eurofly

Report on operations at 30th September 2007

Eurofly S.p.A. – Registered Office in Milan (MI) - Via Ettore Bugatti, 15 – Share Capital Euro 13.355.302
Company subject to management and coordination by Meridiana S.p.A.
R.E.A. (Economic-Administrative Roll) Milan No. 1336505 – Milan Company Register No. 05763070017
VAT No. 03184630964 – Tax Code No. 05763070017

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

Registered Office in Milan – Via E. Bugatti, 15

Share Capital Euro 13.355.302 fully paid up

Milan Company Register No. 05763070017 - R.E.A. (Economic-Administrative Roll) No. 1336505

Introduction

This quarterly report on operations at 30th September 2007 has been prepared in accordance with the Italian National Commission for Listed Companies and the Stock Exchange (Consob) Regulations No. 11971 and subsequent modifications, with the goal to provide information about the Company's economic and financial position. This report therefore complies with the provisions of article 82 of the Regulations above and has been drawn up according to the IAS/IFRSs, particularly with IAS 34. Please, refer to paragraph 3.1 of this report for more details on IAS/IFRSs.

The quarterly income and cash flow statements included in this report are compared with those of the same period in the previous fiscal year. The net financial position and balance sheet items at 30th September 2007 are compared with the final results at 31st December 2006.

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

The table below is a comparison between the main economic/financial data and business indicators at 30th September 2007 with those of the same period in 2006 and fiscal year 2006.

Unless otherwise specified Euro/000

2006	**Significant data**	**Jan-Sep 07**	**Jan-Sep 06**	**Delta**	**Delta %**
44.048	Total flight hours	37.143	34.205	2.938	8,6%
1.494.258	Passengers carried	1.341.814	1.212.866	128.948	10,6%
141	Fleet availability, rented and in wet lease (machine months)	117	105	12	11,4%
5.318	Productivity long range fleet (flight hours)	5.302	5.430	(128)	-2,4%
3.097	Productivity medium range fleet (flight hours)	3.387	3.374	13	0,4%

2006	**Summary Income Statement**	**Jan-Sep 07**	**Jan-Sep 06**	**Delta**	**Delta %**
282.731	Revenue from sales and services	255.837	227.517	28.320	12,4%
287.055	Total revenue	262.357	230.932	31.426	13,6%
30.472	EBITDAR (1)	32.084	33.922	(1.838)	-5,4%
10,8%	Percentage revenue from sales and services	12,5%	14,9%		
(4.649)	EBITDA (2)	(2.471)	7.909	(10.380)	131,2%
-1,6%	Percentage revenue from sales and services	-1,0%	3,5%		
(16.374)	EBIT (3)	(7.485)	2.704	(10.189)	376,9%
-5,8%	Percentage revenue from sales and services	-2,9%	1,2%		
(29.139)	Result of the fiscal year / period	(10.435)	(6.565)	(3.870)	-58,9%

30.09.06	**Summary Balance Sheet**	**30.09.07**	**31.12.06**	**Delta**	**Delta %**
85.703	Total non-current assets	39.190	85.264	(46.074)	-54,0%
107.097	Total current assets	81.139	74.772	6.367	8,5%
192.800	Total assets	120.329	160.036	(39.707)	-24,8%
39.277	Net equity	6.267	16.702	(10.435)	-62,5%
40.857	Total non-current liabilities	12.273	36.690	(24.417)	-66,5%
112.667	Total current liabilities	101.789	106.644	(4.855)	-4,6%
192.800	Total net equity and liabilities	120.329	160.036	(39.707)	-24,8%

2006	**Investments**	**Jan-Sep 07**	**Jan-Sep 06**	**Delta**	**Delta %**
3.168	Investments	1.726	2.792	(1.066)	-38,2%

30.09.06	**Other financial data**	**30.09.07**	**31.12.06**	**Delta**	**Delta %**
(9.453)	Net financial position (4)	(16.545)	(27.857)	11.312	40,6%
12.720	Net cash and equivalents	(8.256)	(4.124)	(4.132)	-100,2%
(1.357)	Cash flow of the period	(4.132)	(18.201)		

(1) EBITDAR: *Earnings Before Interest, Taxes, Depreciation, Amortization and Aircraft Rentals* (i.e. EBIT gross of aircraft operative rental costs – excluding wet lease – depreciation and amortization, provisions for risks and charges, other provisions and write-off of non-current assets). (2) EBITDA: *Earnings Before Interest, Taxes, Depreciation, Amortization*. (3) EBIT: *Earnings Before Interest and Taxes*. (4) Compared to “Net cash and equivalents“, the net financial position at 30th June and 31st December 2006 is comprised of the financial loans included in the financial fixed assets and the amount of the mortgages and debt contracted with leasing companies.

1. OPERATIONS AND FUTURE SCENARIO

1.1. Operations and operating activity

1.1.1. Aircraft fleet

In the first nine months of 2007 Eurofly's medium range fleet remained the same as in the first nine months of 2006.

Conversely, the long range fleet acquired a unit, after the delivery of the fourth A330 (aircraft I – EEZL) in December 2006. The operative leasing of the fifth A330 started at the end of March 2007 as per a seven-year agreement. The A330 was dry leased for a year starting March 2007, as envisaged by the restructuring policy approved by the Board of Directors on 23rd January 2007.

The leasing agreement stipulated with Locat S.p.A. on the Airbus A319 – 115/CJ, which had been mainly used for the "All Business" Milan–New York connection in 2006, was assigned to Alba – Servizi Aerotrasporti S.p.A. at the end of June 2007. Simultaneously, Alba asked Eurofly to temporarily operate the aircraft on their behalf under sub-lease, which was initially due to expire on 31st October 2007 but was then extended until 30th November 2007.

The table below summarizes Eurofly's fleet between January 2006 and September 2007.

Registration mark	Type	Entry in fleet	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07
I-EEZB	A330	Aug-02	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZA	A330	Sep-02	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZJ	A330	May-05	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZL	A330	Dec-06												■	■	■	■	■	■	■	■	■	■
I-EEZC	A320	Oct-02	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZD	A320	Feb-03	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZE	A320	Mar-03	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZF	A320	Apr-03	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZG	A320	May-03	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZH	A320	Dec-04	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZI	A320	Dec-04	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZK	A320	Feb-05	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-ECJA	A319	Apr-06				■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■

The A319 airplane is part of Eurofly's fleet as per the aforementioned sub-lease, whereby Eurofly is temporarily managing the aircraft on behalf of Alba.

In order to satisfy the seasonal peak of demand for medium range flights, in August the Company wet leased an MD – 82 from Itali Airlines for approximately 10 days. This is a normal practice in air transportation, aimed at best managing the variability of demand.

The most significant terms of the contracts of the eight medium range A320 and the five long range A330 currently in fleet in leasing are summarised in the tables below:

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 leasing	Oct-02	Feb-03	Mar-03	Apr-03	May-03	Dec-04	Dec-04	Feb-05
End of leasing	Oct-08	Feb-09	Mar-09	Apr-08	May-08	Dec-09	Dec-09	Oct-09
Duration of leasing	6,0	6,0	6,0	5,0	5,0	5,0	5,0	4,7

Registration mark	I-EEZA	I-EEZB	I-EEZJ	I-EEZL	I-EEZM
Year of costruction	2000	2000	2005	2006	2007
Initiation of leasing	Sep-02	Aug-02	May-05	Dec-06	Mar-07
End of leasing	Apr-09	Apr-09	May-12	Dec-14	Mar-14
Duration of leasing	6,6	6,7	7,0	8,0	7,0

A350 aircraft agreements

On 30th December 2005 Eurofly signed an agreement to purchase three long range A350 airplanes from Airbus. The deliveries were set in 2013 and 2014. The contract provided for an advance payment of Euro 4,870 thousand on the date of the agreement – already executed – plus two instalments up to a total amount of approximately USD 16 million by April 2007. Urged by 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 state-of-the-art technology, improved aerodynamic features, a larger fuselage section and a higher cruising speed, but that was to be delivered 24 months later than the initial deadline. As a result, Eurofly agreed with Airbus to suspend the advance payments initially planned until the definition of new conditions.

1.1.2. Commercial activity

The demand for flights - mainly leisure international flights – is subject to seasonal trends and undergoes contraction phases in certain periods of the year. In particular, Eurofly's operations normally report a peak in the third quarter of the year and a contraction in the second and fourth quarter, except for the periods close to holidays (Christmas/New Year, Easter and long weekends). In the first quarter medium range activities are lower compared to the other months of the year, because of the climatic conditions in the regions reached by medium range flights (less than five hours). Conversely, leisure long range operations were extremely lively, as they allow reaching exotic countries that are the most demanded holiday destinations in winter.

In the first nine months of the year the main goals of the commercial activity in medium range were:

i) to defend the Egyptian market, where Eurofly is now allowed to use its aircraft (based in Sharm El Sheik) for midweek domestic flights that should satisfy the Italian tourists' demand for the internal tours included in their holiday packages;

ii) to increase flights to Tenerife (a destination subject to yearly planning) in order to improve aircraft productivity and stimulate alternative markets to the Red Sea;

iii) to start the code sharing with Meridiana (as marketing carrier[1]) for Eurofly's scheduled medium range flights to Ibiza, Crete/Heraklion and Mikonos;

iv) to offer charter flights for Mediterranean and North European destinations and scheduled flights for sea resorts in Greece and the Balearic Islands in addition to the traditional annual destinations (Egypt and Canary Islands) from June;

v) to operate the weekly Naples – Moscow connection for the second year in a row.

The main goals of the commercial efforts in long range were:

i) to implement the commercial and code sharing agreement with the airline Livingston S.p.A., which allowed Eurofly to focus on the Indian Ocean and consequently reinforce its flights to the Maldives and Kenya/Zanzibar, establishing itself as leader carrier on these routes. Conversely, the Caribbean destinations have been mainly managed by selling the flights operated by Livingston as marketing carrier;

ii) to launch the new charter route to Mauritius. Eurofly has inaugurated a twice-a-week connection with the island of Mauritius, after the local government granted a temporary and

[1] Marketing carrier: in a code sharing agreement between two carriers, the marketing carrier is the contractor that sells the flight operated by the other party (called operating carrier).

unilateral derogation to Eurofly, allowing it to operate under special charter rights. In the first months of the year the bilateral agreement between Italy and Mauritius was modified by increasing the number of operators (from 2 to 3, the other selected carriers are Air Mauritius and Volare) and the scheduled flight frequency (charter flights remain inhibited). In this context Eurofly obtained ENAC's[2] authorization to operate up to three scheduled flights a week on that route. As a result, Eurofly achieved a good positioning in this important leisure market, which reported an increase of Italian tourists above 60% in 2006;

iii) to increase flights to New York during the entire summer season (May to November). More specifically:

- the number of flights from Rome was raised from three to five a week,
- the flight from Palermo will be operated twice a week for the whole summer,
- two new flights from Pescara and Lamezia Terme via Bologna were added,
- the flight from Naples was substantially confirmed with three flights a week.

iv) to launch the new scheduled route from Rome to Delhi in mid January. The Rome – Delhi flight – the only direct connection between Rome and India – was started on 15th January with two flights a week. The connection was cut in September. The higher-than-expected difficulties encountered in the commercial launch and the results below estimates, for which breakeven was not expected in the short term, convinced the Company to suspend the flight.

As to the All Business flights operated with the A319, please note that the Milan – New York connection was stopped at the end of January 2007, while the charter operations (as per agreements already closed) mainly continued in the first part of the six months, especially to the Maldives.

As already pointed out, the A319 leasing agreement was assigned to Alba – Servizi Aerotrasporti S.p.A. on 25th June 2007. Alba then sub-leased the airplane to Eurofly, which temporarily managed it on Alba's behalf until 30th November 2007.

Statistical data

[2] National Agency for Civil Aviation.

Flight hours by type

Flight hours

2006		Jan-Sep 07	Jan-Sep 06	Change	% Change
42.321	**Block hours (a)**	36.305	32.705	3.600	11,0%
1.681	**ACMI (b)**	462	1.459	-997	-68,3%
46	**REPRO (c)**	375	41	334	815,5%
44.048	**Total flight hours**	**37.143**	**34.205**	**2.938**	**8,6%**

(a) flight hours operated by Eurofly with own aircraft

(b) flight hours operated on behalf of third parties with Eurofly's aircraft wet leased to third parties

(c) flight hours operated by Eurofly with third parties' aircraft wet leased by the Company

Flight hours by SBU

Flight hours

2006		Jan-Sep 07	Jan-Sep 06	Change	% Change
24.801	**Medium Range**	20.484	20.268	216	1,1%
16.129	**Long Range**	16.118	12.235	3.883	31,7%
3.119	**All Business**	540	1.703	-1.163	-68,3%
44.048	**Total flight hours**	**37.143**	**34.205**	**2.937**	**8,6%**

In the first nine months of 2007 flight hours grew by 8.6% compared to the same period in 2006. Block hours increased by 11%, while ACMI hours fell by more than 68%. The increase of flight hours in 2006 was due to the agreements with the My Way carrier. The number of REPRO hours rose from 41 to 375, also because Eurofly wet leased an MD-82 airplane from Itali Airlines in August.

The analysis of the flight hours' variation by Business Unit highlighted that the growth was entirely due to the long range performance, which were up 31.7% thanks to the new airplane and the greater offer of charter and scheduled flights. The number of medium range flight hours remained unchanged in the two periods under analysis.

As to the All Business BU, please note that the aircraft was leased to the Saudi carrier NAS in the first months of 2006, while in 2007 the Milan – New York connection – for which the airplane was mainly used – was only operated in January. In the following months the airplane was used for charter flights mainly to the Maldives until June, when the financial lease on the aircraft was assigned to Alba – Servizi Aerotrasporti S.p.A., which, as already pointed out, immediately asked Eurofly to operate the airplane on their behalf as per a sub-lease until 30th November 2007.

Fleet productivity
Annualized flight hours

2006		Jan-Sep 07	Jan-Sep 06	Change	% Change
3.097	**Medium Range**	3.387	3.374	13	0,37%
5.318	**Long Range**	5.302	5.430	(127)	-2,34%

The productivity of Eurofly's fleet remained substantially unchanged in the two periods under analysis, yet with a slightly weaker performance in long range.

Passengers carried

2006		Jan-Sep 07	Jan-Sep 06	Change	%
1.387.131	Eurofly	1.319.204	1.117.315	201.889	18,1%
107.127	Other carriers	22.610	95.551	(72.941)	-76,3%
1.048.849	Medium Range	905.971	876.584	29.387	3,4%
439.571	Long Range	432.964	333.500	99.464	29,8%
5.838	All Business	2.879	2.782	97	3,5%
1.494.258	**Total passengers**	**1.341.814**	**1.212.866**	**128.948**	**10,6%**

The amount of passengers carried by Eurofly increased by approx. 18.1% due to long range, which reported a growth of passengers of almost 30%. This positive performance should be ascribed to the expansion of fleet and long range flight offer compared to the previous quarter. While the medium range fleet was unvaried compared to 2006, the number of passengers rose by 3.4%.

As to the passengers of the All Business BU, please note that the Milan – New York connection – only operated with the A319 – was operated from May 2006 to January 2007. In the previous months the aircraft had been leased to third parties, while it was used for charter flights from January 2007 until its sale in June 2007. Eurofly has continued to operate the aircraft on behalf of Alba since June 2007 (until November 2007).

Passengers carried - NY route					
2006		Jan-Sep 07	Jan-Sep 06	Change	% Change
95.434	Passengers carried	106.438	78.013	28.425	36,4%
141.564	Seats offered	148.614	111.672	36.942	33,1%
67,4%	Load factor	71,6%	69,9%	0,02	-

Passengers carried - Indian route					
2006		Jan-Sep 07	Jan-Sep 06	Change	% Change
0	Passengers carried	17.758	0	-	-
0	Seats offered	44.172	0	-	-
0,0%	Load factor	40,2%	0,0%	-	-

In 2007 Eurofly added new connections to New York from Lamezia and Pescara, besides the traditional ones from Naples, Palermo, Rome and Bologna. The load factor of these flights slightly improved in the first nine months of 2007 compared to 2006, exceeding 71% on average.
The Rome – New Delhi route, started in January 2007, was stopped in September due to problems in reaching performances that could justify the decision to maintain the route.

1.1.3. Operative problems of the aircraft fleet

On 2nd March a door of the A330 I - EEZA airplane was damaged during catering restocking at the Malpensa airport. As a result of this event and related problems, the two flights due to leave to the Maldives reported significant delays, since the Company was forced to lease two aircraft in ACMI mode. This event was the responsibility – acknowledged - of third parties. The direct and indirect costs of the accident have been estimated at approximately Euro 1.5 million on the same date. While filing the claim to the insurance company, in the quarter the Company continued its analyses to obtain a final and complete estimate of the damage, which they assessed at approx. Euro 3.3 million (including damage to the Company's image). Consequently, the Company put in a claim in that amount. At the date of this report, the insurance broker is still conducting the necessary investigations to settle the claim, but confirmed that the counter-party's coverage is sufficient in relation to the damage. Although the investigations were still under way and the counter-party's insurance broker had not settled the claim yet (from an accounting point of view, both elements are necessary to assess the damage according to the provisions of IAS 37), the Company already booked a prudential amount of Euro 1.5 million in its quarterly income statement at 30th March 2007.

This accounting approach is aimed at aligning the economic effects of the interim financial reports (no impact of the costs incurred after the acknowledgement of the indemnity proceeds) to the closing of the financial statement at 31st December 2007, when the Company can reasonably expect that the indemnity proceeds will have been substantiated by the claim settlement also from an accounting point of view. Indeed, based on the contractual provisions and the counter-party's acknowledgement of responsibility, the Company expects a full compensation for the damage suffered.
For completeness, the explanatory note describes the effect on the loss of the period and net equity at 30th September 2007 of the application of IAS 37 for the assessment of the effects of the analysed event on the Company's interim situation.

In April, repeated technical problems regarding the long range fleet caused serious disservices to Eurofly's customers. The averages of two A330 airplanes at the Maldives and Mombasa airports required specialized staff, materials and means from Europe, which allowed Eurofly to solve the breakdowns in full compliance with the aeronautical regulations.
Since almost all of its long range aircraft were already in use, Eurofly was forced to buy capacity from other European long range carriers. Nonetheless, the flights reported considerable delays. The aforementioned events resulted in a total estimated charge of approximately Euro 1,3 million for Eurofly.
The technical investigations carried out by ENAC and the Company's relevant departments did not find any systematic shortcomings that could explain the events above, which are rare but possible in long range air transportation.

1.1.4. Crisis and first structural actions

As described in the Board of Directors' Report on Operations at 31st December 2006, the serious market and structural difficulties, which Eurofly encountered in 2006 and which dramatically penalized its profitability and cash-generation capacity, led the Board of Directors of 23rd January 2007 to immediately suspend all loss-making activities not expected to reach breakeven within an acceptable period of time.
The actions implemented – as described above - included the suspension of the Milan – New York flight operated with the A319, whose leasing agreement was sold, and the sub-lease of the fifth A330.
On 30th January 2007 Eurofly started a collective dismissal through notice to the trade unions and the Italian Ministry of Labour. Such a risk was however avoided through an agreement with the

Unions signed on 15th March 2007 that provided for the application of the solidarity agreement described in the Staff paragraph.

1.1.5. Industrial plan and capital increase

On 28th June 2007 the Eurofly's Board of Directors approved the 2007-09 Industrial Plan (reviewed on 12th September while awaiting the authorizations to finalize the plan in its initial form), which envisaged the Company's reorganization through the achievement of strong synergies with the shareholder Meridiana. More specifically, the Plan provided for two successive capital increases pursuant to the Board's decisions of 12th September. The first capital increase, whose launch was due by the end of 2007 for an amount of Euro 15 million, was open to all shareholders and the shareholder Meridiana guaranteed that they would subscribe it pro quota, also through compensation of their credit originated from the unprofitable 24-month loan with the subscription debt. Following the above recapitalization, the Plan envisaged a second capital increase, through contribution in kind, up to an amount of Euro 12 million reserved for the partner Meridiana S.p.A. pursuant to art. 2441, paragraph 4, sentence 1 of the Italian Civil Code. Meridiana S.p.A., upon occurrence of specific circumstances indicated by the company itself, such as, among others, the exemption from the compulsory launch of a public tender offer (following the exceeding of the 30% threshold level), according to the provisions of art. 49, paragraph 1, point b) of the Issuers' Regulations and of art. 106, paragraph 5, point a) of Law Decree no. 58/1998 (exemption from rescue), would transfer a 50% stake in its 100% subsidiary Wokita S.r.l.. Meridiana would also transfer 50% of the share capital of a newly created company that will manage sales in Italy, a business currently carried out by a department of Meridiana S.p.A.. The Plan also provides for the restructuring of the Company's debt through the contribution of the banks (i) and Meridiana S.p.A. (ii).

Still subject to Consob's authorization, Meridiana announced it would (i) re-confirm the new deadline for the shareholders' loan worth Euro 4,500,000 (expiring on 21st November 2007) on 31st December 2009; (ii) give up a portion of the above loan for an amount of Euro 134,820.25 starting from 30th September 2007; (iii) renounce hereby on a quarterly basis and after 30th September 2007, an amount of the loan calculated on the present amount of the loan; (iv) give up hereby with effect from 31st December 2009 the portion of the shareholders' loan still pending at that date, as reduced in the course of time by an amount calculated through the quarterly renunciation of the interests described above (as well as by the aforementioned amount of Euro 134,820.25) and not otherwise used to subscribe other cash capital increases included in the 2007-09 Industrial Plan on a pro quota basis.

As a result, the Board of Directors called the Extraordinary General Meeting on 6th, 8th and 9th November 2007.

1.1.6. Debt restructuring

On 9th July 2007 the Company signed a term sheet with the three banks to which it is mostly exposed (altogether representing more than 80% of the Company's bank debt). At the date of this report the preparation of the contracts has almost been completed.

1.1.7. Consob's requests

On 20th June 2007 the National Commission for Listed Companies and the Stock Exchange (Consob) required Eurofly to issue a monthly report of the Company's economic and financial position pursuant to art. 114, paragraph 5 of the Law Decree no. 58/98. Consob was referring to Eurofly's report on operations at 31st December 2006 and the associated auditing report prepared by Deloitte & Touche, in which they declared being unable to issue a judgment on Eurofly's report on operations.

At the end of June 2007 the Company started to issue monthly reports with the requested information. The first report referred to May 2007.

1.1.8. Tax police inspection

On 23rd May 2006 the Lombardy tax police started a partial enquiry into the income tax for fiscal year 2004. The investigations were then extended to fiscal years 2002 and 2003. The report was prepared on 16th January 2007 and included a series of tax findings, which were all rejected and not agreed upon by Eurofly. The findings will undergo further examinations and defensive actions.

The findings of the tax police auditors partly concern transactions with low-taxation countries, partly excessive provisions for future invoices and a smaller portion regarded costs allocated to fiscal periods they did not pertain to.

More specifically, the income contested by Eurofly is equal to Euro 0.6 million for fiscal year 2002, Euro 2 million for 2003 and Euro 1 million for 2004.

On 17th April 2007 Eurofly made a tax settlement proposal as per Law Decree no. 218/97. To date, the Company did not receive settlement reports. At the current stage, the risk cannot be fairly assessed and, in any case, it should be valued in the light of past tax losses to be carried forward.

1.2. Staff

As a result of the restructuring actions described above and in order to face the crisis, on 30th January 2007 Eurofly served notice to the trade unions and the Ministry of Labour about the start of a collective dismissal to reduce staff by a total of 134 employees pursuant to art. 4 and 24 of law no. 223 of 23rd July 1991. The agreement signed on 15th March 2007 with the Unions avoided collective dismissals via the application of a solidarity agreement (envisaged by law no. 223/91 as an alternative solution to collective dismissal) for a period of 24 months starting 1st April 2007. The signing of the solidarity agreement for all employee categories caused the suspension of the negotiations for the renewal of the expired contracts until 2009 (Technical Flight Staff, Flight Crew and economic conditions for Ground Staff), except for an agreement regarding the renewal of the certification allowances of the Maintenance Staff. As to the initiatives for the training of Technical Flight Staff, in May Eurofly started new courses for captains, which will be attended by a total of 24 resources in the next two years, with the goal of increasing the number of captains.

1.3. Macro-economic scenario

The growth of the European economies, which had characterized the first part of the year, showed signals of contraction at the end of the first nine months of 2007. A slowdown was confirmed in the USA too, also as a result of the real estate market trend. In this scenario, the average energy prices, which had posted significant increases between September and October 2007, remained substantially unchanged between the first nine months of 2007 and the same period in 2006, as shown in the table below.

Crude Oil

US dollar per barrell

2006	Crude Oil	Jan-Sep 07	Jan-Sep 06	Delta
66,0	WTI - USA	66,2	68,0	-2,7%
65,2	Brent - Europe	67,1	67,0	0,2%

Source: Energy Information Administration – US Government

The Euro appreciated versus the US dollar both in terms of end-of-period exchange rate between the end of December 2006 and the end of September 2007 and of average exchange rate between the first nine months of 2006 and the first nine months of 2007.

Exchange rate

	Jan-Sep 07	Jan-Sep 06	30/09/07	31/12/06
EUR/USD	1,34	1,24	1,42	1,27

Source: Il Sole 24 Ore

Interest rates stabilized towards the end of the period under analysis both in the Euro zone and the USA.

Interest rates (3m)

	Jan-Sep 07	Jan-Sep 06	Sep 07	Jan 07
EURIBOR	4,2%	2,9%	4,8%	3,8%
LIBOR (US$)	5,4%	5,2%	5,5%	5,4%

Source: British Bankers Association

1.4. Industry scenario

In January–August 2007 global air traffic reported a sustained growth of carried passengers. According to IATA's periodic report, the number of carried passengers grew by 7.2% compared to the same period in 2006 with the average load factor reaching 77.2%.

Similar data were recorded in Italy as well. According to the Assoaeroporti's statistics, the traffic increase in the main Italian airports was stronger than in 2006. Passenger traffic rose by 9.7% in January-August vs. 8.6% in the same period in 2006. The growth was driven by the increase of international passengers (+11.3%).

Despite the lack of complete data, the Italians' holiday destinations reported good results. More specifically:

- good traffic performance to the Red Sea;
- moderate growth of the Maldives;
- growth of Mauritius.

2. FINANCIAL STATEMENTS

2.1. Balance sheet

30.09.06	*Euro/000*	30.09.07	31.12.06	Delta
57.662	Tangible fixed assets	19.915	55.408	(35.493)
4.484	Intangibles	2.902	4.023	(1.121)
19.635	Other long-term and financial investments	11.144	19.259	(8.115)
3.922	Deferred tax assets	5.228	6.573	(1.345)
85.703	**Total non-current assets**	**39.190**	**85.264**	**(46.074)**
2.782	Stock	2.743	2.954	(211)
50.372	Trade receivables and other receivables	68.133	55.496	12.637
15.385	Other assets	8.059	11.174	(3.115)
38.558	Net cash and equivalents	2.205	5.149	(2.944)
107.097	**Total current assets**	**81.139**	**74.772**	**6.367**
192.800	**Total assets**	**120.329**	**160.036**	**(39.707)**
13.355	Share capital	13.355	13.355	0
32.486	Reserves	3.347	32.486	(29.139)
(6.565)	Profit / (Loss)	(10.435)	(29.139)	18.704
39.277	**Total net equity**	**6.267**	**16.702**	**(10.435)**
32.869	Loans	3.286	27.921	(24.635)
357	Deferred tax liabilities	0	398	(398)
7.630	Provisions for risks and charges	8.987	8.372	616
40.857	**Total non current liabilities**	**12.273**	**36.690**	**(24.417)**
81.040	Trade payables and other liabilities	84.793	86.873	(2.080)
26.013	Bank debt	10.461	9.273	1.188
2.304	Current portions of long-term loans	503	2.312	(1.809)
0	Loans	4.500	4.500	0
3.309	Provisions for risks and charges	1.532	3.686	(2.154)
112.667	**Total current liabilities**	**101.789**	**106.644**	**(4.855)**
192.800	**Total net equity and liabilities**	**120.329**	**160.036**	**(39.707)**

Translated from the original version in Italian.

2.2. <u>Income statement</u>

The table below provides a comparison between the income statement of the first nine months of 2007 with the same period in 2006.

Euro/000

2006	**% on revenue**	**Ref.**	**Income statement**	**Jan-Sep 07**	**% on revenue**	**Jan-Sep 06**	**% on revenue**	**Delta**	**Delta %**
			Euro/000						
282.731	100,0%	18	Revenue from sales and services	255.837	100,0%	227.517	100,0%	28.320	12,4%
4.324	1,5%	19	Other revenue	6.520	2,5%	3.415	1,5%	3.105	90,9%
287.055	**101,5%**		**Total revenue**	**262.357**	**102,5%**	**230.932**	**101,5%**	**31.426**	**13,6%**
5.056	1,8%	20	Direct commercial expenses	5.934	2,3%	3.226	1,4%	2.708	84,0%
85.084	30,1%	21	Jet fuel	74.644	29,2%	68.675	30,2%	5.969	8,7%
40.947	14,5%	22	Staff costs	29.637	11,6%	29.102	12,8%	534	1,8%
38.554	13,6%	23	Materials and maintenance services	34.477	13,5%	29.873	13,1%	4.604	15,4%
68.717	24,3%	24	Other operating costs and wet lease	72.022	28,2%	53.723	23,6%	18.299	34,1%
18.226	6,4%	25	Other commercial and corporate costs	13.559	5,3%	12.409	5,5%	1.149	9,3%
35.120	12,4%	26	Operative rentals	34.555	13,5%	26.014	11,4%	8.541	32,8%
4.108	1,5%	27	Depreciation and amortization	2.894	1,1%	3.067	1,3%	(173)	-5,6%
512	0,2%	28	Write-off of non-current assets	0	0,0%	0	0,0%	0	0,0%
5.346	1,9%	29	Other provisions	1.541	0,6%	1.479	0,7%	62	100,0%
1.758	0,6%	30	Provisions for risks and charges	579	0,2%	659	0,3%	(79)	-12,1%
303.428	**107,3%**		**Total costs**	**269.842**	**105,5%**	**228.228**	**100,3%**	**41.614**	**18,2%**
(16.374)	**-5,8%**		**Operating result**	**(7.485)**	**-2,9%**	**2.704**	**1,2%**	**(10.189)**	**-376,9%**
3.294	1,2%	31	Financial (income)/charges	1.180	0,5%	2.336	1,0%	(1.156)	-49,5%
(19.667)	**-7,0%**		**Pre-tax profit**	**(8.665)**	**-3,4%**	**368**	**0,2%**	**(9.033)**	**-2457,1%**
1.728	0,6%	32	Tax charges	(1.531)	-0,6%	(281)	-0,1%	(1.251)	445,3%
(11.200)	-4,0%	33	Profit/(loss) from sales of assets	(238)	-0,1%	(6.652)	-2,9%	6.413	0,0%
(29.139)	**-10,3%**		**Result of the period**	**(10.435)**	**-4,1%**	**(6.565)**	**-2,9%**	**(3.870)**	**58,9%**

Translated from the original version in Italian.

The table below provides a comparison between the income statement of the third quarter of 2007 with the same period in 2006.

2006	% on revenue	Income Statement	III Q 07	% on revenue	III Q 06	% on revenue	Delta	Delta %
		Euro/000						
282.731	100,0%	Revenue from sales and services	108.525	100,0%	97.095	100,0%	11.430	11,8%
4.324	1,5%	Other revenue	3.084	2,8%	1.670	1,7%	1.414	84,7%
287.055	**101,5%**	**Total revenue**	**111.609**	**102,8%**	**98.765**	**101,7%**	**12.844**	**13,0%**
5.056	1,8%	Direct commercial expenses	3.148	2,9%	1.252	1,3%	1.896	151,4%
85.084	30,1%	Jet fuel	30.414	28,0%	28.191	29,0%	2.223	7,9%
40.947	14,5%	Staff costs	9.996	9,2%	10.086	10,4%	(90)	-0,9%
38.554	13,6%	Materials and maintenance services	13.495	12,4%	11.660	12,0%	1.834	15,7%
68.717	24,3%	Other operating costs and wet lease	28.638	26,4%	22.739	23,4%	5.899	25,9%
18.226	6,4%	Other commercial and corporate costs	5.213	4,8%	4.506	4,6%	707	15,7%
35.120	12,4%	Operative rentals	11.879	10,9%	8.550	8,8%	3.329	38,9%
4.108	1,5%	Depreciation and amortization	985	0,9%	958	1,0%	27	2,8%
512	0,2%	Write-offs of non-current assets	0	0,0%	0	0,0%	0	0,0%
5.346	1,9%	Other provisions	642	0,6%	123	0,1%	518	100,0%
1.758	0,6%	Provisions for risks and charges	27	0,0%	294	0,3%	(267)	-90,7%
303.428	**107,3%**	**Total costs**	**104.437**	**96,2%**	**88.361**	**91,0%**	**16.076**	**18,2%**
(16.374)	**-5,8%**	**Operating result**	**7.172**	**6,6%**	**10.404**	**10,7%**	**(3.232)**	**-31,1%**
3.294	1,2%	Financial (income)/charges	408	0,4%	(461)	-0,5%	869	-188,5%
(19.667)	**-7,0%**	**Pre-tax profit**	**6.764**	**6,2%**	**10.866**	**11,2%**	**(4.102)**	**-37,7%**
1.728	0,6%	Tax charges	(1.017)	-0,9%	(947)	-1,0%	(70)	7,4%
(11.200)	-4,0%	Profit/(loss) from sales of assets	117	0,1%	(4.491)	-4,6%	4.608	0,0%
(29.139)	**-10,3%**	**Result of the period**	**5.863**	**5,4%**	**5.428**	**5,6%**	**436**	**8,0%**

Translated from the original version in Italian.

2.3. Statement of changes in equity

Euro/000	**Share capital**	**Share premium reserve**	**Legal reserve**	**Statutory reserve**	**Losses carried forward**	**Result of the period**	**Total**
Net equity at 31st December 2006	**13.355**	**31.102**	**478**	**3.681**	**(2.775)**	**(29.139)**	**16.702**
Allocation of 2006 result					(29.139)	29.139	**0**
Coverage of losses carried forward		(28.233)		(3.681)	31.914		**0**
Loss of the period						(10.435)	**(10.435)**
Net equity at 30th September 2007	**13.355**	**2.869**	**478**	**0**	**0**	**(10.435)**	**6.267**

Translated from the original version in Italian.

2.4. Cash flow statement

2006	Euro/000	Jan-Sep 07	Jan-Sep 07
14.077	**Net cash and equivalents at the beginning of the period**	**(4.124)**	**14.077**
(19.667)	Pre-tax loss	(8.665)	368
(11.200)	Profit/(loss) from sales of assets	(238)	(6.652)
(395)	Tax effects on sales of assets	593	223
	Provisions for:		
6.260	- Depreciation	2.894	3.067
2.336	- (Gain)/Loss on exchange rates due to transactions in foreign currency	471	1.882
2.986	- Other financial charges	710	454
-	- Gains from sales of fixed assets	-	-
(9.422)	Change in trade receivables and other receivables	(11.236)	(12.443)
(814)	Change in stock	211	(642)
6.282	Change in trade payables and other liabilities (incl. current funds)	(5.382)	664
(3.809)	Interest and other financial charges paid	(925)	(1.098)
(1.933)	Taxes paid	(163)	(486)
(1.441)	Realized gain/(loss) on exchange rates due to transactions in foreign currency	1.288	(1.538)
(895)	Unrealized gain/(loss) on exchange rates due to transactions in foreign currency	(1.759)	(344)
2.465	Write-offs of non-current assets	111	-
496	Net variation of staff leaving indemnity	35	434
-	Cash flow from the A319 BU operations	245	
(28.751)	**Cash flow from operations**	**(21.809)**	**(16.109)**
	Investments in fixed assets		
(659)	* intangible	(69)	(623)
(1.952)	* tangible	(938)	(1.248)
(506)	* financial	(718)	(921)
822	Collected interests	216	644
-	Cash flow from the A319 BU disposal	16.849	-
4.984	Disposal value of other fixed assets	722	5.534
2.688	**Cash flow from investments**	**16.061**	**3.386**
-	Shareholders' loan	-	-
-	Financial loans for LAG acquisition deposit	-	
(3.000)	Creation of bank time deposits included in current assets	-	-
-	Raising of A319 loan	-	-
-	Expiration of bank time deposits included in current assets	3.000	-
10.841	Cash flow from the insurance policy assignment	-	10.841
(486)	Payment of loan instalments	(486)	(486)
(1.857)	Payment of A319 loan instalments	(898)	(1.417)
5.497	**Cash flow from financial activity**	**1.616**	**8.937**
390	Increase of share capital	-	390
-	Dividend	-	-
1.975	Share capital variations connected with the finalization of the listing process	-	2.039
2.365	**Cash flow from operations on equity**	-	**2.429**
(18.201)	**Increase (decrease) of net cash and equivalents**	**(4.132)**	**(1.357)**
(4.124)	**Net cash and equivalents at the end of the period**	**(8.256)**	**12.720**

Translated from the original version in Italian.

3. NOTES TO THE FINANCIAL STATEMENT

3.1. Accounting standards

This quarterly report on operations at 30th September 2007 has been prepared in accordance with the provisions of art. 82 of the Issuers' Regulations and is based on IAS/IFRS, particularly IAS 34. The same accounting standards as those used for the report on operations at 31st December 2006 have been applied to this quarterly report.

It should also be noted that the preparation of an interim report requires the directors to make estimates and assumptions, which influence the value of the revenue, costs, assets and liabilities of the balance sheet and the information about the potential assets and liabilities at the date of the interim report. Should these estimates and valuations – which are based on the directors' best valuations – differ from the actual situation in the future, they would be modified accordingly for the period in which the variation occurred.

Please note that complete valuations – mainly complex ones, like the assessment of potential write-offs of non-current assets – are generally carried out for the annual report alone, when all the necessary information is available, except when impairment indicators require the immediate assessment of the potential write-offs. Similarly, the actuarial valuations needed to determine reserves for employee bonuses are normally performed in view of the preparation of the annual report.

This quarterly report has been drawn up in view of a continuation of the Company's business, which is conditional upon the achievement of the targets of the 2008-10 Industrial Plan. The plan already incorporates the effects of the increase in the Company's equity resulting from the cash capital increase and the capital increase through contribution in kind – subject to the uncertainty of similar recapitalization initiatives – and of the Company's profitability expectations – significantly influenced by unpredictable macro-economic and economic variables. The Board of Directors however does not consider the variables' overall trend capable of constantly keeping the Company's equity below the legal level in fiscal years 2007 and 2008. Therefore, the Directors reasonably consider the uncertainties about the predictable evolution of the Company's operations – still present at the time of the approval of the half-year report – overcome and consequently applied to this quarterly report valuation criteria consistent with the going-concern assumption and accounting policies applicable to a company in the normal course of business for the valuation of its assets (including deferred tax assets) and liabilities.

3.2. Financial statement comparability

Please note that the items of the income statement at 30th September and 31st December 2006 related to the "All Business" Business Unit – included for comparative purposes – have been presented in accordance with IAS / IFRS 5 – Non current assets held for sale and discontinued operations - given the transfer of the lease on the A319 in June 2007.
Moreover, the accounting data at 30th September 2006 have been reclassified as follows in order to compare them with 30th September 2007.

- Reclassification of the phase-out funds, which are comprised of provisions for restoration costs to be sustained when non-owned aircraft formerly classified among current liabilities exit the fleet, into "Provisions for risks and charges" included in non-current liabilities. The reclassified amount is equal to Euro 4,147 thousand.

These reclassifications had no impact on the net equity and the result of the period ended 30th September 2006.

3.3. <u>Income statement</u>

3.3.1. First nine months results

The total revenue amounted to Euro 262,357 thousand at the end of the first nine months of 2007 versus Euro 230,932 thousand in the same period in 2006. The increase should be mainly ascribed to the expansion of Eurofly's long range capacity and offer.

The EBITDAR, equal to Euro 32,084 thousand, dropped from the Euro 33,922 thousand in September 2006 because of a contraction of both Business Units. The decline of the long range EBITDAR was driven by: the start up of the new routes to India (suspended in September) and Mauritius launched between end 2006 and early 2007; the increase of the item "other operating costs and wet lease" as a result, among others, of the costs for the purchase of seats resulting from the commercial agreement with Livingston SpA; the costs related to the operative problems encountered in April. In respect of medium range, the EBITDAR was penalized by lower penalty revenues and higher operating costs.

The EBITDA decrease of Euro 10,384 thousand was not only due to the aforementioned elements, but also to the higher leasing costs resulting from the expansion of the A330 fleet and the suspension of Airbus' grants linked to the fleet increase, which were however present in the first half of 2006. The EBITDA was not penalized by the Euro 1,5 million charge related to the damage suffered by the A330, as, based on the above conditions, the Company booked an income from damage for an amount prudentially equal to the costs incurred in its financial statement.

The operating loss was equal to Euro 7,485 thousand versus Euro 2,704 thousand in 2006. The result was greatly affected by the start up of long range routes and the April operative problems described before.

The leasing agreement on the A319 aircraft was transferred in June. The disposal of the asset, inclusive of the operating result and the capital gain on the disposal, caused a Euro 238 thousand contraction of the result of the year. The net loss was equal to Euro 10,435 thousand versus Euro 6,565 thousand in the first nine months of 2006.

The net loss per share was Euro 0.78.

<u>Revenue</u>

The revenue from sales and services posted a significant growth compared to the same period last year. Such a positive performance was mainly driven by the long range revenue, which grew after the expansion of the fleet and, consequently, of the business and due to the aforementioned agreement with Livingston SpA. The medium range revenue remained substantially unchanged in the two periods under analysis.

Revenue from sales and services
Euro/000

	Jan-Sep 07	Jan-Sep 06	Change	% Change
Medium Range	115.718	113.851	1.867	1,64%
Long Range	140.120	113.666	26.454	23,27%
Total	**255.837**	**227.517**	**28.320**	**12,4%**

The significant increase in the other revenue was the result of the revenue from aircraft rentals related to the sub-lease of an A330 to the Spanish carrier Air Comet for a year.

Costs

The direct commercial costs grew considerably following the expansion of the scheduled long range operations carried out with A330 aircraft.

The growth above 8% in jet fuel costs was due to the increase of operations in the nine months of 2007 versus the same period in 2006 and to the different fleet composition following the expansion of long range. Despite the increase, this cost item – denominated in US dollars – benefited from the more favourable Euro/US dollar exchange rate.

In the first nine months of 2007 staff costs rose by just 1.8% after the application of the solidarity agreement last April, despite the increase in the average paid staff following the fleet and business expansion. As shown by the table below, Eurofly's average paid staff grew by approx. 78 units. In particular, it should be noted that the entry in fleet of an Airbus A330 at the end of 2006 required a reinforcement of the flight staff with a significant impact on pilots and flight assistants.

Average staff

2006	Category	Jan-Sep 07	Jan-Sep 06	Change 09.07/09.06
11,6	Managers	10,9	11,5	-0,5
182,7	Office workers	187,8	179,5	8,3
194,3	**Total ground staff**	**198,7**	**191,0**	**7,8**
131,6	Pilots	137,8	131,4	6,4
294,4	Flight assistants	359,6	295,4	64,2
426,0	**Total flight staff**	**497,4**	**426,8**	**70,7**
620,3	**Total staff**	**696,2**	**617,7**	**78,4**

The 15.4% increase in material and maintenance costs was substantially the result of the expansion of the fleet and long range operations. The increase was also due to higher catering costs, also as a result of the expansion of the long range business.

Other operating costs and wet lease grew by 34% compared to the previous period, as described below. In the first nine months of 2007 wet lease costs amounted to Euro 7,010 thousand and include the costs for the purchase of seats as envisaged by the commercial agreements with the carrier Livingston, besides the costs deriving from the agreement with the carrier Itali Airlines to meet the higher demand for some medium range routes last August.

Euro/000	**Jan-Sep 07**	**Jan-Sep 06**	**Delta**	**Delta %**
Other operating costs	65.012	53.533	11.479	21,4%
Wet lease	7.010	190	6.820	100,0%
Total operating costs and wet lease	**72.022**	**53.723**	**18.299**	**34,1%**

The growth of the operating costs was driven by the business expansion in the period, the reduction of ACMI operations (operating costs borne by third parties), the increase of specific unit costs (like boarding charges) and the repro pax item that was influenced by the operative problems encountered by the fleet during the year.

This cost item includes almost all charges related to the accident occurred in March, equal to Euro 1.5 million, which were offset by the assessment of the related indemnity.

If said indemnity had not been booked on the income statement for the nine months, the loss of the period would have amounted to Euro 11.9 million and the net shareholders' equity at the end of September to Euro 4.8 million.

The other commercial and corporate costs rose by 9.3% compared to the same period last year. The increases mostly regarded IT costs for operating and sales systems. The costs for operative rentals highlighted the following trend:

2006		**Jan-Sep 07**	**Jan-Sep 06**	**Delta**	**Delta %**
21.481	A320	15.426	16.101	(675)	-4,2%
13.639	A330	19.129	9.913	9.216	93,0%
35.120	**Total**	**34.555**	**26.014**	**8.541**	**32,8%**

The increase of this item was the result of both the long range fleet expansion after the delivery of the fourth A330 in December 2006 and the fifth in March 2007 (then sub-leased to the carrier Air Comet S.A.), which are characterized by higher lease costs compared to the previous ones, and of the suspension of Airbus' grants present in 2006. The cost for medium range aircraft fell because of the favourable exchange rate, which also influenced the long range fleet.

Depreciation and amortization, write-off of non-current assets, other provisions and provisions for risks and charges did not vary significantly between the first nine months of 2007 and 2006. Also, the Company reported a decrease in depreciation and amortization following the completed write-off of some intangibles.

Financial charges declined, mainly as a result of lower charges on exchange rates.

The item "Profit/(loss) on sales of assets" includes all income components, also tax components, accrued in 2007 and in the period before the sale of the A319 leasing, the economic effect of the disposal as well as the ongoing activities on behalf of the company Alba, to which the contract was assigned. In the comparable periods the item is comprised of the costs and revenue generated by the corresponding business unit. The overall effect of the asset disposal, inclusive of the operating result and the gains on the disposal, is equal to Euro -238 thousand.

2006	*Euro/000*	Jan-Sep 07 IAS	Jan-Sep 06 IAS	Delta
7.104	Revenue from sales and services	1.889	3.168	(1.279)
2.534	Other revenue	1.685	2.268	(583)
(3.107)	Direct commercial expenses	(42)	(2.211)	2.169
(3.863)	Jet fuel	(568)	(2.223)	1.656
(2.443)	Staff costs	(767)	(1.340)	573
(1.803)	Materials and maintenance services	(407)	(1.038)	632
(2.350)	Other operating costs and wet lease	(546)	(1.292)	746
(899)	Other commercial and corporate costs	(56)	(466)	410
-	Operative rentals	(946)	-	(946)
(2.152)	Depreciation and amortization	(878)	(1.691)	813
(2.255)	Other provisions	(249)	(8)	(241)
(332)	Provisions for risks and charges	(73)	(70)	-
(2.028)	Financial income/(charges)	(1.093)	(1.526)	433
-	Gains on A319 disposal	2.406	-	2.406
395	Tax charges	(593)	(223)	(370)
(11.200)	**Total result on sales of assets**	**(238)**	**(6.652)**	**6.417**

The tax charges included current tax charges related to IRAP and reversal of tax assets.

3.3.2. Third quarter results

In the third quarter 2007 the long and medium range flight hours increased by 1,180 and 561 units respectively, also due to REPRO hours, which were operated with an aircraft wet leased from the carrier Itali Airlines in August. In the third quarter Eurofly continued to operate flights on behalf of Alba with aircraft A319.

Flight hours by SBU
Flight hours

2006		III Q 07	III Q 06	Change	% Change
24.801	**Medium Range**	8.634	8.073	561	6,9%
16.129	**Long Range**	5.728	4.548	1.180	26,0%
3.119	**All Business**	42	1.286	-1.244	-96,8%
44.048	**Total flight hours**	**14.404**	**13.907**	**497**	**3,6%**

The performance of revenue from sales and services reflected the flight hours' trend with a striking increase in long range due to the greater offer compared to the same quarter last year. Conversely, medium range reported a smaller growth.

Revenue from sales and services
Euro/000

	III Q 07	III Q 06	Change	% Change
Medium Range	53.757	50.920	2.837	5,57%
Long Range	54.769	46.175	8.594	18,61%
Total	**108.525**	**97.095**	**11.430**	**11,8%**

The high growth of the other revenue between the third quarter 2006 and the third quarter 2007 was due to the lease of the A330 to the Spanish carrier Air Comet S.A..
The table below shows the EBITDAR and EBITDA of the period, in order to better understand the trend of the third quarter.

Euro / 000	III Q 07	III Q 06	Change	% Change
EBITDAR	20.705	20.330	375	1,8%
Percentage on revenue	*19,1%*	*20,9%*		
EBITDA	8.827	11.780	-2.954	-25,1%
Percentage on revenue	*8,1%*	*12,1%*		

In the third quarter 2007 the EBITDAR amounted to Euro 20,705 thousand. The performance was affected by the events already described in the nine months result section, in particular the start up of new long range routes. The operating costs and wet lease were decidedly higher compared to the last fiscal year, both as a consequence of the airplane leased from Itali Airlines in August and the medium range repro pax costs, besides the costs related to the long range agreement with Livingston. Staff costs remained unchanged in the third quarter of 2007, despite the hiring of new employees resulting from the fleet expansion, thanks to the solidarity agreement effective from last April. The EBITDA came in at Euro 8,827 thousand, worse than the third quarter of 2006 because of higher leasing costs connected with the fleet expansion.

The quarter's operating result was consequently positive for Euro 7,172 thousand with a net result of Euro 5,863 thousand.

3.4. Balance sheet and financial overview

3.4.1. Cash flow statement

As highlighted by the cash flow statement, which indirectly shows the change in net cash and equivalents in the fiscal year, the first months of 2007 absorbed cash for an amount equal to Euro 4,132 thousand. The components of the cash flow of the period is analysed as follows:

- Cash flow from operations

The cash flow from operations was negative for Euro 21,809 thousand in the period, mainly due to the Euro 8,665 thousand loss of the period before taxes and the Euro 11,236 thousand increase in trade receivables and other receivables. The receivables' growth was principally the result of the expansion of the scheduled operations, the posting of damage receivable related to the aforementioned accident with the supplier and of receivables from lessors for maintenance works covered by maintenance reserves, besides the Euro 5,382 thousand reduction of trade payables and other liabilities, inclusive of the current funds, due to the increased supplier payments following the settlement of past accounts and the currently more stringent payment terms. On the other side, depreciation and amortization had a positive effect of Euro 2,894 thousand.

- Cash flow from investments

The cash flow from investments was positive for Euro 16,061 thousand, mostly as a result of the assignment of the A319 leasing agreement, whose main benefits on the financial cash flow derive from the withdrawal of the security deposit worth Euro 8,000 thousand and the cash in of disposal proceeds for Euro 9,486 thousand.

- Cash flow from financial activities

The cash flow from financial activities was positive for Euro 1,616 thousand in the period, resulting from the net effect of the payment of the mortgage loan instalments and the A319 financial lease as well as from the withdrawal of a security deposit included in current assets that served as a guarantee for a supplier.

3.4.2. Net financial position

The following table shows the evolution of net debt, equal to Euro 16,545 thousand at 30th September 2007 versus Euro 27,857 thousand at the end of December 2006.

Jan-Sep 06		Euro/000			Jan-Sep 07	2006	Change
21.418	A.	Cash	(1)		2.205	5.149	(2.944)
17.315	B.	Derivative contracts included in cash	(1)		-	-	-
38.733	**C.**	**Net cash and equivalents (A) + (B)**			**2.205**	**5.149**	**(2.944)**
5.000	**D.**	**Current financial receivables**			-	**3.000**	**(3.000)**
8.908	E.	Current bank debt	(1)	(2)	10.461	9.273	1.188
17.106	F.	Derivative contracts included in bank debt	(1)	(2)	-	-	-
2.303	G.	Current portion of non-current debt			503	2.312	(1.809)
-	H.	Current financial debt			4.500	4.500	-
28.316	**I.**	**Current financial debt (E) + (F) + (G) + (H)**			**15.464**	**16.085**	**(621)**
(15.417)	**J.**	**Net current financial debt (I) - (C) - (D)**			**13.259**	**7.936**	**5.323**
8.000	**K.**	**Non-current financial receivables**			-	**8.000**	**(8.000)**
3.767	L.	Non-current bank debt			3.286	3.783	(497)
-	M.	Bonds issued			-	-	-
29.103	N.	Other non-current debt			-	24.138	(24.138)
32.870	**O.**	**Non-current financial debt (L) + (M) + (N)**			**3.286**	**27.921**	**(24.635)**
9.453	**P.**	**Net financial debt (J) - (K) + (O)**			**16.545**	**27.857**	**(11.312)**
		Reconciliation with cash flow and balance sheet tables:					
12.720	(1)	Net cash and equivalents			(8.256)	(4.124)	(4.132)
26.013	(2)	Bank debt			10.461	9.273	1.188

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

<u>C – Net cash and equivalents</u>

As of 30th September 2007 the net cash and equivalents were equal to Euro 2,205 thousand and comprised of credit balances of bank accounts.

<u>D – Current financial receivables</u>

At 31st December 2006 the current financial receivables amounted to Euro 3,000 thousand and were principally related to the pledge on amounts deposited with a credit institute that guaranteed supplier repayment plans. Following the settlement of the repayment plans, the amounts were withdrawn in the third quarter of 2007.

I – Current financial liabilities

The current financial liabilities amounted to Euro 15,464 thousand. These include: i) bank debt for Euro 10,461 thousand related to bank overdrafts; ii) the current portion of non-current debt worth Euro 503 thousand; iii) debt for shareholders' loan towards Meridiana worth Euro 4.500 thousand.

K – Non current financial receivables

Following the transfer of the leasing agreement, in June 2007 the Company redeemed the Euro 8,000 thousand restricted security deposit with Unicredit, which guaranteed the issuing of a credit line on the leasing stipulated with Locat S.p.A. in May 2005 for the purchase of the A319 CJ.

O – Non current financial debt

The non-current financial debt is comprised of non-current bank debt, worth Euro 3,286 thousand, represented by the portion of the mortgage loan contracted with Banca Profilo beyond 12 months.

3.5. Non recurring significant events and operations

The following table shows and analyses non-recurring significant events, whose consequences affected the economic and financial results of the period.

Euro/000

Description	Net equity		Result of the period		Debt		Cash flow (*)	
	Abs. val.	%	Abs. val.	%	Abs. val.	%	Abs. val.	%
Balance sheet values (A)	**6.267**		**-10.435**		**16.545**		**-8.256**	
Assignment of A319 leasing	238	3,8%	238	-2,3%	-33.719	-203,8%	-15.761	190,9%
Solidarity agreement	-3.357	-53,6%	-3.357	32,2%	-	-	-	-
Tax charges due to events above	*1.019*	16,3%	*1.019*	-9,8%		0,0%		0,0%
Total non recurring operations (B)	**-2.100**	**-33,5%**	**-2.100**	**20,1%**	**-33.719**	**-203,8%**	**-15.761**	**190,9%**
Gross imputed balance sheet value (A+B)	**4.168**		**-12.535**		**-17.174**		**-24.017**	

(*) from increase or decrease of net cash and equivalents in the period

Besides the elements summarized in the table above and analysed in the following paragraph, it should be noted that the nine months' result was influenced by the start-up of the new long range routes and the April operative problems.

3.5.1. Sale of the A319 leasing and shutdown of the All Business BU

On 25th June 2007 the Company signed with Alba – Servizi Aerotrasporti S.p.A. (a company not correlated with Eurofly) the final deed of assignment of the leasing agreement stipulated with

Locat S.p.A. to acquire the Airbus A319 – 115/CJ, previously used by the All Business BU to operate the Milan – New York flights and VIP charter flights.

The sale of this asset, inclusive of the operating result and the gain on the disposal, had an overall effect worth Euro -238 thousand on the result of the period, Euro 33.7 million on net debt and Euro 15.8 million on cash.

3.5.2. Solidarity agreement

As described in the Staff paragraph, the solidarity agreement, which is one of the alternative measures to collective dismissal provided for by law no. 223/91, has been applied to all employee categories for a period of 24 months starting from 1st April 2007. The positive effect on the result of the period was of approx. Euro 3.4 million, which were however not included in cash, since the Company has not cashed them yet.

3.6. <u>Segment reporting</u>

According to the provisions of IAS 14, Eurofly supplies segment information split in medium and long range, because the risks and rewards of the enterprise are significantly affected by the differences between the two businesses. 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 wet leased from third parties. The Company's main destinations 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 weaker seasonal effects because of its destinations. In addition, the scheduled operations to New York (from May to November in 2006) further offset the winter peak of charter connections for exotic "beach" destinations. These routes are operated with the Company's A330 fleet.

The following table shows the breakdown of revenues and results by medium and long range.

	Medium Range				Long Range				Total			
Euro/000	Jan-Sep 07	Jan-Sep 06	*Change*	*% Change*	Jan-Sep 07	Jan-Sep 06	*Change*	*% Change*	Jan-Sep 07	Jan-Sep 06	*Change*	*% Change*
Total revenue	**117.042**	**117.492**	**-450**	*-0,4%*	**145.315**	**113.440**	**31.876**	*28,1%*	**262.357**	**230.932**	**31.426**	*13,6%*
Direct commercial expenses	1.994	961	1.033	*107,4%*	3.940	2.264	1.675	*74,0%*	5.934	3.226	2.708	*84,0%*
Revenue net of direct commercial expenses	**115.047**	**116.530**	**-1.483**	*-1,3%*	**141.376**	**111.175**	**30.200**	*27,2%*	**256.423**	**227.706**	**28.717**	*12,6%*
Jet fuel	28.565	29.091	-525	*-1,8%*	46.079	39.585	6.495	*16,4%*	74.644	68.675	5.969	*8,7%*
Staff costs	13.440	16.174	-2.734	*-16,9%*	16.196	12.928	3.268	*25,3%*	29.637	29.102	534	*1,8%*
Materials and maintenance services	14.285	14.247	38	*0,3%*	20.192	15.626	4.566	*29,2%*	34.477	29.873	4.604	*15,4%*
Other operating costs and wet lease	35.722	31.532	4.190	*13,3%*	36.300	22.191	14.109	*63,6%*	72.022	53.723	18.299	*34,1%*
Other commercial and corporate costs	6.676	6.547	129	*2,0%*	6.883	5.863	1.021	*17,4%*	13.559	12.409	1.150	*9,3%*
Subtotal costs	**98.688**	**97.590**	**1.098**	*1,1%*	**125.651**	**96.193**	**29.458**	*30,6%*	**224.339**	**193.783**	**30.556**	*15,8%*
EBITDAR	**16.359**	**18.940**	**-2.581**	*-13,6%*	**15.724**	**14.982**	**742**	*5,0%*	**32.084**	**33.922**	**-1.838**	*-5,4%*
Operative rentals	15.426	16.101	-675	*-4,2%*	19.129	9.913	9.216	*93,0%*	34.555	26.014	8.541	*32,8%*
EBITDA	**934**	**2.839**	**-1.906**	*-67,1%*	**-3.404**	**5.069**	**-8.474**	*-167,2%*	**-2.471**	**7.909**	**-10.380**	*-131,2%*
Depreciation and amortization	978	1.009	-31	-	1.916	2.057	-142	*-6,9%*	2.894	3.066	-172	*-5,6%*
Other provisions	1.321	793	528	*66,6%*	220	686	-466	*-67,9%*	1.541	1.479	62	*4,2%*
Provisions for risks and charges	72	39	34	-	507	620	-113	*-18,3%*	579	659	-79	*-12,1%*
EBIT (operating result)	**-1.438**	**999**	**-2.437**	*-244,0%*	**-6.047**	**1.706**	**-7.753**	*-454,4%*	**-7.485**	**2.705**	**-10.190**	*-376,8%*
Financial (income)/charges									1.180	2.336	-1.156	*-49,5%*
Pre-tax profit									**-8.665**	**369**	**-9.034**	*-2451,0%*
Tax charges									-1.531	-281	-1.250	*445,2%*
Profit/(loss) from sales of assets									-238	-6.653	6.414	*-96,4%*
Result of the period									**-10.435**	**-6.565**	**-3.870**	*58,9%*

3.7. <u>Transactions with related parties</u>

IAS 24 defines Meridiana as a related party, since it can greatly influence Eurofly's operating and financial decisions. Meridiana is Eurofly's reference shareholder with a stake equal to 29.95%. It should be noted that Eurofly is subject to management and coordination by Meridiana. The following table summarizes the financial and economic transactions with Meridiana.

€/000

Description	Total Jan-Sep 07	Related parties	
		Absolute value	%
Trade receivables	68.133	1.211	1,8%
Non-current financial assets	0	0	-
Current financial assets	11.144	0	-
Trade payables	84.793	188	0,2%
Non-current financial liabilities	3.286	0	-
Current financial liabilities	15.464	4.500	29,1%

Description	Total Jan-Sep 07	Related parties	
		Absolute value	%
Total revenue	262.357	2.599	1,0%
Total costs	269.842	1.102	0,4%
Financial (income)/charges	1.180	0	-

Description	Total Jan-Sep 07	Related parties	
		Absolute value	%
Cash flow from operations	(21.809)	-1.147	5,3%
Cash flow from investments	16.061	-	-
Cash flow from financial activities	1.616	-	-

3.8. <u>Main events occurred after the end of the period and predictable development of operations</u>

3.8.1. Exemption from tender offer by Consob

After completing the investigation and verifying the formal conditions provided for by art. 49, paragraph 1, point b) of the Issuers' Rules, on 3rd October Consob declared Meridiana exempted from the mandatory tender offer envisaged by art. 106 of the Unified Finance Law (TUF), which would have followed Meridiana's purchases of Eurofly shares, as required by the subscription of

the two capital increases. In particular, Consob pointed out that Meridiana may already pass the 30% threshold level immediately after the cash capital increase, provided that the Eurofly shareholders do not exercise their option rights and these rights are not sold and exercised on the market. In this scenario, the further increase in Meridiana's stake resulting from the second capital increase may lead Meridiana to pass the 3% margin fixed for the so-called "consolidation tender offer". Should the outcome of the cash capital increase leave the Company's current shareholding structure unchanged, the passing of the 30% threshold would result in the capital increase through contribution in kind.
The exemption from rescue therefore includes both the participation changes deriving from the subscription of the cash capital increase (and also highlights that the potential passing of the 30% threshold level as a result of the pro-quota subscription of the cash capital increase open to all shareholders by Meridiana would in any case result in the so-called exemption from involuntary trespassing as per art. 49, paragraph 1, point d) of the Issuers' Rules) and the participation increase following the reserved capital increase (if it causes the passing of the threshold envisaged by art. 106, paragraph 1 or of other threshold relevant for a so-called "consolidation tender offer" as per art. 46 of the Issuers' Rules).

3.8.2. Actions on the medium range aircraft fleet

The Company's Board of Directors approved the letter of intent regarding the operative leasing on an A320. The leasing will last 6 years starting from 15th March 2008 and will replace the rental of an A320 expiring in October 2008.
The Company also extended the leases of two other A320 currently in fleet expiring in April and May 2008 respectively, for a period of 5 years.

3.8.3. Revision of the Industrial Plan

On 27th October the Board of Directors reviewed its 2007-2009 industrial plan approved on 28th June 2007 and modified on 12th September 2007, stretching out its forecasts to fiscal year 2010.
The main reasons behind the revision of the industrial plan were:

- The suspension of the Rome – Delhi flight following an analysis of results, costs and the necessary extension of the start-up, in September. The 07/08 winter season will consequently reflect a decline in the offered capacity due to the reduced use of the fourth A330 aircraft that was employed on said route.
- The economic results of the flights to New York, which, despite better than in 2006, were below expectations especially due to lower average revenue. This contraction was also the

result of the weaker dollar/euro exchange rate that penalizes the US market, which accounts for 70% of the revenue from these routes.

- Deviations from expectations due to the higher costs connected with macro-economic and economic variables beyond the Company's control.

The reviewed Plan confirms the previous strategic guidelines for Eurofly's restructuring and repositioning from charter carrier to mixed airline (both scheduled and charter), which should be mainly achieved through a strong integration with Meridiana and important goals, such as cost optimization, service quality improvement and revenue growth.

The projects for the Company's restructuring, which have been implemented since early 2007, also include company reorganizations with two main areas of interest:

1) Development of commercial synergies with Meridiana through the scheduled flight integration, web site unification, development of the company SameItaly S.r.l. dedicated to Eurofly's and Meridiana's domestic sales and development of Wokita S.r.l. as innovative platform for the online sale of tourist products.

2) Increase of company efficiency and productivity through network concentration on the Milan airports (MXP and LIN), streamlining of aircraft and crew rotation, restructuring and improvement of catering services, higher control of airport operations in support of the final customer and reorganization of maintenance.

In long range the Company will continue the start-up (launched in January 2007) of the fourth A330, also given the potential opportunities deriving from Alitalia's restructuring and the likely reorganization of the flight offer from and to Northern Italy. In particular, the Company is planning to increase the number of flights to New York by extending the Rome-New York connection to winter and signing a code sharing agreement with Meridiana in view of raising direct sales to final clients and travel bureaus.

In medium range the most important element is the gradual increase of the capacity employed in both domestic (North-South flights from Milan) and international (from Southern Italy to European capitals) scheduled flights operated in code sharing with Meridiana.

Currently, the Company's organization is undergoing changes through the replacement of key managers, both in the commercial and operative areas.

Considering the higher actual losses incurred as at 30th September 2007 and the higher losses expected in the current fiscal year, the Plan re-defined the Company's approved recapitalization plan and envisaged:

- a first capital increase, divisible in more tranches, offered as an option to the shareholders, of which during the extraordinary general meeting called on 6th, 8th and 9th November 2007, up to

Euro 15 million, is open to all shareholders. A second capital increase, divisible, offered as an option to the shareholders, up to Euro 40,000,000, according to the decisions that will be taken after the first cash capital increase mentioned above.

- A capital increase through contribution in kind up to Euro 12 million reserved for the partner Meridiana as per art. 2441, paragraph 4, 1st sentence of the Italian Civil Code, which will transfer a 50% stake (i) in the 100% subsidiary Wokita S.r.l. and (ii) in the company SameItaly S.r.l., to which Meridiana's domestic sales management division has already been transferred. Please note that the subscription of this capital increase by Meridiana was subject to the granting of the so-called "exemption from rescue" by Consob on 3rd October 2007.

Eurofly's partner Meridiana guaranteed its subscription of the three aforementioned transactions (pro quota, where applicable) and, in respect of the first, cash capital increase, also through compensation of its credit originated from the shareholders' loan with subscription debt.

3.8.4. Calling of the General Meetings on capital increases

As mentioned in paragraph 3.8.3, the Company is calling the following extraordinary general meetings:

- Extraordinary shareholders' meeting on 29th and 30th November (first and second call) and 3rd December 2007 (third call) to deliberate on the second capital increase for a maximum amount of Euro 40 million.
- Extraordinary shareholders' meeting on 18th (first call), 19th and 20th February 2008 (second and third call) to deliberate on the capital increase through contribution in kind for a maximum amount of Euro 12 million without option right, as per art. 2441, par. 4 of the Italian Civil Code, for the transfer of shareholdings by Meridiana S.p.A..

3.8.5. Resignation of the three Directors

The Board of Directors took note of the resignation – handed in at the date of this report - of President Sandro Capotosti, Director Laura Sanvito – both due to disagreements on the Industrial Plan proposed by the top management and on the Company's recapitalization included in the Plan – and Director Ruggeromassimo Jannuzzelli. Mr Capotosti, Mrs Sanvito and Mr Jannuzzelli had no operative proxies and were not independent directors.
As a result, the Board co-opted two directors, whose appointment shall be approved by the ordinary meeting called on 29th and 30th November and 3rd December 2007. More specifically, the Board nominated Mr Alessandro Giusti and Mr Antonio Romani, who have already accepted the

mandate and stated to be in possession of the requirements for independence. Consequently, the Board is currently comprised of eight directors, of which four independent.

3.8.6. Predictable development of operations

Following the revisions of the industrial plan, the fiscal year 2007 is expected to end with a large loss (estimated at approx. Euro 24 million). The fiscal year 2008 should also close with an operating loss, though significantly smaller compared to the previous fiscal year. A positive operating result is however awaited in 2009 with a sharp growth in 2010, when the Company should finally be in the black.