eurofly

REPORT ON OPERATIONS AND FINANCIAL STATEMENT FOR FISCAL YEAR 2006

Eurofly s.p.a. – Registered Office in Milan (MI) - Via Ettore Bugatti, 15 –
Share Capital Euro 13.355.302
R.E.A. (Economic-Administrative Roll) Milan No. 1336505 – Company Register Milan No. 05763070017 - VAT No. 03184630964 – Tax Code No. 05763070017

SUMMARY

1. BOARD OF DIRECTORS AND CONTROL BODIES

BOARD OF DIRECTORS
(appointed by the Shareholders' Meeting of December 28th 2006)

President	Sandro	**CAPOTOSTI**
Managing Director	Giovanni	**ROSSI (1)**
Directors	Franco	**TRIVI**
	Luca	**RAGNEDDA (1)**
	Sergio	**ROSA (1)**
	Laura	**SANVITO**
	Ruggeromassimo	**JANNUZZELLI**
	Gian Carlo	**ARDUINO (2)**
	Giuseppe	**LOMONACO (2)**

BOARD OF STATUTORY AUDITORS
(appointed by the AGM on April 27th 2006)

President	Marco	**RIGOTTI**
Regular Auditors	Michele	**SARACINO**
	Guido	**MONGELLI**
Alternate Auditors	Dario	**FANGARESI**
	Antonio	**CIGALA**

INDIPENDENT AUDITING FIRM **DELOITTE & TOUCHE S.p.A.**
(appointed by the Shareholders' Meeting of September 12th 2005 for the three years period 2005 - 2007)

(1) Executive Director
(2) Independent Director

2. MAIN CORPORATE EVENTS

The following is a summary of the main corporate events occurred in the last months of 2006. On November 20th Mr. Giuseppe Bonomi resigned from the office of President of Eurofly's Board of Directors, because of its non-compatibility with that of President of SEA S.p.A.. As a result of this and of the resignation of Directors Mr. Massimo Caccialupi and Mr. Eugenio Lapenna for personal reasons, on November 22nd 2006 Eurofly's Board of Directors was dissolved in accordance with the legislation in force and the company by-laws. A shareholders' meeting was thus called to renew the Board of Directors on December 27th and 28th 2006 in first and second call respectively.

On December 7th 2006 Spinnaker Luxembourg SA – owner of a 44,167% stake in Eurofly – and Singins Consultadoria Economica e Marketing LDA – a company 100% controlled by Mr. Augusto Angioletti, who in turn owns 4,992% of Eurofly – announced to have annulled the shareholders' agreement that bound Mr. Angioletti and the company controlled by him to lock-up agreements towards Spinnaker, through a private deed. Simultaneously, Mr. Augusto Angioletti resigned from the office of Director and Chief Executive Officer of the company as from the date of the shareholders' meeting due at the end of December.

On December 21st Spinnaker Luxembourg SA and Meridiana signed a binding agreement for the disposal of a 29,95% stake in Eurofly's capital by Spinnaker and the granting of a call option on Spinnaker's residual 14,216% stake to Meridiana. The agreement was executed on December 28th.

On the same day, the shareholders' meeting (in second call) appointed the new Board of Directors with Mr. Sandro Capotosti as President, Mr. Giovanni Rossi, Mr. Sergio Rosa, Mr. Franco Trivi, Mr. Luca Ragnedda, Mrs. Laura Sanvito, Mr. Ruggeromassimo Jannuzzelli, Mr. Gian Carlo Arduino and Mr. Giuseppe Lomonaco as Directors (the last two as independent directors). Mr. Giovanni Rossi was then appointed new Chief Executive Officer of the company.

Pursuant to the agreement with Spinnaker, Meridiana undertook lock-up commitments equivalent to those already agreed upon by Spinnaker towards Banca Profilo S.p.A. and Centrobanca S.p.A. on the Eurofly shares subject to the acquisition up to June 21st 2007 (the agreements between Spinnaker and the Joint Global Coordinators signed at the time of the IPO provided for Spinnaker's commitment not to sell its Eurofly shares for a period of 365 days from the start of trading on the Stock Exchange for 20% of the shares and 18 months for the remaining 80%).

The table below compares the main profit and loss/balance sheet data and business indicators for fiscal year 2006 with the previous fiscal year.

Unless otherwise specified, Euro/000

Significant information	**2006**	**2005**	**Change**	**Change %**
Total flight hours	44.048	42.060	1.988	4,7%
Passengers carried	1.494.258	1.603.240	(108.982)	-6,8%
Available fleet rented and in wet lease (machine months)	141	136	5	3,8%
Productivity Long Range fleet (in flight hours)	5.318	5.441	(123)	-2,3%
Productivity Medium Range fleet (in flight hours)	3.097	3.192	(95)	-3,0%
Summary statement of profits and losses	**2006**	**2005**	**Change**	**Change %**
Revenue from sales and services	289.835	271.475	18.360	6,8%
Total revenue	296.693	277.986	18.706	6,7%
EBITDAR (1)	25.644	31.718	(6.074)	-19,1%
Percentage on revenue from sales and services	8,8%	11,7%		
EBITDA (2)	(9.476)	4.684	(14.160)	-302,3%
Percentage on revenue from sales and services	-3,3%	1,7%		
EBIT (3)	(25.940)	(2.712)	(23.228)	-856,4%
Percentage on revenue from sales and services	-8,9%	-1,0%		
Result of the year	(29.139)	(2.775)	(26.364)	-950,0%
Summary Balance Sheet	**31.12.06**	**31.12.05**	**Change**	**Change %**
Total fixed assets	85.264	103.009	(17.745)	-17,2%
Total current assets	74.772	95.282	(20.510)	-21,5%
Total assets	160.036	198.291	(38.255)	-19,3%
Net equity	16.702	43.476	(26.774)	-61,6%
Total non-current liabilities	36.690	42.255	(5.565)	-13,2%
Total current liabilities	106.644	112.560	(5.916)	-5,3%
Total net equity and liabilities	160.036	198.291	(38.255)	-19,3%
Investments	**2006**	**2005**	**Change**	**Change %**
Investments	3.168	66.622	(63.454)	-95,2%
Other financial data	**31.12.06**	**31.12.05**	**Change**	**Change %**
Net financial position (4)	(27.857)	(4.093)	(23.764)	580,5%
Net cash and equivalents (short-term net financial debt)	(4.124)	14.077	(18.201)	-129,3%
Cash flows of the period	(18.201)	18.940		

(1) EBITDAR: *Earnings Before Interest, Taxes, Depreciation, Amortization and aircraft Rentals* (i.e. EBIT gross of aircraft operative rentals – excluding wet lease – and of amortization and provisions for risks and charges).
(2) EBITDA: *Earnings Before Interest, Taxes, Depreciation, Amortization.*
(3) EBIT / operating result: *Earnings Before Interest and Taxes.*
(4) Compared to "Net cash and equivalents", the net financial position includes financial fixed assets and the amount of mortgages and debt towards leasing companies.

3. BOARD OF DIRECTORS REPORT ON OPERATIONS

Dear Shareholders,

The company closed fiscal year 2006 with a net loss of Euro 29,1 million versus a net loss of Euro 2,8 million in the previous year. Total revenue was up 6,7% compared to 2005, equal to Euro 296,7 million.

The significant loss incurred, accounting for approximately 10% of sales, appears even larger given the substantially positive scenario of the European and global airline industry.

This unbalanced economic situation should be mainly ascribed to the gradual deterioration of the charter business' financial margins, the still unsatisfactory management of planning, administration and control of operations as well as the launch of new air transport services with low success probabilities and very expensive start-ups.

For a detailed description of the three abovementioned causes, it should be noted that, besides the political and climatic instability of some geographic areas (e.g. Egypt and Caribbean), the charter business' weaknesses mainly derive from the low profitability of short and medium range operations (Spain, Greece and North Africa) and, more importantly, from the purchase behaviour of tourists/clients, who organize their trips autonomously profiting by low-cost flight offers, instead of choosing standard solutions or "all inclusive packages" offered by traditional tour operators.

More specifically, in addition to the growing preference for the personal reservation of hotels and low cost flights in respect of the traditional tour operator/charter carrier combination as far as Spain and Greece are concerned, early signs of liberalization are also being observed in relation to the North African destinations. The extent of these phenomena is such as to damage the strongholds that have so far protected Eurofly's medium range business, like the Italy-Egypt connection.

In respect of the control of operations, starting from Eurofly's exit from Alitalia's orbit around the end of 2003, the technical-organizational structure evolved in order to ensure a complete project and management autonomy. Despite strong efforts and given the shift from a charter-based business model to a mixed charter-scheduled flight model, the Company has not yet succeeded in taking an effective control of the key processes, such as the planning of the connection network, aircraft and crews, the control of the quality of the airport services supplied by third parties and the logistics of maintenance. These factors have been and still are the cause of the flights' low punctuality coefficients and extra management costs, negative effects that limit Eurofly's market competitiveness.

As to the valuation of the incidence of the new long range flights on Eurofly's balance sheet, the Milano Malpensa – New York JFK connection operated with the all business, 48-seat Airbus 319 CJ yielded a negative operating result of circa Euro 9,5 million versus sales of circa Euro 9,6 million.

This connection (cancelled at the end of January 2007) - initially designed to take off from Milano Linate in partnership with the MiMa association (Milan – Manhattan), then moved to Milano Malpensa due to regulatory restrictions – entered in direct competition with the Alitalia, Continental and Delta flights.
The change in the departure airport prevented Eurofly from capturing the type of clients it was actually interested in, i.e. people who, in order to skip the difficult access to the Malpensa airport, prefer to embark in Linate and reach New York with Air France, Lufthansa and British Airways flights with a stop-over in the chief European hubs like Paris, Frankfurt and London.

Also, with reference to the long range scheduled connections and since Eurofly does not belong to global alliances (Sky Team, Star Alliance or One World), the Company currently offers point-to-point connections with great difficulties linked to its low commercial penetration of the Italian and foreign markets and the fiercer competition, actually losing the proceeds possibly deriving from the transport of passengers heading to other destinations.

3.1. <u>Operations and operating activity</u>

3.1.1. Aircraft fleet

At the end of 2006 Eurofly's fleet consisted of no. 13 airplanes: no. 8 A320 for medium range, no. 4 A330 for long range and no. 1 A319 CJ with All Business configuration. The eight A320 are configured with 180 economy passenger seats. These airplanes have a cruising speed of 830 km/h, a maximum cruising altitude of approximately 12.000 meters and a range of approximately 3.500/3.700 km with full load.
In 2006 the long range fleet consisted of no. 3 aircraft (configuration reached in May 2005), as the fourth A330 I-EEZL airplane was delivered on December 14th 2006. The A330 airplanes have 286 passenger seats (of which 26 business and the remaining economy). These airplanes have a cruising speed of 870 km/h, a maximum cruising altitude of approximately 12.500 meters and a range of approximately 11.500 km with full load.

As from April 5th 2006 the fleet also includes the A319 Corporate Jetliner acquired in leasing in May 2005 and subsequently leased to the Saudi company NAS in 2005 and the first quarter of 2006. The A319 CJ Airbus derives from the A310 standard model and has the same features as the A320 family. This airplane is configured with 48 business passenger seats and 7 crew seats. This airplane has a cruising speed of 830 km/h, a maximum cruising altitude of 12.500 meters and a range of 7.600 km with full load.

The table below shows Eurofly’s fleet in 2005 and 2006.

Registration mark	Type	Entry in fleet	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06
I-EEZB	A330	Aug 02																								
I-EEZA	A330	Sep 02																								
I-EEZJ	A330	May 05																								
I-EEZL	A330	Dec 06																								
I-EEZC	A320	Oct 02																								
I-EEZD	A320	Feb 03																								
I-EEZE	A320	Mar 03																								
I-EEZF	A320	Apr 03																								
I-EEZG	A320	May 03																								
I-EEZH	A320	Dec 04																								
I-EEZI	A320	Dec 04																								
I-EEZK	A320	Feb 05																								
I-DAVD	MD-82	May 04																								
I-DAVC	MD-82	Jun 04																								
I-ECJA	A319	Apr 06																								

In 2005 Eurofly resorted to passive wet lease[1] for both medium and long range flights, respectively to expand the offer in summer and to bring the fleet configuration to three airplanes in advance, hence profiting by the available market demand. In 2006 the Company did not make use of passive wet lease because the long range fleet was enlarged in May 2005 and the acquisition of extra capacity in summer was deemed risky given the negative market scenario, the low profitability expected and more stringent regulations regarding the use of third parties’ aircraft.

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

[1] Passive wet lease is a contract providing for the acquisition of capacity in ACMI mode (Aircraft, Crew, Maintenance and Insurance). This type of contract to lease aircraft from or to third parties envisages a fee inclusive of aircraft, crew, maintenance and insurance costs.

The eight A320 medium range airplanes currently in fleet are under operative rental. The most significant terms of the contracts are summarised as follows:

Registration mark	I-EEZC	I-EEZD	I-EEZE	I-EEZF	I-EEZG	I-EEZH	I-EEZI	I-EEZK
Year of costruction	2002	2003	2003	2003	2003	1997	1997	1999
Initiation of rental	Oct-02	Feb-03	Mar-03	Apr-03	May-03	Dec-04	Dec-04	Feb-05
End of rental	Oct-08	Feb-09	Mar-09	Apr-08	May-08	Dec-09	Dec-09	Oct-09
Duration of rental	6,0	6,0	6,0	5,0	5,0	5,0	5,0	4,7

The four A330 aircraft are also under operative rental, as suggested by the following table:

Registration mark	I-EEZA	I-EEZB	I-EEZJ	I-EEZL
Year of costruction	2000	2000	2005	2006
Initiation of rental	Sep-02	Aug-02	May-05	Dec 06
End of rental	Apr-09	Apr-09	May-12	Dec 14
Duration of rental	6,6	6,7	7,0	8,0

The A319 CJ is the only airplane of Eurofly's fleet acquired through a ten-year leasing starting on June 1st 2005.

3.1.2. Commercial activity

The commercial activity focused on the following goals:

- minimizing the effect of the lacked renewal of the agreement with Teorema Tour, Eurofly's main client weighing 21% on 2005 consolidated sales (for more details please refer to the directors' report included in the report for the year ended December 31st 2005)
- minimizing the effect of the geopolitical instability in the Middle East (terrorist attacks in Egypt in 2005 and 2006) and the storms that hit the Caribbean at end 2005
- launching new routes to New York from both Rome (with the A330 aircraft) and Milan (with the A319 Corporate Jet)
- expanding distribution through all possible direct and indirect channels

The offer of medium range capacity declined due to the up-and-down trend of demand. In 2006 the Company renewed the lease – started in September 2005 - of two airplanes to the My Air carrier (ex My Way) in ACMI mode. Moreover, the Company did not acquire extra capacity in wet lease from third parties in summer, as described in paragraph 3.1.1. This strategy allowed the Company

to limit the effects of the lacked renewal of the agreement with Teorema Tour and the difficult traffic towards the Middle East, which was mainly influenced by cancellations in June and July.
The aircraft number was not reduced in the second half of 2006, determining an increase of the medium range offer capacity in the low season compared to 2005, which was only moderately absorbed by an expansion of the own activities to the detriment of fleet productivity.
In conclusion, the expiration of the contract for the transport of the Italian army troops caused a decline in sold hours as of July, which were only partly recovered through ad hoc operations on the seasonal peak.
In the long range segment the Company's marketing efforts were aimed at sustaining the growing scheduled business to New York. Indeed, the number of flights to this destination was increased from seven a week in 2005 to ten in 2006 with a longer period of operations (in 2005 from mid June to mid September and in 2006 from mid May to mid November). A Rome-New York connection was added in 2006 to the existing routes from Bologna, Naples and Palermo. Eurofly has thus become the carrier with the largest offer of direct flights between Italy and New York in summer. These initiatives helped to mitigate the effects of the lacked renewal of the contract with Teorema Tour in summer. Conversely, the termination of the relationship with the main client had a greater impact in the first months of 2006. The use of different sales channels (call centre, web site, distribution with all GDS both in Italy and flight destination countries) had allowed the Company to replace Teorema Tour's allotments (the portion of aircraft seats booked by travel bureaus or tour operators), but not the flights that had to be bought in full, as these were cancelled shortly before the departure dates.
Furthermore, a new All Business connection between Milan and New York operated with aircraft A319 CJ was inaugurated in May 2006.
Eurofly should have acted as the reference carrier of the association Club Milano – Manhattan (MiMa) as from May 8th 2006 through its 48-seat A319 CJ according to a lease contract stipulated with said association.
The agreement with MiMa provided that the A319 aircraft was based at the ATA general aviation terminal of the Milano Linate airport.
The US Department of Transportation (DoT), through a document dated May 4th 2006, expressed itself for the first time in regard to the flights organized by the MiMa association and operated by Eurofly. Irrespective of the qualification of these flights that Italian authorities classified as general aviation flights and consequently not subject to the restrictions of the decree regulating traffic over Milano Linate, the US DoT prevented Eurofly from operating these flights from Linate, being discriminatory against US carriers, which are not allowed to operate in Linate due to the Italian government's limitations to the Open Sky regulations between Italy and the United States. Following the US authorities' decision, on May 29th Eurofly started to operate own Milan – New York flights from the Terminal 2 of the Malpensa airport. This revision of the commercial policy, right after the start of the operations, had a negative impact on the revenue of said product for the entire start-up period, hence postponing breakeven.

The A319 airplane was also used for weekly charter flights to luxury resorts in summer (Bermuda) and the Christmas period (Maldives).

- <u>Statistical data</u>

Flight hours per type
In flight hours

	2006	2005	Change	% Change
Block hours (a)	42.321	36.827	5.494	14,92%
ACMI (b)	1.681	1.565	116	7,41%
REPRO (c)	46	3.669	-3.623	-
Total flight hours	**44.048**	**42.061**	**1.987**	**4,72%**

(a) Eurofly's flight hours with Company airplanes
(b) Flight hours for other Companies with Eurofly's airplanes leased to third parties in wet lease
(c) Flight hours for Eurofly with other companies' airplanes leased by Eurofly in wet lease

Flight hours per SBU
In flight hours

	2006	2005	Change	% Change
Medium Range	24.801	27.996	-3.195	-11,41%
Long Range	16.129	14.064	2.065	14,68%
All Business	3.119	0	3.119	-
Total flight hours	**44.049**	**42.060**	**1.988**	**4,73%**

The amount of flight hours grew by 4,7% in 2006 versus 2005. The flights operated with own airplanes (block hours) increased by 5.494 hours (+15%) versus a decrease of -3.623 hours operated with other companies' airplanes ("repro" hours), as the Company did not resort to passive wet lease in 2006. The number of flight hours operated with Company airplanes on behalf of third parties (ACMI hours) rose by 7,4% in conjunction with the exercise of the contract with My Air.

The increased operations with own aircraft were mainly due to the expansion of the fleet used for scheduled flights to New York, which were operated with both A330 airplanes and the A319 Corporate Jetliner. The long range and All Business contribution to flight hours offset the decline in medium range flight hours (-11,4%).

Fleet productivity *Annualized flight hours*	**2006**	**2005**	**Change**	**% Change**
Medium Range	3.097	3.192	-95	-2,98%
Long Range	5.318	5.441	-123	-2,27%
All Business	4.678	0	4.678	-

Despite the fleet availability remaining the same, the decrease of medium range flight hours in 2006 versus 2005 translated into a 3% lower productivity compared to the previous year.

The productivity of the Company's long range fleet also dropped -2,3%. Please note that the 2005 figure benefited from the concentration of the first quarter's operations on the Company's two airplanes, following the cancellation of flights to the Maldives, and from the marginal use of the third aircraft in wet lease.

Carried passengers	**2006**	**2005**	**Change**	**% Change**
Total passengers	1.494.258	1.603.240	(108.982)	-6,80%
Eurofly	1.387.131	1.496.293	(109.162)	-7,30%
Other carriers	107.127	106.947	180	0,17%
Medium Range	1.048.849	1.199.611	(150.762)	-12,57%
Long Range	439.571	403.629	35.942	8,90%
All Business	5.838	0	5.838	-

The total amount of passengers carried by Eurofly in 2006 highlighted a 7,3% decline compared to 2005 due to the decrease of medium range passengers (aligned with the reduction of flight hours), that was in turn linked to the expansion of the long range business through an increase of the offered capacity. In this respect, the amount of long range passengers carried in 2005 was also affected by the greater capacity of the Star aircraft (in wet lease) compared to Eurofly's aircraft (364 seats versus 282). Including the activities carried out for third parties and their passengers, the reduction versus 2005 was equal to 6,8%.

Carried passengers - NY leisure scheduled flights				
	2006	2005	Change	% Change
Carried passengers	95.434	36.764	58.670	159,59%
Seats offered	141.564	54.144	87.420	161,46%
Load factor	67,4%	67,9%	-0,49	

The load factor of the leisure scheduled flights to New York – of great importance for the Company's product portfolio – exceeded 67%. This result, substantially aligned with 2005, was achieved despite the higher capacity offered (from seven flights a week in 2005 to ten in 2006 with a longer period of operations) and the launch of the Rome – New York connection in competition with the main American and Italian airlines. The load factor would improve by approximately 7 points when restricting the analysis to the same period of flight operations as in 2005 (June-September).

3.1.3. New partner in maintenance services

On November 2nd 2006 Eurofly stipulated a ten-year agreement with the Swiss company SR Technics, worldwide leader in aircraft, engine and component maintenance. SR Technics replaced Alitalia Servizi and Sogerma, with which Eurofly had signed maintenance contracts then terminated in advance.

3.1.4. Livingston Aviation Group acquisition project

In the first months of 2006 Eurofly forwarded an expression of interest for the acquisition of the competing airline Livingston Aviation Group, fully controlled by I Viaggi del Ventaglio. As agreed, on April 12th Eurofly paid Euro 5 million, of which Euro 4 million were deposited in a term escrow account guaranteeing payment of the purchase price and Euro 1 million was paid to I Viaggi del Ventaglio directly against a pledge on aeronautical spare parts in favour of Eurofly.

Simultaneously with the acquisition, Eurofly and Livingston signed an agreement regarding a joint offer of flights for Tour Operators and the general market for the IATA[2] 2006-2007 winter season.

During the negotiations, I Viaggi del Ventaglio had granted Eurofly an exclusive period expiring at the beginning of April 2006, but then postponed to June 30th and subsequently to August 31st. In that period Eurofly conducted the necessary legal, financial, fiscal and industrial due diligence with the assistance of professionals and consulting firms. Given I Viaggi del Ventaglio's decision to stop exclusive negotiations on August 31st and the negotiations trend, Eurofly gave up the project in September. The amounts initially paid in view of the acquisition were returned to Eurofly after the interruption of the talks.

3.1.5. Growth initiatives in Egypt

In order to strengthen its leadership in Egypt, also due to changes in local regulations, at the beginning of 2006 Eurofly started to examine the feasibility of a foreign-capital airline with Egyptian flag. In the following months Eurofly set aside the project to avoid increasing its exposure in the Middle East considering the evolution of the local political situation.

3.1.6. Tax police inspection

On May 23rd 2006 the Lombardy tax police started a partial investigation into the income tax for fiscal year 2004. The investigations were then extended to fiscal years 2002 and 2003. The verbal process was prepared on January 16th 2007 and included several tax findings – all rejected by Eurofly – which will be subject to further analyses and defensive actions. The items contested by the tax police auditors partly regarded transactions with low-taxation countries, partly excessive provisions for future invoices and, at a lower extent, costs allocated to fiscal years they did not pertain to.

More specifically, the income contested by Eurofly was equal to Euro 0,6 million for the 2002 tax period, Euro 2 million for 2003 and Euro 1 million for 2004.

The related announcements of assessment have so far not been notified. Hence, the risk cannot be fairly quantified and, in any case, it should be valued in the light of past tax losses to be accumulated.

[2] IATA: International Air Transport Association.

3.2. Analysis of the financial results

The factors characterizing the net result and financial position are summarized below. Please refer to the explanatory notes for a complete analysis.

Reclassified income statement	2006	% on revenues	2005	% on revenues	Change	Change %
Euro/000						
Revenue from sales and services	289.835	100,0%	271.475	100,0%	18.360	6,8%
Other revenue and income	6.858	2,4%	6.512	2,4%	346	5,3%
Total revenue	**296.693**	**102,4%**	**277.986**	**102,4%**	**18.706**	**6,7%**
Direct commercial expenses	8.163	2,8%	3.200	1,2%	4.962	155,1%
Revenue net of direct commercial expenses	**288.530**	**99,5%**	**274.786**	**101,2%**	**13.744**	**5,0%**
Jet fuel	88.947	30,7%	72.472	26,7%	16.475	22,7%
Staff costs	43.390	15,0%	39.143	14,4%	4.247	10,9%
Materials and maintenance services	40.347	13,9%	33.137	12,2%	7.209	21,8%
Other operating costs and wet lease	71.077	24,5%	84.156	31,0%	-13.079	-15,5%
Other commercial and corporate costs	19.125	6,6%	14.160	5,2%	4.965	35,1%
Sub-total costs	**262.886**	**90,7%**	**243.068**	**89,5%**	**19.818**	**8,2%**
EBITDAR	**25.644**	**8,8%**	**31.718**	**11,7%**	**-6.074**	**-19,1%**
Operative rentals	35.120	12,1%	27.034	10,0%	8.086	29,9%
EBITDA	**-9.476**	**-3,3%**	**4.684**	**1,7%**	**-14.160**	**-302,3%**
Depreciation and amortization	6.260	2,2%	4.836	1,8%	1.424	29,4%
Non-current asset write-off	2.465	0,9%	0	0,0%	2.465	100,0%
Other provisions	5.649	1,9%	2.000	0,7%	3.649	182,4%
Provisions for risks and charges	2.090	0,7%	559	0,2%	1.531	273,6%
Total depreciation and provisions	**16.464**	**5,7%**	**7.396**	**2,7%**	**9.068**	**122,6%**
EBIT (Operating results)	**-25.940**	**-8,9%**	**-2.712**	**-1,0%**	**-23.228**	**856,4%**
Financial income/(charges)	-5.322	-1,8%	42	0,0%	-5.364	-
Pre-tax profit	**-31.263**	**-10,8%**	**-2.671**	**-1,0%**	**-28.592**	**1070,6%**
Tax charges	-2.123	-0,7%	1.685	0,6%	-3.809	-226,0%
(Profit)/Loss on sales of assets	0	0,0%	1.581	0,6%	-1.581	-100,0%
Net profit/(loss)	**-29.139**	**-10,1%**	**-2.775**	**-1,0%**	**-26.364**	**950,0%**

Translated from the original version in Italian

Total 2006 revenue grew by approximately 7% to Euro 296,7 million through the expansion of the Long Range Business Unit and the launch of All Business, which more than offset the medium range revenue decline.

The EBITDAR dropped by Euro 6,1 million to Euro 25,6 million (8,8% weight on revenue) following the increase of fuel, materials and maintenance costs. Conversely, wet lease costs decreased significantly, because in 2006 Eurofly did not lease airplanes from third parties. Also, direct commercial costs grew, mainly as a consequence of growing scheduled operations.

The EBITDA was negative for Euro 9,5 million versus a positive result of Euro 4,7 million in 2005. The decrease, besides being ascribable to the same factors affecting the EBITDAR, was mainly the result of the sharp increase of operative rental costs related to the fleet expansion (the two new A330 airplanes were delivered in May 2005 and December 2006 respectively), the higher interest rates (to which five of the eight leasing agreements of the medium range aircraft are indexed) and, in conclusion, the renewal of contracts expired in 2005 that included an increase of the three aircraft's lease costs.

The EBIT, negative for Euro 25,9 million, was not only penalized by the aforementioned elements but also by a growing depreciation linked to the entry in fleet of the A319, provisions for future cyclical maintenance costs and bad debt reserves, the latter being determined by bad debts and the deterioration of the tour operators' credit merit.

Furthermore, write-offs of non-current assets were performed during the fiscal year due to the alignment with their net realizable value, which, as far as the fleet is concerned, considers new employment possibilities of the A319 that will be discussed in this report on operations.

The Company reported a net loss of Euro 29,1 million falling by Euro 26,4 million versus 2005. Such a worsening was also the consequence of increased financial charges mainly due to forex losses, which mostly derived from the depreciation of guarantee deposits denominated in US dollars as a result of the Euro/Dollar exchange rate trend described in paragraph 3.6.1.

The net financial position (thoroughly analysed at paragraph 5.8) was negative for Euro 27,9 million at year-end. The worsening of more than Euro 23 million from the end of 2005 mainly derived from the loss of the year and the cash absorption required by the working capital increase.

The net equity was equal to Euro 16,7 million. Please, see paragraph 5.6 for more details.

3.3. Staff

The Company's organizational structure was redefined in 2006 with the goal of improving the control on the main commercial processes and of streamlining the management of the processes supporting all company functions. In particular, besides the staff functions that report to the Chief Executive Officer (Human Resources & Legal Affairs and Auditing), the following organizational areas have been created:

- Executive VP Operations: the goal is to guarantee the production area's efficiency in terms of reliability, productivity and service quality (the area also includes the Accountable Manager position).

- Executive VP Finance: the goal is to guarantee a correct execution of the Company's administrative and financial functions as well as management and development of IT infrastructures and general services.
- Executive VP Commercial: the goal is to ensure business development, the definition of the marketing plan and the achievement of the sales, image and service quality targets.

As to the labour contracts, the Pilots' contract and the economic terms of the Ground Staff's contract expired on December 31st 2005 and the Flight Assistants' contract expired on December 31st 2006.

In respect of training initiatives, the technical-professional training of Pilots and Flight Assistants was performed in 2006 in compliance with the legislation in force, in order to preserve the validity of the licenses of the entire Flight Staff.

The abovementioned activities include:

- 5 ground courses for Flight Assistants to train 67 pupils
- qualification of 7 Mixed Fleet Captains that brought the total number of Captains capable of operating both A320 and A330 to 24
- sale of training courses to third parties resulting in the qualification of 24 foreign pilots

3.4. Research and Development

The Company does not carry out any R&D activity in a narrow sense.

3.5. Management and coordination

Meridiana SpA, a company headquartered in Olbia (Sardinia) with Euro 51.033.349 share capital fully paid up, has been Eurofly's reference shareholder at 29,95% since December 28th 2006. Meridiana has three executive directors sitting in Eurofly's Board of Directors. In respect of the information required by article no. 2497-bis, comma 4 of the Italian civil code (management and coordination), it should be noted that Eurofly is subject to Meridiana's management and coordination decisions.

The following table shows the main figures of Meridiana's balance sheet as of December 31st 2005. For a description of the operations with Meridiana, please see paragraph 5.9.

€/000	2005
Total revenue	380.568
Total costs	372.015
Operating results	8.553
Gross profit	8.126
Net profit	2.482
Cash flow	16.557
Net cash	24.656
Fixed assets	105.873
Net equity	47.313

3.6. Reference scenario

3.6.1. Macro-economic scenario

The year 2006 recorded a growth of the main global economies: the Euro zone reported a sustained development in the first part of the year, while the US recovered towards the end of the year after a slight slowdown at the end of the first six months.

In this scenario, the oil price rose between January and August and started to decrease in September hitting lower levels towards year-end than those at the beginning of 2006. As indicated in the following table, the average oil price in 2006 was however significantly higher than in 2005.

Crude oil
US$/barrel

	2006	2005	% Change
WTI-USA	66,02	56,49	17%
Brent-Europe	65,15	54,42	20%

Source: Energy Information Administration - US Government

During the year the Euro appreciated versus the US currency: the exchange rate rose from 1,180 at end 2005 to 1,317 at end 2006. In terms of average values, the Euro appreciated slightly versus the US dollar reaching a quotation of 1,242 in 2005 and 1,254 in 2006.

Exchange rate

	2006	2005	31.12.06	31.12.05
EUR/USD	1,25	1,24	1,32	1,18

Source: Il Sole 24 Ore

Interest rates grew both in the Euro zone (in 2006 the 3M Euribor rose from 2,51 at the beginning of January to 3,38 at end December averaging 3,07 for the whole of 2006 and growing from the 2,18 of 2005) and the United States (the 3M Libor rose from 4,68 points at the beginning of 2006 to 5,36 in December averaging 5,23 versus the 3,64 of 2005).

Interest rates

	2006	2005	Dec-06	Jan 06
EURIBOR	3,07	2,18	3,38	2,51
LIBOR	5,23	3,64	5,36	4,68

Source: British Bankers Association, European Bankers Federation

3.6.2. Industry scenario

As to global air traffic, 2006 presented a sharp increase in the amount of passengers carried. According to IATA's December report, carried passengers grew by 5,9% compared to the previous year, also given a 4,6% offer expansion, with a resulting improvement of the load factor worldwide. The growth was more sustained in the fourth quarter (+6,5%) than in the rest of the year.

Similar data were recorded in Italy as well. The Assaeroporti statistics highlighted an 8,7% traffic growth in the main Italian airports during the year, with a sharper increase of international traffic (+10,2%) compared to domestic traffic (+6,8%), in line with a long-established trend.

As to tourist destinations, the Astoi Observatory (tour operator association) noted:

- a sustained growth of the Maldives in excess of +40%
- a stability of the Mediterranean with an increase of bookings for Spain and Greece
- a growth of Santo Domingo and simultaneous decline of Mexico
- a decrease of Italian bookings for the Red Sea, despite the increase of total passengers recorded by local airports
- an increase of Italian tourists heading to domestic destinations that rank first among the Italian travellers' preferences
- a 7% decline of charter traffic on the Malpensa airport, Eurofly's reference base, compared with past year

3.6.3. Regulatory framework

The main 2006 legislative actions affecting airlines can be summarized following:

- Law no. 248/2005 on "System requirements"

The legislator converted Decree no. 203 of September 30th 2005 (published on the Official Gazette no. 243 of October 18th 2005) into a law through Law no. 248/2005 of December 2nd 2005. This law includes a series of measures (the so-called “system requirements”) aimed at fostering competition in domestic air traffic. The following are among the main measures of most immediate impact on airlines:

- the cancellation of the surcharge, 50% for night flights, on landing, take-off, stop-over and maintenance rights on domestic airports
- the cancellation of the royalties, i.e. surcharges applied by airport companies and carrier service suppliers that are not connected to the costs actually sustained for the services provided; a typical example are royalties on fuel supplies
- the reduction of airport fees (passengers, landing, take-off and stop-over) in an amount equal to the decline of the royalty fees paid by airports
- the reduction of terminal and route taxes paid by carriers to Enav in relation to production recovery and development targets as well as the level of offered services and the amount of sustained expenses
- the acknowledgement of the airline carrier’s responsibility in safety matters, with the consequent attribution of a share of the related payment to the latter. The Ministry of Transportation and ENAC (National Agency for Civil Aviation) supplied indications to interpret the abovementioned law

From a judicial point of view some domestic airport companies appealed to obtain the annulment – with a previous suspension as a precautionary measure - of some provisions issued by the Ministry of Transportation and ENAC that include measures for the application of Law no. 248/05. In said context Eurofly – as counter-interested party benefiting from the application of the regulation – was notified of an appeal promoted by the company Aeroporti di Roma with the Regional Administrative Court of Latium against ENAC and the Ministry of Transportation. The Regional Administrative Court adjourned the lawsuit to the October 26th 2006 hearing, to discuss the merit of the appeal as it found no urgent reasons and did not believe it necessary to discuss Aeroporti di Roma’s suspensive appeal. The Court ordered Aeroporti di Roma S.p.A. to integrate the cross-examination and postponed further discussions on the appeal to the May 17th 2006 hearing through order no. 1194/2006.

In reference to point 2 regarding the royalty cancellation, ENAC, the Air Carrier Association (Assaereo) and other category associations issued directives to explain the changes introduced by the regulation.

The oil company ENI sued various airlines, among which Eurofly, in the Court of Rome on the matter, requesting the Court to verify and declare that they were obliged to cover the royalty fees that ENI must pay to the airport companies. The Court postponed the first hearing to May 10th 2007 through a provision dated October 19th 2006.

It should be noted that, while awaiting the judgement, ENAC sent to the Air Carrier Association (Assaereo), airport companies, Assaeroporti, IBAR[3] and Unione Petrolifera provisions no. 60600 and no. 70963, on September 15th and October 31st 2006 respectively, which quantified the royalties of a few Italian airports. These provisions were contested by Assaereo in front of the Latium Regional Administrative Court through an appeal notified to ENAC, the Ministry of Infrastructures and Transportation, the Ministry of Economy and Finance and, as counter-interested parties, Aeroporti di Roma S.p.A. and ENI S.p.A. on November 13th 2006. During the December 14th 2006 hearing, the parties concordantly requested a short-term postponement of the discussion on the merits of the appeal. The Company is awaiting the date of the hearing, which should be fixed by summer 2007.

- <u>Regulations on flying and service hours limits</u>

With the Regulations of March 23rd 2005, ENAC fixed new flying and service hours limits in addition to crew-rest requirements, with the aim to increase flight security conditions.
These Regulations are more stringent in regard to flight staff working hours and include new provisions for crew composition compared to the previous set of rules. Airlines should have fully implemented these regulations by March 26th 2006 with the exception of two provisions concerning the so-called "reinforced flight crew", which should have become effective as of July 1st 2005.
Eurofly – together with other domestic airline carriers – made an appeal to the Regional Administrative Court of Latium to obtain the cancellation of these Regulations following a suspensive measure, as it believed some merit factors and the particularly short timing for the implementation of the rules censurable.
With a judgment published on March 2nd 2006, the Regional Administrative Court of Latium pronounced itself on the matter by partially accepting the appeal presented by Eurofly (and others), annulling only the parts of the Regulations envisaging an equal treatment of all flight crew members, including flight assistants, despite all having different tasks causing different levels of fatigue.
The ENAC Board of Directors, through resolution no. 67/06 of December 19th 2006, approved the fifth edition of the Regulations on flying and service hour limits and the crew-rest requirements that include different rules for pilots and flight assistants.

- <u>Protection of passengers rights: EC Reg. no. 261/04 and Decree no. 69/06</u>

In view of a complete implementation of the former EC Reg. no. 261/04 *("Regulations establishing universal rules on passenger compensation and assistance for denied boarding, flight cancellation and prolonged delay abrogating (EEC) Regulation no. 295/91"),* the legislator issued the Law Decree no. 69 of January 27th 2006, which regulates *"Sanctions for the violation of the (EC)*

[3] Assaeroporti is the association representing management of the Italian civil airports. IBAR: Italian Board Airline Representatives groups the national and international airlines operating in Italy.

Regulation no. 261/2004 that establishes universal rules on passenger compensation and assistance for denied boarding, flight cancellation and prolonged delay".

This measure provides that airline carriers may incur administrative sanctions of various amounts if they violate the provisions of EC Regulation no. 261/2004.

All the necessary measures to make airline carriers respect passenger rights were reinforced compared to the previous situation.

ENAC was appointed the body responsible for the implementation of the Regulations and the possible imposition of administrative sanctions.

On June 23rd 2006 ENAC issued the "APT 23" series Memorandum, which defined the procedures to inflict sanctions.

Moreover, on July 26th 2006 the EC Reg. no. 1107/2006 regulating "*the rights of disabled passengers and passengers with reduced mobility in air transportation*" was published on the EU Official Journal. These rules impose a series of measures to protect and assist disabled persons and persons with reduced mobility in air transportation in order to protect them from discrimination and guarantee their assistance.

- <u>Law no. 262 of December 28th 2005 ("Law on Savings")</u>

The Law no. 262 of December 28th 2005 introduced various changes on corporate and financial topics with the purpose to protect investors and regulate the financial market. The Law on Savings came into force on January 12th 2006.

The new law introduced changes in corporate governance, auditing, brokerage and sanctions, which the Company will incorporate in its Bylaws and internal procedures as per the legislation in force.

Particularly, the Law on Savings introduced, among others, the following changes and integrations of the existing regulations:

- it amends the Consolidated Act on financial brokerage (Law Decree no. 58, TUF, of February 24th 1998) in the parts related to the appointment of Directors and the composition and powers of the board of auditors
- it amends art. no. 2393 and 2393-bis of the Italian civil code as far as corporate responsibility lawsuits against Directors are concerned
- it introduces measures to safeguard minorities
- it introduces new rules on the obligation of companies listed on regulated markets to inform the market on stock option plans to company managers, employees and collaborators
- it amends the Italian civil code articles related to some corporate crimes, i.e. forged corporate communication (art. 2621 of the civil code) and forged corporate communication damaging the company, its shareholders or creditors (art. 2622 of the civil code). With

reference to the administrative responsibility of juridical persons as provided by law no. 231/2001, money penalties envisaged in art. 25 ter have been doubled

- Law Decree no. 196/03: Personal Data Protection Act

The information and data managed by the Company (including personal data) must be efficiently protected and safeguarded in order to prevent possible alteration or misuse.

To this purpose the Company created and currently manages an Information Security Management System (ISMS), which also includes Privacy aspects.

In this context the Company satisfied all provisions of Law Decree no. 196/2003. More specifically, it issued a Security Programmatic Document, whose objective is to provide – within the General Information Security Management System - a detailed picture of the organizational, physical and logical safety measures adopted by the Company in handling those information classified as "personal data", as per art. 4 of the Law Decree no. 196/2003.

3.7. Treasury owned shares

No purchases or sales of treasury owned shares were carried out during the fiscal year, either directly or indirectly.

3.8. Exposure to the risk of fluctuations in interest rates, exchange rates, fuel cost and credit management costs

In 2006 the fuel cost, which is linked to the oil price and international market trends, weighed 30,7% on the Company's revenue.

As to the exchange rate risk, it should be noted that some important production factors are regulated in dollars both because the dollar is the reference currency of some markets, like oil derivatives, aircraft rentals and insurance, and because of the operations carried out abroad. Conversely, this risk is partly compensated for by the fact that the Company obtains a share of its revenue in dollars and holds non-current assets in US dollars worth circa Euro 13 million, including guarantee deposits for suppliers related to aircraft lease contracts and other supplies.

Regarding the coverage of the risks related to variations in the two aforementioned external variables, it should be noted that the charter contracts stipulated by the Company with Tour Operators provide for the possibility to adjust the agreed prices to the fuel cost and the Euro / USD exchange rate at the flight date. The coverage offered by this contractual clause has a few limits: charter contracts are negotiated six months before the flight date, envisage franchises and

technical calculation modalities that determine an interval between the application of the adjustments and the variation in fuel prices and/or exchange rates.
Moreover, in the event of strong variations in these variables during a short time span, the price adjustment - though guaranteed by the contract - is limited by the market capacity to absorb the increases.
With regard to scheduled operations and fuel costs in particular, the air transportation industry applies fuel surcharges to the ticket price in order to at least partially recover these costs.
Please note that, in respect of the fuel surcharge, the transfer of the risk of an increase in fuel price and/or exchange rates to final prices is also influenced by profitability reasons and competitors' behaviour.
Due to the aforementioned reasons, the Company is however partly exposed to the effects deriving from the unfavourable trend of these variables, despite the risks being limited by contractual and commercial mechanisms.
The Company has so far taken no further measures against the risk of a fuel price increase through derivatives by virtue of the aforementioned contractual coverage. On the other hand, in 2005 and 2006 the Company hedged against the Euro/USD exchange rate risk through forward purchases of currency. No hedging contracts were present as of December 31st 2006.
In conclusion, the Company is exposed to the risk of interest rate increases, since some of its financial liabilities are variable rate as well as the reference rate of some aircraft operative rental and financial lease contracts.
As to the credit risk, despite the gradual development of scheduled activities, most of the Company's sales derive from charters with the result that its ordinary clients are mainly tour operators. Since the Italian tour operating sector principally consists of small and medium-sized operators, the credit risk involved in the business relations with these operators is higher compared to the other main European countries.
The aforementioned risk is faced by stipulating contracts that envisage payment before the flight date and warranties or guarantee deposits, while, at an operating level, the fulfilment of the payment terms is constantly monitored.
Also, the Company usually selects its clients according to the reliability demonstrated in past business relations, due to the sector characteristics described above.

3.9. Shareholdings held by members of administrative and controlling boards and managers with strategic responsibilities

As per article no. 79 of the Issuers Regulations, the table below is a list of the shareholdings held by the members of the administrative and controlling boards in the Issuer and, at an aggregate level, by managers with strategic responsibilities in the Issuer, either directly or through subsidiaries, as of December 31st 2006.

Name and last name	Participated Company	Number of shares held at the end of the previous fiscal year	Number of shares bought	Number of shares sold	Number of shares held at the end of current fiscal year
Augusto Angioletti*	Eurofly	0	26.300	26.300	0
Singins Cosultadoria Economica and Marketing LDA	Eurofly	666.692	0	155.338	511.354
Managers with strategic responsibilities	Eurofly	66.492		65.492	1.000

** resigned from CEO office on December 28th 2006*

*** please note that Singins' stake fell below the significant 2% stake, as per Consob announcement of January 19th 2007*

3.10. Main events occurred after the end of the fiscal year

- ***Crisis and first structural actions***

In the course of 2006 Eurofly had to face market and structural difficulties, the former mainly deriving from a less favourable competitive scenario for charter carriers and the latter from Company specific industrial and commercial processes. These negative elements penalized the Company's business during a phase of increasing costs and fleet expansion, seriously damaging its profitability and cash generation capacity.

As a consequence, the January 23rd Board of Directors decided to immediately suspend all the loss-making activities not expected to reach breakeven within an acceptable period of time. According to this restructuring plan, the BoD resolved to reduce its medium range fleet from 8 to 5 airplanes, to suspend the Milan-New York route operated with the A319 and to sub-lease the fifth A330 whose delivery is due in spring 2007.

As a result of the actions above, on January 30th 2007 Eurofly launched a collective dismissal to reduce staff by a total of 134 employees as per art. 4 and 24 of law no. 223 of July 23rd 1991, through notice to the trade unions and the Ministry of Labour. The agreement signed on March 15th 2007 with the trade unions avoided collective dismissals via the application of the solidarity contract (envisaged by law no. 223/91 as an alternative solution to collective dismissal) for a period of 24 months starting from April 1st 2007.

The Milan-New York connection operated with aircraft A319 was suspended at the end of January 2007, while the charter contracts, especially the flights to the Maldives, were fulfilled. At the moment the Company is evaluating various options to employ its A319.

In March 2007 the fifth Airbus A330 should have entered the Company's long range fleet with a seven-year operating rent. According to the restructuring actions approved by the Board of Directors, the Airbus was sub-leased in order to limit the risks and the investments required by an increase of capacity. On March 16th 2007 the Board of Directors approved the letter of intent regarding an agreement with the Spanish airline Air Comet S.A., involving the transfer of the A330 in dry lease for one year starting from March 2007. The economic terms of the agreement will allow the Company to make up for the cost increase connected with the fleet expansion.

- ***A350 aircraft agreements***

On December 30th 2005 Airbus and Eurofly signed an agreement for the purchase of three long range A350 airplanes to be delivered in 2013 and 2014. The contract stated for the payment of an advance of Euro 4.870 thousand in favour of Airbus upon the date of the agreement, plus two instalments to reach a total amount of USD 16 million by April 2007. Due to the pressure of a few clients and the fierce competition of other producers, in 2006 Airbus began to study a new version of the airplane (A350-XWB), characterized by more advanced technological features, improved aerodynamic characteristics, a larger fuselage section and higher cruising speed. The delivery time was however postponed by 24 months from to the initial deadline. As a result of this, Eurofly agreed with Airbus upon the suspension of the payments of the advances until a new agreement is potentially defined.

- ***Financial management***

In the first quarter of 2007 Eurofly made contacts with new banking institutions in order to obtain new credit lines for a total amount of Euro 7,5 million of cash credits, Euro 0,5 million of endorsement credits and Euro 2,0 million for trading of derivatives.

- ***Launch of new routes***

In 2007 the Company continued to grow its scheduled business, simultaneously with the restructuring. In mid January the new Rome-New Delhi connection was started with two and then three flights a week. Despite currently being the only direct connection between the two destinations and therefore operating in an apparently more favourable competitive scenario, this flight (inaugurated in January 2007 but already launched in autumn 2006), requires passengers arriving from or departing to cities different from Rome or New Delhi to reach breakeven. Indeed, it should be noted that point-to-point traffic volumes alone, though conveniently stimulated through the offer of profitable prices and services, cannot justify the economic sustainability of this connection. Considering said passenger traffic characteristics, the Company is currently looking for an extension of the carrying on agreements with other carriers with flights departing from and arriving in Rome and New Delhi.
Moreover, flights to New York will be re-activated in April, also through connections from Pescara and Lamezia Terme (with stop-over in Bologna).

3.11. Predictable development of operations

The Board of Directors thinks that, despite the aforementioned actions implemented in the first months of 2007, the Company could not be able to cover its fixed costs lacking further important structural actions.

In this context, the Company's restructuring could happen through the creation of strong operating and commercial synergies with the shareholder Meridiana S.p.A. and an improvement of the industrial processes. This strategy should improve the network's profitability in a reasonable time, despite reduced investments in distribution, technology and know-how.

Alternatively, the path towards the Company's restructuring could only be based on projects aimed at improving the Company's efficacy and efficiency. Such an alternative would however require higher investments in distribution and technology and a longer time to reach economic breakeven.

The Company is still verifying the requirements to pursue commercial and operating synergies with Meridiana S.p.A., despite the latter being favourable and the related analyses being already under way. As a consequence, the Board of Directors cannot examine the 2007-08 industrial plan by the initial deadline of April 15th 2007, because priority has been given to the analysis and discussion of the commercial integration project with Meridiana S.p.A. for profitability and urgency reasons. On the other hand, given the high complexity of a restructuring plan on a stand-alone basis, the Board deemed it more prudential to postpone such an analysis and only in the event the integration with Meridiana is not feasible, in order not to take precious energies and staff away from the study and elaboration of a commercial integration hypothesis with Meridiana S.p.A..

Based on the aforementioned and despite the uncertain evolution of the Company's business, the Board of Directors thought it convenient to draw up the financial statement under a going concern assumption for the year 2007, assuming that the Company will overcome the current economic and financial difficulties. This also depends on the (still uncertain) achievement of the synergies described above, which are currently still being defined and in any case subject to the approval of the shareholder Meridiana S.p.A. after the completion of the necessary feasibility tests.

The failure of this scenario may prevent the Company from realizing its assets at book value, in particular the realization of the deferred tax assets and the settlement of its liabilities during ordinary course of business at values corresponding to those included in this financial statement.

Appropriation of net profit and related decisions

Dear Shareholders,

Eurofly closed the 2006 fiscal year with a loss of Euro 29.139.129 and a net equity of Euro 16.702.221.

The Company's goal is to approve the Draft Financial Statement as of December 31st 2006 and submit it to the Annual General Meeting of the Shareholders with the following proposals:

- to approve Eurofly's Financial Statement as of December 31st 2006 with a loss of Euro 29.139.129 and a net equity of Euro 16.702.221
- to provide for the coverage of the cumulated loss, equal to Euro 31.913.386, by using the statutory reserve for an amount of Euro 3.680.752 and the share-premium reserve for the residual portion equal to Euro 28.223.084

Milan, March 27th 2007

For the Board of Directors

President

Sandro Capotosti

Chief Executive Officer

Giovanni Rossi

4. FINANCIAL STATEMENTS AT DECEMBER 31, 2006

4.1. Balance sheet

Reclassified balance sheet

Ref		31.12.06	31.12.05	Change
1	Tangible fixed assets	55.408	59.902	(4.493)
2	Other intangibles	4.023	5.240	(1.216)
3	Other long-term and financial investments	19.259	34.981	(15.722)
4	Deferred tax assets	6.573	2.887	3.686
	Total non current assets	**85.263**	**103.009**	**(17.745)**
5	Stocks	2.954	2.140	814
6	Trade receivables and other receivables	55.496	45.978	9.518
7	Other assets	11.174	6.415	4.759
8	Cash and cash equivalents	5.149	40.749	(35.600)
	Total current assets	**74.773**	**95.282**	**(20.510)**
	Total assets	**160.036**	**198.291**	**(38.255)**
9	Share capital	13.355	12.965	390
9	Reserves	32.486	33.285	(799)
9	Profit / (loss)	(29.139)	(2.775)	(26.364)
	Total net equity	**16.702**	**43.476**	**(26.774)**
10	Loans	27.921	34.874	(6.953)
11	Deferred tax liabilities	398	185	212
12	Long-term provisions for risks and charges	8.372	7.196	1.176
	Total non current liabilities	**36.690**	**42.255**	**(5.565)**
13	Trade payables and other liabilities	86.873	80.590	6.283
14	Banks debts	9.273	26.671	(17.399)
15	Current portion of long-term loans	2.312	2.203	109
16	Loans	4.500	0	4.500
17	Short-term provisions for risks and charges	3.686	3.096	590
	Total current liabilities	**106.644**	**112.560**	**(5.916)**
	Total net equity and liabilities	**160.036**	**198.291**	**(38.255)**

Translated from the original version in Italian

4.2. Income statement

Ref	Income statement	2006	% on revenue	2005	% on revenue	Change	Change %
	Euro/000						
18	Revenue from sales and services	289.835	100,0%	271.475	100,0%	18.360	6,8%
19	Other revenue and income	6.858	2,4%	6.512	2,4%	346	5,3%
	Total revenue	**296.693**	**102,4%**	**277.986**	**102,4%**	**18.706**	**6,7%**
20	Direct commercial expenses	8.163	2,8%	3.200	1,2%	4.962	155,1%
21	Jet fuel	88.947	30,7%	72.472	26,7%	16.475	22,7%
22	Staff costs	43.390	15,0%	39.143	14,4%	4.247	10,9%
23	Materials and maintenance services	40.357	13,9%	33.137	12,2%	7.220	21,8%
24	Other operating costs and wet lease	71.067	24,5%	84.156	31,0%	(13.089)	-15,6%
25	Other commercial and corporate costs	19.125	6,6%	14.160	5,2%	4.965	35,1%
26	Operative rentals	35.120	12,1%	27.034	10,0%	8.086	29,9%
27	Depreciation and amortization	6.260	2,2%	4.836	1,8%	1.424	29,4%
28	Fixed asset write-offs	2.465	0,9%	0	0,0%	2.465	100,0%
29	Other provisions	5.649	1,9%	2.000	0,7%	3.649	182,4%
30	Provisions for risks and charges	2.090	0,7%	559	0,2%	1.531	273,6%
	Total costs	**322.633**	**111,3%**	**280.699**	**103,4%**	**41.934**	**14,9%**
	Operating results	**(25.940)**	**-8,9%**	**(2.712)**	**-1,0%**	**(23.228)**	**856,4%**
31	Financial income/(charges)	5.322	1,8%	(42)	0,0%	5.364	-
	Pre-tax profit	**(31.263)**	**-10,8%**	**(2.671)**	**-1,0%**	**(28.592)**	**1070,6%**
32	Tax charges	(2.123)	-0,7%	1.685	0,6%	(3.809)	-226,0%
33	(Profit)/loss on sales of assets	0	0,0%	1.581	0,6%	(1.581)	-100,0%
	Net profit/(Loss)	**(29.139)**	**-10,1%**	**(2.775)**	**-1,0%**	**(26.364)**	**950,0%**

Translated from the original version in Italian

4.3. Statement of changes in equity

Amounts in Euro/000	Share capital	Share premium reserves	Legal reserve	Statutory reserve	Losses of previous year	Result of the year	Total
Net equity as of December 31 2005	**12.965**	**29.127**	**478**	**3.681**	**0**	**(2.775)**	**43.476**
Allocation of 2005 result					(2.775)	2.775	
Effect of listing on Stock Exchange	390	1.975					2.365
Loss of the fiscal year						(29.139)	(29.139)
Net equity as of December 31 2006	**13.355**	**31.102**	**478**	**3.681**	**(2.775)**	**(29.139)**	**16.702**

Translated from the original version in Italian

4.4. Cash flow statement

CASH FLOW STATEMENT €/000	2006	2005
CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE PERIOD	**14.077**	**(4.863)**
Pre tax loss	(31.263)	(1.090)
Adjustment :		
- Depreciation	6.260	4.836
- (Gain) / Loss on exchange rate due to operations in foreign currency	2.336	(2.201)
- Other financial charges	2.986	2.160
Change in trade receivables and other receivables	(9.422)	3.065
Change in stock	(814)	(359)
Change in trade payables and other liabilities	6.282	(10.527)
Interest and other financial charges paid	(3.809)	(2.682)
Taxes paid	(1.933)	(1.685)
Realized gain / (loss) on exchange rate due to operations in foreign currency	(1.441)	584
Unrealized gain / (loss) on echange rate due to operations in foreign currency	(895)	1.617
Gains from fixed asset disposals	-	(1.581)
Write-down of fixed assets	2.465	-
Net variation of staff leaving indemnity	496	121
CASH FLOWS FROM OPERATIONS	**(28.751)**	**(7.740)**
Investments in fixed assets:		
* Intangible	(659)	(2.622)
* Tangible	(1.952)	(46.710)
* Financial	(506)	(17.290)
Collected interests	822	522
Sales value of fixed assets	4.984	25.199
CASH FLOWS FROM/(FOR) DISPOSALS/(INVESTMENTS) IN FIXED ASSETS	**2.688**	**(40.901)**
Shareholders' loans	-	4.500
Bank time deposit included in current assets	(3.000)	-
Withdrawal of the A319 financial loan	-	28.773
Sale of capitalization contracts	10.841	4.302
Payment of loan instalments	(486)	(239)
Payment of A319 financial loan installments	(1.857)	(957)
CASH FLOWS FROM FINANCIAL ACTIVITY	**5.497**	**36.379**
Increase of share capital	390	5.900
Dividends	-	(5.000)
Share capital variations connected to the finalization of the listing process	1.975	30.303
CASH FLOWS FROM OPERATIONS ON EQUITY	**2.365**	**31.203**
CASH FLOWS DURING THE PERIOD	**(18.201)**	**18.940**
CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD	**(4.124)**	**14.077**

Translated from the original version in Italian

5. NOTES TO THE FINANCIAL STATEMENTS

This individual financial statements for the year ended December 31st 2006 has been prepared in accordance with the Italian National Commission for Listed Companies and the Stock Exchange (CONSOB) Regulation no. 11971 and subsequent amendments with the purpose to supply information about the Company's economic and financial situation. This financial statements has been drawn up for the first time according to the international accounting principles adopted by the European Union and the provisions issued in accordance with art. 9 of Decree no. 38/2005, following the Company's transition to IAS/IFRS with its first quarterly report at March 31st 2006 prepared as per art. 82 bis of said CONSOB Regulation and particularly as per IAS 1 and IAS 7.

The following information related to the transition to IAS/IFRS accompanies the quarterly report as of March 31st 2006:

a) a description of the main differences between the Italian accounting principles previously used and IAS/IFRS

b) the accounting treatments chosen by the Company among the options envisaged by IAS/IFRS

c) the optional exemptions provided for by IFRS 1 and exercised by the Company

d) the IAS/IFRS accounting principles adopted starting from the half-year financial report

Also, the following quantitative information had been provided:

e) the information requested by CONSOB Communiqué no. 14990 of April 14th 2005 in respect of the reconciliation of the net equity at January 1st 2005 and December 31st 2005 and the result for the year ended December 31st 2005 of the Company's individual financial statements by respectively applying the Italian accounting principles and IAS/IFRS

f) the detailed effects of the transition to IAS/IFRS on the balance sheet as of March 31st 2006 and the income statement of the quarter ended March 31st 2006

With reference to the last point, it was also included in the interim report as of June 30th 2006 and the quarterly report as of September 30th 2006.

For a complete analysis of the effects of the transition from the previous accounting principles to IAS/IFRS, reference should be made to the above-mentioned documents.

5.1. Accounting principles, valuation criteria and estimates used in the financial statements for the year ended December 31st 2006

The following is a description of the accounting principles, valuation criteria and estimates used by the Company to draw up its financial statement as of December 31st 2006 and to determine the accounting values of fiscal year 2005 according to the new IAS/IFRS accounting principles.

- **General criteria**

This annual report has been prepared according to the IAS/IFRS issued by IASB, as homologated by the European Union, and under going concern assumptions despite the uncertainties currently characterizing the outlook of the Company's operations, as thoroughly described in paragraph "Business Outlook" of the report on operations. IAS/IFRS stand for International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) respectively, as integrated with IFRIC's interpretations, previously called SIC.
This financial statements has been drawn up based on the historical cost principle, except for the revaluation of some financial instruments. The main accounting principles adopted are following.

- **Recognition of costs and revenue**

Sales and purchases of goods are recognized when the goods are delivered either to the customer or the company along with the significant risks and benefits connected with the possession thereof. Sales and purchases of services are recognized according to the level at which they are performed or completed at each reference date, especially considering the flight date for passenger transport services, determined against the total value of the service provided or acquired.
Financial income and expenses are recorded on accrual basis. 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 related loan amount or capital increase. The commissions paid to agents 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 is directly 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.

The “staff leaving indemnity” indicates the amounts owed to the employees based on the wages and salaries matured at the reference date in accordance with the legislation and agreements in force. This charge is assimilated to a defined benefit plan, whose cost is determined through the actuarial projected unit credit method that envisages actuarial valuations at the end of each fiscal year. The actuarial profit and loss are charged to the net equity from the reference date. The cost of past services provided is immediately recorded in so far as the related 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 non-material difference between the valuation of said liability through the actuarial method and the provisions of the Italian civil code (art. 2120), the Company decided not to adjust this charge valued according to the aforementioned article for the lowest value resulting from the actuarial valuation above.

- **Taxes**

The taxes of the period are the sum between current and deferred taxes.

Current taxes are based on the taxable result of the period. Taxable income differs from the result reported on the income statement, because it does not include costs and revenues, gains and charges that will be either taxable or deductible in other fiscal years, as well as items that will never be either taxable or deductible. Current tax charges are calculated based on the applicable tax rates or those actually applicable at the fiscal year end.

Deferred taxes are taxes that the Company expects to pay or to recover on the temporary differences between the book value of its assets and liabilities and their fiscal value used to calculate the taxable income. Deferred tax charges are generally recorded for all taxable temporary differences, whereas deferred tax assets are recorded in so far as a future taxable income allowing the use of deductible temporary differences is expected. In particular, the book value of the deferred tax assets is reviewed at each reference date and reduced to the extent that the presence of a sufficient taxable income such as to allow the total or partial recovery of these assets, becomes unlikely.

Deferred tax charges are calculated based on the tax rate estimated by the Company for the period in which the asset will be sold or the charge liquidated. Deferred tax charges are directly charged to the income statement, except for those regarding items directly included in net equity, in which case the associated deferred tax charges are also charged to the net equity.

Deferred tax assets and charges are offset in the presence of a legal right to compensate for the current tax assets and charges and when these refer to taxes due to the same tax authority and the Company intends to liquidate the current tax assets and charges on a net basis.

- **Non current assets**

Intangible assets

Intangible assets are comprised of costs, inclusive of additional charges, sustained to acquire intangible 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 useful life. In the case of impairment loss, intangible assets are written down accordingly based on the criteria set out in the paragraph "Impairment loss of intangible and tangible assets".

The amortization periods of the various intangible assets items are 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
- the costs for the creation of the web site are amortized in five years

The useful life and amortization criteria are reviewed periodically and in the event of significant differences from the previous assumptions, the amortization rate is adjusted using the prospective method.

Tangible assets

Tangible assets are accounted for provided that their cost can be determined reliably and 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 reasonably connected with the assets themselves. Grants obtained from these investments are entered in the income statement for the period necessary to correlate them with the associated costs, from which they are deducted directly. In the case of impairment loss, tangible assets are written down accordingly based on the criteria set out in the paragraph "Impairment loss of intangible and tangible assets".

Fixed assets are regularly depreciated at straight line method based on economic/technical rates determined in connection to the residual possibilities to use the assets. The assets consisting of components with different useful lives are considered separately in determining their depreciation. The useful life and depreciation criteria are reviewed periodically and in the event of significant differences from the previous assumptions, the depreciation rate is adjusted using the prospective method.

The useful life of assets is generally subject to annual confirmation and modified if additions or replacement works that increase the useful life of the main investment are carried out during the fiscal year.

The investments or maintenance expenses producing a significant and tangible increase of the production capacity or safety of the tangible assets or extending the assets' useful life, are capitalized and added to the tangible assets to which they refer. Ordinary maintenance costs are directly charged to the income statement.

The applied rates are reduced to 50% for the assets coming into operation during the period, 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 used are following:

- land	not depreciated	
- buildings	50 years	2%
- lightweight constructions	10 years	10%
- installations	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 transportation	5 years	20%
- cars	4 years	25%
- communication systems	5 years	20%

- modifications and standardizations of the aircraft fleet are depreciated according to the life of the operative rental contracts.

Improvements of third parties' assets are classified as tangible assets according to the nature of the cost sustained. The depreciation period corresponds to the shortest between the residual useful life of the tangible asset and the duration of the rent contract

Aircraft are depreciated based on a single-component approach by amortizing engines and cell components in 25 years.

Rentals are classified as leasing every time the contractual terms provide for the substantial and complete transfer of the risks and benefits connected with the ownership to the lessee. All other leases are considered operating leases.

The assets in leasing are recognized as Company assets based on their fair value at the contract stipulation date, adjusted for the additional charges at contract stipulation date and the possible 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. The rental amounts include a share of capital and a share of interests in order to reach a flat interest rate on the residual liabilities. The financial expenses are directly charged to the income statement of the period.

Operating leases are accounted for straightline based on contract duration. The benefits obtained

or to be obtained or granted or to be granted as incentives to enter operative rentals are also booked straightline based on contract duration.
Cyclical maintenance and restoration costs at contract expiry are capitalized, added to the related tangible assets and depreciated either for the period of cyclical maintenance validity or for the duration of the aircraft operative rental.

Impairment of tangible and intangible assets

At each reference date the Company reviews the book value of its tangible and intangible assets looking for indications of 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 amount 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 source corresponds to the Business Unit (Medium Range, Long Range and All Business).
The recoverable amount is the highest between the fair value net of the 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 the current market valuations of the value of money and business-specific risks.
If the estimated recoverable amount of an asset (or a source of cash flows) is lower than its book value, it is reduced to the lowest recoverable value. Impairment is immediately charged to the income statement.
When an impairment is no longer justified, the book value of the asset (or source of cash flows), except for goodwill, is raised up to the new value deriving from the estimated recoverable value, but shall not exceed the net book value of that asset if it had not been written down for impairment loss. The value recovery is immediately booked in the income statement.

Non current assets and liabilities held for sale

Non current assets (and groups of assets) classified as “held for sale” are valued based on the lowest between their previous book value and the market value net of selling costs.
Non current assets (and groups of assets) are classified as “held for sale” when their book value is expected to be recovered through a disposal, instead through their employment for the Company’s operations. 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 as “held for sale”.
The economic result deriving from the use of the assets and liabilities held for sale related to the months between the last-approved annual report and the disposal date – in accordance with the IFRS 5 provisions – is included in the “Profit on sales of assets” together with the proceeds of the sale net of the related additional charges.

- **Current assets and liabilities**

Inventories

Inventories, consisting of stocks of technical materials, catering materials and flight tickets, are booked at the purchase cost or, if lower, at the net realizable value estimated according to the market trend. This lower amount is not maintained in the subsequent periods, if no longer justified and the value is restored – provided that the conditions exist – up to the original purchase cost.

Financial instruments

Financial assets and liabilities are accounted for when the Company become part of the contractual clauses of the instrument itself.

- Trade receivables

Trade receivables are disclosed at their nominal value adequately written down 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 entered at their nominal value equal to the net realizable value.

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

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

Financial assets different from those held until expiry are classified as assets held for trading or for sale and are valued at fair value at the end of each period. When the financial assets are held for trading, the profit and loss deriving from fair value variations are booked 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 fair value variations are directly included in net equity up to sale or impairment. In this case, the total profit and loss previously entered in net equity are booked in the income statement for the period.

- Cash and cash equivalents

Cash and cash equivalents include 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 the transaction costs, and subsequently valued at their amortized cost using the actual interest rate method.

- Trade payables

Trade payables are booked at their nominal value.

- Derivatives and accounting of 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 risk of exchange rate fluctuations, which are classified as forward exchange contracts. These derivative contracts are stipulated with the financially most reliable counterparts in order to minimize the risk of breach of contract. The Company does not hold derivatives for trading purposes.

Derivatives are initially entered at cost, then adjusted for their fair value at the subsequent closing dates and charged to the income statement due to the absence of structured procedures determining their hedging efficacy.

- **Provisions**

Provisions are booked when the Company has a present obligation as a result of a past event, whose fulfilment is likely to be requested. Provisions are made based on Management's best estimate of the costs necessary to meet the obligation at the reference date and are actualized when the effect is significant.

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

Receivables and payables originally denominated in currencies of countries outside the Euro zone are converted into Euro according to the exchange rates at the transaction date. The foreign exchange differences arising from the collection of receivables and settlement of payables in a foreign currency are entered in the income statement. Foreign-currency fixed assets are booked at the exchange rate at the time of the purchase or at a lower rate at the closing of the fiscal year, if such reduction is deemed durable.

The assets and liabilities initially denominated in currencies of countries outside the Euro zone still present at the end of the period, including monetary fixed assets, are aligned with the spot exchange rate at the end of the period, the related exchange profit and loss are entered in the income statement and the potential net income is appropriated to a special reserve not distributable until disposal.

- **Estimates used**

The preparation of the financial statements in accordance with IFRS requires estimates and assumptions that affect the value of the balance sheet assets and liabilities and the information regarding potential assets and liabilities at the reference date. Hence, the final results could differ from these estimates. The estimates are used to calculate provisions for bad debt reserves, inventory obsolescence, asset write-downs, employee benefits, taxes and other provisions and funds. The estimates and assumptions are reviewed periodically and the effects of each variation are reflected by the income statement.

5.2. Non-recurring events and operations

The following table shows and analyses some non-recurring significant events, whose consequences are reflected in the economic and financial results of fiscal year 2006.

Amounts in Euro/000

Description	Net equity		Result of the period		Net debt		Financial cash flows (*)	
	Absolute value	%	Absolute value	%	Absolute value	%	Absolute value	%
Book value (A)	**16.702**		**-29.139**		**-27.857**		**-18.201**	
A319 write off	1.953	11,7%	1.953	-6,7%	-	-	-	-
Transaction with former CEO	1.926	11,5%	1.926	-6,6%	717	-2,6%	717	-3,9%
LAG acquisition project	694	4,2%	694	-2,4%	694	-2,5%	694	-3,8%
Suspension of scheduled activity All Business MI - NY	393	2,3%	393	-1,3%	-	-	-	-
Fiscal effect on above-mentioned events	-1.768	-10,6%	-1.768	6,1%	-	-	-	-
Total non-recurring operations (B)	**3.198**	**19,1%**	**3.198**	**-11,0%**	**1.411**	**-5,1%**	**1.411**	**-7,8%**
Notional gross balance sheet value (A+B)	**19.900**		**-25.941**		**-26.446**		**-16.790**	

(*) related to the increase or decrease of cash and cash equivalents during the fiscal year

- ***A319 write-off***

As to the new A319 employment options described in the Directors' report on operations, the "non-current assets write-off" item of the 2006 income statement includes a write-off worth Euro 1.953 thousand that was aimed at aligning the net residual value of the A319 to the net realizable value obtained from an independent valuation.

- ***Transaction with former CEO***

Following the resignation from Eurofly's Director and Chief Executive Officer and the contractual novation regarding his status as Commander with simultaneous fixing of the date for the termination of its employment, which occurred through an agreement signed on December 20th 2006 between Eurofly and Augusto Angioletti, the Company incurred a total one-off outlay of Euro 1.926 thousand, mostly included in the "staff cost" item of the 2006 balance sheet.

- ***Livingston Aviation Group acquisition project***

The costs sustained in fiscal year 2006 for the fiscal, legal, commercial and accounting due diligence required by the Livingston Aviation Group acquisition project (described at paragraph 3.1.4), were fully charged to the year's income statement (in the first six months) as "commercial and overhead costs", following Eurofly's decision to give up the project. The total amount of these costs was Euro 694 thousand.

- ***Suspension of scheduled activity All Business Milan – New York***

Following the suspension of the Milan – New York connection operated with aircraft A319 CJ at the end of January 2007, some correlated costs, previously accrued, had to be charged to the income statement. In particular, these costs refer to marketing and IT costs for a total amount of Euro 393 thousand.

5.3. Balance sheet comparability

The annual report for the year ended December 31st 2005 was reclassified as follows in order to compare it with the annual report for the year ended December 31st 2006.

- Reclassification of costs related to commissions on sales for Euro 526 thousand from the "Other revenue" item to "Direct commercial costs".
- Reclassification of banking charges for Euro 184 million from the "Other commercial and overhead costs" item to "Financial revenue/(charges)".
- Reclassification of fuel costs for the Company's automobiles for Euro 63 thousand from the "Fuel" item to "Other commercial and overhead costs". Following this reclassification, the "Fuel" income statement item only includes the fuel costs related to the aircraft fleet.
- Reclassification among "Provisions for risks and charges" included in non-current liabilities, of the phase-out funds that include provisions for restoration costs to be sustained when leased aircraft, formerly classified as current liabilities, exit the fleet. The reclassified amount is equal to Euro 4.147 thousand.

The reclassifications above did not affect the net equity and the result of the year ended December 31st 2005, as determined at the time of the publication of the document about the IAS/IFRS effects as per paragraphs 39 and 40 of IFRS 1, attached to the report on operations for the quarter ended March 31st 2006 and audited as required by Consob Communiqué no. DEM/5025723 of April 15th 2005, with auditors' report issued on May 19th 2006.

5.4. Balance sheet items

Non-current assets

At December 31st 2006 the non-current assets amounted to Euro 85.263 thousand decreasing by Euro 17.745 thousand with respect to December 31st 2005.

- Ref 1 – Tangible assets

Tangible assets decreased by Euro 4.493 thousand in the fiscal year, as shown by the following table.

Euro/000	Gross value					Accumulated depreciation				Net Value
	Gross value as of 31/12/05	Increases	Write-offs	Decreases	Gross value as of 31/12/06	Accumulated depreciation 31/12/05	Depreciation of the year	Decreases	Accumulated depreciation 31/12/06	As of 31/12/06
1) Land and buildings	8.426	24	-	-	8.450	314	251	-	566	7.884
2) Installation and machinery	50.419	1.735	1.953	113	50.088	5.010	3.794	5	8.799	41.289
3) Equipment	817	2	-	-	819	343	95	-	438	381
4) Other assets	2.073	128	-	-	2.201	1.134	244	-	1.379	823
5) Fixed tangibles under construction	4.967	64	-	-	5.032	-	-	-	-	5.032
Total tangible assets	**66.703**	**1.952**	**1.953**	**113**	**66.590**	**6.801**	**4.385**	**5**	**11.181**	**55.408**

The “Land and buildings” item regards the building located in via Ettore Bugatti, 15 – Milan, where the Company has been headquartered since December 2004. The “Installation and machinery” item mainly includes the residual net value of the A319 CJ worth Euro 33.071 thousand and rolling components for Euro 2.498 thousand, improvements to third-party aircraft included in Eurofly’s fleet for Euro 1.929 thousand and Euro 3.791 thousand of costs related to future capitalized cyclical maintenance. The “Fixed tangibles under construction” mainly refer to the deposits paid to the supplier Airbus as per the A350 aircraft acquisition contract.

The increases of the year are mostly related to installations and machinery, particularly to improvements of the fleet’s airplanes, the purchase of aeronautical components and the maintenance costs of aircraft A330 in fleet since December 2006. The costs of future cyclical maintenance works are booked in the assets and depreciated according to IAS/IFRS. The Euro 1.953 thousand write-off refers to the A319, whose residual net value was aligned to its net realizable value obtained from an independent valuation.

- Ref 2 – Intangible assets

Intangible assets decreased by Euro 1.216 thousand principally due to the year's depreciation. The variations are shown in the following table.

Euro/000	Gross value				Accumulated amortization			Net value
	Gross value as of 31/12/05	Increases	Account transfer	Gross value as of 31/12/06	Accumulated amortization 31/12/05	Amortization of the year	Accumulated amortization 31/12/06	As of 31/12/06
1) Start-up costs	5.565	306	-	5.871	3.107	1.159	4.266	1.605
2) Research, development and advertising costs	432	-	32	463	160	97	257	206
3) Rights reltive to patent and original work	-	-	-	-	-	-	-	-
4) Concessions, licenses, trademarks and similar rights	1.931	152	-	2.084	573	320	893	1.190
6) Fixed assest under construction	32	-	-32	-	-	-	-	-
7) Other intangible fixed assets	1.753	201	-	1.954	633	300	933	1.022
Total intangible fixed assets	**9.713**	**659**	-	**10.372**	**4.474**	**1.876**	**6.350**	**4.023**

The start-up costs are mainly comprised of pilots and maintenance staff training costs for an amount of Euro 653 thousand, costs for the opening of operational bases at the Sharm El Sheikh and New York airports and furnishing costs for the offices at the Malpensa airport. Concessions, licenses, trademarks and similar rights include the value of the Eurofly brand for Euro 442 thousand and software acquisition costs for a residual net value of Euro 737 thousand. The other intangible fixed assets mainly regard aircraft acquisition costs.
The increases were mainly the result of software investments, costs for the development of new activities in Russia and the capitalization of the acquisition costs after the entry in fleet of the fourth A330 I-EEZL delivered on December 14th 2006.

- Ref 3 – Other financial assets

The other financial assets, equal to Euro 19.259 thousand, decreased by Euro 15.722 thousand, as highlighted by the following table:

Euro/000	31.12.06	31.12.05	Change
Financial receivables	8.000	18.906	(10.906)
Security deposits on operating leases	8.825	10.869	(2.044)
Other security deposits	2.435	5.206	(2.771)
Total financial assets	**19.259**	**34.981**	**(15.722)**

The financial receivables, equal to Euro 8 million, regarded a restricted bank deposit with Unicredit, pledged as collateral to obtain a bank guaranty for the financial leasing agreement stipulated with

Locat S.p.A. for the purchase of the A319 CJ in May 2005. The bank guaranty lasts until the thirtieth day following the expiry of the aforementioned ten-year leasing agreement. The decrease of this item was mainly the result of the sale of the capitalization contract with lump-sum premium for Euro 10.841 thousand pledged as collateral for the credit lines granted by Banca Profilo. The subject of said contract was an insurance policy of "La Venezia Assicurazioni", a company belonging to Gruppo Generali. 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 the credit line and the yield of the above-mentioned capitalization contract, pledged as collateral for the credit line, could no longer justify that transaction. The proceeds from the policy disposal were used to pay off the aforementioned credit line worth Euro 10.000 thousand.
The decrease of the security deposits on operative rentals and of other security deposits was due to their redemption during the fiscal year, after they were replaced with bank guaranties. Also, the other security deposits were written down for Euro 512 thousand in order to align them with their estimated realizable value.

- Ref 4 – Deferred tax assets

As of December 31st 2006 deferred tax assets amounted to Euro 6.573 thousand. The increase was mainly due to taxed provisions for credit write-down risks and maintenance made during the year.
The year's variation of deferred tax assets is described by the following table:

Amounts in Euro/000	Value as of 31.12.05				Value as of 31.12.06		
	Time differences	Rate	Deferred tax assets	2006 Movements	Time differences	Rate	Deferred tax assets
Provisions for risks and charges	2.451	37,25%	913	1.974	4.425	37,25%	1.648
Fixed asset write-offs	0	37,25%	0	512	512	37,25%	191
Bad debt reserve	3.235	33,00%	1.067	4.200	7.435	33,00%	2.454
Tax losses carried forward	0	33,00%	0	0	0	33,00%	0
Other time differences for IRAP purposes	727	4,25%	31	-671	56	4,25%	2
Unpaid remuneration to Directors	44	33,00%	15	180	224	33,00%	74
Remuneration to statutory and external auditors	57	37,25%	21	12	69	37,25%	26
Expenses for public relations and gifts	29	37,25%	11	1	29	37,25%	11
Net penalty interest	-5	33,00%	-2	-2	-7	33,00%	-2
Unrealized gains and losses on exchange rate	-1.617	33,00%	-534	2.513	895	33,00%	296
A319 write-off	0	37,25%	0	1.953	1.953	37,25%	727
Listing costs (on lower net equity due to IAS)	3.663	37,25%	1.364	-583	3.080	37,25%	1.147
Total deferred tax assets	**8.584**	**0%**	**2.887**		**18.671**	**0**	**6.573**

Due to the restructuring process whose guidelines and first actions implemented are described in the Directors' report on operations, but whose taxable income forecasts do not reach out to the five years after this fiscal year, a Euro 6,7 million credit for deferred tax assets related to the aforementioned temporary differences was not entered in the balance sheet.

Current assets

At December 31st 2006 current assets amounted to Euro 74.733 thousand, falling by Euro 20.510 thousand mainly due to the lower cash after the increase in trade receivables and other credit. There follows a detailed description of the various components of this item.

- Ref 5 – Stock

Stock, equal to Euro 2.954 thousand, is mostly related to aeronautical consumption material. The increase of Euro 814 thousand was principally the result of the fleet expansion.

- Ref 6 – Trade receivables and other receivables

The Euro 9.518 thousand growth of trade receivables and other credit, amounting to Euro 55.496 thousand in 2006, was due to various reasons such as the increase of trade receivables towards ordinary clients, mainly as a result of the increased advance invoicing of 2007 flights in December, higher credits towards the factor connected with the transportation agreement signed with the Italian Army and credits deriving from the sale of scheduled flight tickets on the US market that grew due to worse collection terms compared to the Italian market and ongoing accounting reconciliations with the financial intermediaries involved in credit card management.
Provisions for bad debt reserves were equal to Euro 5.649 thousand in the year, of which Euro 1.490 thousand were used. Consistently with 2005, also in 2006 the Company made large provisions to the bad debt reserve in order to adequately face the risk that some specific positions could become due and the general risk connected with the worsening of the clients' solvency capacity as a result of the difficult Tour Operating market in Italy, as well as disputes and litigations. Similarly, the bad debt reserve considered the risk that ongoing disputes on contract interpretation may require the adjustment of the revenues already invoiced to the detriment of the Company.
In respect of the litigation with Teorema Tour S.p.A., on April 19th Eurofly started the arbitration as envisaged by the agreement. The first hearing took place on July 12th 2006. In October and November 2006 both Eurofly and Teorema presented their briefs. On December 5th 2006 a first hearing of the parties was held to reach a potential agreement, during which the parties and the arbitrators fixed a third brief submission on February 6th 2007. At the current stage, the arbitrators have not made a decision yet in the respect of the continuation of the proceedings.
Said litigation regarded Eurofly's accounts receivable from Teorema Tour worth approximately Euro 3 million and USD 3 million, as well as penalties for flight cancellations in the amount of Euro 14,7 million not accrued in the balance sheet. Teorema Tour challenged Eurofly's requests by claiming a credit of approximately Euro 1,2 million.

As to other significant litigations, in October 2006 Eurofly started arbitration with the tour operator MG Viaggi, towards which Eurofly had an account receivable in the amount of approximately Euro 2 million. The first briefs were submitted on January 25th 2007. On April 2nd the parties presented new briefs and the hearing to reach a potential agreement occurred on April 17th 2007.

On November 2nd 2005 the Company summoned Italy Aviation Service S.r.l. to court due to disputes regarding the existent business relations, claiming the settlement of the accounts receivable in the amount of Euro 1,4 million. On December 30th 2006 Italy Aviation Service, besides demanding the rejection of the Company's request, ask the Company's condemnation to damages for approximately Euro 2,1 million. In this case too, the Company, supported by its legal counsels, thinks it unlikely to lose the litigation. The next hearing has been fixed on June 30th 2007.

In 2006 Eurofly won the arbitration started in 2004 against Merzouga Travel and obtained the refund of a credit worth Euro 906 thousand. However, said credit was fully written down, as the client was declared bankrupt by the Court of Rome in January 2007.

In respect of the business relationship with the Italian Ministry of Defence – started in July 2004 and ended in June 2006 – a different interpretation of the contractual clauses emerged, whose effects on the Company's accounts receivable as of December 31st 2006, equal to circa Euro 4,4 million, are currently being analysed with legal support.

In conclusion, we highlight the guarantees issued by clients in favour of the Company for a total amount of Euro 2.149 thousand.

- <u>Ref 7 – Other assets</u>

The other assets, equal to Euro 11.174 thousand, grew by Euro 4.759 thousand compared with last year. These were mainly comprised of term deposits – made during the year – for supplier repayment plans worth circa Euro 3 million and of prepayments and accrued income related to deferred insurance, marketing, lease and operating costs.

The increase of prepayments and accrued income was mainly the result of the purchase of seats on other carriers. In particular, the 2006 increase was due to the commercial relations with the carrier Livingston, from which Eurofly buys seats for destinations that, pursuant to the agreement, are only operated by Livingston. The associated cost has been accrued because it regarded flights to be operated in 2007.

- <u>Ref 8 – Cash and cash equivalents</u>

Cash and cash equivalents amounted to Euro 5.149 thousand and were represented by bank and postal deposits. The Euro 35.600 thousand decrease versus 2005 is analysed thoroughly at paragraphs 5.7 and 5.8.

- Ref 9 – Net equity

As of December 31st 2006 the net equity equalled Euro 16.702 thousand, of which Euro 13.355 thousand of share capital, Euro 32.486 thousand of reserves and Euro 29.139 thousand of the loss of the fiscal year. For a complete analysis of the main variations please see paragraph 5.6.

Non current liabilities

As of December 31st 2006 non-current liabilities amounted to Euro 36.690 thousand falling by Euro 5.565 thousand compared to the balance sheet at December 31st 2005.

- Ref 10 – Long-term loans

Long-term loans, equal to Euro 27.921 thousand, dropped by Euro 6.953 thousand mainly due to the reclassification of the amounts due to shareholders, equal to Euro 4.500 thousand and expiring in November 2007, among current liabilities.
Long-term loans consisted of the mortgage loan instalments due to Banca Profilo and the loan towards Locat related to the A319 CJ.
The medium/long-term portion of the mortgage loan was equal to Euro 3.783 thousand. The mortgage loan was contracted with Banca Profilo for an initial amount of Euro 5 million in December 2003 for the purchase of the Company's headquarters located in Via Ettore Bugatti 15 – Milan. The mortgage loan has a ten-year maturity and is split in 20 deferred six-monthly instalments. The interest rate is equal to an annual fixed rate of 1% up to the second instalment and, subsequently, to the six-month Euribor increased by 1,30 percentage points per year. This debt is guaranteed by a senior mortgage on the building worth Euro 10 million. The portion due after the five years is equal to Euro 1.583 thousand.
The residual debt related to the leasing agreement signed with Locat S.p.A. on May 17th 2005 was equal to Euro 25.958 thousand. The portion included in the long-term financial loans amounted to Euro 24.138 thousand. The loan – aimed at buying the Aribus A319 CJ – envisaged an initial maxi-instalment worth Euro 9.512 thousand, 119 monthly instalments worth Euro 266 thousand each to be indexed to the 3M Euribor, and a redemption price of Euro 7.657 thousand. The portion due after the five years is equal to Euro 8.469 thousand, in addition to the potential redemption price.

- Ref 11 – Deferred tax liabilities

Deferred tax liabilities were equal to Euro 398 thousand and resulted from the accounting of the leasing agreement of the A319 CJ pursuant to IAS 17.

- Ref 12 – Provisions for risks and charges

Provisions for risks and charges totalled Euro 8.372 thousand, up Euro 1.176 thousand versus December 31st 2005, of which Euro 3.544 thousand pertained to the staff leaving indemnity fund and Euro 4.827 thousand to phase-out funds.
The staff leaving indemnity fund rose by Euro 496 thousand compared to 2005.
The phase-out fund also included provisions for restoration costs sustained when leased aircraft leave the fleet. These reserves grew by Euro 680 thousand due to the entry in fleet of the fourth A330.

Current liabilities

As of December 31st 2006 current liabilities amounted to Euro 106.644 thousand decreasing by Euro 5.916 thousand.

- Ref 13 – Trade payables and other liabilities

The increase of Euro 6.283 thousand in 2006 was mainly the consequence of the higher accrued expenses and deferred income after the increased advance invoicing of flights to be operated in the following months.

Euro/000	**31.12.06**	**31.12.05**	**Change**
Payments received on account	1.389	2.017	(628)
Amounts due to suppliers	53.065	52.826	239
Amounts due to tax authorities	2.117	3.009	(892)
Amounts due to social security and insurance	1.414	1.615	(201)
Other debt	5.395	4.863	532
Accrued expenses and deferred income	23.491	16.259	7.232
Total	**86.873**	**80.590**	**6.283**

The reduction in the amounts due to tax authorities was the result of lower liabilities for current IRAP and IRES taxes (regional tax on productive activities and corporate income tax respectively) compared to December 31st 2005.
The Company collected guarantees from third parties for a total amount of Euro 27.021 thousand related to the A319 CJ leasing agreement, the operative rentals of some of the fleet's airplanes and other supply contracts, in particular those regarding fuel and airport services.

- Ref 14 – Amounts due to banks

The amounts due to banks were Euro 9.273 thousand, represented by bank overdrafts. The Euro 17.399 thousand decrease in the amounts due to banks is analysed thoroughly at paragraphs 5.7 and 5.8.

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

The current portions of long-term financial loans, worth Euro 2.312 thousand, included the short-term instalments of the mortgage loan and of the loan towards the leasing company. The characteristics of these loans have already been examined in the notes of the non-current liabilities.

- Ref 16 – Loan

This item included the amounts due to shareholders worth Euro 4.500 thousand, reclassified under the "financing" item included in non-current liabilities, as it will be expiring in November 2007.
The amounts due to shareholders regard the non-interest bearing 24-month loan issued by Spinnaker and collected on November 18th 2005 with the goal of strengthening the Company's financial position in view of the IPO. The loan was assigned to Meridiana through the sale of a 29,95% stake in Eurofly in December 2006.

- Ref 17 – Provisions for risks and charges

This item, amounting to Euro 3.686 thousand, recorded a net increase of Euro 590 thousand. The following table summarizes the movements of these provisions by category.

Euro/000	**31/12/2005**	**Provisons**	**Availment**	**31/12/2006**
Maintenance provisions	2.929	2.124	(1.633)	3.420
Other risk provisions	166	100	-	266
Total provisions for risks and charges	**3.096**	**2.223**	**(1.633)**	**3.686**

Maintenance provisions, worth Euro 3.420 thousand, included accruals for cyclical maintenance costs sustained by the Company.

The other risk provisions amounted to Euro 266 thousand, of which Euro 213 thousand referred to the "noise tax" and Euro 53 thousand to other litigations.

The accruals for the “noise tax” were justified by the fact that the tax was legally decided, but the enforcement rules have not been issued yet.

For completeness, it should be noted that a labour law dispute is currently under way. The preliminary hearing, scheduled for February 1st 2006, has not been held yet. The requested amount is equal to Euro 300 thousand.

Also, the Company manages further ordinary commercial disputes regarding trade receivables and payables, which are not expected to generate liabilities in addition to those already appropriated in the balance sheet. In particular, the disputes regarding trade payables include a writ of summons notified to the Company in August 2005 by a tour operator in respect of the payment of circa Euro 1,1 million for alleged defaults and breaches by the Company. The balance sheet does not however include provisions to this purpose due to the non-determinability and uncertainty of the risk of losing the suit.

5.5. Income statement

Revenue

- Ref 18 – Revenue from sales and service

In 2006 revenue from sales and services grew by Euro 18.360 thousand compared to 2005. This was mainly the result of the Long Range business expansion and the launch of All Business, both of which more than offset the decline of Medium Range revenue, as highlighted by the following table.

Revenue from sales and services
Euro/000

	2006	2005	Change	% Change
All Business	7.302	-	7.302	0,00%
Medium Range	137.707	149.204	(11.497)	-7,71%
Long Range	144.826	122.271	22.555	18,45%
Total	**289.835**	**271.475**	**18.360**	**6,76%**

Medium Range revenue amounted to Euro 137.707 thousand, down 7,7% due to the decrease in flight hours, which was only partially absorbed by the average increase of revenue per flight hour. The noticeable growth of Long Range revenue, which exceeded +18% to Euro 144.826 thousand, was due to both higher volumes and unit revenue. All Business generated revenue worth Euro 7.302 thousand, though penalized by a difficult launch as described in the previous paragraphs.

- Ref 19 – Other revenue

The other revenue was equal to Euro 6.858 thousand, mainly comprised of penalties invoiced to tour operators (Euro 3.591 thousand) for cancellations based on contractual provisions, of proceeds from the lease of the A319 to third parties in the first months of 2006 (Euro 1.276 thousand) and of contributions from suppliers for operating expenses.

Costs

- Ref 20 – Direct Commercial Costs

Commercial costs rose by Euro 4.962 thousand following the expansion of the Long Range scheduled business and the start of All Business. The weight on revenue went from 1,2% in 2005 to 2,8% in 2006.

- Ref 21 – Jet fuel

Fuel costs, equal to Euro 88.947 thousand, increased by Euro 16.475 thousand. This growth should be ascribed to the average price increase of crude oil and refined products, which affected Jet Fuel quotations, besides to the higher weight of the Long Range business on total operations. The weight on revenue from sales and services went from 26,7% to 30,7%.

- Ref 22 – Staff costs

Euro/000	**2006**	**2005**	**Change**	**% Change**
Salary and remuneration	34.173	31.193	2.980	9,6%
Social charges	7.781	6.545	1.236	18,9%
Staff leaving indemnity	1.435	1.404	31	2,2%
Total staff costs	**43.390**	**39.143**	**4.247**	**10,9%**

Staff costs rose by 10,9% compared to last year to Euro 43.390 thousand. The weight on sales went from 14,4% in 2005 to 15,0% in 2006.

Total staff costs also included the costs of the transaction related to the exit of the former Chief Executive Officer, agreed upon in December 2006. Please see paragraph 5.2 for more details.

Cost variations were not only influenced by this non-recurring factor, but also by the increased remuneration of pilots and flight assistants, consistently with the staff trend described below.

Category	2006	2005	Change
Managers	12	8	4
Office workers	182	187	-5
Total ground staff	*194*	*195*	*-1*
Pilots	132	128	4
Flight assistants	294	266	28
Total flight staff	*426*	*394*	*32*
Total staff	*620*	*589*	*31*

In 2006 the Company's average paid staff increased by 31 units compared to the previous fiscal year. The increase only regarded flight staff.

The expansion of the company staff should be mainly ascribed to the entry in fleet of two new airplanes, an A319 in June 2006 and an A330 in December 2006, both used for Long Range destinations only. It should also be noted that the other A330, which entered the fleet in mid 2005, influenced the first half of the year. The significant increase of flight staff productivity allowed the Company to limit the staff increase less than proportionally to the fleet expansion.

After the IPO in December 2005, in 2006 the Company had to hire ground staff. These increases were counterbalanced by cuts in staff costs.

- Ref 23 – Materials and maintenance services

Euro/000	2006	2005	Change	% Change
Maintenance aa/mm	11.750	10.343	1.407	13,6%
Maintenance reserves	11.953	10.926	1.027	9,4%
Technical assistance and average	1.786	1.230	556	45,2%
Rental of technical materials	1.522	440	1.081	245,5%
Certification aa/mm	579	609	(30)	-4,9%
Subtotal	**27.590**	**23.549**	**4.041**	**17,2%**
Aeronautical consumption materials	748	754	(5)	-0,7%
Subtotal maintenance aa/mm	**28.339**	**24.303**	**4.036**	**16,6%**
Catering	11.591	8.439	3.152	37,3%
Other costs	428	396	33	8,3%
Total materials and maintenance service	**40.357**	**33.137**	**7.220**	**21,8%**

The costs for materials and maintenance services increased by Euro 7.220 thousand with a weight on revenue from sales and services rising from 12,2% in 2005 to 13,9% in 2006.

The increase in catering costs was the consequence of the expansion of the Long Range and All Business operations. The growth of maintenance costs was due to the Long Range fleet expansion, the maturity factor reached by some airplanes that therefore required more maintenance works and the lease costs for the temporary replacement of engines under maintenance.

- <u>Ref 24 – Other operating costs and wet lease</u>

These costs reported a decline compared to the previous period, as indicated in the table below.

Euro/000	**2006**	**2005**	**Change**	**Change %**
Other operating costs	70.383	71.045	(663)	-0,9%
Wet lease	684	13.111	(12.427)	-94,8%
Total	**71.067**	**84.156**	**(13.089)**	**-15,5%**

The reduction of Euro 13.089 thousand in 2006 was almost exclusively due to the fact that the Company did not resort to wet lease, as already described in the Directors' report on operations.
The other operating costs were substantially in line. Their trend is summarized by the following table.

Euro/000	**2006**	**2005**	**Change**	**Change %**
Handling costs	21.243	22.844	(1.602)	-7,0%
Assistance weather:	18.081	17.601	480	2,7%
Boarding charges	16.427	16.153	274	1,7%
Landing charges	5.598	6.768	(1.170)	-17,3%
Hotac and transport	4.910	3.978	931	23,4%
Repro pax	2.139	1.861	278	14,9%
Insurance aa/mm	1.132	1.195	(63)	-5,3%
Insurance flight staf.	440	308	131	42,6%
Other operating cost	414	337	78	23,1%
Total operating cost	**70.383**	**71.045**	**(663)**	**-0,9%**

Handling costs and airport taxes (landing, take-off and stop-over fees) showed the greatest variations in absolute value. Handling costs were also affected by the renewal of contracts with suppliers, while airport taxes diminished as a result of the implementation of the "System Requirements" rules (law no. 248/2005 of December 2nd 2005) through the redefinition of landing and take-off fees and the cancellation of night surcharges.

- Ref 25 – Other commercial and corporate costs

Euro/000	**2006**	**2005**	**Delta**	**Delta %**
Advisory	4.799	2.995	1.804	60,2%
Marketing	3.672	2.487	1.185	47,7%
Other staff costs	2.233	2.291	(58)	-2,6%
IT	2.210	1.750	460	26,3%
Insurance	1.700	671	1.029	153,3%
General administrative expenses	1.167	1.230	(63)	-5,1%
Rental	1.056	916	140	15,3%
Other overhead costs	921	695	227	32,7%
Board handbook	662	721	(59)	-8,2%
Remuneration of Directors and External Auditors	404	125	280	224,5%
Leasing and rental	300	280	20	7,1%
Total commercial and overhead costs	**19.125**	**14.160**	**4.965**	**35,1%**

These costs rose by Euro 4.965 thousand.

The increase was mainly due to higher expenses for advertising campaigns and sponsorships, to costs connected with the launch of the A319 (previously suspended), legal expenses and additional charges linked to the LAG project and other projects. The last item consisted of payments for advisory services acquired in view of said operations. The significant growth of insurance costs was caused, among others, by the settlement of costs pertaining to previous periods.

- Ref 26 – Operative rentals

The increase of operative rentals is shown in the table below:

€/000	**2006**	**2005**	**Change**	**% Change**
A320	21.481	17.581	3.900	22,2%
A330	13.639	9.453	4.186	44,3%
Total	**35.120**	**27.034**	**8.086**	**29,9%**

The increase of rentals for the Medium Range fleet had several causes, such as the increase of interest rates (to which the rents of five of the eight A320 leased are indexed), one more machine month compared to last year and the renewal of expired contracts in August 2005, which led to an increase of the lease values of the three airplanes. As to the Long Range fleet, the increase was principally due to the entry in fleet of the new A330 airplanes, one in May 2005 and the other in December 2006.

The payments of the rentals for the A320/A330 fleet have the following expiries:

	Within 2007	2008	2009	2010	2011	Beyond 2011	Total
Operative rental							
in US$ / 000	55.157	49.909	29.298	17.848	17.848	31.677	201.737
in Euro	41.881	37.896	22.246	13.552	13.552	24.053	153.179

- Ref 27 – Amortization

Amortization was equal to Euro 6.260 thousand and grew by Euro 1.424 thousand since: i) the A319 was included in the fleet for the whole year; ii) the variations in the A330 fleet in the second half of 2005 required investments; iii) the Company made new investments during the fiscal year.

- Ref 28 – Non current assets write-offs

Non current assets were written off for Euro 2.465 thousand in the fiscal year in order to align them with their net realizable value. In particular, the Euro 1.953 thousand write-offs were related to the A319, whose net residual value was aligned with the estimated net value obtained through an independent valuation. Furthermore, the Company wrote down financial assets for Euro 512 thousand, mainly represented by guarantee deposits on contracts, in order to align them with the net realizable value.

- Ref 29 – Other provisions

This item, worth Euro 5.649 thousand, rose by Euro 3.649 thousand compared to the previous fiscal year. The increase must be ascribed to the accruals for the bad debt reserve made during the year.

- Ref 30 – Provisions for risks and charges

The provisions for risks and charges were equal to Euro 2.090 thousand, up Euro 1.531 thousand. The increase was principally due to maintenance provisions required by the fleet expansion and to accruals for periodical maintenance as envisaged by the agreements with the new maintenance service supplier.

Operating result

Given the aforementioned trends, the operating result of the year was negative for Euro 25.940 thousand, falling from the negative result of Euro 2.712 thousand in 2005. The associated margin fell from –1,0% to –8,9%.

- <u>Ref 31 – Income and financial charges</u>

The trend of the net financial charges is shown in the following table:

Euro/000	**2006**	**2005**	**Change**	**Change %**
Interests payable on A319 leasing	(1.683)	(885)	(798)	90,2%
Fair value on derivatives	-	335	(335)	-100,0%
Commissions on granted credit lines	(533)	(323)	(210)	64,9%
Other income and financial charges	(770)	(951)	181	-19,1%
Loss/(gains) on exchange rates	(2.336)	1.866	(4.202)	-225,2%
Total income and financial charges	**(5.322)**	**42**	**(5.364)**	-

The worsening of this item was mainly the consequence of the loss on exchange rates mostly resulting from the depreciation of US dollar guarantee deposits, which was in turn caused by the Euro/US dollar exchange trend described in paragraph 3.6.1.

The higher interest payables on the A319 leasing - in fleet since mid 2005 - contributed to the increase of the financial charges.

- <u>Ref 32 - Taxes</u>

The tax assets amounted to Euro 2.123 thousand due to tax benefits connected with the payment of deferred tax assets – to be cashed soon - for a net total value of Euro 3.394 thousand, determined by temporary differences. Current taxes amounted to Euro 1.271 thousand and were only related to IRAP.

- <u>Ref 33 – Result from asset disposals</u>

This income statement item was nil in 2006, while in 2005 it included the capital gain on the completion of the MD80 fleet disposal started in 2004.

Result of the period

Based on the aforementioned, the 2006 net result was negative for Euro 29.139 thousand versus a negative result of Euro 2.775 thousand in the previous period.
Please note that the loss per share was worth Euro 2,19.

5.6. Statement of changes in equity

The main components of net equity and the changes occurred in 2006 are following:
- The Euro 13.355.302 share capital was comprised of no. 13.355.302 ordinary shares with a nominal value of Euro 1. The share capital was fully paid up with 29,95% owned by Meridiana and 14,216% by the Luxembourgian fund Spinnaker. The increase in the share capital during the year was connected with the green shoe exercise for 390.000 shares in January 2006 to complete the IPO process.
- The "share premium reserve", amounting to Euro 31.102 thousand, whose increase in the year was also due to the completion of the IPO at the beginning of 2006.
- The "legal reserve", worth Euro 478 thousand, in line with the 2005 figure.
- The "statutory reserve", worth Euro 3.681 thousand, was also unchanged compared to 2005.
- The "accumulated loss", equal to Euro 2.775 thousand, referred to fiscal year 2005.
- The "loss of the year" equal to Euro 29.139 thousand.

There follows an analysis of the Net Equity composition with reference to the availability and possibility of using the reserves:

Nature / Description	Amount	Possibility of use	Available share	Distributable share	Summary of uses made in the three previous fiscal years	
					to cover losses	for other reasons
Share capital	13.355.302	B	0	0	6.011.520	
Capital reserves						
Paid increases of capital			0	0		5.000.362
Share premium reserves	31.101.745	A, B	31.101.745	0		
Profit reserves						
- Legal reserve	478.258	B	478.258	0		
- Statutory reserve	3.680.752	B, C	3.680.752	3.680.752	2.881	-5.398.380
- Profit/(Loss) carried forward	-2.774.707		-2.774.707	-2.774.707		
Total	**45.841.349**		**32.486.047**	**906.045**		

Index
A: due to increase of share capital
B: due to coverage of losses
C: due to distribution to shareholders

No distributable shares of reserve were available as of December 31st 2006 due to start-up costs for a net book value of Euro 1.605 thousand, development costs for a net book value of Euro 206 thousand and fiscal year loss worth Euro 29.139 thousand.

5.7. Cash flow statement

As illustrated in the cash flow statement table at paragraph 4.4, which shows the variation in the use of cash and cash equivalents indirectly, fiscal year 2006 absorbed cash in the amount of Euro 18.201 thousand. The mix of the cash flow of the year is analysed as follows:

- Cash flows from operations

Cash flows from operations were negative for Euro 28.751 thousand in 2006, mainly due to the Euro 31.263 thousand loss of the year before taxes, the Euro 9.422 thousand increase in trade receivables and other credit according to the trends illustrated in paragraph 5.4 and the payment of Euro 1.933 thousand of taxes. In order to fulfil these obligations, the Company amortized Euro 6.260 thousand, the increase of the amounts due to suppliers generated Euro 6.282 thousand cash and write-downs for a total of Euro 2.465 thousand were performed.

- Cash flows from investments

During the fiscal year the Company invested Euro 3.117 thousand, chiefly in tangible fixed assets, as specified in paragraph 5.4. The cash flows from disposals amounted to Euro 4.984 thousand and were mainly related to the redemption of guarantee deposits, which were replaced with bank guaranties. It should also be noted that the Company received interests worth Euro 822 thousand.

- Cash flows from financial activity

In 2006 the cash flows from financial activity were positive for Euro 5.497 thousand as a result of: i) creation of a short-term deposit of Euro 3.000 thousand with a bank after the issue of guaranties by the latter related to the supplier repayment plans, ii) the sale of the already mentioned capitalization contract with lump sum premium worth Euro 10.841 thousand; iii) the payment of the short-term instalments of the A319 leasing and of the mortgage for a total amount of Euro 2.343 thousand.

- Cash flows from operations on equity

The cash flows from operations on equity were positive for Euro 2.365 thousand as a result of the proceeds of the green shoe exercise in January 2006 to complete the Company’s IPO.

5.8. Net financial position

Euro/000		2006	2005	Change
A Cash	(1)	5.149	32.272	(27.123)
B. Derivative contracts included in cash	(1)	-	8.477	(8.477)
C. Cash and cash equivalents (A) + (B)		**5.149**	**40.749**	**(35.600)**
D. Current financial receivables		**3.000**	**-**	**3.000**
E. Current bank debt	(1) (2)	9.273	18.529	(9.257)
F. Derivative contracts included in bank debts	(1) (2)	-	8.142	(8.142)
G. Current portion included in non current debt		2.312	2.203	110
H. Other current financial debt		4.500	-	4.500
I. Current financial debt (E) + (F) + (G) + (H)		**16.085**	**28.874**	**(12.789)**
J. Net current financial debt (I) - (C) - (D)		**7.936**	**(11.875)**	**19.811**
K. Non current financial receivables		**8.000**	**18.906**	**(10.906)**
L. Non current bank debt		3.783	4.270	(487)
M. Bonds issued		-	-	-
N. Other non current debt		24.138	30.604	(6.466)
O. Non current financial debt (L) + (M) + (N)		**27.921**	**34.874**	**(6.953)**
P. Net non current financial debt (J) - (K) + (O)		**27.857**	**4.093**	**23.764**
Reconciliation with cash flow and balance sheet prospectus				
(1) Cash and cash equivalents		(4.124)	14.077	(18.201)
(2) Bank debt		9.273	26.671	(17.399)

With reference to letters C, D, I, K and O of the table above, please note the following:

C – Cash and cash equivalents

As of December 31st 2006 the cash and cash equivalents, equal to Euro 5.149 thousand, consisted of credit balances of bank accounts, which benefited from the green shoe exercise. The Euro 27.123 thousand reduction versus 2005 was caused by the loss of the fiscal year and the trends of net working capital.

D – Current financial receivables

The current financial receivables amounted to Euro 3.000 thousand and were related to pledges on amounts deposited with credit institutes, linked to repayment plans negotiated with suppliers.

I – Current financial debt

The Company's current financial debt amounted to Euro 16.085 thousand. These include: i) amounts due to banks for Euro 9.273 thousand related to bank overdrafts; ii) the current portion of non current debt worth Euro 2.312 thousand; iii) other current financial debt for Euro 4.500 thousand related to the unprofitable 24-month loan that Spinnaker transferred to Meridiana according to the agreement finalized on December 28th 2006 and expiring in November 2007.

As of December 31st 2006 total loans amounted to Euro 47.950 thousand, of which Euro 34.920 thousand already used. In particular, the used portion of debt covered advance payments of invoices for Euro 9.100 thousand, bank guaranties for Euro 25.350 thousand and advances on factoring for Euro 470 thousand.

As of December 31st 2006 67,58% of the cash credits and invoice advances was used.

K – Non current financial receivables

As of December 31st 2006 the non current financial receivables, equal to Euro 8.000 thousand, were represented by a restricted bank deposit with Unicredit, pledged as a collateral to obtain a bank guaranty from Unicredit on the leasing agreement stipulated with Locat S.p.A. in May 2005 for the purchase of the A319 CJ, as described in paragraph 5.4. The Euro 10.906 thousand decrease was mainly due to the sale of said capitalization contract with lump sum premium.

O – Non current financial debt

The non current financial debt amounted to Euro 27.921 thousand and was comprised of non current bank debt, for Euro 3.783 thousand, represented by the portion beyond 12 months of the mortgage loan contracted with Banca Profilo, and of other non current debt, for a total of Euro 24.138 thousand, related to the long-term portion of debt towards leasing companies.

5.9. Related parties transactions

As per IAS 24, Meridiana is a related party as it can greatly influence Eurofly's operating and financial decisions. The following table summarizes the financial and economic relationships with Meridiana.

Description (€/000)	Total Eurofly	Meridiana	
		Absolute value	%
Trade receivables	55.496	73	0,10%
Non current financial assets	8.000	0	-
Current financial assets	8.149	0	-
Trade payables	86.873	197	0,20%
Non current financial liabilities	27.921	0	-
Current financial liabilities	16.085	4.500	28%

Description (€/000)	Total Eurofly	Meridiana	
		Absolute value	%
Total revenue	296.693	234	0,10%
Costs of services	322.633	1006	0,30%
Financial (income)/loss	5.322	0	-

Description (€/000)	Total Eurofly	Meridiana	
		Absolute value	%
Cash flows from (to) operations	(28.751)	(648)	2,3%
Cash flows from (for) disposals (investments) in fixed assets	2.688	0	-
Cash flows from financial activity	5.497	(4.500)	81,9%

These transactions were carried out at market conditions and are analyzed in the following paragraphs.

- ***Trade receivables / payables***

The trade receivables from Meridiana were equal to Euro 73 thousand as of December 31st 2006, related to aircraft leased by Eurofly to Meridiana in ACMI mode. The trade payables, worth Euro 197 thousand, were due to the maintenance works carried out by Meridiana for Eurofly.

- ***Financial assets / liabilities***

As of December 31st 2006 the financial liabilities towards Meridiana amounted to Euro 4,5 million, mainly referred to the unprofitable 24-month loan issued by Spinnaker on November 18th 2005 with the goal of strengthening the Company's financial position in view of the IPO. The loan was then sold to Meridiana along with Eurofly's majority stake.

- ***Revenue / costs of services***

As of December 31st 2006 the revenue from ACMI operations were equal to Euro 234 thousand, while costs, mainly related to maintenance works carried out by Meridiana, amounted to Euro 1.006 thousand.

5.10. Relationship with Banca Profilo

Banca Profilo has been one of Eurofly's related parties since July 7th 2006, following the changes in the Board of Directors' composition on that date, up to the sale of 29,95% of capital to Meridiana on December 28th 2006. For completeness, the following table summarizes the amount and nature of the transactions performed with companies of the Banca Profilo Group during the fiscal year.

Description (€/000)	Total Eurofly	Profilo	
		Absolute value	%
Trade receivables	55.496	0	-
Non current financial assets	8.000	0	-
Current financial assets	8.149	4.165	51,10%
Trade payables	86.873	0	-
Non current financial liabilities	27.921	3.783	13,5
Current financial liabilities	16.085	492	-

Description (€/000)	Total Eurofly	Profilo	
		Absolute value	%
Total revenue	296.693	0	-
Costs of services	322.633	249	0,10%
Financial (income)/loss	5.322	292	5,50%

Description (€/000)	Total Eurofly	Profilo	
		Absolute value	%
Cash flows from (to) operations	(28.751)	(801)	2,8%
Cash flows from (for) disposals (investments) in fixed assets	2.688		
Cash flows from financial activity	5.497	(4.986)	-90,7%

These transactions were carried out at market conditions and are analyzed in the following paragraphs.

- ***Financial assets / liabilities***

As of December 31st 2006 the financial assets towards Banca Profilo amounted to Euro 4.165 thousand and were represented by credit balances of bank accounts. As of December 31st 2005 this item, equal to Euro 30.306 thousand, included the IPO proceeds. The financial liabilities, for Euro 4.274 thousand, were linked to the mortgage described in paragraph 5.4.

In November 2005 Banca Profilo granted the Company a stand-by credit line with 18 months less one day maturity, repayable upon expiry, worth Euro 2.500 thousand. The credit line had not been used until December 31st 2006.

- ***Costs of services***

The costs of services, equal to Euro 249 thousand, included payments of financial advisory services issued by Banca Profilo for the acquisition project of the airline Livingston and fees related to the final phase of the IPO.

- ***Financial income / loss***

The financial income accrued on current account deposits at the Eonia rate in 2006 amounted to Euro 535 thousand. The liabilities related to financial losses and the mortgage were equal to Euro 244 thousand.

5.11. Compensation of members of administrative and controlling boards and managers with strategic responsibilities

As per article no. 78 of the Issuers' Regulations, the following table shows the compensations of each member of the administrative and controlling boards and, collectively, those granted to managers with strategic responsibilities.

The table below includes the annual compensations approved by the December 28th 2006 Shareholders Meeting and paid for the period the Directors and Statutory Auditors actually remained in office. The December 28th 2006 fixed an annual compensation of the Board of Directors worth Euro 560.000,00 (proportionate to the actual duration of office in the fiscal year) and an additional variable amount up to Euro 560.000,00 – exclusively for fiscal year 2007 (proportionate to the actual duration of office in the fiscal year) - to be paid according to the terms fixed by the Board of Directors in conjunction with the budget targets. This variable compensation will only be granted if in fiscal year 2007 the Company reports an operating result (difference between the value and costs of production) exceeding the 2006 figure by at least Euro 10 million.

Name and last name	Office held	Term of office	Expiration	Annual compensation for the office	Compensation for the office held
Sandro Capotosti	President	28/12/06-31/12/06	31/12/08	70.000	767
Giovanni Rossi	CEO	28/12/06-31/12/06	31/12/08	200.000	2.192
Franco Trivi	Vice President	28/12/06-31/12/06	31/12/08	70.000	767
Luca Ragnedda	Managing Director	28/12/06-31/12/06	31/12/08	70.000	767
Sergio Rosa	Managing Director	28/12/06-31/12/06	31/12/08	70.000	767
Laura Sanvito	Director	28/12/06-31/12/06	31/12/08	20.000	219
Ruggeromassimo Jannuzzelli	Director	28/12/06-31/12/06	31/12/08	20.000	219
Gian Carlo Arduino	Director	28/12/06-31/12/06	31/12/08	20.000	219
Giuseppe Lomonaco	Director	28/12/06-31/12/06	31/12/08	20.000	219
Marco Rigotti	President of statutory auditors	27/04/06-31/12/06	31/12/08		39.776
Guido Mongelli	Statutory auditor	27/04/06-31/12/06	31/12/08		34.956
Michele Saracino	Statutory auditor	27/04/06-31/12/06	31/12/08		34.552
Maurizio Dattilo *	Statutory auditor	01/01/06-27/04/06	27/04/06		13.139

**no longer in office*

The table below shows the compensations paid from January 1st 2006 to April 26th 2006 to the Directors in office up to that date and those of the Board of Directors appointed by the April 27th Shareholders' Meeting in office up to the December 28th Shareholders' Meeting.

Name and last name	Office held	Term of office	Annual compensation for the office	Compensation for the office held	Non-cash benefits
Giuseppe Bonomi	President	01/01/06-26/04/06	40.000	13.500	
Augusto Angioletti	Vice President	01/01/06-26/04/06	413.000	0	55.797
Eugenio Lapenna	Director	01/01/06-26/04/06	20.000	6.356	
Ruggeromassimo Jannuzzelli	Director	01/01/06-26/04/06	1.000	318	
Laura Sanvito	Director	01/01/06-26/04/06	1.000	318	
Giuseppe Bonomi	President	27/04/06-20/11/06	100.000	57.876	
Augusto Angioletti	CEO	27/04/06-27/12/06	200.000	134.247	
Ruggeromassimo Jannuzzelli	Director	27/04/06-06/07/06	20.000	3.890	
Sandro Capotosti	Director	07/07/06-27/12/06	20.000	9.534	
Paolo Cantarella	Director	27/04/06-27/12/06	20.000	13.425	
Eugenio Lapenna	Director	27/04/06-22/11/06	20.000	11.507	
Massimo Caccialupi	Director	27/04/06-22/11/06	20.000	11.507	
Laura Sanvito	Director	27/04/06-27/12/06	20.000	13.425	

The following table includes the aggregate figure of the benefits to managers with strategic responsibilities.

Short-term benefits	Benefits following the office	Other long-term benefits	Leaving indemnity	Payment in shares	Total compensation
815.938	-	-	38.098	-	854.035

5.12. Segment Reporting

According to the provisions of IAS 14, Eurofly supplies segment information split in Medium Range, Long Range and All Business, because the risks and rewards of the enterprise are significantly affected by the differences among the three activities. The main features of each Business Area are summarized as follows:

1) Medium Range: includes flights of less than 5 hours covering Europe and the Mediterranean operated with the Company's A320 fleet or aircraft temporarily acquired in wet lease from third parties. The main destinations of these flights are Egypt, Greece, Canary Islands and Balearic Islands. The Medium Range business is characterized by a strong seasonal trend linked to summer holidays.
2) Long Range: includes flights of more than 5 hours. The main destinations are Maldives, Kenya, Mexico and Santo Domingo. Scheduled flights between Italian cities (Palermo, Naples and Bologna) and New York were launched in 2005 and extended to Rome in 2006. The Long Range business is subject to a weaker seasonality effect because of its destinations. In addition, the scheduled operations to New York (offers from May to November in 2006) further offset the winter peak of charter connections for exotic sea destinations. These routes are operated with the Company's A330 fleet.
3) All Business: this Business Unit covers the Milan – New York connection operated with the A319 Corporate Jet and reserved for business clients. This business units also includes VIP charter flights and possible other activities carried out with the same airplane.

	Medium Range			Long range			All Business			Total		
	2006	2005	*Delta %*	2006	2005	*Delta %*	2006	2005	*Delta %*	2006	2005	*Delta %*
Total revenue	**141.455**	**151.039**	-6,3%	**145.600**	**124.231**	*17,2%*	**9.638**	**2.717**	*254,8%*	**296.693**	**277.986**	6,7%
Direct commercial expenses	1.337	1.455	*-8,0%*	3.718	1.742	*113,4%*	3.107	3	-	8.163	3.200	*155,1%*
Jet fuel	34.923	33.777	*3,4%*	50.161	38.695	*29,6%*	3.863	0	-	88.947	72.472	*22,7%*
Staff costs	22.088	23.338	*-5,4%*	18.859	15.746	*19,8%*	2.443	59	*4042,2%*	43.390	39.143	*10,9%*
Materials and maintenance services	17.924	17.281	*3,7%*	20.630	15.854	*30,1%*	1.803	2	-	40.357	33.137	*21,8%*
Other operating costs and wet lease	39.204	51.804	*-24,3%*	29.513	32.352	*-8,8%*	2.350	0	-	71.067	84.156	*-15,6%*
Other commercial and corporate costs	9.589	7.691	*24,7%*	8.637	6.314	*36,8%*	899	155	*478,7%*	19.125	14.160	*35,1%*
Operative rentals	21.481	17.600	*22,1%*	13.640	9.435	*44,6%*	0	0	*-153,6%*	35.120	27.034	*29,9%*
Depreciation and amortization	1.331	1.213	*9,7%*	2.777	2.265	*22,6%*	2.152	1.358	*58,4%*	6.260	4.836	*29,4%*
Fixed asset write-offs	512	0	-	0	0	-	1.953	0	-	2.465	0	-
Other provisions	3.136	1.305	*140,3%*	2.210	695	*218,1%*	302	0	-	5.649	2.000	*182,4%*
Provisions for risks and charges	868	201	*332,1%*	890	317	*180,9%*	332	42	*696,4%*	2.090	559	*273,6%*
Operating results	**-10.938**	**-4.626**	*136,4%*	**-5.436**	**817**	*-765,6%*	**-9.567**	**1.097**	*-971,9%*	**-25.940**	**-2.712**	*856,4%*
Financial (income)/charges										5.322	42	-
Pre-tax profit										**-31.263**	**-2.671**	*1070,6%*
Tax charges										-2.123	1.685	*-226,0%*
(Profit)/loss on sales of assets										0	1.581	*-100,0%*
Net profit/(Loss)										**-29.139**	**-2.775**	*950,0%*

	Medium Range		Long Range		All Business		Not allocated		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Total non current assets	5.300	7.019	13.975	13.292	42.726	56.099	23.263	26.599	85.264	103.009
Total current assets	25.862	29.958	32.451	26.184	227	158	16.232	38.982	74.772	95.282
Total assets	**31.162**	**36.977**	**46.426**	**39.476**	**42.953**	**56.257**	**39.495**	**65.581**	**160.036**	**198.291**
Shareholders fund	-	-	-	-	-	-	16.702	43.476	16.702	43.476
Total current liabilities	40.505	37.836	31.947	28.527	6.043	7.210	28.149	38.986	106.644	112.560
Total non current liabilities	4.074	2.765	2.037	1.383	25.958	26.104	4.621	12.004	36.690	42.255
Total liabilities	**44.579**	**40.601**	**33.984**	**29.910**	**32.001**	**33.314**	**49.472**	**94.467**	**160.036**	**198.291**

5.13. Reconciliation between previously used Italian accounting principles and IAS/IFRS with reference to fiscal year 2005

The effects on net equity as of January 1st 2005 and December 31st 2005 and on the result of fiscal year 2005 are set out below:

	Net equity as of 01/01/05	Distribution of dividends	IPO	2005 result	Net equity as of 31/12/2005
Previuos principles	**16.224**	**-5.000**	**37.326**	**-3.123**	**45.427**
Accounting of contracts for exchange risk management				335	**335**
Accounting of financial leased fleet				175	**175**
Listing cost amortization			-3.663	22	**-3.641**
Total fiscal effect			1.364	-184	**1.180**
IAS IFRS principles	**16.224**	**-5.000**	**35.027**	**-2.775**	**43.476**

Please note that a description of the effects of the IAS/IFRS adoption according to the provisions of paragraphs 39 and 40 of IFRS 1 was included in the interim reporting for the quarter ended March 31st 2006.

6. REPORT ON CONFORMITY TO CORPORATE GOVERNANCE AND IMPLEMENTATION OF THE CODE OF CONDUCT BY LISTED COMPANIES

1. THE COMPANY

Eurofly S.p.A.'s core business (hereinafter referred to as the "Company" or the "Issuer") is the air transportation of persons combined with any other business involving the operation, repair or maintenance of aircraft.

Being the leading Italian carrier in the leisure segment as per company size and business/industrial prospects, today the Company is Italy's fourth airline and has been among the first domestic carriers to operate long range flights.

In December 2005 the Company was admitted to trading on the Italian stocks market of the Milan Stock Exchange.

In December 2006 Spinnaker, which held 44% of the Company's share capital, decided to look for an industrial partner to accelerate the Company's development through the creation of large industrial and commercial synergies. As a result of this choice, the agreement on the disposal of 29,95% of the Company's capital to Meridiana S.p.A. was executed.

After having examined the relations between Meridiana and Eurofly, on March 16th 2006 the Board of Directors concluded that there existed the requirements for Meridiana's application of the rules on management and coordination to Eurofly, although the former has no direct control as per art. 2359 of the Italian civil code. The Company thus fulfilled the disclosure obligations.

2. CAPITAL AND SHAREHOLDING STRUCTURE

The current Bylaws were approved by the Company's Extraordinary Shareholders' Meeting on November 15th 2006. The current share capital consists of Euro 13.355.302,00 ordinary shares with a nominal value of €1,00 each.

Today, the shareholders owning a stake in excess of 2% are Meridiana with 29,9% and Spinnaker with 14,21%.

3. CORPORATE BOARDS

a. Shareholders' Meeting

b. Board of Directors

c. President of the Board of Directors

d. Board of Statutory Auditors

4. COMPOSITION AND ROLE OF THE BOARD OF DIRECTORS

Pursuant to art. 14 of the Bylaws, the Company is managed by a Board of Directors consisting of five to nine members based on the decisions of the Annual Shareholders' Meeting. The directors can be re-elected. The Board of Directors meets every three months.

During the past fiscal year the Board met 18 times, while for the current one at least 5 meetings have been planned.

The number of directors reflects the need for a Board of Directors' structure that better suits the Company's requirements. Also, it allows the Company to rely on professionals with different backgrounds and to integrate their various skills and experiences, hence maximizing the value for the shareholders.

The Board of Directors is presently comprised of 9 members appointed by the Annual Shareholders' Meeting through slate system on December 28th 2006. The list is deposited together with the candidates' CVs and the requested certificates before the Meeting. The mandate of the current Board of Directors will expire on the date of the approval of the report for the year ended December 31st 2008.

Before the appointment of the current Board of Directors, the Company was managed by the Board elected by the April 27th 2006 Shareholders' Meeting. After the resignation of the President of the Board of Directors on November 20th 2006, two Directors on November 22nd 2006 and the Chief Executive Officer on December 7th 2006, Eurofly's Board of Directors was dissolved in accordance with the legislation in force and the Bylaws. As a result, the December 28th 2006 Shareholders' Meeting was called to renew the corporate boards.

The members of the current Board of Directors are:

Name and last name	Office	Type
Sandro Capotosti	President	Non executive
Franco Trivi	Vice-president	Non executive
Giovanni Rossi	Chief Executive Officer	Executive
Luca Ragnedda	Managing Director	Executive
Sergio Rosa	Managing Director	Executive
Giuseppe Lomonaco	Director	Independent
Ruggeromassimo Jannuzzelli	Director	Non executive
Laura Sanvito	Director	Non executive
Gian Carlo Arduino	Director	Independent

The list of the board member or auditor offices held by the Directors in other companies listed on regulated markets, also abroad, in finance companies, banks, insurers or large companies is attached to this report.

The Board of Directors, being the board responsible for the Company's corporate governance, carries out the activities deemed necessary to define the strategic goals and, pursuant to art. 19 of the Company's Bylaws, is invested with full powers to manage the Company. To this purpose, the Board of Directors can deliberate on or perform any action deemed necessary or useful for the achievement of the company purposes, except for the actions of exclusive competence of the Shareholders' Meeting as provided for by the legislation in force or the Bylaws.

The Bylaws also grant to the Board of Directors powers on mergers - in the cases envisaged by art. 2505, 2505 bis and 2506 ter of the Italian civil code - opening or closing of branch offices, reduction of capital in the event of withdrawal of a shareholder, bylaws adjustments to regulations, transfer of the headquarters to another domestic location and the choice of the Directors entitled to legal representation.

Moreover, the Board shall have exclusive competence on the following matters:

- appointment and/or dismissal of the General Manager and granting and definition of his/her powers

- acquisition, sale, exchange, rental and lease of real estate of any nature and kind and of registered aircraft, excluding the matters of exclusive competence of the Chief Executive Officer and the Managing Directors

- raising, modification and paying off in advance of mortgage loans

- issuing, acceptance, backing of bills of exchange and issuing of guaranties

- registration, subrogation, postponement and cancellation of mortgages, also without the encashment of guaranteed credits, renunciation of legal mortgages, transfers and clausings of any kind

- acquisition and disposal of shareholdings in other companies

- constitution of servitudes dependant on the Company

The President of the Board of Directors is the legal representative of the Company before third parties and for legal purposes pursuant to art. 25 of the Company Bylaws. The President coordinates the work of the Board of Directors and makes sure that all directors are duly informed of the matters on the agenda in order to allow them to examine and approve them knowingly, as per art. 16 of the Bylaws (and, when absent or detained, the Vice President is the legal representative).

Please note that the Board did not make use of the power envisaged by art. 21 of the Company Bylaws to appoint an Executive Committee and preferred to grant management proxies to the single directors in view of a smoother and more convenient management of the company interests, also in the light of the synergy requirements after the entry of Meridiana S.p.A. in the share capital.

On December 28th 2006 the Company's Board of Directors appointed Mr Giovanni Rossi as Chief Executive Officer and Mr Sergio Rosa and Mr Luca Ragnedda as Managing Directors.

The Chief Executive Officer is the legal representative of the Company before third parties and for legal purposes as provided for by the proxies of art. 25 of the Company Bylaws. Among others, the Chief Executive Officer:

- ensures that the organizational, administrative and accounting structure is adequate for the nature and size of the enterprise

- reports to the Board of Directors and the Board of Statutory Auditors quarterly, as per art. 19 of the Company Bylaws, about the general trend of management and its predictable evolution as well as the most important deals carried out by the Company and its subsidiaries in terms of size and characteristics

- proposes to the Board of Directors all the initiatives he will deem to be in the Company's interests in respect of (i) strategic, organizational and operating guidelines of the Company and its subsidiaries, (ii) general guidelines for the purchase, rental, active and passive lease and sale of aircraft, (iii) general and strategic guidelines regarding the coverage/mitigation of financial risks, (iv) elaboration of a multi-year industrial plan (strategy, operating bases, industrial relations, investments etc.), (v) corporate image and corporate governance

The Managing Director Mr Sergio Rosa has, *inter alia*, competences over management control and reporting, operating and staff planning.

The Managing Director Mr Luca Ragnedda has, *inter alia*, competences over administration, finance and company and legal affairs.

The current Board of Directors also includes two independent Directors, as indicated above: Mr Giuseppe Lomonaco and Mr Gian Carlo Arduino. The Board of Directors has examined the independence requirements of the persons above based on the information and statements supplied, after their appointment during the January 23rd 2007 meeting according to the application criteria and definitions included in the Code of Conduct.

The independent directors meet at lease once a year without the other directors.

5. <u>BOARD OF DIRECTORS' INTERNAL COMMITTEES</u>

In accordance with the provisions of the Code of Conduct, the Board of Directors, as empowered by article 19 of the Company Bylaws, set up the following internal committees with consultative, proposing or controlling functions, which have access to significant information.

The internal committees may rely on external consultants and on adequate resources within a budget defined by the Board of Directors and are comprised of three members. The proceedings of the meetings of each committee are recorded.

Compensation committee – Despite the lack of specific statutory provisions and in compliance with the guidelines of the Code of Conduct, through resolution of March 16th 2007 the Board of Directors appointed the new members of the Committee for the

Compensation of directors and executives with strategic responsibilities, which had been previously created through Board resolution from July 18th 2006, and implemented the Regulations concerning the tasks and functioning of the Committee.

The Compensation Committee is made up of Mr Giuseppe Lomonaco and Mr Gian Carlo Arduino as independent directors and by Mrs Laura Sanvito as non executive director.

The mandate has the same life as the Company's Board of Directors. During the fiscal year, the Compensation Committee met once to establish the remunerations of the directors appointed by the April 27th 2006 Shareholders' Meeting.

These Regulations provide that: (i) the President of the Company's Board of Directors can attend the meetings of the Compensation Committee, provided that the former has no interest in the matters to be discussed and deliberated upon; (ii) the directors are not allowed to attend the meetings of the Compensation Committee which formulates the directors' remuneration proposals to be submitted to the Board of Directors.

In compliance with the provisions of the Code of Conduct, the committee, *inter alia*:

a. makes proposals for the directors' remuneration and the determination of the criteria for the remuneration of executives with strategic responsibilities

b. makes proposals for the directors' remuneration as approved by the Shareholders' Meeting

c. monitors the implementation of the remuneration decisions

d. periodically evaluates the criteria for the remuneration of executives with strategic responsibilities, supervises their application and issues general recommendations on the matter

e. with reference to the stock options and other share-based incentive methods, it issues recommendations regarding their use and all technical aspects related to their formulation and application, monitoring the evolution and gradual implementation of the approved plans

f. performs the advisory functions requested by the Board of Directors from time to time

g. can make use of consultants, also external ones, if deemed necessary for the supply of the necessary information on the market standards of the remuneration systems

In respect of the criteria regarding the compensation proposals, the Regulations, *inter alia* and in compliance with the provisions of the Code of Conduct, provide that the Compensation Committee makes proposals:

a. such as to attract, retain and motivate the directors possessed of the required professional skills

b. regarding a significant portion of the executive directors' compensation in relation to the economic results achieved by the Company and/or the attainment of specific targets fixed by the Board of Directors or, in the aforementioned case, by the managing directors

c. regarding a significant portion of the non executive directors' compensation in relation to the required commitment, taking their potential participation in one or more committees into account

d. according to the indications supplied by the managing directors in respect of the adoption of general remuneration criteria for the Company's executives with strategic responsibilities

Internal audit committee – Through its March 16th 2007 resolution the Board of Directors appointed the new members of the Internal Audit Committee established through the July 18th 2006 deliberation, and implemented the regulations on the tasks and functioning of said Committee. The Internal Audit Committee informs and supports the Board of Directors on internal audit and risk management matters and also has proposing and advisory functions.

As provided for by the Code of Conduct, the Committee is comprised of Mr Giuseppe Lomonaco and Mr Gian Carlo Arduino as independent directors and by Mr Franco Trivi as non executive director and accounting and financial expert.

During the fiscal year, the Internal Audit Committee held four meetings. The Committee will deal with the adoption of the Organizational Model ex decree no. 231/01 (currently under analysis) and supervise its correct functioning and implementation. The meetings of the Committee have been regularly attended by the President of the Board of Auditors and the office in charge of the Internal Audit. After the invitation of the Committee, some meetings have been attended by the Chief Executive Officers, the representatives of the Auditing company and other persons invited from time to time.

The main functions of the Internal Audit Committee are following:

a. it defines the guidelines of the internal audit system in order to identify, manage and monitor the main risks

b. it evaluates, at least once a year, the adequacy, efficacy and actual functioning of the internal audit system

c. it evaluates the work plan prepared by the office in charge for the internal control system and the work plan for the auditing activity, periodically receiving reports and letters of advice

d. it evaluates the adequacy of the accounting principles used

e. it gives judgments on specific aspects regarding the identification of the main corporate risks as well as planning, implementation and management of the internal audit system

f. it refers, at least every six months, on the activities carried out and the adequacy of the internal audit system

g. it performs further tasks assigned in connection with its relations with the auditing company

h. it makes proposals for the update of the provisions of the Code of Conduct and, generally, of the Corporate Governance rules.

In order to perform its tasks, the Committee can request information to the Managing Directors, to the office in charge of the Internal audit and to responsible of Company divisions. Also, the Committee can rely on the Company's employees and consultants, also external ones, at the expense of the Company within the budget assigned by the Board of Directors.

The Board of Directors has not so far thought it necessary to create an internal Committee for director appointment proposals, believing that the Company's shareholding structure is not sufficiently diffuse as to justify the creation of a Committee, provided that the potential propelling tasks are carried out by the Board of Directors.

6. INTERNAL AUDIT SYSTEM

Pursuant to the provisions of the Code of Conduct, the Company implemented the internal audit system in order to adequately identify the management risks and to run the business properly and consistently with the established targets. Based on the Company's characteristics, the Board of

Directors decided to structure the internal audit system by setting up the following boards and associated functions:

- *Board of Directors*: being the core of the corporate governance system, the Board of Directors: (i) adopted the Internal Audit Committee's regulations through its March 16th 2007 resolution; (ii) appointed the chief executive officer as the supervisor of the functioning of the internal audit system and, upon the latter's proposal, identified the internal auditor

- *Executive director for supervising the functionality of the internal audit system*: the appointed Executive Director will implement the internal audit guidelines, as defined by the Board of Directors

- *Office in charge of the internal audit*: the internal auditor (i) verified that the internal audit system has always been adequate, fully operating and functioning; (ii) performed the internal audit tasks

7. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

On September 12th 2005 the Board of Directors approved and implemented the "Code of Procedure for transactions with related parties" concerning measures aimed at ensuring that the transactions with related parties are performed in compliance with the best practice in form and substance and art. 2391-bis of the Italian civil code, art. 150 of the Italian financial consolidated act and the provisions of the Code of Conduct.

In compliance with the provisions of the Code of Conduct, the Board of Directors has exclusive competence to define the modalities for the approval and/or carrying out of transactions with related parties having the following characteristics:

a. transactions with subsidiaries for an amount above Euro 2,6 million

b. transactions with related parties other than subsidiaries for an amount above Euro 200.000

c. all transactions, including those performed through subsidiaries, intra-group transactions or transactions carried out with any related party whose subject, amount, terms or timing can jeopardize the corporate equity or the completeness and accuracy of information, also accounting information, regarding the Company, as well as all transactions with related parties not occurring at market conditions or anomalous or unusual transactions

In these cases, the activity of the Board of Directors shall be supported by the preliminary judgment of the Internal Audit Committee and/or one or more independent experts who shall give an opinion, according to circumstances, on the economic conditions and/or legitimacy and/or technical aspects of the transaction.

As to the transactions with related parties not falling within the exclusive competence of the Board of Directors, the persons responsible for their carrying out collect and store - for each transaction - adequate information on the nature of the relationship, the transaction's execution terms, the conditions (also economic ones) of its realization, the performed valuation, the underlying interests and reasons and the potential risks for the Company. However, in the course of transactions with related parties, the directors having an interest, also a potential or indirect one: (i) opportunely and exhaustively inform the Board of Directors and Board of Statutory Auditors about the existence of said interest and its circumstances; (ii) leave the meeting at the moment of the resolution. In the event the Chief Executive Officer has an interest – also a potential or indirect one – in a transaction with related parties falling within its competence, he shall: (i) opportunely and exhaustively inform the Board of Directors and Board of Statutory Auditors about the existence of said interest and its circumstances; (ii) refrains for carrying out the transaction.

The transactions in which the Chief Executive Officer and Managing Directors bear an interest as a result of their offices at Meridiana S.p.A. – i.e. transactions regarding yield and space management, revenue accounting, call centres, web management and insurance – have been valued by the Board of Directors also based on the Company's benefits and convenience and decided, in Eurofly's interest, in compliance with the best practice in form and substance, art. 2391 of the Italian civil code, art. 150 of the Italian financial consolidated act and the provisions of the Code of Conduct.

8. TREATMENT OF CONFIDENTIAL INFORMATION AND INTERNAL DEALING

Subject to and without prejudice to the provisions of the Italian financial consolidated act and the Code of Conduct, the Company published data on its economic trend as well as other news that shall be disclosed to the markets in a way such as to guarantee the greatest and quickest diffusion, as required by the regulations in force. Information with a potential market impact has normally been disclosed only after the Board of Directors' approval.

During fiscal year 2006 the Board of Directors implemented rules on internal procedures, regarding: (i) the safe and confidential management and treatment of company data and, in particular, of confidential information; (ii) the publication of documents and company information, with special reference to price-sensitive information, with third parties.

These regulations provide, among others, that all directors, auditors, employees, heads of the Company's departments and all people with access to news and documents regarding the Company, keep the aforementioned news and documents confidential and exclusively use them for the execution of their tasks. The above-listed entities shall also: (i) take the necessary precautions in order that the internal circulation of said news and documents occurs without prejudice to their confidential nature; (ii) avoid misusing their information privileges in accordance with the regulations in force and respect the procedure for the publication of said documents and information with third parties.

During fiscal year 2006 the Board of Directors also introduced a record of the persons who have access to confidential data, which includes the persons holding price-sensitive information on the Company and the procedure regarding the modalities and content of said record.

Confidential and/or price-sensitive information shall only be communicated by the Company's President or Chief Executive Officer or any other person duly authorized by either the President or the Chief Executive Officer, provided that, in the second case, the publication of the news shall be duly and previously authorized by the Company's President or Chief Executive Officer as far as form and content are concerned.

The Issuer did not deem it necessary to explicitly attribute to the Chief Executive Officer the power to verify and supervise management of company information, since attentive and proper management and treatment of price-sensitive information are guaranteed by the internal auditor and the "Record of entities with access to confidential data".

During fiscal year 2006 the Board of Directors adopted a Code of Conduct to regulate the disclosure obligations connected with trading on the Issuer's shares (internal dealing) performed by relevant entities, like directors, auditors, general managers, heads of company divisions, executives and representatives of the Company or its subsidiaries.

The aforementioned entities are obliged to disclose the list of the transactions carried out in the quarter on Company financial instruments, whose total amount is above Euro 5.000, to the person in charge of receiving communications by the fourth market day after the end of each solar quarter.

The entities subject to the provisions of the Code of Conduct are not allowed to carry out transactions on financial instruments: (a) during the thirty days before the meeting of the Board of Directors for the approval of the draft financial statement and interim report; (b) during the fifteen days before the meeting of the Board of Directors for the approval of the quarterly report, provided that the aforementioned prohibitions are not applied to the exercise of the rights connected with stock option plans and option rights. Possible exceptions will only be made by the Board of Directors for sound reasons.

9. RELATIONS WITH INSTITUTIONAL INVESTORS AND OTHER SHAREHOLDERS

The Company has so far not adopted a set of rules for meetings, as the orderly execution of the works is guaranteed by the statutory provisions that assign to the President of the Board of Directors the task of checking the attendants' identity and admit them, the presence of the number of shareholders necessary to take decisions, regulating the course of the meeting and establishing vote modalities.

The Company, in its endeavour to keep itself constantly in contact with the shareholders and encourage meeting attendance, is planning to adopt a set of rules for the exercise of company rights in Meetings and will previously send the related documents to the domicile of those who attended the last meetings.

This material is available in a specific section of the web site (www.eurofly.it) that can be viewed both in Italian and English. The section, which contains all the necessary information, is easy to find and access.

Furthermore, in compliance with the regulations in force, the procedure regarding the disclosure of company data and the recommendations of the Code of Conduct, the Company appointed an Investor Relation Manager with the goal of providing an effective and comprehensive response to the various investor requirements.

10. BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors is made of up 3 regular auditors and 2 substitute auditors appointed by the Shareholders' Meeting through slate system, pursuant to art. 26 of the Bylaws. The Bylaws provide that the shareholders, either alone or jointly, represent at least 3% of the share capital and are entitled to present a list.

It is a company custom to submit the lists at least 15 (fifteen) days before the date of the Shareholders' Meeting in first call, together with the professional CVs of the single candidates and their statements of accepted nomination attesting the requirements envisaged by the legislation in force and the Company Bylaws.

Moreover, the Board of Directors intends to adapt the Bylaws, which explicitly prohibit the appointment of those already holding Auditor offices in other 5 (five) listed companies (excluding Group companies) as members of the Board of Auditors, to Law no. 262 of December 28th 2005 (provisions to safeguard investors and regulations for financial markets). The amendment of the

Bylaws will also consider the implementation rules of the Savings Law that will be issued together with Consob's Regulations, which, at the current stage, are not yet definitive.

In this respect, it should be noted that a single list was submitted to the April 27th 2006 Shareholders' Meeting called to appoint the Board of Auditors.

The obligation to comply with the Company's procedures for the treatment of confidential information and internal dealing procedures has been extended to the auditors.

The current members of the Board of Auditors are:

Name and last name	**Office**
Marco Rigotti	President
Guido Mongelli	Regular auditor
Michele Saracino	Regular auditor
Dario Fangaresi	Substitute auditor
Antonio Cigala	Substitute auditor

The members of the Board of Statutory Auditors listed above will remain in office up to the approval of the report for the year ended December 31st 2008.

The list of the offices of auditor held by the Statutory Auditors in other companies listed on regulated markets, also foreign ones, in finance companies, banks, insurers or large companies is attached to this report.

The Board of Statutory Auditors, as empowered by the legislation in force and the Bylaws, has controlled and controls the Company's management, the observance of the regulations, bylaws, fair management principles and, in particular, the adequacy of the organizational, administrative and accounting structure adopted by the Company and its functioning. In compliance with the provisions of art. 19 of the Bylaws, the Board of Auditors is normally informed during the Board meetings and, in any case, every three months. Under particular circumstances, these communications can also be made in writing to the president of the Board of Auditors.

The Board of Statutory Auditors is therefore regularly informed about the activities carried out and the most significant economic and financial deals performed by the Company or its subsidiaries and in particular on the deals in which the directors have an own interest or an interest connected with third parties.

During the past fiscal year, the Board of Statutory Auditors: (i) held 17 meetings, (ii) attended 18 meetings of the Board of Directors, (iii) frequently met the auditing company's representatives charged with the auditing of the accounts as per art. 155 of the Italian financial consolidated act.

The September 12th 2005 Shareholders' Meeting entrusted the auditing company Deloitte & Touche S.p.A. with the auditing of the annual reports, interim reports and the controls envisaged by art. 155 and 156 of the Italian financial consolidated act.

Milan, March 29th 2007

For the Board of Directors

The Chief Executive Officer

Giovanni Rossi

Table 1: STRUCTURE OF THE BOARD OF DIRECTORS APPOINTED BY THE DECEMBER 28TH 2006 SHAREHOLDERS' MEETING AND OF THE SUBSEQUENTLY CREATED COMMITTEES

BOARD OF DIRECTORS							Internal Audit Committee	Compensation Committee
Office	**Members**	**Executive**	**Non executive**	**Independent**	****** §**	**** Number of other offices**	*******	*******
President	Sandro Capotosti		X	NO	100%	3		
Vice President	Franco Trivi		X	NO	100%	1	X	
Chief Executive Officer	Giovanni Rossi	X		NO	100%	1		
Managing Director	Luca Ragnedda	X		NO	100%	0		
Managing Director	Sergio Rosa	X		NO	100%	0		
Director	Giuseppe Lomonaco		X	SI	100%	0	X	X

Director	Ruggeromassimo Iannuzzelli		X	NO		15		
Director	Laura Sanvito		X	NO	100%	0		X
Director	Gian Carlo Arduino		X	SI	100%	0	X	X

NUMBER OF MEETINGS HELD DURING THE REFERENCE FISCAL YEAR

The Board of Directors appointed by the December 28th 2006 Shareholders' Meeting whose members are listed above, held 1 meeting on the same date. As a result, the Committees did not hold any meeting in the reference fiscal year.

The previous Board of Directors held **17 meetings** during the fiscal year. In the course of the reference fiscal year the Committees held the following meetings: **4 for the Internal Audit Committee and 1 for the Compensation Committee.**

Notes

** number of offices of director or auditor held by a person with interests in other companies listed on regulated markets, also foreign ones, finance companies, banks, insurers or large companies. The offices are indicated in full in the attachment to the report on corporate governance.

*** an "X" indicates if the director is also a member of the Committee.

**** percentage attendance of directors to the meetings of the Board of Directors and Committees respectively.

§ percentage attendance referred to the duration of the office.

Table 2: BOARD OF AUDITORS

Office	Members	Percentage attendance to Board meetings	Number of other offices**
President	Marco Rigotti	100%	IT Holding S.p.A. Eutelia S.p.A.
Regular auditor	Guido Mongelli	100%	Banca Profilo S.p.A. Profilo Real Estate SGR S.r.l. Errekappa Euroterapici S.p.A. Profilo Merchant Co S.r.l.
Regular auditor	Michele Saracino	100%	Banca Profilo S.p.A.
Substitute auditor	Dario Fangaresi	0	
Substitute auditor	Antonio Cigala	0	

Number of meetings held during the reference period: 17

Notes

** Number of offices of director or auditor held by a person with interests in other companies listed on Italian and foreign regulated markets, finance companies, banks, insurers or large companies.

Table 3: LIST OF AUDITOR AND DIRECTOR OFFICES HELD BY THE DIRECTORS IN OTHER COMPANIES

Name	Office	Offices held in other companies
President	Sandro Capotosti	Banca Profilo S.p.A. Profilo Holding S.p.A. Profilo Management Company S.A.
Vice President	Franco Trivi	Meridiana S.p.A.
Chief Executive Officer	Giovanni Rossi	Meridiana S.p.A.
Managing Director	Luca Ragnedda	
Managing Director	Sergio Rosa	
Director	Giuseppe Lomonaco	
Director	Ruggeromassimo Jannuzzelli	Camuzzi International S.p.A. Medinvest International ScA Profilo Management Company SA Trader S.p.A. Kiwi.Com Serviços de Consultoria S.A. Verona Grandi Clienti S.r.l. Voghera Calcio S.r.l. Cassa di Risparmio di Milano e della Lombardia S.p.A. TK S.p.A. Società Gestione Risparmio Tank S.G.R. S.p.A. Gestione Risparmio Banca MB Astor Finanziaria Mobiliare S.r.l.
Director	Laura Sanvito	
Director	Gian Carlo Arduino	

* Name of the company in which the office is held.

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

7. REPORT OF THE BOARD OF STATUTORY AUDITORS

Board of Auditors Report to Eurofly S.p.A.'s Shareholders Meeting as per art. 153 of law decree no. 58/1998

Dear Shareholders,

Through this document drawn up as per art. 153 of law decree no. 58/1998 ("TUF") and Consob's current recommendations, the Eurofly S.p.A. (the "Company") Board of Auditors is providing a report on the supervisory activity and its results.

The report for the year ended December 31st 2006 shows a net equity worth Euro 16.702 thousand, including a fiscal year loss equal to Euro 29.139 thousand.

In its Report on Operations, the Board of Directors, despite deeming it appropriate to prepare the financial statement according to a business continuity perspective for the year 2007, specified that the Company's overcoming of the current economic and financial difficulties depends on the (still uncertain) achievement of synergies that are still being defined and in any case subject to the approval of the shareholder Meridiana S.p.A. after the completion of the necessary feasibility tests. As a consequence, the Board of Directors has so far not examined the 2007-2008 industrial plan.

The auditing company states being unable to give a judgement on Eurofly's report for the year ended December 31st 2006, due to the significant effects of the aforementioned uncertainties.

1. Supervisory activity and collected information

During the fiscal year ended December 31st 2006 the Board of Auditors performed its supervisory activity as provided for by the legislation in force, Consob's recommendations on supervision and the rules of conduct recommended by the *Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri*.

In this respect, during the fiscal year, the Board of Auditors has:

- held 17 meetings always attended by all members in office
- attended the 18 meetings of the Board of Directors
- attended the 4 meetings of the Internal Audit Committee
- attended the meeting of the Compensation Committee
- attended the 2 Shareholders' Meetings

- held regular contacts and meetings with the auditing company in order to exchange important data and information for the carrying out of their tasks
- frequently and regularly met the internal auditor
- collected documents and information deemed important by the executive directors and the other corporate functions

During the meetings of the Board of Directors, the Board of Auditors was informed by the directors on the works and the economically and financially most important deals carried out by the company, as well as on deals in which they had an interest, both on own account or on behalf of third parties, or deals influenced by the entity in charge of management and coordination.

In relation to corporate governance, on September 12th 2005 the Board of Directors approved a procedure for operations with related parties (including significant operations as per art. 2391 of the Italian civil code) and on July 7th 2006 one regulating the Chief Executive Officer's reporting to the Board of Directors and the Board of Auditors on the activities carried out as envisaged by the proxies and the operations above. This procedure was not re-proposed by the current Board of Directors.

No censurable facts emerged during the meetings and contacts with the auditing company.

Moreover, during the meetings with the auditing company and the Internal Audit Committee, the Board of Auditors discussed the schedule adopted by the auditing company, the accounting criteria used as well as the accounting representation of the most significant deals occurred in the fiscal year under analysis.

It should be noted that the Board of Auditors:

- did not receive complaints as per art. 2408 of the Italian civil code, except for a shareholder complaining about the timely submission and publication of the candidatures as Director during the December 28th 2006 Annual Shareholders' Meeting. The Board of Auditors answered to said complaint during the same meeting
- did not receive briefs
- gave a positive judgement on the appointment of a Director by cooptation, as per art. 2386, sub-section 1 of the Italian civil code
- gave a positive judgement, as per art. 2389, sub-section 3 of the Italian civil code, regarding the distribution of the Board of Directors' remuneration fixed by the Shareholders' Meeting and, in particular, the remuneration of directors with special responsibilities

The company has no subsidiaries.

2. Operations and significant economic and financial events

Regarding the most significant economic and financial operations carried out by the Company during the fiscal year and the most important events in general, the Board of Auditors highlights the following.

<u>Operating activities</u>

> In January 2006 the negotiations for the renewal of the agreement with Teorema Tour – the Company's main client in 2005 (21% of sales) – broke off unexpectedly. This event had repercussions on the winter season (up to April 2006), especially on long range.

Please note that the importance of this client (and more generally, the concentration of business volumes among a small number of clients) was included among the main risks in the IPO prospectus.

An arbitration is currently underway in relation to the amounts due by Teorema Tour to the Company amounting to Euro 2,9 million and US dollar 3,0 million, in addition to amounts receivable related to penalties for breach of contract after flight cancellations worth Euro 14,7 million (not included in the balance sheet). In turn, Teorema Tour claims back an amount of approximately Euro 1,2 million.

> On May 29th 2006 the "all business" activity was launched with the Milan – New York connection, however late and from a different airport from the initial plans, due to the US Authorities' prohibition on May 4th to operate the flight from the Milano Linate airport (although it was not a scheduled flight, but a flight operating for the Milan – Manhattan (MiMa) association), in which US carriers are not allowed to operate.

In 2006 this business generated lower-than-expected results and, more specifically, a negative operating result of Euro 9,5 million (versus a total operating result of –Euro 25,9 million) and sales of just Euro 9,6 million (versus total sales of Euro 297 million).

In January 2007 the Company's Board of Directors decided to immediately stop all loss-making activities not expected to break even in the following two years. The "all business" Milan – New York flight was suspended at the end of January 2007.

The value of the A 319 CJ used to operate the connection above was written down by Euro 1.953 thousand in the 2006 balance sheet, in order to bring it in line with its net realizable value obtained from an independent valuation.

> During the fiscal year the Company expanded its scheduled offer to New York up to ten weekly connections (from mid May to mid November) from Bologna, Naples, Palermo and Rome.

> During the fiscal year the Company launched and then set aside two strategic projects: the creation of an Egyptian flag airline and the acquisition of the carrier Livingston Aviation Group. The first initiative was dropped because of the evolution of the political situation in the Middle East and the decision to avoid increasing the Company's already high exposure in that area. The second

initiative was given up due to the negotiations trend and the counterpart's decision to suspend exclusive talks. The deposits paid by Eurofly were however totally returned.

The costs related to the Livingston acquisition project had a Euro 694 million impact on the 2006 balance sheet.

> In November 2006 the Company signed a 10-year aircraft maintenance contract with the company SR Technics. This new contract had in fact become necessary after the early cancellation of the contract with Sogerma and the expiration of the one with Alitalia Servizi.

> In December 2006 the fourth A330 aircraft, acquired in operative lease and to be used for long range operations, entered the fleet. The expansion of the long range capacity was exploited to launch the Rome – New Delhi connection in January 2007.

Corporate events

> In November 2006 the Board of Directors was dissolved as provided for by the legislation in force and the Company's Bylaws after the several resignations that nullified the majority of the directors appointed during the April Shareholders' Meeting. A new Shareholders' Meeting was therefore called to renew the Board. However, the Chief Executive Officer also resigned before the Shareholders' Meeting.

> The Board of Directors was renewed simultaneously (December 28th 2006) with the entry of a new reference shareholder, the carrier Meridiana S.p.A. After having obtained operating proxies from the Eurofly's Board of Directors on the same date, the current Chief Executive Officer is also Meridiana S.p.A.'s CEO and the other two executive directors are also executives of Meridiana S.p.A.

In the light of the relations between Meridiana S.p.A. and Eurofly, on March 16th 2007 the Board of Directors concluded that, although Meridiana is not entitled to control Eurofly as per art. 2359 of the Italian civil code, the latter is subject to Meridiana's rules on management and coordination. The company therefore satisfied the disclosure requirements provided for by the legislation in force.

Judgement of the Board of Auditors

In general, the Board of Auditors believes that the current legislation, the Bylaws and the fair management principles have been complied with.

More specifically, the operations and events above are thoroughly described in the Report on Operations and the Explanatory Notes of the financial statements, to which please refer for more details.

The Board of Auditors did not note nor was informed by the auditing company or the Internal Auditor of atypical and/or unusual operations, as defined by Consob's Communiqué of April 6th 2001, carried out with third parties, related parties or intra-group operations.

In the Report on Operations and the Explanatory Notes, the Directors accounted for the ordinary operations with related parties and the entity that manages and coordinates the Company, indicating their nature and size. These indications are adequate, also considering their and the Company's size.

The Board of Auditors verified that the legislative and statutory provisions have been satisfied, that the operations carried out by the Directors are neither manifestly imprudent nor risky, nor causing a potential conflict of interests, nor clashing with the Shareholder Meeting's decisions or in any case such as to compromise the company's worth, and that said operations are reasonable from an economic point of view, without however judging the Directors' management decisions.

In particular, the "all business" activity was suspended when it became clear that continuing its start-up was incompatible with the resources that the Company had planned to allocate to the project within its general strategy.

Furthermore, in the last few months of the fiscal year the Company was at a strategic standstill due to strong strategic disagreements among the Directors.

As a result, the Board of Auditors has constantly encouraged the Board of Directors to discuss the strategic plans and operations at the right time.

3. Fiscal year trend and economic-financial situation

Besides the events described above, the year's performance has been penalized by several negative factors, either contingent or probably deriving from a structural change in the operating scenario:

- political and climatic instability of important geographic areas where the Company operates (in particular Egypt and Caribbean)
- reduction of the charter business' margins, mainly as a result of problems of the tour operators, which are in turn influenced by the clients' new purchase habits
- fuel cost increase, partially absorbed by the fuel surcharges and the fuel price adjustment clauses of the contracts stipulated with tour operators
- increase in interest rates, to which five of the eight operative rental contracts for medium range aircraft as well as the leasing of the all business aircraft are indexed
- large provisions to the bad debt reserve due to both specific bad debts and the general deterioration of the tour operators' credit merit; also, litigations increased dramatically
- costs connected with the interruption of the "all business" activity
- forex loss

- other non-recurrent costs related to events mentioned above (e.g. acquisition project of the carrier Livingston) and the resolution of the contract with the former Chief Executive Officer

In such a difficult situation, the Company, despite taking various measures to adapt itself to the changing competitive scenario, has been penalized by its limits in terms of size, distribution, contractual power and organization, typical of a company that has just exited from the sphere of the leading national airline and is migrating from a business charter to a mixed charter – scheduled activities model.

The fiscal year ended with an operating loss of Euro 25,9 million (versus – Euro 2,7 million in 2005), a net loss of Euro 29,1 million (versus a loss of Euro 2,8 million in 2005). Despite expectations of a positive result at the time of the IPO, the EBITDA came in at – Euro 9,5 million versus + Euro 4,7 million in 2005.

Financial situation

During the fiscal year the net financial position worsened by more than Euro 23 million as a result of the fiscal year performance. In particular, the operating activities absorbed cash flows worth Euro 28,8 million, investments / disposals generated cash flows in the amount of Euro 2,7 million, the financial activities and the operations on equity generated cash flows totalling Euro 7,9 million.

At the end of the fiscal year, the Company's net financial position amounted to – Euro 27,9 million, of which – Euro 7,9 million related to the current financial debt. Moreover, the Company made a great effort to boost the collection of past loans during the fiscal year.

Judgement of the Board of Auditors

Please refer to the last point of this report.

4. Organization, administrative-accounting system and internal audit

The Board of Auditors made sure that the organization fit in with the Company's size, business structure and targets as well as it is compliant with the regulations – including sector rules – to which the Company is subject.

In particular, the Board of Auditors, supported by the supervisor of the internal audit function (existing since February 2006), verified that the systems, job descriptions and procedures were consistent with the achievement of the aforementioned targets, which however require the completion and constant update of the operating and supervisory procedures, provided that a correct approach is taken.

The internal audit function (performed by the internal auditor) is actively committed to identifying the criticalities of the internal audit system and cooperates with the corporate functions in order to, among others, solve said criticalities.

The Board of Auditors observed that, although the Company made great efforts to reinforce its organizational structure, many aspects of the administrative-accounting system and the internal audit function can be still improved.

As to the controlling functions, it should be noted that the Company has not yet adopted an ethical code, nor does its organization comply with the provisions of law decree no. 231/2001 (despite having received several offers of advice from qualified professionals).

In conclusion, the risk identification and management system still requires great improvements, especially as far as IT is concerned.

On the other hand, the management of the operating risks is much more efficient and supervised by the sector Authority.

With reference to the administrative area, management of the active cycle shows a few weaknesses, being characterized by the outsourcing of significant phases with unsatisfactory results till today. Moreover, these weaknesses have already been identified by the management, which is currently remedying them.

As to laws and regulations, during the fiscal year the Company implemented:

- the rules on the creation of a register of persons with access to confidential information
- the rules on the public disclosure of operations performed by entities in charge of Company administrative, controlling or management functions, by executives with regular access to confidential information and the power to take management decisions possibly affecting the evolution and future prospects of the Company and by any other person owning shares for an amount equal to at least 10 per cent of the share capital
- the changes in the sector regulations

The Board of Directors submitted to the Extraordinary Shareholders' Meeting, called on April 30th and May 8th 2007, amendments to the Company Bylaws following the changes introduced by law no. 262/2005 ("Savings law") and law decree no. 303/2006 (the so-called "Pinza decree").

In particular, said amendments regard the appointment of the administrative board, the executive in charge of drawing up the Company's accounting records and the control board.

The Board of Auditors examined the Board of Directors' proposals and judged them positively, despite warning that the Bylaws will be amended (deadline on June 30th 2007) before the completion of the regulatory framework due to the lacked issuing of the implementation rules by Consob (the first drafts were published in February 2007 and the second ones on April 6th).

As to the rules for the preparation of the Company's accounting records – that requires specific administrative and accounting procedures whose adequacy and actual implementation shall be certified – the Company requested and obtained offers of collaboration from external consultants, however no project has actually been launched so far.

Auditing company

In respect of the rules to mandate auditing companies, the two aforementioned laws have extended the life of the auditing mandate from three to nine years excluding a renewal or a new mandate to the same company unless three years have passed from the end of the previous mandate. These provisions are aimed at enhancing the auditing company's independence from the appointing companies and, in particular, from their administrative boards. In this perspective, the power to propose the appointment of an auditing company has been shifted from the Board of Directors to the control board.

As to the current mandates (shorter), law decree no. 303/2006 provides for their extension to up to nine years subject to the shareholder meeting's decision by the approval date of the 2006 financial report.

Thus, the Board of Directors resolved to propose to the Shareholders' Meeting the extension of the current mandate from three to nine years. The Board of Auditors agreed with the proposal due to the reasons set out in its report.

Based on the available information, the Company entrusted Deloitte & Touche with tasks different from legal audit ("audit services" or "audit related services"), whose details are summarized below (amounts in Euro/000, expenses excluded):

Fees for the auditing of the balance sheet as at January 1st 2005 drawn up according to the IFRS, of the report for the year ended December 31st 2005 and the interim report as of June 30th 2005, both prepared according to the IFRS for comparative purposes	40
Fees related to the checks for the income tax return and the simplified tax return ("Modello 770") for the year 2005	3
Fees related to accounting aid and the checking of the business plan	100
Total	**143**

that we are publishing as required by the legislation in force.

The Board of Auditors reported that no critical aspects emerged in respect of the independence of the auditing company.

5. Corporate governance

During the IPO (2005), the Company took a series of measures to implement the corporate governance criteria envisaged by the Code of Conduct drawn up by Borsa Italiana S.p.A. in 2002 ("Code"). Further decisions were made during 2006 after the renewal of the corporate boards. In conclusion, after having been renewed once again on December 28th 2006, the Board of Directors took a few decisions to implement the principles contained in the Code of Conduct approved by Borsa Italiana in March 2006 ("New Code").

Information on the modalities for the implementation of the corporate governance principles approved by Borsa Italiana have been supplied by the directors in the Annual report on corporate governance attached to the financial statement.

In respect of the information above, the Board of Auditors observed the following.

In general, the Board of Auditors stressed how the concrete adoption of the principles envisaged by the New Code is still in progress, due to, besides several new elements, the renewal of the Board of Directors at the end of 2006. As a result, various actions to implement the principles of the New Code will be taken in the course of 2007.

As to the single matters, the Board of Directors is characterized by the abundance of powers granted to the executive directors.

In this respect, the Board of Directors appointed on April 27th 2006 had reserved for itself a broad series of matters.

The resolution on proxies taken by the Board of Directors appointed last December 28th, while attributing wide powers to the chief executive officer (ordinary and extraordinary management, without excluding or excepting any power, of each commitment up to Euro 8,0 million with separate signature and groups of commitments up to Euro 16,0 million with joint signatures with another executive director), provided that the Board of Directors only had exclusive competence on the matters included in the Report on corporate governance by the directors (regarding: general manager; purchase, sale, exchange, rental and lease of real estate and registered aircraft; mortgage loans; liabilities on bills of exchange; guaranties; mortgages; acquisition and disposal of shareholdings; constitution of servitudes dependant on the company), in addition to those envisaged by the legislation in force or the Bylaws.

Also, the current Board of Directors, contrary to the previous one, did not deem it opportune to establish criteria aimed at identifying the strategically, economically and financially most important deals for the Company, and to submit them to the Board of Director's approval, as the aforementioned resolution on proxy granting was the only rule to be referred to.

As to the single matters the Board of Directors should deal with as provided for by the New Code (but also by the previous one) and despite a potential higher involvement of said Board in the evaluation of the organizational structures, the Board of Auditors confirmed that the New Code has been substantially respected during the fiscal year (except for the self-valuation of the Board of Directors).

In respect of the chief executive officer's periodical reports to the Board of Directors and the Board of Auditors, the current Board of Directors confirmed that the reports are submitted every three months (as provided for by the legislation in force and the company Bylaws), while it did not fix criteria regarding the content of said reports, contrary to the previous Board of Directors which only presented one report.

In reference to the composition of the Board of Directors, the Board of Auditors attended the meeting to evaluate the independence of two non-executive directors and believes that the examination criteria and procedure were correct.

The treatment of confidential information is subject to a specific procedure approved by the Board of Directors during the fiscal year along with the Rules for management of Confidential Information and the creation of a register of the persons having access to said information.

As to the Board of Directors' internal committees, the Board of Auditors agreed with the content of the related regulations approved in March 2007. Also, it should be noted that the Board of Directors has so far not assigned any expense budget to the committees.

As to the committees' tasks, first of all please note that the Compensation committee exclusively dealt with the directors' remuneration during the fiscal year.

As far as the tasks (of the Board of Directors and) of the Internal audit committee regarding the internal audit system are concerned, the Board of Auditors observed that the matters envisaged by the New Code have practically not been dealt with during the fiscal year, except for a meeting (on the initiative of the Board of Auditors) with the Board of Auditors and the auditing company before the approval of the interim report.

It should also be noted that during the IPO the Board of Directors had decided to ask the Internal audit committee to give a non-binding judgement before the Company's definition of operations with companies belonging to the Banca Profilo Group, until Spinnaker Luxembourg remained the Company's reference shareholder. Three of the four meetings held by the Internal audit committee during the fiscal year regarded the facts above.

The current Committee has already announced its intention to deal with all the matters envisaged by the New Code in the course of 2007.

The operations with related parties are subject to a procedure approved by the Board of Directors on September 12th 2005, which, despite not having been re-proposed by the subsequent Boards of Directors, should have been implicitly considered valid (as testified by the Report on corporate governance approved in 2007).

The presence of an industrial reference shareholder that manages and coordinates the Company and, as mentioned above, is currently indicated by the Board of Directors as the Company's partner for the future development of commercial and operating synergies, led the Board of Auditors to believe a re-examination of said procedure by the Board of Directors necessary. On that occasion, operating solutions aimed at simplifying the identification and correct management of the operations with related parties and of the situations in which a director has an interest on its own account or for third parties, can also be found.

Regarding the composition of the Board of Auditors, please note that in drawing up this report, it made sure that its members observe the independence criteria envisaged by the New Code.

In conclusion, as to the relations with shareholders, the Board of Auditors highlighted the lack of regulations for meetings – as already pointed out in the Report on corporate governance approved by the administrative board – and deemed it opportune that said regulations are submitted to the Shareholders' Meeting for approval as soon as possible.

6. Final valuations of the supervisory activities and the financial report

The aforementioned gave rise to the need, of which the Board of Directors is fully aware, to:

- strengthen the Company's operating and organizational structures in order to better face competition
- adjust the strategy to the new operating scenario
- improve the financial position

The Board of Directors has therefore already taken preliminary measures, like the suspension of the activities not expected to break even in the next couple of years, in particular the all business activity, and the reduction of the medium range fleet from eight to five aircraft. Moreover, the fifth A330 long range airplane, which should have entered the fleet in March 2007, was sub-leased to a Spanish carrier for one year. In addition, the agreements with Airbus for the delivery of three long range aircraft scheduled for 2013 and 2014 should be redefined.

As a result, the Company launched a collective dismissal plan to reduce the staff as legally provided. The application of the solidarity contract for a period of 24 months starting from April 1st 2007 however avoided the dismissal.

From a financial point of view, the interruption of the payments to Airbus for the A350 airplanes and the possible sale of the aircraft used to operate the all business connections will have a highly positive impact on the financial situation. Moreover, in the first months of 2007 the Company made contacts with banks in order to obtain new loans.

On March 27th 2007 the Board of Directors established the guidelines of the new industrial plan, envisaging the creation of strong operational and commercial synergies with Meridiana S.p.A. (which, as described above, manages and coordinates the Company) along with an improvement of the industrial processes or, secondarily, actions aimed at improving the company's efficacy and efficiency.

The directors prefer the first hypothesis as it could allow improving the network's profitability despite reduced investments in distribution, technology and know how in a reasonable time, whereas a stand-alone recovery would require higher investments in distribution and technology and a longer time to reach breakeven. The executive directors therefore decided to give priority to the analysis and discussion of the integration plan with Meridiana, hence avoiding removing energies and personnel from the study of the second recovery hypothesis.

On the other hand, although the Meridiana's Board of Directors gave a positive judgement on the pursuit of operational and commercial synergies with the Company, the requirements are still being examined as requested by Meridiana and a working team made up of managers from the two companies has even been created to that purpose.

As a result, the industrial plan, which should have been approved by the Board of Directors before the publication of this report, has not been submitted to the Board of Directors yet.

In this context, the Board of Directors, through a resolution taken by the majority of its members, deemed it opportune to prepare the financial report in a business continuity perspective, assuming that the Company will overcome the current economic and financial difficulties. The Board of Directors also specified that this will depend upon the still uncertain achievement of the aforementioned synergies, which are still being defined and in any case conditional upon Meridiana's approval once the necessary feasibility tests are carried out.

In its report released as per art. 156 of law decree no. 58/1998, the auditing company noted that the persisting uncertainty of a hypothetical future development of the company operations, combined with the non availability of the 2007-08 industrial plan, prevented them from drawing conclusions on the business continuity scenario and, consequently, on the Company's capacity to realize its assets and settle its liabilities during the ordinary course of management at values similar to those entered in the individual balance sheet as at December 31st 2006.

As a result, the auditing company stated being unable to give a judgement on the balance sheet.

The aforementioned uncertainties convinced the auditing company that obtaining a future taxable income such as to guarantee the recovery of the deferred tax assets booked in the balance sheet, is uncertain. Hence, the auditing company declared that the requirements to enter these receivables in the balance sheet are not available. As a consequence, the auditing company believes that the loss of the year ended December 31st 2006 is approximately Euro 5,5 million higher and the net equity on the same date Euro 6,6 million lower.

The Board of Auditors agrees with the auditing company's conclusions from a technical point of view and consequently refrains from making any proposal or recommendation to the Shareholders' Meeting.

The Board of Auditors furthermore believes that the directors' actions for the Company recovery are based on reasonable economic criteria, as well as the pursuit of synergies with the shareholder that manages and coordinates the Company.

The Board of Auditors commits itself to taking any initiative in its power to ensure that the necessary analyses to establish the feasibility of the plan based on operational and commercial synergies with the shareholder Meridiana are carried out and that the industrial plan can consequently be discussed by the Board of Directors.

In conclusion, the shareholders should note that the 2006 financial report was the first report drawn up according to the international accounting standards. In the appendix to the quarterly report as at March 31st 2006, the Company illustrated the effects of the application of the international accounting principles, in compliance with Consob's regulations and the IFRS on "first-time adoption of IFRS", publishing the reconciliation tables of the balance sheet as at January 1st 2005 and December 31st 2005, the income statement of fiscal year 2005, the net financial position as at December 31st 2005, the net equity as of January 1st 2005 and December 31st 2005. These tables have been audited as per Consob's Communiqué no. 5025723 from April 15th 2005. The related report has been issued by the auditing company Deloitte & Touche on May 19th 2006.

Milan, April 13th 2007

The Eurofly S.p.A. Board of Auditors

Marco Rigotti

Guido Mongelli

Michele Saracino

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

8. REPORT OF INDIPENDENT AUDITORS

Deloitte.

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AUDITORS' REPORT PURSUANT TO ART. 156 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

To the Shareholders of EUROFLY S.p.A.

1. We have audited the financial statements of Eurofly S.p.A., which comprise the balance sheet as of December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. These financial statements have been prepared for the first time in accordance with the International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree No. 38/2005.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For comparative purposes the financial statements present the corresponding data of the prior year prepared in accordance with the same accounting principles. In addition, the paragraph of the explanatory notes "Reconciliation between previously used Italian accounting principles and IAS/IFRS with reference to fiscal year 2005" includes the information requested by the international accounting principle IFRS 1 - audited by us and on which we issued our auditors' report on May 19, 2006 - previously approved by the Board of Directors and published as annex to the report on operations of the first quarter 2006.

3. The financial statements as of December 31, 2006, include tax assets totaling Euro 6.6 million; Euro 1.1 million out of Euro 6.6 million have been directly credited to net equity and relate to the benefits expected from the temporary differences between the carrying amount of certain assets and liabilities and their taxable value. The accounting principles allow for the recognition and re-assessment of deferred tax assets to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered. Due to the uncertainties described in the following paragraph 4, the probability to realize taxable profits adequate to recover the deferred tax assets is uncertain, being therefore the conditions to recognize such tax assets not met. As a consequence, the loss for the year ended December 31, 2006, and the net equity at the same date are underestimated and overestimated for approximately Euro 5.5 million, and Euro 6.6 million, respectively.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Perugia Roma Torino Treviso Verona

Member of Deloitte Touche Tohmatsu

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4. The Company's Directors reported in the report of operations and in the explanatory notes that, during the year 2006, the Company had to face market and structural difficulties that penalized the Company's business during a phase of increasing costs and fleet expansion, seriously damaging its cash generation capacity and involving the realization of a significant loss for Euro 29,1 million.

As a consequence, the January 23rd Board of Directors undertook its first structural actions to solve the Company crisis as described by the Directors in the paragraph "Business Outlook" of the report of operations; nevertheless the Board of Directors think that, the Company could not be able to achieve a contribution adequate to cover its fixed costs lacking the implementation of further important structural actions.

In this context, the Company's Directors argue that the restructuring plan considered most favorable for the Company could happen through the creation of strong operating and commercial synergies with the shareholder Meridiana S.p.A. and an improvement of the industrial processes. According to the Directors, this strategy should probably improve the network's profitability in a reasonable time, despite reduced investments in distribution, technology and know-how. Directors indicate as well that a less preferable restructuring scenario implies, on the contrary, that the path towards the Company's restructuring should be based on projects aimed at standalone improving the Company's efficacy and efficiency. Such an alternative would however been implemented only in case the preferable restructuring plan would not be realized and would require higher investments in distribution and technology and a longer time to reach economic breakeven.

The Company's Directors state that the requirements to pursue commercial and operating synergies with Meridiana S.p.A. are under way to be verified, despite the shareholder has already manifested its favorable view on the proposed plan subject the completion of its internal analysis. As a consequence, as indicated in the report on operations, the Board of Directors has not examined the 2007-08 industrial plan.

As a consequence, as of today significant uncertainties exist on the ability of the Company to run its business under a going concern assumption.

Based on the aforementioned considerations, the Board of Directors thought it convenient to prepare the individual financial statements based on going concern assumptions, assuming that the Company will overcome the current economic and financial difficulties being this subject on the still uncertain achievement of the synergies described above, which are currently still being defined and in any case subject to the approval of the shareholder Meridiana S.p.A. after the completion of the necessary feasibility analysis.

The uncertainties described above on the outlook of the Company operations, as well as the unavailability of the industrial plan 2007-2008 prevent us to conclude about the appropriate use of the going concern assumption in the preparation of the individual financial statements and consequently on the ability of the Company to realize its assets and face its liabilities in its normal course of business and for considerations corresponding to those included in the individual financial statements as of December 31, 2006.

5. Because of the significance of the effect of the uncertainty described in the preceding paragraph 4, we are unable to express, and we do not express an opinion on the individual financial statements of Eurofly S.p.A. as of December 31, 2006.

6. Pursuant to law, the Company has indicated in the report on operations the key financial data from the most recent financial statements of the company with respect to which it is subject to management and coordination. The audit procedures performed by us do not extend to such data.

DELOITTE & TOUCHE S.p.A.

Signed by
Ernesto Lanzillo
Partner

Milan, Italy,
April 13, 2007

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