-1.533**	**-2,5%**	**-2.859**	**-186,6%**

Revenues

In 2006 revenues from sales and services are aligned with those of the first quarter of 2005.

This result was the consequence of lower revenues from Medium Haul operations, that have been more than offset by a growth in Long Haul, as represented in the following table.

2005		I Quarter 06	I Quarter 05	Change	Change %
149.204	Medium Haul	24.065	25.967	-1902	-7,32%
122.271	Long Haul	37.288	35.122	2.166	6,17%
271.475	**Total**	**61.353**	**61.089**	**264**	**0,43%**

The decrease of Medium Haul revenues is related to the sale of flight hours to the carrier My Way in ACMI mode. This sales formula envisages a lower price per flight hour compared to typical charter prices, since ACMI contracts provide that operating and fuel costs are borne by the buyer. This, combined with a decline of flight hours (-4%), explains the revenue decrease, despite an almost 8% increase of average unit revenues from hours of scheduled flights and charters operated under Eurofly code.

As to Long Haul, the increase of revenues from sales and services was determined by higher unit revenues per flight hour, whose increase in excess of 7% compensated for the slight decline in flight hours.

The trend of flight hours, productivity and revenues per flight hour has been discussed in the previous paragraphs of this Report.

Other revenues reported a strong growth due to active leases of aircraft A319 for an amount of Euro 1,056 thousand in the first quarter of 2006.

Costs

- **Jet fuel**

Fuel costs rose by almost Euro 4.0 million and their weight on revenues from sales and services climbed to 30.6% from 24.2%. This was the result of a negative price effect, following the price increase of crude oil and oil products, whose impact was worth approximately Euro 4.4 million. Moreover, the strengthening of US dollar negatively affected this item by another Euro 1.4 million. Conversely, the carrying out of Medium Haul operations through ACMI contracts (fuel and other operating costs borne by clients) and the reduction of flight hours translated into a positive volume effect of ca. Euro 1.8 million.

- **Staff**

Staff costs are substantially in line, as well as their weight on revenues.

- **Materials and maintenance services**

The increase of these costs is mainly due to the entry in fleet of the third A330 aircraft under operative leasing in the second quarter of 2005. The higher weight on revenues is influenced by the fact that in the first quarter of 2005 the Long Haul fleet comprised three aircraft, of which one in wet lease, whose maintenance costs were included in the ACMI tariff per flight hour.
Also, maintenance costs were negatively affected by the US dollar exchange rate.

- **Other operating costs and wet lease**

This cost item decreased by approximately Euro 6.5 million, of which ca. Euro 5 million due to costs for ACMI lease of aircraft to third carriers that mostly operate on long haul routes. In 2006 these operating costs have been covered through the use of the third Eurofly A330. Furthermore, the partial carrying out of the Medium Haul business through ACMI contracts, whose operating costs are borne by clients, as well as a reduction of flight hours led to a positive volume effect of approximately Euro 1.4 million. Operating costs were also positively affected by regulations on "System Requirements" (law 248/2005 of December 2, 2005), whilst the Euro depreciation versus US dollar had a negative effect.

This cost item also includes insurance charges that grew following the expansion of the aircraft fleet.

2005	% on revenues		I Quarter 06	% on revenues	I Quarter 05	% on revenues	Change	Change %
71.465	26,3%	Other operating costs	14.056	22,9%	15.544	25,4%	-1.488	-9,6%
12.984	4,8%	Wet lease	0	0,0%	4.987	8,2%	-4.987	-100,0%
84.449	**31,1%**	**Total**	**14.056**	**22,9%**	**20.531**	**33,6%**	**-6.475**	**-31,5%**

- **Other commercial and corporate costs**

This cost item grew slightly, mainly due to a higher expenditure for advertising campaigns.

<u>EBITDAR</u>

Higher revenues and lower total costs translated into an increase of EBITDAR (Euro +2.4 million, +50.5%). However, the increase of fuel costs and the unfavourable foreign exchange trend limited margin growth.

- **Rentals**

The increase of operative rentals can be seen in the following table:

2005		I Quarter 06	I Quarter 05	Change	Change %
17.547	A320	5.372	3.738	1.635	43,7%
9.435	A330	3.474	1.699	1.775	104,5%
26.981	**Total**	**8.847**	**5.437**	**3.410**	**62,7%**

The sharp growth of Long Haul leasing is mainly the consequence of the entry in fleet of the new A330 aircraft, accounting for approx. Euro 1.5 million, and of the US dollar strengthening for Euro 0.2 million. In addition, the increase partly offset lower wet lease costs sustained in 2005 to bring the Long Haul fleet to three aircraft.

As to the Medium Haul fleet, the cost increase is due to several factors, such as growth in interest rates (to which leasing of five of the eight A320 are index-linked), US dollar appreciation, the higher amount of machine months compared to previous year and the renegotiation of some contracts expired in 2005.

EBITDA

The EBITDAR growth, driven by the aforementioned factors, was not enough to cover the increase of lease costs. Consequently, EBITDA reported a decrease of approximately Euro 1.0 million.

- **Depreciation and amortization, other provisions and provisions for risks and charges**

The higher value of depreciation and amortization is mainly the result of the entry in fleet of A319 CJ (that generated D&A costs of approx. Euro 570 thousand in the first quarter of 2006), besides higher D&A costs deriving from changes of the A330 fleet in 2005.

EBIT

The increase of depreciation and amortization further eroded margins, causing an operating loss equal to Euro 3,572 thousand.

- **Financial and extraordinary income and charges**

The increase of financial charges is to be mainly ascribed to the portion of interests payable accrued on the A319 leasing agreement and equal to approximately Euro 369 thousand, and to net foreign exchange losses equal to approximately Euro 520 thousand.

As to the sale of assets, it should be noted that no assets have been disposed of in the period under analysis, while the same period in the previous year had benefited from the capital gains on the sale of the MD80/82 aircraft.

- **Taxes**

The first quarter of 2006 highlighted a tax credit linked to the acknowledgement of deferred tax assets in the amount of circa Euro 510 thousand versus an allocation of circa Euro 280 thousand for current taxation, regarding the regional tax on production activities alone (IRAP).

3. STAFF

The Company's workforce at March 31, 2006 is indicated in the table below, which also includes the variation with respect of December 31, 2005. The main difference regards the increase of cabin flight crew connected with the trend of operating activities in the period.

31.03.05	Categories	31.03.06	31.12.05	Change 03.06-12.05
8	Managers	12	8	4
188	Employees	180	182	-2
196	**Total ground staff**	**192**	**190**	**2**
123	Pilots	123	125	-2
312	Flight assistant	331	306	25
435	**Total flight staff**	**454**	**431**	**23**
631	**Total staff**	**646**	**621**	**25**

The average workforce in the first quarter of 2006 is included in the following table, along with a comparison with the same figure for the previous year.

The decrease in the average remunerated workforce is due to a more efficient organization, as far as ground personnel is concerned, and to an optimized use of resources in the period, as far as flight crew is concerned.

31.12.05	Categories	31.03.06	31.03.05	Change 03.06-03.05
8	Managers	10	8	2
187	Employees	176	194	-17
195	**Total ground staff**	**187**	**202**	**-15**
128	Pilots	125	127	-2
266	Flight assistant	262	277	-15
394	**Total flight staff**	**387**	**404**	**-17**
589	**Total staff**	**574**	**606**	**-32**

In the first quarter of 2006 the Company re-defined its organizational structure through the creation of three organizational positions.

These structures are respectively focused on operating activities, commercial activities and on the management of centralized activities.

The first structure includes the bodies responsible for planning and coordination of operative resources, technical management of flight personnel, training, landing operations, aircraft maintenance, and the organizational unit in charge of the institutional and regulatory activities required by US authorities and of the correctness of operations at the New York airport.

The second structure includes the bodies responsible to guarantee business development, to define a marketing plan and to achieve the Company's sales, image and service quality targets.

The third structure includes the bodies responsible to guarantee the correct accomplishment of the Company's administrative and financial functions, to ensure the purchase of goods and services important for the overall company management according to an optimization approach, and to guarantee management and development of IT structures and general services.

These three macro areas are supported by the following four bodies:

- Human Resources & Legal Affairs ensure development of the Company's organizational structure, management and development of human resources, management of industrial relationships, staff training, recruiting and selection, staff administration, management of legal activities and company's litigations.
- Quality defines and manages the Company's quality system in compliance with the general and specific regulations in force.
- Safety & Security guarantees safety of flight operations, defines the system of risk assessment and prevention, and manages work safety and environmental hygiene.
- Internal Auditing, created in February 2006, evaluates suitability and effectiveness of internal control systems and verifies the observance of policies, directives and procedures aimed at protecting corporate assets.

4. FINANCIAL INCOME AND EXPENSE

4.1. Net financial position

In the quarter the Company's net financial position has evolved as follows:

31 March 05	*Amounts Euro/000*	31 March 06	31 Dec 05	Change
10.549	RECEIVABLES CLASSIFIED AS FINACIAL FIXED ASSETS	8.097	18.906	(10.809)
7.464	CASH AND CASH EQUIVALENT	25.067	40.749	(15.682)
(9.536)	AMOUNTS OWED TO BANKS	(6.984)	(26.671)	19.687
-	AMOUNTS OWED TO LEASING COMPANIES	(27.396)	(27.816)	420
-	AMOUNTS OWED TO SHAREHOLDERS	(4.500)	(4.500)	-
(5.000)	AMOUNTS OWED TO OTHER CREDITORS	(4.518)	(4.761)	243
3.478	**NET FINANCIAL POSITION**	**(10.234)**	**(4.093)**	**(6.141)**

The main variation of the net financial position in the quarter regards the disposal of a capitalization contract with lump sum premium included among receivables classified as financial fixed assets, which decreased by Euro 10,800 thousand.
Cash increased by Euro 4,400 thousand as a result of the above-said disposal, which was offset by the cash absorption of financial income and expenses that will be analysed thoroughly in the cash flow statement section.

The reconciliation between the Company's net financial position and cash and cash equivalents/short-term financial debt is as follows:

31 March 05	*Amounts Euro/000*	31 March 06	31 Dec 05	Change
3.478	**NET FINANCIAL POSITION**	**(10.234)**	**(4.093)**	**(6.141)**
(10.549)	RECEIVABLES CLASSIFIED AS FINACIAL FIXED ASSETS	(8.097)	(18.906)	10.809
0	AMOUNTS OWED TO SHAREHOLDERS	4.500	4.500	0
	AMOUNTS OWED TO LEASING COMPANIES			
0	*Non current portion*	26.104	26.104	0
	AMOUNTS OWED TO OTHER CREDITORS			
4.518	*Non current portion*	4.018	4.270	(252)
(2.554)	**CASH AND CASH EQUIVALENT NET / (NET FINANCIAL INDEBTEDNESS)**	**16.291**	**11.875**	**4.416**

Analysis of receivables classified as financial fixed assets and of net cash

i. Receivables classified as financial fixed assets

At March 31, 2006 receivables classified as financial fixed assets, amounting to Euro 8,097 thousand, were represented by a time deposit with Unicredit, pledged against the issue of a bank guaranty by Unicredit as surety for the leasing agreement stipulated with Locat S.p.A. for the purchase of A319 CJ in May 2005. The bank guaranty lasts until the thirtieth day following the expiry of the aforementioned ten-year leasing agreement.

At December 31, 2005 these receivables, equal to Euro 18,906 thousand, also included a capitalization contract with lump sum premium worth Euro 10,841 thousand, pledged as guarantee for the credit lines granted by Banca Profilo.

In February 2006 the Company decided to extinguish the credit line granted by Banca Profilo, since the spread between the cost of money related to the use of reserves and the yield of the above-mentioned capitalization contract, pledged as credit guarantee, could no longer justify that transaction. The proceeds generated by the disposal of the policy have been used to pay off the aforementioned credit line worth Euro 10,000 thousand.

ii. Cash and cash equivalents

Cash at March 31, 2006 consisted of credit balances of bank accounts, which benefited from the greenshoe exercise and the disposal of the capitalization contract described above.

The balance at December 31 2005 included the value of forward exchange contracts of US currency (USD) valid until year end and amounting to Euro 8,477. For further details on the treatment of derivatives, please see Appendix on IAS/IFRS application.

Analysis of debt

iii. Amounts owed to banks

The amounts owed to banks are equal to Euro 6,984 thousand and are represented by bank overdrafts.

The balance at December 31, 2005 includes the value of forward exchange contracts of US currency valid until year end and amounting to Euro 8,142. For further details on the treatment of derivatives, please see Appendix on IAS/IFRS application. At March 31, 2006 total lines of credit amounted to Euro 46,800 thousand, of which Euro 33,635 thousand already used.

More specifically, the use of debt includes advance payments of invoices for Euro 6,984 thousand, bank guaranties for Euro 17,651 thousand and advance factoring for Euro 9,000 thousand.

Total credit lines decreased by Euro 5,500, because the loan granted by Banca Profilo was reduced from Euro 10,000 to 2,500 thousand and Banca Sella granted a new credit line worth Euro 2,000 thousand.

The percentage of credit lines and advances employed at March 31, 2006 was of 40.37% versus 74.21% at December 31, 2005.

iv. Amounts owed to leasing companies

These amounts are equal to Euro 27,396 thousand and represent the leasing not yet expired of the aforementioned leasing agreement for the A319 CJ aircraft stipulated with Locat S.p.A.

v. Amounts owed to shareholders for financing

Amounts owed to shareholders are equal to Euro 4,500 thousand and are related to the non-interest-bearing 24-month loan issued by Spinnaker Luxembourg S.A. and collected on November 18, 2005 in order to strengthen the Company's financial situation in view of the IPO.

vi. Amounts owed to other creditors

These amounts are equal to Euro 4,518 thousand, of which Euro 500 thousand payable in 12 months, and include a mortgage loan contracted with Banca Profilo in December 2003 to buy a building located in Via Bugatti, 15 - Milan. The mortgage will last ten years and is split in 20 deferred six-monthly instalments. The interest rate is equal to an annual fixed rate of 1% until the second instalment and, subsequently, to the six-month Euribor increased by 130 Bp every year. This debt is guaranteed by a senior mortgage on the building itself worth Euro 10,000 thousand. The variation compared to December 31, 2005 is due to the payment of the third instalment worth Euro 234 thousand.

The portion of debt due beyond five years amounts to Euro 1,840 thousand.

4.2. Cash Flow Statement

The analysis of the cash flows is represented as follows:

Cash Flow Statement

31 March 05		31 March 06	31 Dec 05
(801)	**A - INITIAL CASH AND CASH EQUIVALENT, NET**	**11.875**	**(801)**
	B – CASH FLOWS (TO) / FROM OPERATIONS		
(1.533)	Profits (loss) for the year	(4.392)	(2.775)
586	Depreciation and amortization	1.622	4.836
(1.312)	Gains from fixed assets disposal	-	(1.581)
-	Write-down of fixed assets	-	-
(2.134)	Net change in working capital	(7.136)	(5.051)
59	Net variations of staff leaving indemnity	162	121
(4.334)		**(9.743)**	**(4.449)**
	C – CASH FLOWS FOR INVESTMENTS IN FIXED ASSETS		
	Investments in fixed assets		
(2.450)	*Intangible	(592)	(9.230)
(5.651)	*Tangible	(77)	(42.180)
(866)	*Financial	(67)	(17.290)
11.548	Proceed from the sale of fixed assets	12.516	25.193
2.581		**11.780**	**(43.507)**
	D – CASH FLOWS FROM FINANCIAL ACTIVITY		
-	Loan underwriting	-	4.500
-	Shareholder loans	-	26.104
-		-	**30.604**
	E – CASH FLOWS FROM OPERATIONS ON EQUITY		
-	Increase of share capital	390	5.900
-	Dividends	-	(5.000)
-	Paid in capital	1.989	29.127
-		**2.379**	**30.027**
(1.753)	**F – CASH FLOWS DURING THE PERIOD (B+C+D+E)**	**4.416**	**12.676**
(2.554)	**G – FINAL CASH AND CASH EQUIVALENT, NET (A + F)**	**16.291**	**11.875**

The cash flow components for the period are analyzed below.

i. Cash flow for/from operations

This cash flow was negative for Euro 9,743 thousand in the quarter, mainly due to the change in net working capital and result of the period.

The Company's net working capital is structurally negative, in that receivables from tour operators are generally collected in advance of flights and in any case prior to the settlement of payables to suppliers.

The net working capital fell by Euro 7,136 thousand in the quarter. As represented by the following reclassified balance sheet, this reduction was due to a decrease of Euro 7,236 thousand in trade payables. We also highlight a reduction of receivables of Euro 3,085 thousand, offset by a growth of other activities.

ii. Cash flow for investments

In the quarter the cash flow for investments was positive for Euro 11,780 thousand. As already observed, the period benefited from Euro 10,841 thousand deriving from the divestment of the capitalization contract with lump sum premium.

In addition, as already pointed out in the Report on Operations at December 31, 2005, in 2005 the Company started negotiations with its main service suppliers to replace the guarantee deposits granted to suppliers against special contractual clauses, with bank or insurance guaranties. This generated a positive cash flow worth Euro 1,675 thousand in the period under analysis.

The investments made in the period amounted to Euro 736 thousand, of which Euro 322 thousand mainly related to improvements of aircraft and Euro 736 thousand to capitalized costs on commissions for the greenshoe exercise.

iii. Cash flow from operations on equity

The positive cash flow of Euro 2,379 thousand regards funds deriving from the greenshoe exercise in January 2006.

The table below includes the Company's reclassified balance sheet which better illustrates the cash flows for the period:

Reclassified balance sheet

31.03.05	*Amounts in Euro/000*	31.03.06	31.12.05	Change
33.983	Tangible fixed assets	58.804	59.902	(1.098)
3.822	Other intangibles	5.385	5.240	145
19.950	Other long term financial investments	22.532	34.981	(12.449)
1.030	Deferred Tax assets	3.457	2.887	570
58.784	**Total non current assets**	**90.178**	**103.009**	**(12.831)**
1.781	Inventories	2.087	2.140	(53)
65.241	Trade receivables and other receivables	42.893	45.978	(3.085)
4.555	Other assets	8.842	6.415	2.427
7.464	Cash and cash equivalent	25.067	40.749	(15.682)
79.042	**Total current assets**	**78.889**	**95.282**	**(16.393)**
137.826	**Total assets**	**169.067**	**198.291**	**(29.224)**
6.667	Share capital	13.355	12.965	390
9.557	Reserves	32.501	33.286	(785)
(1.533)	Profits (losses)	(4.392)	(2.775)	(1.617)
14.692	**Total net equity**	**41.464**	**43.477**	**(2.013)**
4.534	Long term loans	34.622	34.874	(252)
0	Deferred taxes	174	184	(10)
2.986	Long term provisions for risk and charges	3.211	3.049	162
7.521	**Total non current liabilities**	**38.007**	**38.107**	**(99)**
99.964	Trade Receivables and other liabilities	73.354	80.590	(7.236)
9.536	Short term loans	6.984	26.671	(19.687)
466	Current portion of long term loans	1.792	2.203	(411)
5.649	Short term provisions for risk and charges	7.465	7.243	222
115.614	**Total current liabilities**	**89.595**	**116.707**	**(27.112)**
137.826	**Total net equity and liabilities**	**169.067**	**198.291**	**(29.224)**

5. RESEARCH & DEVELOPMENT

The Company does not carry out any research and development activity in a narrow sense.

6. TREASURY SHARES

No purchases or sales of treasury shares have been carried out in the fiscal year, either directly or indirectly.

7. RELATIONSHIPS WITH SUBSIDIARIES, AFFILIATES, HOLDINGS AND COMPANIES SUBJECT TO THEIR CONTROL

At March 31, 2006 the Company had no subsidiaries or affiliates. Following the IPO, at the Report's reference date, the Company is no longer managed and coordinated by Spinnaker Luxembourg S.A.

8. RELATIONSHIPS WITH RELATED PARTIES

The Company has no relationships with related parties.

9. RELATIONSHIPS WITH BANCA PROFILO

Considering the Company's relationship with Banca Profilo, we thought it opportune to provide a brief summary of the amount and nature of the transactions carried out in the quarter.

Please note that the Company's first shareholder is Profilo Spinnaker Investment Fund, a closed-end Luxemburgian mutual fund that indirectly holds 44.17% of the Company's share capital.

Profilo Spinnaker Investment Fund owns a 99.68% shareholding of Spinnaker Holding S.A.'s share capital, which in turn controls 99.68% of Spinnaker Luxembourg S.A.'s capital, which in turn owns 44.17% of the Company's capital.

Profilo Spinnaker Investment Fund – of which Banca Profilo directly holds 57.9% - is managed by Profilo Management Company S.A. approximately 9.9% owned by Banca Profilo S.p.A.

BANCA PROFILO GROUP	31/12/2005	31/03/2006
Trade receivables	39.883	-
Trade payables	(300.000)	-
Financial receivables	30.306.078	20.268.851
Financial payables	(10.102.756)	-
Mortgage loan	(4.761.128)	(4.517.670)
Other revenue	(71.482)	-
Costs of services	(992.029)	-
Financial income/(charges)	(392.059)	39.966

These transactions have been performed at market conditions and are analysed in the following paragraphs.

- **Trade receivables / payables**

Trade receivables and payables at December 31, 2005 have been extinguished in the quarter. More specifically, the Euro 300 thousand debt for IPO advisory services was settled in January 2006.

- **Financial loans / debt and financial income / expenses**

Banca Profilo has granted financial loans to the Company.

The IPO proceeds have been temporarily deposited in a special account with Banca Profilo, having EONIA as credit rate. At December 31, 2005 these funds amounted to Euro 30,306 thousand. During the first quarter some funds have been transferred to the Company's accounts with other banks in order to improve treasury management. On the whole, at March 31, 2006 Eurofly's position towards Banca Profilo was positive for Euro 20,269 thousand, from which the loan - Euro 4,518 thousand are still outstanding – must be deducted.

We highlight that the mortgage loan does not envisage financial covenants or negative pledge clauses.

In 2005 Banca Profilo had granted a cash credit line worth Euro 10,000 thousand to the Company (revocable at any time, at an interest rate equal to the three-months' Euribor increased by 1 percentage point and, with regard to the amounts extra credit line, equal to the three months' Euribor increased by 3.5 percentage points), guaranteed by a pledge on the capitalization contract with lump sum premium already mentioned.

In February 2006 the Company decided to extinguish that credit line, since the spread between the cost of money related to the use of funds and the yield of the above-mentioned capitalization contract, pledged as credit guarantee, could no longer justify the transaction. Therefore, the Company decided to sell said contract. Banca Profilo expressed interest in acquiring the contract and liquidated its counter-value based on market conditions. The proceeds from the transfer of the policy have been used to extinguish the above-mentioned credit line of Euro 10,000 thousand.

In the quarter the capitalization contract generated an interest income worth Euro 48 thousand.

The net financial revenues reported in the first quarter of 2006 amounted to Euro 39,966 and included Euro 140 thousand of interest receivables accrued on credit accounts of IPO proceeds and Euro 100 thousand of interest payables accrued on the cash credit lines and on the mortgage.

In 2005 Banca Profilo granted the Company a stand-by credit line with 18 months minus one day maturity and reimbursable upon expiry in the amount of Euro 2,500 thousand, which was partially used during the first months of 2006. At March 31, 2006 the credit line had not been used.

In 2005 the Company stipulated forward exchange contracts with Banca Profilo to hedge against foreign exchange risk fluctuations. At December 31, 2005 forward purchases amounted to USD 10,500 thousand. At March 31, 2006 these were fully extinguished.

10. IMPORTANT EVENTS OCCURRED AFTER FISCAL YEAR END AND PREDICTABLE DEVELOPMENT OF ACTIVITIES

10.1. The Dahab attack

On April 24, 2006 the holiday resort Dahab, Sinai was the scene of the third attack in just over one and a half year against foreign tourists in Egypt. Differently form the two previous attacks (in Taba and Sharm El Sheikh), the Dahab attack did not cause casualties of Italian citizens and did not have a great echo. In the days following the attack approximately 10% of passengers booked on Eurofly flights refused to leave. To date Eurofly has received cancellation requests equal to ca. 2% of total operations scheduled in May, also thanks to actions to promote this destination in collaboration with tour operators.

Estimates of potential losses caused by the attack are still premature at the moment. However, in the light of non-pessimistic announcements from the leading tour operators, it is possible to assume that the effects of the Dahab attack will be significantly smaller compared to the two previous tragic occurrences in the Red Sea area.

10.2. Evolution of relationships with Teorema Tour S.p.A.

With reference to the Board of Directors' decisions regarding legal actions aimed to collect credit from Teorema Tour S.p.A., on April 19 Eurofly started an arbitration, as provided for by the agreement, notifying its arbitrator to the counterpart. On May 9, 2006 Teorema Tour notified the appointment of its arbitrator to Eurofly.

10.3. Livingston Aviation Group acquisition project

On April 4, 2006 the Eurofly Board of Directors deliberated upon the letter of intent for the acquisition of Livingston Aviation Group. Such a letter of intent – signed by Eurofly on April, 4 2006 – confirmed the guidelines defined by the term sheet and discussed at paragraph 1.3.4.. The exclusive negotiations period was extended to June 30, 2006.

On April 20 the Company's Board of Directors designated Banca Profilo S.p.A. as financial advisor of the deal, that will co-operate with the legal advisor Carnelutti Studio Legale Associato, Ernst & Young – Business Advisors S.p.A. for the financial due diligence, Studio Tributario M.IB. for the fiscal diligence and Roland Berger as industrial advisor.

As per the agreement between Eurofly and I Viaggi del Ventaglio, the Company made a payment in the amount of Euro 5 million, of which Euro 4 million were transferred in a term escrow account as security for the payment of the purchase price, and Euro 1 million was paid to I Viaggi del Ventaglio directly, subject to a pledge on avionic spare parts worth ca. Euro 1.5 million in favour of Eurofly. Moreover, at the date of this Report, the Company and Livingston Aviation Group are finalizing an agreement regarding a joint offer of flights for both Tour Operators and the market in the 2006/2007 winter season. The agreement has the following goals:

1) to improve offered products through a harmonization of the operating bases via a limitation of intermediate stops, a higher offer of direct flights and the optimization of flight frequency on the main destinations served

2) to streamline the network in view of a better employment of corporate resources and consequent cost reduction

The sound industrial and economic rationale behind these goals is independent of the acquisition project, of which they however tend to anticipate potential benefits.

10.4. A319 CJ aircraft and relationship with the MiMa association

The A319 CJ lease contract to the Saudi company NAS expired on April 5, 2006. After "repossession of the property" and maintenance, the aircraft has been used for charter flights in the VIP segment and for incentive flights, while waiting to employ it according to the provisions of the lease stipulated with the association Club Milano – Manhattan (MiMa) as of May 8, 2006.

MiMa is a non-profit cultural association, whose primary objective is to promote exchanges and networking between the Milan and New York business communities. Amongst the most significant services that MiMa intends to offer to its members is the possibility of using private general aviation flights connecting Milano Linate and New York at a price compatible with the "business travel" segment.

In said context, Eurofly acts as the association's reference carrier, making its 48-seat A319 CJ aircraft available.

The agreement with MiMa provides that the aircraft is based at the ATA general aviation terminal of the Milano Linate airport. Although flights will be mostly operated on the Milan – New York route, it is not excluded that MiMa may ask Eurofly to operate other routes on behalf of its members.

The US Department of Transportation (DoT), through a document issued on May 4 and received by the Company the night between May 4 and 5, expressed itself for the first time on the flights organized by the MiMa association and operated by Eurofly, already classified by ENAC as general aviation flights through a communication dated December 30, 2005. The US DoT temporarily prohibited the departure of Eurofly flights from Linate, being discriminatory against US carriers, which are not allowed to operate at the Linate airport due to Italian limitations to the Open Sky regulations between Italy and the United States. In particular, the US authorities requested the restoration of the reciprocal clause regarding operations at Linate, with special reference to the use of code sharing by US airline carriers, as necessary condition to authorize Eurofly to operate said connection on behalf of MiMa. Discussions with US and Italian authorities to rapidly solve the issue and obtain the necessary authorizations to start operations, is currently under way.

Meanwhile, Eurofly will operate flights on the Milan – New York route from the Malpensa Terminal 2 on its own starting from May 29. The greater distance between the airport and the city is counterbalanced by the possibility to sell the flight through all distribution channels directly.

All the distinctive elements of this exclusive connection in terms of rapid embarkation, comfort on board, times of departure and arrival and customer care, remain guaranteed.

10.5. Restructuring of financial relationships

On April 26, 2006 guarantee deposits in the amount of US dollar 2.2 million, as security for aircraft lease contracts with companies of the Gecas group, have been released and replaced with bank guaranties.

10.6. Predictable evolution of operations

Exogenous variables are represented by fuel costs and interest rates, which both experienced a worse-than-expected trend. Should the negative trend of these variables be confirmed for the entire current fiscal year, the result of the year might be penalized. The Egyptian market, following the terrorist attack described above, might have further effects, though these should be smaller compared to the two previous episodes.

We might review our expectations about the evolution of operations, should the acquisition of Livingston Aviation Group be performed.

Appendix

IAS/IFRS APPLICATION AND EFFECTS

IAS/IFRS APPLICATION AND EFFECTS

Overview

As provided by legislative decree no 38/2005 implementing EC Regulation no 1606/2002 issued by the European Parliament and Council in July 2002, as of fiscal year 2006 the companies whose stock is admitted to trading on the regulated markets of the Countries belonging to the European Union, shall prepare their financial statements according to the provisions of the international accounting standards (“IAS/IFRS”) issued by IASB (International Accounting Standards Board), if homologated at community level and published in the Official Journal of the European Community

As per art. 81-bis and 82-bis of CONSOB Issuers’ Regulation, as introduced by Resolution no 14990 of April 14, 2005, Eurofly S.p.A. has adopted the aforementioned accounting principles to prepare its accounting records and financial statements starting from the quarterly report at March 31, 2006. The annual financial statement will be prepared according to the international standards as from the fiscal year ending December 31, 2006.

In particular, art. 82-bis previously mentioned requires that quarterly report includes the following:

- a quantitative reconciliation of net equity and net result for the quarter ended March 31, 2005, determined according to the preparation criteria applied to the previous year’s financial statements, with respect to their values resulting from the application of the international accounting principles
- the reconciliations envisaged by paragraphs no 39 and 40 of IFRS 1 “First-time adoption of International Financial Reporting Standards” (as interpreted by paragraph IG 63 of the Implementation Guidance to said principle), furnished by explanatory notes of the preparation criteria and items included in the reconciliation tables

This section of the quarterly report therefore provides:

- a description of the main differences between the Italian accounting principles previously used and IAS/IFRS;
- the accounting treatments chosen by the Company among the accounting options envisaged by IAS/IFRS;
- the optional exemptions provided for by IFRS 1 and adopted by the Company;
- the information requested by CONSOB communication no 14990 of April 14, 2005 in respect of the reconciliation between the net equity at January 1, December 31, 2005 and March 31, 2005 and result for the fiscal year ended December 31, 2005 and for the first

quarter of 2005, through the application of the Italian accounting principles and IAS/IFRS respectively;
- the details and effects of the transition to IAS/IFRS on the balance sheet at January 1 and December 31, 2005 and on the 2005 income statement.

The transition to IAS/IFRS substantially involves a new classification of the balance sheet and income statement items previously classified according to the provisions of legislative decree no 127/1991, based on new classification layouts. The evidence and size of these reclassifications is determined by adopting the reconciliation scheme included in the "Implementation Guidance" of IFRS 1 (paragraph IG 63) and set out in this section of the quarterly report.

Main differences between the Italian Accounting Principles previously used and IAS/IFRS

This qualitative and quantitative analysis of the differences between the previous accounting principles and IAS/IFRS might be modified by new IFRS versions or interpretations issued before the publication of the Company's financial statements at December 31, 2006 eventually with retroactive effects. Therefore, the recognition and measurement of these items might undergo changes in view of the preparation of comparable data and of the first complete IAS/IFRS financial statements prepared according to the IAS/IFRSs homologated by the European Commission.

To date, IAS/IFRS are not different from those used to prepare annual financial statements and interim reports, which have been prepared according to the Italian accounting principles until December 31, 2005, except for the following categories:

- **Derivatives**

Based on the Italian accounting principles, derivative instruments to manage currency fluctuation risks are indicated as "off balance sheet" items, whereas IAS 39 provides that they should be valued at "fair value", irrespective of their nature as "hedging" instruments. In particular, as to the derivatives held by Eurofly S.p.A., aimed at managing the risk of USD/Euro exchange rate fluctuations, these are classified in the "Cash flow hedge" category. Hence:

- income and loss from the valuation of hedging instruments at "fair value" (for the effective hedging amount) are accounted in the net equity directly
- the remaining (ineffective) part is immediately accounted for in the income statement
- the amounts included in the net equity are reported on the income statement for the period in which contracts and related transactions produce their effects on the income statement
- income and loss from the valuation of instruments not classified as "hedging instruments"

at “fair value” are accounted for in the income statement

In particular, compared to the accounting principle no 26 issued by “Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri”, IAS 39 – while setting the parameters to identify “hedging” conditions in the context of a hedging strategy declared by the Board of Directors’ members, of policies, formalized risk management procedures and mechanisms measuring the efficacy of a risk management instrument – classifies as “non hedging” (i.e. “trading”) the operations of currency risk management, which the previous standards would have defined “hedging operations” only based on their general purpose of managing currency fluctuation risks, as long as their maturity and amount is correlated to the item they are related to.

- **Intangible fixed assets**

Based on IAS 38, intangible assets will be reclassified as follows:

- improvements of aircraft under operative rental will be reclassified as tangible assets without modifying the previous amortization criteria, which are considered adequate based on IAS/IFRS too. Amortization for the fiscal year is subject to the same reclassification
- the costs of new initiatives regarding the development of multichannel distribution and compulsory pilot training, which previous accounting principles classified as “costs of research, development and advertising”, are classified as “development costs” and amortized along the previous amortization periods deemed representative of the multiyear benefits to the Company’s business
- IPO costs, included among intangible assets in the financial statements at December 31, 2005 according to the previous accounting principles based on capitalization criteria consistent with IAS/IFRS, will be deducted from net equity. Amortization for the fiscal year is reversed with a subsequent improvement in the result of the year.

- **Tangible fixed assets under financial leasing**

According to the provisions of IAS 17, the A319 CJ aircraft – available by virtue of a financial leasing agreement – is booked in the assets under the “Fleet” item for the current rental value (inclusive of the initial maxi rental classified as “Deferred expenses” according to previous accounting principles), against debt represented by the rentals to be paid to the leasing company. The income statement records the depreciation of the aircraft and the interests payable on financial debt, instead of the rentals according to the previous accounting criteria based on the period they are associated to.
The depreciation of the aircraft is determined by depreciating engines in 6 years and the cell components in 25 years, according to the component approach.

According to previous criteria, the initial and periodical fees of the leasing agreement were included in the income statement based on the period they were related to, while the availability of tangible fixed assets acquired through the financial leasing agreement was only recognized at the time of the exercise of the redemption option and based on its value.

- **Tangible fixed assets of property and under operative leasing**

The estimated charges for the "phase-out" activity (i.e. restoration costs) of aircrafts under operative leasing at the expiry of the multiyear leasing contract are included in "Provisions for risks and charges" upon stipulation of the operative leasing contract and registered in "Leasehold Improvements under operative leasing" classified as tangible fixed assets. Such an obligation affects the depreciation of the aforementioned tangible fixed assets for the life of the operative leasing agreement. According to the previous accounting principles, these charges were appropriated to provisions for risks and charges during the life of the operative leasing agreement, based on the period they were related to. The adoption of IAS/IFRS, therefore,, causes an equal increase of non current assets and liabilities without affecting the income statement of the year, which only includes a reclassification to "Depreciation" of the entered amount – according to the previous accounting principles – of the portion of charges pertaining to the period under "Provisions for risks and charges".

Charges for cyclical maintenance of financial leased aircraft, similarly to the phase-out charges mentioned above, are added to leased tangible fixed assets and counterbalanced by "Provisions for risks and charges". Charges related to cyclical maintenance affect depreciation, that are determined by splitting said charges along the duration of cyclical maintenance (5/10 years according to the type of maintenance). The treatment of these charges according to the previous criteria is the same of charges related to the phase-out of aircraft under operative leasing.

- **Provisions for risks and charges**

Based on IAS 37, provisions for risks and charges are booked at the present value of the liabilities based on which they are accounted for in the balance sheet, in the event the liabilities for which they have been set aside, are not predictable within the following fiscal year. According to the previous criteria, the balance sheet does not reflect any actualization of liabilities.

- **Staff leaving indemnity**

According to IAS 19, staff leaving indemnity can be compared to a "defined benefit plan", hence this liability is determined applying the actuarial "Projected Unit Method", instead of the provisions of art. 2120 of the Italian civil code (based on the previous criteria). The amount of the wages and salaries matured by employees during the fiscal year is included in the "Staff costs" item of the income statement, while the associated (financial) expense that the Company would sustain in the event it asked a financial loan in the same amount of the staff leaving indemnity to the market, is charged to financial income/expenses. The actuarial income and loss reflecting the effect of changes in the actuarial assumptions at the basis of the calculation are charged to the income statement.

Accounting treatments adopted by the Company among the accounting options envisaged by IAS/IFRS

Consistently with the valuation criteria already adopted for reporting based on the Italian accounting principles, the Company has adopted the following accounting options:

Inventories:
The method adopted to determine this cost item is the average weighted cost method.

Valuation of tangible and intangible assets:
After the first-time inclusion, these assets are entered at cost, net of the depreciation and eventual losses of value.

Optional exemptions envisaged by IFRS 1 and adopted by the Company

In the transition to IAS/IFRS, Eurofly S.p.A. adopted the following optional exemption envisaged by IFRS 1:

Valuation of tangible and intangible assets:
The book value of said non current assets, determined according to the previous accounting criteria, is deemed a substitute of cost at January 1, 2005, as it complies with IFRS 1 requirements.

For completeness of information, it should be noted that from fiscal year 2005 the depreciation of the building located in Via Bugatti, 15, which in 2004 had been determined based on a useful life of 33 years, is determined through a separate valuation of land, building and related plants. These components are therefore subjected to a differentiated depreciation, in particular, land is not depreciated, while the building is depreciated in 50 years and plants in 10 years.

Reconciliation between previously used Italian principles and IAS/IFRS

The reconciliation tables between net equity and net result, determined in accordance with the Italian accounting criteria and IAS/IFRS, have only been prepared to the purpose of the transition and of the preparation of the financial statements at December 31, 2006 according to the IAS/IFRS adopted by the European Commission. As a result, said tables do not include either comparable data or the necessary explanatory notes to represent Eurofly S.p.A.'s financial situation and result under

IAS/IFRS.

It should be noted that the data included in the reconciliation tables are the values published in the first complete annual financial statements under IAS/IFRS for comparable purposes. These values might undergo the necessary variations to reflect new and future stances of the European Commission regarding IFRS approval and homologation, new announcements and interpretations of IASB/IFRIC that might be issued by December 31, 2006 and that Eurofly S.p.A., if allowed, might decide to adopt as early as this fiscal year and, in any case, before the publication of this financial report.

The data included in this document will be audited, according to guidelines of CONSOB communication no DEM/5025723 of April 15, 2005.

The effect on net equity at January 1, 2005 and December 1, 2005 and on the result of the year 2005 are set out below (single items are included in the table gross of tax, while the related fiscal effects are grouped into a separate adjusting item):

	Net equity at 01/01/05	Dividend distribution	Capital increase with share premium	Net result 2005	Net equity at 31/12/05
PREVIOUS PRINCIPLES	**16.224**	**(5.000)**	**37.326**	**(3.123)**	**45.427**
Accounting of contracts for exchange-rate risk management				335	**335**
Cost of operations on equity			(3.663)	22	**(3.641)**
Accounting of financial leased fleet				175	**175**
Total fiscal effect			1.364	(184)	**1.180**
IAS/IFRS	**16.224**	**(5.000)**	**35.027**	**(2.775)**	**43.476**

For completeness, we highlight that:

- with reference to the application of the valuation principle envisaged by IAS 19 ("Projected unit method") to the estimate of liabilities for Staff leaving indemnity, Eurofly S.p.A. decided that said liability had to remain part of the value resulting from the application of the previous criteria (i.e. value deriving from the application of art. 2120 of the Italian civil code) due to the not material impact of the actuarial valuation in respect of the absolute value of the staff leaving indemnity calculated based on the provisions of art 2120 of the civil code, as well as on total liabilities and net equity at each reference date;
- the contracts for exchange-rate risk management have been stipulated after March 31, 2005 and considered as "Trading operations", as required by IAS 39, due to the lack of a

structured procedure to verify the efficacy of these contracts with regards to the hedging purpose they have been stipulated for;

- the financial leasing agreement of the A319 CJ aircraft was stipulated in May 2005;
- the provisions for risks and charges have been accounted for based on the present value of the estimated charge, hence the necessary conditions for the actualization of provisions as per IAS 37 are absent;
- accounts receivable assigned to factoring companies following the stipulation of a "pro-soluto" factoring agreement based on both the previous criteria and IAS/IFRS, have been removed from assets

Based on the aforementioned, the reconciliation of net equity and result for the quarter ended March 31, 2005, determined according to previous criteria and IAS/IFRS respectively, can be summarized as follows:

	Net equity at 01/01/05	I Quarter 2005 result	Net equity at 31/03/05
PREVIOUS PRINCIPLES	**16.224**	**(1.533)**	**14.692**
Accounting of contracts for exchange-rate risk management			-
Costs of operations on equity			-
Accounting of financial leased fleet			-
Total fiscal effect			-
IAS/IFRS	**16.224**	**(1.533)**	**14.692**

Explanatory notes to reconciliation tables of net result and net equity according to previous criteria and IAS/IFRS

- **Contracts for exchange-rate risk management**

The contracts for exchange-rate risk management stipulated after March 31, 2005 and in effect at December 31, 2005, regard forward purchases of US currency (all of them expiring before March 31, 2006) for USD 10.5 million. Lacking a structured procedure to measure the hedging efficacy of these operations, derivatives have also been considered "trading instruments", consequently, the Euro 335

thousand differential between the contracts counter-value at December 31, 2005 (Euro 8,477 thousand) and the value of said contracts based on forward exchange (Euro 8,142 thousand) has been entered in “financial income”. As a result, based on IAS/IFRS, net equity and the result for year 2005 are Euro 335 thousand higher than those calculated according to the criteria previously applied.
In the financial statements prepared according to the previous accounting standards, the contracts counter-value at December 31, 2005 was indicated in the memorandum accounts and the valuation proceeds were prudentially deferred to the time of their realization (i.e. first quarter of 2006).

- **Costs of operations on equity**

The costs related to the listing on the Italian Stock Exchange (IPO) – that took place on December 21, 2005 – equal to Euro 3,663 thousand have been deducted from the net equity directly (“Share premium reserve”). The related amortization in the amount of Euro 22 thousand has been reversed. Consequently, gross of the fiscal effect, the net equity at December 31, 2005 under IAS/IFRS is Euro 3,641 thousand lower than the value calculated according to the previous criteria, while the result of year 2005 is Euro 22 thousand higher.
IPO costs have been capitalized among the intangible assets of the financial statements at December 31, 2005 - prepared according to the previous criteria - and proportionally depreciated for a period of five years.

- **Financial leasing agreement**

The accounting of the financial leasing agreement for the A319 CJ aircraft according to a financial method resulted in the inclusion of the aircraft value in tangible fixed assets for Euro 38,285 thousand as well as of total financial debt towards the lessor in the same amount at the date of the stipulation of the financial leasing agreement in May 2005. These values, that respectively decreased by Euro 1,337 thousand due to fiscal year depreciation and by Euro 10,469 thousand due to debt reimbursement as of December 31 2005, determined a Euro 175 thousand increase of the net equity at December 31, 2005 under IAS/IFRS in respect of the one determined according to the previous accounting criteria - gross of the fiscal effect and after the cancellation of the initial maxi rental worth Euro 8,957 thousand. The loss of fiscal year 2005 declined by the same amount of Euro 175 thousand, since, despite the reversal of rentals for Euro 2,397 thousand (determined according to the previous criteria based on the period they pertain to), Euro 885 thousand of interests payable to the lessor have been charged to the income statement, besides the Euro 1,337 thousand of depreciation for the fiscal year already mentioned.

- **Total tax effect**

The overall tax effect of the aforementioned differences between the valuation criteria based on the previous standards and on IAS/IFRS caused an increase of the net loss for fiscal year 2005 in the amount of Euro 184 thousand and of the net equity at December 31, 2005 in the amount of Euro 1,180 thousand.

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With reference to CONSOB information requirements, we are also presenting reconciliation tables of assets and liabilities and of income statement determined according to section IG, implementation guidance, paragraph 63.

The reconciliation table of Eurofly S.p.A.'s balance sheet at January 1, 2005 is set out as follows:

Euro/000	**Previous criteria 01.01.2005**	**Reclassifications**	**Adjustment**	**IAS -IFRS 01.01.2005**
Tangible assets of property and under financial leasing	35.742	4.082		39.823
Intangible assets	5.043	(1.061)		3.982
Financial assets	19.084	-		19.084
Deferred tax assets	1.030	-		1.030
Total non current assets	**60.899**	**3.021**		**63.920**
Total current assets	62.110	-		62.110
Non current assets held for sale	4.302	-		4.302
Total assets	**127.311**	**3.021**		**130.332**
Share capital	6.667	-		6.667
Reserves	2.722	-		2.722
Cumulated profit/(loss)	6.835	-		6.835
Net equity	**16.224**	**-**		**16.224**
Total non current liabilities	7.697	3.021		10.718
Total current liabilities	103.390	-		103.390
Liabilities directly attributable to non current assets held for sale	-	-		-
Total net shareholders' equity and liabilities	**127.311**	**3.021**		**130.332**

Details of tables regarding the effect of transition to IAS/IFRS on equity:

<u>Non current assets</u>

<u>Reclassificationst</u>

Tangible assets of property and under financial leasing

	January 1, 2005
Net book value of leasehold improvements to aircraft under operative leasing	1.061
Net book value of cyclical maintenance costs of aircraft A319 LR and phase-out costs of aircraft under operative leasing	3.021
Total	**4.082**

Other intangible assets

	January 1, 2005
Net book value of leasehold improvements to aircraft under operative leasing	1.061
Total	**1.061**

<u>Non current liabilities</u>

Provisions for risks and charges

	January 1, 2005
Provisions for risks related to phase-out costs of aircraft under operative leasing and to cyclical maintenance costs of aircraft A319 LR	3.021
Total	**3.021**

The reconciliation table of Eurofly S.p.A.'s balance sheet at December 31, 2005 is set out as follows:

Euro/000	**Previous criteria 31.12.2005**	**Reclassifications**	**Adjustment**	**IAS -IFRS 31.12.2005**
Tangible assets of property and under financial leasing	16.647	6.306	36.948	59.902
Intangible assets	11.257	(2.376)	(3.641)	5.240
Financial assets	34.981	-	-	34.981
Deferred tax assets	1.523	-	1.364	2.887
Total non current assets	**64.407**	**3.930**	**34.672**	**103.009**
Total current assets	95.762	-	(480)	95.282
Non current assets held for sale	-	-	-	-
Total assets	**160.169**	**3.930**	**34.192**	**198.291**
Share capital	12.965	-		12.965
Reserves	35.585	-	(2.298)	33.286
Cumulated profit/(loss)	(3.123)	-	348	(2.775)
Net equity	**45.427**	**-**	**(1.950)**	**43.477**
Total non current liabilities	11.819	-	26.288	38.107
Total current liabilities	102.923	3.930	9.854	116.707
Liabilities directly attributable to non current assets held for sale	-	-	-	-
Total net shareholders' equity and liabilities	**160.169**	**3.930**	**34.192**	**198.291**

Details of tables regarding the effect of transition to IAS/IFRS on balance sheet:

Non current assets

Reclassifications

Tangible assets of property and under financial leasing

	December 31, 2005
Net book value of leasehold improvements to aircraft under operative leasing	2.376
Net book value of cyclical maintenance costs of aircraft A319 LR and phase-out costs of aircraft under operative leasing	3.930
Total	**6.306**

Adjustments

Tangible assets of property and under financial leasing

	December 31, 2005
Net book value of A319 aircraft in operative leasing	36.948
Total	**36.948**

Intangible assets

The costs of new initiatives regarding the development of multichannel distribution and compulsory pilot training, which previous accounting principles classified as “costs of research, development and advertising”, are classified as “development costs” and amortized along the previous amortization periods deemed representative of the multiyear benefits to the Company’s business. Hence, the summary of intangible assets does not show either adjustment or reclassication effects.

Reclassifications

Other intangible assets

	December 31, 2005
Net book value of leasehold improvements to aircfaft under operative leasing	(2.376)
Total	**(2.376)**

Adjustments

Start-up costs

	December 31, 2005
Net book value of IPO-related charges	(3.641)
Total	**(3.641)**

Deferred tax assets

	December 31, 2005
Deferred tax assets on IPO-related charges	1.364
Total	**1.364**

Current assets

Adjustments

	December 31, 2005
Cash and cash equivalents	8.477
Receivables from third parties	(8.957)
Total	**(480)**

Cash and cash equivalents

	December 31, 2005
Present value of USD forward purchase contracts expiring by March 31, 2006	8.477
Total	**8.477**

Receivables from third parties

	December 31, 2005
Write-off of the initial maxi rental after inclusion of A319 LR aircraft value	(8.957)
Total	**(8.957)**

Non current liabilities

Reclassifications

	December 31, 2005
Provisions for risks and charges for phase-out and cyclical maintenance of aircraft under operative leasing and aircraft A319 LR respectively	3.930
Total	**3.930**

Adjustments

	December 31, 2005
Portion of debt payable to lessor of aircraft A319 LR expiring after fiscal year 2006	26.104
Provisions for deferred taxes liabilities	184
Total	**26.288**

Current liabilities

	December 31, 2005
Current portion of debt payable to lessor of aircraft A319 LR	1.712
Debt for USD forward purchases contracts expiring by March 31, 2006	8.142
Total	**9.854**

A reconciliation table of Eurofly S.p.A.'s income statement for fiscal year 2005 is set out as follows:

Euro/000	**2005 Previous criteria**	**Reclassification**	**Adjustment**	**2005 IAS - IFRS**
Revenues from sales and services	271.475			271.475
Other revenues and income	5.986			5.986
Total revenues	**277.461**	**-** #	**-**	**277.461**
Direct commercial expenses	(2.674)			(2.674)
Fuel costs	(72.788)			(72.788)
Staff costs	(39.143)			(39.143)
Materials and maintenance services	(33.253)			(33.253)
Other operating costs and wet lease	(84.449)			(84.449)
Other commercial expenses and corporate costs	(14.330)			(14.330)
Operative rentals	(29.431)		2.397	(27.034)
Depreciation and amortization	(2.821)	(700)	(1.315)	(4.836)
Other provisions	(2.000)			(2.000)
Provisions for risks and charges	(1.259)	700		(559)
Total costs	**(282.150)**	**-**	**1.082**	**(281.068)**
Operating result	**(4.689)**	**-**	**1.082**	**(3.607)**
Financial income/(expenses)	775		(550)	225
Profit on sale of assets	1.581			1.581
Extraordinary income/(expenses)	711			711
Pre-tax profit	**(1.622)**	**-**	**532**	**(1.090)**
Taxes	(1.501)		(184)	(1.685)
Result of the year	**(3.123)**	**-**	**348**	**(2.775)**

Adjustments of "Operative leasing" regard the reversal of fees related to aircraft A319 CJ leasing agreement.

Reclassification of "Depreciation and amortization" and "Provisions for risks and charges" regards the portion of charges for the phase-out of aircraft under operative leasing and for cyclical maintenance of aircraft A319 CJ pertaining to fiscal year 2005.

Adjustments of "Depreciation and amortization" regard depreciation of leased aircraft A319 CJ pertaining to fiscal year 2005.

Adjustments of "Financial income/(expenses)" represent the net balance of the interests payable on debt towards the lessor of aircraft A319 CJ in the amount of Euro 885 thousand and of the financial income from the valuation of USD forward exchange contracts in the amount of Euro 335 thousand.

Adjustments of "Tax" regard the cumulated fiscal effect of the aforementioned adjustments.

A reconciliation table of Eurofly S.p.A.'s net financial position at December 31, 2005 is set out as follows:

Euro/000	**Previous criteria year 2005**	**Adjustments**	**IAS/IFRS year 2005**
RECEIVABLES CLASSIFIED AS FINANCIAL FIXED ASSETS	18.906		18.906
CASH AND CASH EQUIVALENTS	32.272	8.477	40.749
AMOUNTS OWED TO BANKS	(18.529)		(18.529)
AMOUNTS OWED TO BANKS FOR USD FORWARD PURCHASE CONTRACTS EXPIRING BY MARCH 31, 2006		(8.142)	(8.142)
AMOUNTS OWED TO LEASING COMPANIES		(27.816)	(27.816)
AMOUNTS OWED TO SHAREHOLDERS FOR FINANCING	(4.500)		(4.500)
AMOUNTS OWED TO OTHER CREDITORS	(4.761)		(4.761)
NET FINANCIAL POSITION	**23.387**	**(27.481)**	**(4.093)**

The increase of cash and cash equivalents reflects the inclusion of forward USD purchase contracts expiring by March 31, 2006, valued based on the exchange rate at December 31, 2005. Following such variation, the amounts owed to banks increased by the valuation of these forward exchange contracts.

The amounts owed to leasing companies derive from the inclusion of the financial debt related to aircraft A319 CJ.

Accounting principles and valuation criteria used to prepare the quarterly report at March 31, 2006

The accounting principles used by the Company to prepare its quarterly report at March 31, 2006 and to determine the accounting values related to fiscal year 2005 and included in the reconciliation tables of this report's appendix, are following.

- **General criteria**

The financial statements have been prepared according to IAS/IFRS issued by IASB, as homologated by the European Union. IAS/IFRS stand for International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) respectively, which are integrated with IFRIC's interpretations, previously called SIC.

The financial statements have been prepared based on the historical cost principle, except for the revaluation of some financial instruments. The main accounting principles adopted are set out as follows.

- **Recognition of costs and revenues**

Sales and purchases of goods are recognized when these are directly delivered either to the customer or to the company along with the significant risks and benefits connected with the possession of these goods. Sales and purchases of services are recognized dependent upon the degree of execution and completion at each reference date, especially considering the flight date for passenger transport services, determined against the total value of the service, either provided or acquired.

Financial income and expenses are recorded based on the period they pertain to. Dividends are recorded when the shareholders become entitled to their distribution. Borrowing costs are charged to the income statement in the period when they are sustained. The additional charges connected with the issuing of a financial instrument or the increase of share capital are directly deducted from the amount of the loan or from the capital increase they are related to. The commissions paid to travel bureaus for the sale of air tickets are charged to the income statement when the resulting revenue is recognized.

The re-charging of the costs sustained on behalf of third parties are deducted from the cost they refer to.

- **Post employment benefits**

Payments related to defined contribution plans are charged to the income statement for the period in which they are due.

“Staff leaving indemnity” indicates the amounts owed to the employees based on the wages and salaries matured at balance sheet date, in accordance with legislation and contractual agreements in force. This liability is assimilated to a defined benefit plan, whose cost is determined through the actuarial projected unit credit method that provides actuarial valuations at the end of each fiscal year. Actuarial profit and loss exceeding by 10% the highest between the present value of the Company’s defined benefit liabilities and the fair value of the scheduled activities are charged to the income statement at the reference date. The cost of past services provided is recorded immediately to the extent that benefits have already been matured, otherwise it is depreciated at flat rates within the average period in which benefits are expected to mature.
Given the not material difference between the valuations of this liability based on the actuarial method and the method prescribed by the civil code (art. 2120), it has been decided not to adjust the liability valued according to the aforementioned article to the lowest value provided by the actuarial valuation above.

- **Taxes**

The taxes of the year comprise current and deferred taxes.
Current taxes are based on the taxable result of the year. Taxable income differs from the result reported on the income statement, because it excludes positive and negative components that will be taxable or deductible in other fiscal years, and also items that will never be either taxable or deductible. Current taxes are calculated based on the applicable tax rates or actually applicable at the date of the financial statements or of the interim report.
Deferred taxes are taxes that the Company expects to pay or to recover on the temporary differences between the book value of assets and liabilities and the related fiscal value used to calculate the taxable income. Deferred taxes are generally recorded for all taxable temporary differences, whereas deferred tax assets are recorded insofar when a future taxable income that will allow the use of deductible temporary differences, is expected. In particular, the book value of deferred tax assets is reviewed at each reference date and reduced to the extent that the existence of a sufficient taxable income such as to allow a total or partial recovery of these assets, is no longer likely.

Deferred taxes are calculated based on the tax rate estimated by the Company for the period in which assets are realized or liabilities are extinguished. Deferred taxes are charged to the income statement directly, except for those regarding items included in the net equity directly, in which case the related deferred taxes are also charged to the net equity.
Deferred tax assets and liabilities are compensated for, when there is a legal right to compensate for current tax assets and liabilities and when these refer to taxes due to the same tax authorities and the

Company wants to pay current tax assets and liabilities on a net base.

- **Non current assets**

Intangible assets

Intangible assets comprise costs, inclusive of additional charges, sustained to acquire immaterial resources, provided that their amount can be quantified and the Company can easily identify and control these assets.

Intangible assets are accounted for at their purchase or production cost inclusive of additional charges and amortized according to their future utility period. In case of impairment loss, intangible assets are written down accordingly based on the criteria set out in the following principle “impairment loss of intangible and tangible assets”.

The amortization periods for the various items of intangible assets are the following:

- development costs for the initial training of pilots are amortized for a period of three years, while the costs for the launch of new products/services expected to generate durable financial benefits in the future, are amortized in five years
- concessions, licenses, trademarks and similar rights are amortized for a period of five years
- costs for the web site creation are amortized in five years

The useful life and amortization criteria are reviewed periodically and, in the event of significant differences from the assumptions previously applied, the amortization rate is adjusted using the “projection” method.

Tangible assets

Tangible assets are accounted for provided that their cost can be determined reliably and that the Company may profit by their future financial benefits.

Tangible assets are booked at their purchase or production cost, inclusive of additional charges and the portion of direct and indirect costs connected with the assets. The benefits obtained from these investments are credited to the income statement along the necessary period to correlate them with the related costs, from which they are deducted directly. In case of impairment loss, tangible assets are written down accordingly based on the criteria set out in the following principle “impairment loss of intangible and tangible assets”.

Tangible assets are regularly depreciated at flat rates in each fiscal year, based on economic/technical rates determined in relation to the residual possibilities to use the assets. The assets consisting of components having a different useful life are considered separately in determining the depreciation.

The useful life and depreciation criteria are reviewed periodically and, in the event of significant differences from the assumptions previously applied, the depreciation rate is adjusted using the "projection" method.
The useful life of assets is generally subject to annual confirmation and is modified if incremental maintenance or replacement works that vary the useful life of the main investment, are carried out during the fiscal year
The incremental or maintenance expenses producing a significant and tangible increase of production capacity or safety of tangible assets or extending the assets' useful life, are capitalized and added to the tangible assets on which they are realized. Ordinary maintenance costs are directly charged to the income statement.
The applied rates are reduced to 50% for the assets that came into operation during the fiscal year, since this percentage represents the weighted average of the coming into operation of the assets during the year. Depreciation starts when the assets are ready for use.
In particular, the depreciation rates are the following:

- land	not depreciated	
- buildings	50 years	2%
- lightweight constructions	10 years	10%
- plants	10 years	10%
- equipment	7 years	14%
- rolling components	12 years	8.33%
- computers	5 years	20%
- office furnishings and machinery	8.3 years	12%
- means of internal transport	5 years	20%
- motor vehicles	4 years	25%
- communication systems	5 years	20%

- modifications and standardizations of the aircraft fleet are depreciated according to the life of the operative leasing contracts
- aircrafts MD80/82, in fleet at the end of fiscal year 2004, were depreciated on the basis of the flight hours during the period in relation to the days of possession, determined with reference to a useful life of approximately 8 years
- leasehold improvements of third parties' assets are classified as tangible assets according to the type of cost sustained. The depreciation period corresponds to the shortest between the residual useful life of the tangible asset and the duration of the contract

Leases are classified as financial leasing every time contractual terms provide for the substantial transfer of all risks and benefits connected with the ownership to the lessee. All other leases are considered operative leasing.
Assets under financial leasing are recognized as Company assets based on their fair value at the contract stipulation date, adjusted by the additional charges at contract stipulation date and by the potential charges incurred for the transfer of the contract or, if lower, at the present value of the minimum rentals due. The corresponding liability towards the lessor is accounted for in the balance sheet as financial liability. Payments of rentals are divided into a share relative to capital and a share relative to interests in order to reach a constant interest rate on residual liabilities. Financial expenses are directly charged to the income statement of the year.

Costs related to operative leasing are included at constant rates based on the life of the contract. The benefits obtained or to be obtained or granted or to be granted as incentives to enter operative leasing are also accounted for at constant rates based on the duration of the contract.

Cyclical maintenance and restoration costs at contract expiry are capitalized and added to the related tangible assets and depreciated for the period of cyclical maintenance or along the life of the aircraft operative leasing respectively.

Impairment of tangible and intangible assets

In conjunction with the preparation of financial statements, the Company always reviews the book value of its tangible and intangible assets looking for indications of asset impairment. If these indications are found, the Company estimates the recoverable amount of these assets in order to assess their potential impairment. If the recoverable value of an asset cannot be estimated individually, the Company estimates the recoverable value of the source of the cash flows to which the asset belongs. In particular, this minimum aggregation unit corresponds to the Business Unit (Medium Range, Long Range and All Business).
The recoverable amount is the highest between the fair value net of selling costs and the value in use. In determining the value in use, the future estimated cash flows are discounted to their present value based on a rate gross of taxation, that reflects current market valuations of the value of money and of business-specific risks.
If the recoverable amount of an asset (or of a source of cash flows) is estimated below its book value, it is reduced to the minimum recoverable value. An impairment is immediately charged to the income statement.
When there are no longer reasons for an impairment, the book value of the asset (or of a source of

cash flows), except for goodwill, is raised up to the new value deriving from the estimate of its recoverable amount, but not above the net book value that that asset would have had if it had not been written down for impairment. The value recovery is immediately booked in the income statement.

Non current assets held for sale

Non current assets (and groups of assets destined for sale) classified as “held for sale” are valued as the lowest between their previous book value and the market value net of selling costs.

Non current assets (and groups of assets destined for sale) are classified as “held for sale”, when their book value is expected to be recovered through a disposal, instead of using them within the Company’s operating activities. This condition is only satisfied when a disposal is extremely likely, when the asset (or group of assets) is available for immediate disposal at its present conditions and when Management undertook to sell it by twelve months from its classification under this item.

- **Current assets and liabilities**

Inventories

Inventories, consisting of supplies of technical materials, catering materials and scheduled flight tickets, have been registered at their specific purchase costs or the realizable value inferable from the market trend, if lower. This lower value is not maintained in subsequent, if the reasons for it are no longer applying and the restoration of values is made, if the pre-requisites are present, within the limits of the original purchase cost.

Financial instruments

Financial assets and liabilities are accounted for in the financial statements when the Company is included in the contractual clauses of the instrument.

Trade receivables

Trade receivables are disclosed at their nominal value reduced by an adequate devaluation reserve in order to reflect the estimated loss on receivables.

Financial assets

Financial receivables related to capitalization contracts are valued at cost, i.e. at their nominal value, and increased by the accrued interests. This value is not lower than the initial insured capital increased by the minimum guaranteed yield. The financial receivables related to security deposits for obligations are registered at nominal value, equal to the presumed realizable value.

Receivables related to guarantee deposits for consumption are valued at nominal value, that is equal to the presumed realizable value , whereas receivables for deposits against contractual obligations with third parties are entered at nominal value and, if necessary, corrected in order to adjust the deposited amount to the presumed recovery value.

At the subsequent financial statements dates, the financial assets that the Company intends and is able to hold until expiry are entered at the amortized cost, net of the write-downs performed to reflect impairment.

Financial assets different from those held until expiry are classified as assets held for trading or available for sale and are valued at “fair value” at the end of each period. When financial assets are held for trading, profit and loss deriving from variations of their “fair value” are accounted for in the income statement of the period. On the other hand, when the financial assets are held for sale, the profit and loss deriving from variations of their “fair value” are directly recorded in the net equity until these are sold or impaired. In this case, the total profit and loss previously entered in the net equity are charged in the income statement for the period.

Cash and cash equivalents

The item “Cash and cash equivalents” includes cash, bank accounts, deposits returnable upon request and other short-term financial investments at high liquidity, that can be rapidly converted into cash and are subject to a low risk of value fluctuations.

Financing, bank loans and bank overdrafts

Financing, interest-bearing bank loans and bank overdrafts are booked based on the amounts cashed in, net of transaction costs, and are subsequently valued at the amortized cost using the actual interest rate method.

Trade payables

Trade payables are entered at their nominal value.

Derivatives and accounting for hedging operations

The Company’s liabilities are primarily exposed to financial risks deriving from exchange rate fluctuations. The Company uses derivative instruments to manage the exchange rate risk, which fall within the category of forward exchange contracts. Such derivative contracts have been stipulated with counterparts selected amongst the ones with the soundest financial situations, in order to reduce the risk of breach of contract as much as possible. The Company does not use derivatives for trading purposes.

Derivatives are initially entered at cost, then they are valued at fair value on the subsequent closing dates and charged to the income statement due to the lack of structured procedures to determine their hedging efficacy.

- **Provisions**

Provisions are entered in the balance sheet, when the Company has a present obligation as result of a past event and it is likely to be asked to fulfil that obligation. Provisions are accounted for based on Management's best estimate of the costs required to fulfil the obligation at financial statements date, and are actualized when the effect is significant.

- **Foreign currency items or items subject to "exchange rate risks"**

Receivables and payables originally expressed in foreign currency of countries outside the Euro zone are converted into Euro at the exchange rate of the transaction's date. The differences in foreign exchange rate arising from the collection of credit and the payment of debt in a foreign currency are charged to the income statement. Fixed assets in a foreign currency are booked at the exchange rate at the time of the purchase or at the lower rate at the end of the fiscal year, if such reduction is deemed durable.

The assets and liabilities initially denominated in a foreign currency of countries outside the Euro zone still present at the end of the period, except for non-monetary fixed assets, are aligned with the spot exchange rate at the end of the period and the related exchange profit and loss are charged to the income statement and the potential net profit is designated to a special reserve not distributable until realization.