eurofly

Report on operations in the first quarter of 2007

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 – Milan Company Register No. 05763070017 -
VAT No. 03184630964 – Tax Code No. 05763070017

SUMMARY

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 at March 31st 2007 has been prepared in accordance with the Italian National Commission for Listed Companies and the Stock Exchange (CONSOB) Rule No. 11971 and subsequent modifications, 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 prepared according to the IAS/IFRSs, particularly with IAS 34.

In this Report, the period's income statement and balance sheet figures are compared with those of the same period of the previous fiscal year. The net financial position and the balance sheet items at March 31st 2007 are compared with the corresponding full-year figures at December 31st 2006.

The accounting principles, valuation criteria and estimates used by the Company to draw up the quarterly report at March 31st 2007 are the same as those described in the report on operations at December 31st 2006, to which reference should be made for more details.

We are presenting the main income statement/balance sheet data and business indicators for the first quarter of 2007 compared with those of the same period in 2006 and fiscal year 2006.

Unless otherwise specified, Euro/000

2006	Significant information	I quarter 07	I quarter 06	Change	% change
44.048	Total flight hours	10.814	9.221	1.593	17,3%
1.494.258	Passengers carried	370.406	351.001	19.405	5,5%
141	Available fleet rented and in wet lease (machine months)	39	33	6	18,2%
5.318	Productivity Long Range fleet (flight hours)	5.386	5.266	120	2,3%
3.097	Productivity Medium Range fleet (flight hours)	2.451	2.636	(185)	-7,0%
2006	**Summary Income Statement**	**I quarter 07**	**I quarter 06**	**Change**	**% change**
289.835	Revenue from sales and services	73.874	61.353	12.521	20,4%
296.693	Total revenue	74.327	62.870	11.458	18,2%
25.644	EBITDAR (1)	5.991	7.421	(1.430)	-19,3%
8,8%	Percentage on revenue from sales and services	8,1%	12,1%		
(9.476)	EBITDA (2)	(4.578)	(1.426)	(3.152)	-221,1%
-3,3%	Percentage on revenue from sales and services	-6,2%	-2,3%		
(25.940)	EBIT (3)	(6.187)	(3.446)	(2.741)	-79,5%
-8,9%	Percentage on revenue from sales and services	-8,4%	-5,6%		
(29.139)	Result of the year	(7.429)	(4.392)	(3.037)	-69,1%
31.03.06	**Summary Balance Sheet**	**31.03.07**	**31.12.06**	**Change**	**% change**
90.178	Total fixed assets	84.698	85.263	(565)	-0,7%
78.889	Total current assets	74.480	74.773	(293)	-0,4%
169.067	Total assets	159.177	160.036	(859)	-0,5%
41.464	Net equity	9.274	16.702	(7.429)	-44,5%
41.938	Total non current liabilities	36.826	36.690	136	0,4%
85.665	Total current liabilities	113.078	106.644	6.434	6,0%
169.067	Total net equity and liabilities	159.177	160.036	(859)	-0,5%
2006	**Investments**	**I quarter 07**	**I quarter 06**	**Change**	**% change**
3.168	Investments	1.019	704	315	44,8%
31.03.06	**Other financial data**	**31.03.07**	**31.12.06**	**Change**	**% change**
(10.234)	Net financial position (4)	(31.412)	(27.857)	(3.555)	-12,8%
18.180	Net cash and equivalents (short-term net financial debt)	(8.368)	(4.124)	(4.244)	-102,9%
4.103	Cash flows of the period	(4.244)	(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 – 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 loans and debt towards leasing companies.

1. OPERATIONS AND SCENARIO

1.1. Operations and operating activities

1.1.1. Aircraft fleet

The Medium Range aircraft fleet – consisting of eight A320 airplanes – did not change between the first quarter of 2007 and the same period in 2006. Conversely, the Long Range fleet grew by an airplane when the I – EEZL - the fourth A330 - was delivered in December 2006.

The Company entered a seven-year operative rental for the fifth A330 aircraft at the end of March 2007. According to the restructuring actions approved by the Board of Directors on January 23rd 2007 described below, the aircraft was sub-leased in order to limit the risks and the investments required by the 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 said A330 in dry lease for a year starting from March 2007.

The table below shows Eurofly's fleet between January 2006 and March 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
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 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 five A330 are also under operative rental, as suggested by the following table:

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

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

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 provided for an advance payment of Euro 4.870 thousand to the supplier on the date of the agreement – already paid - plus two instalments up to a total amount of approximately 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 above-mentioned airplane (A350-XWB) with more advanced technological and aerodynamic features, a larger fuselage section and higher cruising speed. The delivery time was however postponed by 24 months from the initial deadline. As a result, Eurofly notified Airbus of the suspension of the advance payments initially planned until a new agreement is defined.

1.1.2. *Commercial activity*

The demand for flights - mainly leisure international flights - typically shows seasonal trends including contraction phases during the year. More specifically, Eurofly normally reports a flight peak in the third quarter of the year, while business decreases in the second and fourth quarter. In the first quarter the Medium Range activities are smaller compared to the other months of the year, because of the climatic conditions in the regions reached by these flights. On the other hand, the leisure Long Range business towards exotic destinations is quite lively in winter.

In the first quarter of 2007 the main goals of the commercial activity were:

- to implement the commercial and code sharing agreement with Livingston Aviation Group (LAG) for leisure Long Range destinations
- to launch new Long Range routes on Delhi and Mauritius, which absorbed most of the additional capacity generated by the entry in fleet of the fourth A330 in December 2006
- to monitor the recovery of the Egyptian market; to start and develop business on other destinations included in the Medium Range Business Unit

In particular, the agreement with LAG allowed Eurofly to focus on destinations on the Indian Ocean, where the frequency of flights to the Maldives and Kenya/Zanzibar has increased dramatically, thus confirming Eurofly as the leader carrier on these routes. Conversely, the Caribbean destinations have been mainly managed by selling, as marketing carrier[1], the destinations operated by LAG.

Eurofly has inaugurated a twice-a-week connection with the island of Mauritius, after the local government granted a temporary and unilateral derogation to Eurofly, allowing it to operate with special charter rights. In the first months of the year the bilateral agreement between Italy and Mauritius was modified by extending 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 approval and will be able to operate up to three scheduled flights a week on that route. As a result, Eurofly obtained a good positioning in this important leisure market, which reported a >60% increase of Italian tourists in 2006.

The Rome – Delhi flight – the only direct connection between Rome and India – was started on January 15th with two flights a week. The commercial launch occurred both in Italy and India with activities for operators and travel bureaus and an advertising campaign addressed to the final customers.

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

The results of the first two months met the expectations, while March was slightly disappointing. The huge potential of this market was however confirmed, as the flight demand is increasing in Italy and, mostly, in India. The Indian market however turned out to be particularly complex, as passengers are used to stopovers and are extremely sensitive to prices, hence Eurofly's flights from/to Rome/Delhi are also facing the fierce competition of European and Middle Eastern network carriers. Given this strong complexity, Eurofly is trying to meet the requirements to acquire a share of passengers heading to other destinations in addition to point to point traffic. More specifically, Eurofly is developing a commercial action to capture part of the important traffic between India and the New York area, which could be managed through the connection between the Rome – Delhi flight and Eurofly's Rome – New York flight, while they are finalizing commercial agreements with Indian and European carriers.

The Medium Range business is reporting good results towards the Red Sea and Egypt in general. Eurofly was allowed to use its aircraft based in Sharm El Sheikh for domestic midweek-flights that satisfy the TOs and Italian tourists' demand for internal tours.

Eurofly furthermore reported an expansion of the activities on Tenerife (also subject to yearly planning) and started test weekend flights from Milano Malpensa to Naples and Bari to profit by commuters' traffic. Both initiatives are aimed at raising aircraft productivity and promoting alternative markets to the Red Sea.

As to the All Business BU, the Milan – New York connection operated with the A319 has been suspended at the end of January 2007, while the charter operations (as per agreements already closed) continued, especially to the Maldives.

Statistical data

Flight hours by type
In flight hours

2006		I quarter 07	I quarter 06	Change	% change
42.321	**Block hours (a)**	10.458	8.335	2.122	25,46%
1.681	**ACMI (b)**	285	885	(601)	-67,83%
46	**REPRO (c)**	71	0	71	-
44.048	**Total flight hours**	**10.814**	**9.221**	**1.593**	**17,28%**

(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 by SBU
In flight hours

2005		I quarter 07	I quarter 06	Change	% change
24.801	**Medium Range**	4.905	5.271	(366)	-6,94%
16.129	**Long Range**	5.455	3.950	1.505	38,10%
3.119	**All Business**	454	0	454	-
44.048	**Total flight hours**	**10.814**	**9.221**	**1.593**	**17,28%**

The amount of flight hours in the first quarter of 2007 grew significantly compared to the same period in 2006. Block hours rose by more than 25% versus a 67% decline of ACMI hours[2].

The overall increase of flight hours has been strongly influenced by the expansion of the Long Range fleet and resulting broadening of the offer, which sustained the increase of the flight hours in the related Business Unit. Despite this positive trend, Medium Range hours declined because of the lower amount of airplanes leased to third parties in ACMI mode, which was particularly strong in the first part of the quarter compared to the second, thanks to the recovery of the Egyptian market. The All Business BU generated a total of 454 flight hours in the period under analysis, both through the Milan – New York connection – suspended at the end of January – and charter flights.

Fleet productivity
Annualized flight

2006		I quarter 07	I quarter 06	Change	% change
3.097	**Medium Range**	2.451	2.636	(185)	-7,02%
5.318	**Long Range**	5.386	5.266	120	2,28%

The analysis of the fleet productivity showed a decline of Medium Range, which registered lower flight hours despite the number of airplanes remaining the same. The Long Range fleet productivity however remained substantially stable across the two quarters confirming the productivity level of the new A330.

Carried passengers

2006		I quarter 07	I quarter 06	Change	% change
1.494.258	**Total passengers**	**370.406**	**351.001**	**19.405**	**5,53%**
1.376.131	Eurofly	356.920	291.186	65.734	22,57%
107.127	Other carriers	13.486	59.815	(46.329)	-77,45%
1.048.849	Medium Range	211.832	230.896	(19.064)	-8,26%
439.571	Long Range	156.514	120.105	36.409	30,31%
5.838	All Business	2.060	0	2.060	-

The amount of passengers carried by Eurofly grew by more than 22% thanks to Long Range, which rose by over 30%. This positive performance was the result of the expansion of the fleet and of the offer of Long Range flights compared to the previous quarter. Conversely, Medium Range reported a decline of carried passengers, in line with the contraction of flight hours.

Carried passengers - New Delhi leisure scheduled flights

	I quarter 07	I quarter 06
Carried passengers	6.417	0
Offered seats	16.356	0
Load factor	39,2%	-

Carried passengers - Italy scheduled flights

	I quarter 07	I quarter 06
Carried passengers	8.228	0
Offered seats	17.620	0
Load factor	46,2%	-

In the first quarter of 2007 the scheduled activities are represented by the new Rome – Delhi connection and the domestic flights, which include the Milano Malpensa – Naples/Bari connection.

[2] ACMI: type of contract to lease aircraft from or to third parties, whose rent is inclusive of aircraft, crew, maintenance and insurance costs.

The Rome – Delhi flight, started in mid January, recorded a load factor close to 40% versus a 46% average of the domestic routes.

1.1.3. 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 injuring its profitability and cash generation capacity.

As a consequence, the January 23rd 2007 Board of Directors decided to immediately suspend all activities that generated significant losses and not expected to reach breakeven within an acceptable period of time.

The actions implemented so far include the suspension of the Milan – New York flight operated with the A319, as already analysed in the Commercial Activity paragraph, and the sub-lease of the fifth A330, as already mentioned in the Aircraft Fleet paragraph.

On January 30th 2007 Eurofly launched a collective dismissal through notice to the trade unions and the Ministry of Labour. Such a risk was however avoided through an agreement reached on March 15th 2007 that provided for the application of the solidarity contract described in the Staff paragraph.

1.1.4. Damage to aircraft in Malpensa

On March 2nd a door of the A330 I-EEZA airplane was damaged during catering restocking at the Milano Malpensa airport. As a result of this event and related problems, the two flights due to leave to the Maldives reported significant delays, as the Company was forced to lease two aircraft in ACMI mode, which left about two days and one day later respectively. This event was the responsibility of third parties; consequently, the direct damage to the aircraft and the other connected damage have been fully charged to the counter-party.

1.2. Staff

As a result of the restructuring actions described 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.

1.3. Macro-economic scenario

In the first quarter of 2007 the European economies continued to grow as in the second half of 2006, while the US experienced a contraction, despite the high growth rates. In this context the price of energy products decreased, as shown in the table below.

Crude oil
US$/barrel

2006	Crude oil	Jan - Mar 07	Jan - Mar 06	%
66,0	WTI-USA	58,1	63,3	-8,2%
65,2	Brent-Europe	57,8	61,8	-6,5%

Source: Energy Information Administration - US Government

The Euro appreciated versus the US dollar both in terms of actual exchange rate between end December 2006 and end March 2007 and of average exchange rate between the first quarter 2006 and the first quarter 2007.

Exchange rate

	Jan - Mar 07	Jan - Mar 06	31/03/07	31/12/06
EUR/USD	1,32	1,20	1,33	1,27

Source: Il Sole 24 Ore

The increase of interest rates was confirmed both in the Euro zone and in the United States.

Interest rate

	Jan - Mar 07	Jan - Mar 06	Mar 07	Jan 07
EURIBOR	3,81	2,60	3,88	3,68
LIBOR	5,36	4,75	5,34	5,36

Source: British Bankers Association

1.4. Industry scenario

In the first quarter of 2007 global air traffic once again reported a sustained growth of carried passengers. According to IATA's periodic report, carried passengers grew by 6,5% compared to the previous year, also given a 6,1% offer expansion and resulting improvement of the average load factor.

Similar data were recorded in Italy as well. According to the Assoaeroporti's statistics, the main Italian airports experienced a higher traffic growth compared to 2006. Passenger traffic increased by 11% in the quarter versus 8,7% for the whole of 2006.

Despite complete data for the first quarter being unavailable, the Italians' favourite holiday destinations are apparently performing quite well, more specifically:

- positive traffic performance to the Red Sea, which appears to have fully recovered from the difficult 2006
- fair growth of Maldives and Mauritius despite the comparison with the record results of the first months of 2006

2. FINANCIAL STATEMENTS

2.1. Balance sheet

31.03.06		31.03.07	31.12.06	Change
58.804	Tangible fixed assets	55.012	55.408	(397)
5.385	Other intangibles	3.718	4.023	(305)
22.532	Other long-term and financial investments	19.467	19.259	208
3.457	Deferred tax assets	6.501	6.573	(72)
90.178	**Total non current assets**	**84.698**	**85.263**	**(566)**
2.087	Stocks	2.943	2.954	(11)
42.893	Trade receivables and other receivables	59.557	55.496	4.061
8.842	Other assets	8.998	11.174	(2.176)
25.067	Cash and cash equivalents	2.982	5.149	(2.167)
78.889	**Total current assets**	**74.480**	**74.773**	**(292)**
169.067	**Total assets**	**159.177**	**160.036**	**(859)**
13.355	Share capital	13.355	13.355	0
32.501	Reserves	3.347	32.486	(29.139)
(4.392)	Profit / (losses)	(7.429)	(29.139)	21.711
41.464	**Total net equity**	**9.274**	**16.702**	**(7.429)**
34.622	Loans	27.198	27.921	(723)
174	Deferred tax liabilities	509	398	112
7.141	Long-term provisions for risks and charges	9.118	8.372	747
41.938	**Total non current liabilities**	**36.826**	**36.690**	**136**
73.354	Trade payables and other liabilities	90.989	86.873	4.116
6.984	Bank debts	11.350	9.273	2.078
1.792	Current portion on long-term loans	2.346	2.312	33
0	Loans	4.500	4.500	0
3.535	Short-term provisions for risks and charges	3.893	3.686	208
85.665	**Total current liabilities**	**113.078**	**106.644**	**6.434**
169.067	**Total net equity and liabilities**	**159.177**	**160.036**	**(859)**

Translated from the original version in Italian

2.2. Income statement

2006	% on revenue	Income statement	I quarter 07	% on revenue	I quarter 06	% on revenue	Change	% change
		Euro/000						
289.835	100,0%	Revenue from sales and services	73.874	100,0%	61.353	100,0%	12.521	20,4%
6.858	2,4%	Other revenue and income	454	0,6%	1.517	2,5%	-1.064	-70,1%
296.693	**102,4%**	**Total revenue**	**74.327**	**100,6%**	**62.870**	**102,5%**	**11.458**	**18,2%**
8.163	2,8%	Direct commercial expenses	1.375	1,9%	682	1,1%	692	101,4%
88.947	30,7%	Jet Fuel	21.364	28,9%	18.763	30,6%	2.601	13,9%
43.390	15,0%	Staff costs	10.848	14,7%	9.514	15,5%	1.334	14,0%
40.357	13,9%	Materials and maintenance services	10.648	14,4%	9.181	15,0%	1.467	16,0%
71.067	24,5%	Other operating costs and wet lease	20.255	27,4%	13.981	22,8%	6.274	44,9%
19.125	6,6%	Other commercial and corporate costs	3.846	5,2%	3.327	5,4%	519	15,6%
35.120	12,1%	Operative rentals	10.569	14,3%	8.847	14,4%	1.722	19,5%
6.260	2,2%	Depreciation and amortization	1.376	1,9%	1.622	2,6%	-247	-15,2%
2.465	0,9%	Fixed asset write-off	0	0,0%	0	0,0%	0	0,0%
5.649	1,9%	Other provisions	0	0,0%	154	0,3%	-154	100,0%
2.090	0,7%	Provisions for risks and charges	233	0,3%	244	0,4%	-11	-4,4%
322.633	**111,3%**	**Total costs**	**80.514**	**109,0%**	**66.316**	**108,1%**	**14.198**	**21,4%**
(25.940)	**-8,9%**	**Operating results**	**(6.187)**	**-8,4%**	**(3.446)**	**-5,6%**	**(2.741)**	**79,5%**
5.322	1,8%	Financial income / (charges)	849	1,1%	1.176	1,9%	(327)	-27,8%
0	0,0%		0	0,0%	0	0,0%	0	0,0%
(31.263)	**-10,8%**	**Pre-tax profit**	**(7.036)**	**-9,5%**	**(4.622)**	**-7,5%**	**(2.414)**	**52,2%**
(2.123)	-0,7%	Tax charges	393	0,5%	(230)	-0,4%	623	-271,0%
0	0,0%	(Profit)/Loss on sales of assets	0	0,0%	0	0,0%	0	0,0%
(29.139)	**-10,1%**	**Net profit/(Loss)**	**(7.429)**	**-10,1%**	**(4.392)**	**-7,2%**	**(3.037)**	**69,1%**

Translated from the original version in Italian

2.3. Statements of changes in equity

Amounts in Euro/000	Share capital	Share premium reserve	Legal reserve	Statutory reserve	Losses carried forward	Result of the year	Total
Net equity as of December 31st 2006	**13.355**	**31.102**	**478**	**3.681**	**(2.775)**	**(29.139)**	**16.702**
Allocation of 2006 result					(29.139)	29.139	0
Losses carried forward coverage		(28.233)		(3.681)	31.914		0
Loss of the fiscal year					0	(7.429)	(7.429)
Net equity as of March 31st 2007	**13.355**	**2.869**	**478**	**0**	**0**	**(7.429)**	**9.273**

Translated from the original version in Italian

2.4. Cash flow statement

2006	CASH FLOW STATEMENT €/000	I quarter 07	I quarter 06
14.077	**CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE PERIOD**	**(4.124)**	**14.077**
(31.263)	Pre tax loss	(7.036)	(4.622)
	Adjustment :		
6.260	- Depreciation	1.376	1.622
2.336	- (Gain) /Loss on exchange rate due to operations in foreign currency	49	506
2.986	- Other financial charges	800	670
(9.422)	Change in trade receivables and other receivables	(1.886)	657
(814)	Change in stock	11	53
6.282	Change in trade payables and other liabilities	4.709	(7.272)
(3.809)	Interest and other financial charges paid	(872)	(907)
(1.933)	Taxes paid	-	-
(1.441)	Realized gain / (loss) on exchange rate due to operations in foreign currency	1.746	(1.299)
(895)	Unrealized gain / (loss) on echange rate due to operations in foreign currency	(1.795)	793
-	Gains from fixed asset disposals	-	-
2.465	Write-down of fixed assets	-	-
496	Net variation of staff leaving indemnity	152	162
(28.751)	**CASH FLOWS FROM OPERATIONS**	**(2.746)**	**(9.636)**
-	Investments in fixed assets:	-	-
(659)	* Intangible	(53)	(592)
(1.952)	* Tangible	(620)	(77)
(506)	* Financial	(346)	(35)
822	Collected interests	72	237
4.984	Sales value of fixed assets	138	1.675
2.688	**CASH FLOWS FROM/(FOR) DISPOSALS/(INVESTMENTS) IN FIXED ASSETS**	**(809)**	**1.208**
(3.000)	Bank time deposit included in current assets	-	-
10.841	Sale of capitalization contracts	-	10.841
(486)	Payment of loan instalments	(243)	(243)
(1.857)	Payment of A319 financial loan installments	(446)	(446)
5.497	**CASH FLOWS FROM FINANCIAL ACTIVITY**	**(689)**	**10.151**
390	Increase of share capital	-	390
1.975	Share capital variations connected to the finalization of the listing process	-	1.989
2.365	**CASH FLOWS FROM OPERATIONS ON EQUITY**	**-**	**2.379**
-		-	-
(18.201)	**CASH FLOWS DURING THE PERIOD**	**(4.244)**	**4.103**
-		-	-
(4.124)	**CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD**	**(8.368)**	**18.180**

Translated from the original version in Italian

3. NOTES TO THE FINANCIAL STATEMENTS

3.1. Accounting principles

This Quarterly Report at March 31st 2007 has been prepared in compliance with the provisions of art. 82 of the Issuers' Regulations and the IAS/IFRSs, particularly with IAS 34. It was furthermore prepared on a going concern assumption, despite the uncertainties currently characterizing the outlook of the company's business, as better explained in the paragraph "Main events occurred after the end of the quarter and Company outlook".

The accounting principles, valuation criteria and estimates used by the Company to prepare this quarterly report are the same as those described in the Report on Operations at December 31st 2006, to which reference should be made.

3.2. Financial statement comparability

The financial statement at March 31st 2006 was reclassified as follows in order to compare it with the balance sheet as of March 31st 2007.

- Reclassification of costs related to commissions on sales for Euro 215 thousand from the "Other revenue" item to "Direct commercial costs".
- Reclassification of provisions for penalty write-downs equal to Euro 154 thousand from the "Other revenue" item to "Other provisions".
- Reclassification of "Extraordinary revenue / (charges)" for Euro 76 thousand among operating costs and, more specifically, among "Other operating costs and wet lease".
- Reclassification of banking charges for Euro 50 million from the "Other commercial and overhead costs" item to "Financial revenue / (charges)".
- Reclassification of fuel costs for the Company's automobiles for Euro 11 thousand from the "Fuel" item to "Other commercial and overhead costs". Following this reclassification, the "Fuel" income statement item only includes the fuel costs incurred for the aircraft fleet.
- Reclassification among "Provisions for risks and charges" included in non-current liabilities, of the phase-out funds that are comprised of 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 3.930 thousand.

These reclassifications had no impact on the net equity and the result of the period ended on March 31st 2006.

3.3. Analysis of the income statement

On the whole, the quarter showed a revenue growth in excess of +18% mainly due to the increase in Long Range capacity.
As a result of this, the EBITDAR was equal to Euro 6,0 million, down Euro 1,4 million because of the different use of the A319, which had been sub-leased to third parties in the first months of 2006. The Long Range EBITDAR was aligned with last year and greatly influenced by the start-up costs of the new connections with India and Mauritius, which were both inaugurated between end 2006 and early 2007. The Medium Range BU also recorded substantially stable margins in the two periods under analysis.
The EBITDA, negative for Euro 4,6 million, worsened by more than Euro 3 million due to the aforementioned factors and the higher leasing costs resulting from the expansion of the Long Range fleet.
The operating loss of the quarter came in at Euro 6,2 million, highlighting a worsening of Euro 2,7 million due to the negative margins reported by the Long Range and A319 BU's analysed above.
The result of the quarter was equal to a loss of Euro 7,4 million versus a Euro 4,4 million loss in the first quarter of 2006.

The result corresponds to a loss of Euro 0,56 per share.

Revenue

In the quarter the revenue from sales and services grew significantly compared to the same period last year. This positive trend was mainly driven by the Long Range revenue, which increased due to the expansion of the fleet and, consequently, of operations as well as to the aforementioned agreement with LAG. Conversely, the Medium Range revenue declined slightly, in line with the decrease of flight hours. The All Business connection operated with aircraft A319 contributed approximately Euro 1,5 million to the increase in total revenue.

Revenue from sales and services *Euro/000*				
	I quarter 07	**I quarter 06**	**Change**	**% change**
Medium Range	23.522	24.065	(543)	-2,26%
Long Range	48.750	37.288	11462	30,74%
All Business	1.602	-	1.602	-
Total	**73.874**	**61.353**	**12.521**	**20,41%**

The other revenue dropped dramatically compared to the same period in 2006 mainly as a result of the different employment of the A319 aircraft, which had been leased to the NAS air carrier in 2006.

Costs

Direct commercial costs rose significantly in the period following the expansion of the scheduled Long Range activities operated with A330 and A319 airplanes. In particular, the flight to India was inaugurated in mid January (absent in the first quarter of 2006), as described in the “Commercial activity” paragraph.

The increase of Jet Fuel costs was both the result of the increased business in the quarter and the different fleet composition following the Long Range fleet expansion. Despite said increase, this cost item – denominated in US dollars – benefited from the more favourable trend of the Euro / US dollar exchange rate and from lower raw material prices.

Staff costs decreased in terms of weight on revenue. Their increase in absolute value can be ascribed to the higher average paid staff deriving from the expansion of both fleet and operations, as detailed in the table below. In particular, it should be considered that the entry in fleet of an Airbus A330 at the end of 2006 required an expansion of the flight staff with a significant impact on the cabin crew. The increase of Flight Assistants was also due to the implementation of the new rules on flight and service hours, which are now also applied to cabin crew.

2006	Category	I quarter 07	I quarter 06	I quarter 07 / I quarter 06
12	Managers	12	10	2
182	Employees	188	176	12
194	**Total ground staff**	**200**	**186**	**14**
132	Pilots	133	125	8
294	Flight assistant	340	262	78
426	**Total flight staff**	**473**	**387**	**86**
620	**Total staff**	**673**	**573**	**100**

The costs for materials and maintenance services increased in the quarter partly due to the fleet expansion after the aforementioned entry of the A330 in December and partly to the maturity factor of some airplanes, i.e. the reaching of age limits that corresponds to cost increases in the maintenance contracts. This cost item is further increased by the higher catering costs (included in this item) due to the expansion of the scheduled business operated with A319 and A330.

The other operating costs and wet lease showed a significant growth compared to the previous period, as indicated in the table below.

Operating costs and wet lease
amounts in €/000

2006	% on revenue		I quarter 2007	% on revenue	I quarter 2006	% on revenue	Change	% change
70.383	24,3%	Other operating co	17.089	23,1%	13.981	4,8%	3.108	22,2%
684	0,2%	Wet lease	3.166	4,3%	0	0,0%	3.166	100,0%
71.067	**31,0%**	**Total**	**20.255**	**27,4%**	**13.981**	**4,8%**	**6.274**	**44,9%**

The increase in operating costs was determined by the expansion of the activities in the quarter and the reduction of ACMI operations (operating costs are borne by third parties) compared to the first quarter of 2006, as already highlighted in the analysis of the statistical data.
Wet lease costs – not present in the first quarter of 2006 – amounted to approximately Euro 3,2 million in the same period of 2007 and were the result of code sharing commercial agreements signed with LAG in the past fiscal year.

The incidence of commercial and overhead costs on revenue diminished.

The trend of the operative rentals is showed in the table below.

2006		I quarter 2007	I quarter 2006	Change	% change
21.481	A320	5.271	5.372	(101)	-1,9%
13.639	A330	5.298	3.474	1.824	52,5%
35.120	**Total**	**10.569**	**8.847**	**1.722**	**19,5%**

The increase of this cost item must be ascribed to the Long Range fleet expansion following the above-mentioned delivery of the fourth A330 in December. The cost of the Medium Range fleet remained substantially unchanged in the two periods under analysis.

The reduction of amortization was mainly due to the alignment between the amortization period of the cabin and that of the engines of the A319 in 2006.

The financial charges declined mainly thanks to lower charges on exchange rates.

The taxes of the period only include current taxes represented by the IRAP (regional tax on productive activities).

3.4. Financial position and balance sheet items

3.4.1. Analysis of the cash flow statement

As shown in the cash flow statement table, which indirectly illustrates the change in cash and cash equivalent in the period analysed, the first quarter of 2007 was characterized by a cash absorption in the amount of Euro 4,2 million. The cash flow of the period is analysed as follows:

- Cash flows from operations

Cash flows from operations were negative for Euro 2,7 million in the quarter. The cash absorption was mainly due to the Euro 7,0 million loss of the period before taxes and the Euro 1,9 million increase in trade receivables and other credit mostly as a result of the entering of the reimbursement related to the damage caused by the supplier described at paragraph 1.1.4 among receivables and of the maintenance works covered by the maintenance reserves among receivables from lessors. Conversely, the amortization of the period and the change in trade payables and other debt generated cash flows worth Euro 1,4 million and Euro 4,7 million respectively. The variation of debt mainly derived from the higher deferred income related to advance sales of scheduled flights to New York, which were re-started in April 2007.

- Cash flows from investments

Cash flows from investments were negative for Euro 0,8 million.

- Cash flows from financial activity

Cash flows from financial activity were equal to Euro 0,7 million in the period and were the result of the payment of the instalments of the mortgage and leasing of aircraft A319.

3.4.2. Net financial position

The net financial position was negative for Euro 31,4 million at March 31st 2007 versus a negative figure of Euro 10,2 million in the same period last year. The evolution is represented as follows:

ANALYSIS OF THE NET FINANCIAL POSITION

I quarter 06	Euro/000		**I quarter 07**	**2006**	**Change**
25.164	A. Cash	(1)	2.982	5.149	(2.167)
-	B. Derivative contracts included in cash	(1)	-	-	-
25.164	**C. Cash and cash equivalents (A) + (B)**		**2.982**	**5.149**	**(2.167)**
-	**D. Current financial receivables**		**3.000**	**3.000**	**-**
6.984	E. Current bank debt	(1) (2)	11.350	9.273	2.078
-	F. Derivative contracts included in bank debts	(1) (2)	-	-	-
1.792	G. Current portion included in non current debt		2.346	2.312	33
-	H. Other current financial debt		4.500	4.500	-
8.776	**I. Current financial debt (E) + (F) + (G) + (H)**		**18.196**	**16.085**	**2.111**
(16.388)	**J. Net current financial debt (I) - (C) - (D)**		**12.214**	**7.936**	**4.278**
8.000	**K. Non current financial receivables**		**8.000**	**8.000**	**-**
4.018	L. Non current bank debt		3.531	3.783	(252)
-	M. Bonds issued		-	-	-
30.604	N. Other non current debt		23.668	24.138	(471)
34.622	**O. Non current financial debt (L) + (M) + (N)**		**27.198**	**27.921**	**(723)**
10.234	**P. Net non current financial debt (J) - (K) + (O)**		**31.412**	**27.857**	**3.555**
	Reconciliation with cash flow and balance sheet				
18.180	(1) Cash and cash equivalents		(8.368)	(4.124)	(4.244)
6.984	(2) Bank debt		11.350	9.273	2.078

Translated from the original version in Italian

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 March 31st 2006 the cash and cash equivalents, equal to Euro 2,9 million, consisted of credit balances of bank accounts.

D – Current financial receivables

The current financial receivables amounted to Euro 3,0 million and were related to pledges on amounts deposited with a credit institute, linked to repayment plans negotiated with suppliers.

I – Current financial debt

The Company's current financial debt amounted to Euro18,2 million. These included: i) amounts due to banks for Euro 11,3 million related to bank overdrafts; ii) the current portion of non current debt worth Euro 2,3 million; iii) other current financial debt for Euro 4,5 million related to the unprofitable 24-month loan that Spinnaker transferred to Meridiana as per the agreement finalized on December 28th 2006 and expiring in November 2007.

K – Non current financial receivables

As of March 31st 2006 the non current financial receivables, equal to Euro 8,0 million, were represented by a restricted bank deposit with Unicredit, pledged as a collateral to obtain a bank guaranty from Unicredit 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 was comprised of non current bank debt, for Euro 3,5 million, 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 23,7 million, related to the long-term portion of debt towards leasing companies.

3.5. Non recurring significant events

No non recurring significant events such as to influence the result of the period occurred during the quarter.

3.6. Segment reporting

The table below shows revenue and results by Medium Range, Long Range and All Business.

€/000	Medium Range			Long range			All Business			Total		
	I quarter 07	I quarter 06	% change	I quarter 07	I quarter 06	% change	I quarter 07	I quarter 06	% change	I quarter 07	I quarter 06	% change
Total revenue	23.808	24.313	*-2,1%*	48.914	37.348	*31,0%*	1.605	1.209	*32,8%*	74.327	62.870	*18,2%*
EBITDAR	494	665	*-25,7%*	5.783	5.652	*2,3%*	-285	1.104	*-125,8%*	5.991	7.421	*-19,3%*
EBITDA	-4.778	-4.708	*-1,5%*	485	2.211	*-78,1%*	-285	1.071	*-126,6%*	-4.578	-1.426	*-221,0%*
EBIT	-5.066	-5.169	*2,0%*	-323	1.275	*-125,3%*	-798	448	*-278,1%*	-6.187	-3.445	*-79,6%*

3.7. Transactions with related parties

As per IAS 24, Meridiana is a related party as 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 Meridiana's management and coordination. The following table summarizes the financial and economic relationships with Meridiana.

		Meridiana	
Description (€000)	Total Eurofly	Absolute value	%
Trade receivables	59.557	81	0,10%
Non current financial assets	8.000	-	-
Current financial assets	2.982	-	-
Trade payables	90.989	138	0,20%
Non current financial liabilities	27.198	-	-
Current financial liabilities	15.850	4.500	28%

		Meridiana	
Description (€000)	Total Eurofly	Absolute value	%
Total revenue	74.327	101	0,10%
Cost of services	80.514	33	0,00%
Financial (income)/loss	849	-	-

		Meridiana	
Description (€000)	Total Eurofly	Absolute value	%
Cash flows from (to) operations	(2.747)	(68)	2,5%
Cash flows from (for) disposals (investments) in fixed assets	(809)	-	-
Cash flows from financial activity	(689)	-	-

3.8. 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 by Spinnaker

Luxembourg SA to Meridiana S.p.A. 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 quarter.

Description (€/000)	Total Eurofly	Profilo Absolute value	Profilo %
Trade receivables	59.557	-	-
Non current financial assets	8.000	-	-
Current financial assets	2.982	-	-
Trade payables	90.989	-	-
Non current financial liabilities	27.198	4.031	14,80%
Current financial liabilities	15.850	253	1,6%

Description (€/000)	Total Eurofly	Profilo Absolute value	Profilo %
Total revenue	74.327	-	-
Cost of services	80.514	-	-
Financial (income)/loss	849	45	5,30%

Description (€/000)	Total Eurofly	Profilo Absolute value	Profilo %
Cash flows from (to) operations	(2.747)	(45)	1,6%
Cash flows from (for) disposals (investments) in fixed assets	(809)	-	-
Cash flows from financial activity	(689)	-	-

3.9. Main events occurred after the end of the quarter and business outlook

Operative problems occurred in April

In April Eurofly's Long Range fleet encountered exceptional technical problems, which caused serious inconveniences to clients. The breakdowns, which regarded two A330 airplanes in the Maldives and Mombasa airports, required staff, materials and specialized means from Europe in order to be repaired in compliance with the aeronautical regulations.

Since almost all of its Long Range aircraft were unavailable, Eurofly was forced to buy capacity from other European long range carriers. Nonetheless, the flights were operated with considerable delays.

The technical controls carried out by ENAC and the relevant internal authorities did not highlight any systematic shortcomings that could explain the aforementioned events, which are rare but possible in long-range aircraft transportation.

Business outlook

In the first quarter of 2007 – as indicated in the report on operations for fiscal year 2006 – some analysis were carried out to verify the requirements for the pursuit of commercial and operating synergies with Meridiana S.p.A., which represent the desirable evolution of the 2007-2009 Industrial Plan.

Since these analysis have not been completed yet – as anticipated during the Shareholders' Meeting on May 8th – the 2007-2009 Industrial Plan will be defined by June 30th 2007. A Board meeting has also been called to this purpose, which, besides approving the Industrial Plan, will examine the interim situation as of April 30th 2007 given the loss of the first quarter of 2007 and the additional losses estimated for the second quarter of 2007, and take the necessary resolutions as per art. 2446 of the Italian Civil Code.

Based on the aforementioned and despite the uncertain outlook of the Company's business, the Board of Directors thought it convenient to prepare the financial statement as of March 31st 2007 based on the going concern assumption for 2007 and that the Company will overcome the current economic and financial difficulties.

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 quarterly report.