eurofly

Report on operations in the first half of 2006

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

INDEX

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

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Introduction

This half-year report at June 30, 2006 has been prepared in accordance with the Italian National Commission for Listed Companies and the Stock Exchange (CONSOB) Regulation No 11971 and subsequent modifications with the purpose to provide information about the Company's economic, and financial situation. This report, therefore, fulfils the provisions of articles 81 and 81 bis of the Regulation above and has been drawn up in compliance with IAS/IFRS and, in particular, with IAS 34. This report has been prepared according to the aforementioned international accounting principles, following the Company's transition to IAS/IFRS with the first quarterly report at March 31, 2006, which was drawn up as per art. 82 of said CONSOB Regulation.

We are presenting the main economic/financial data and business indicators for the first half of 2006 compared with those of the first half of 2005 and full year 2005.

	Unless otherwise specified, Euro/000				
2005	**Significant information**	**I Half 06**	**I Half 05**	**Change**	**Change %**
42.060	Total flight hours	20.299	20.266	33	0,2%
1.603.240	Passengers carried	727.163	736.517	(9.354)	-1,3%
136	Available fleet rented and in wet lease (machine months)	69	70	(1)	-1,4%
5.335	Productivity Long Haul fleet incl Wet Lease (in flight hours) (1)	5.125	5.161	(36)	-0,7%
3.223	Productivity Medium Haul fleet incl Wet Lease (in flight hours) (1)	3.049	3.016	33	1,1%
2005	**Summary Statement of profits and losses**	**I Half 06**	**I Half 05**	**Change**	**Change %**
271.475	Revenue from sales and services	130.872	127.859	3.013	2,4%
277.461	Total revenue	135.488	128.623	6.865	5,3%
31.534	EBITDAR (2)	13.693	9.810	3.883	39,6%
11,6%	Percentage on revenue form sales and services	10,5%	7,7%		
4.500	EBITDA (3)	(3.770)	(2.065)	(1.706)	-82,6%
1,7%	Percentage on revenue form sales and services	-2,9%	-1,6%		
(2.896)	EBIT (4)	(8.971)	(4.411)	(4.560)	-103,4%
-1,1%	Percentage on revenue form sales and services	-6,9%	-3,4%		
(2.775)	Result of the year	(11.992)	(3.201)	(8.791)	-274,6%
30.06.06	**Summary Balance Sheet**	**30.06.06**	**31.12.05**	**Change**	**Change %**
95.251	Total Fixed Assets	91.657	103.009	(11.352)	-11,0%
62.094	Total Current Assets	95.567	95.282	285	0,3%
157.345	Total assets	187.224	198.291	(11.067)	-5,6%
8.023	Net equity	33.849	43.476	(9.627)	-22,1%
34.594	Total non current liabilities	37.257	38.108	(851)	-2,2%
114.728	Total current liabilities	116.118	116.707	(589)	-0,5%
157.345	Total net equity and liabilities	187.224	198.291	(11.067)	-5,6%
2005	**Investments**	**I Half 06**	**I Half 05**	**Change**	**Change %**
66.622	Investments	6.977	56.135	(49.159)	-87,6%
30.06.06	**Other financial data**	**30.06.06**	**31.12.05**	**Change**	**Change %**
(36.568)	Net financial position (5)	(10.914)	(4.093)	(6.820)	-166,6%
(21.392)	Net cash and equivalents (short-term net financial debt)	11.941	14.077	(2.136)	-15,2%
(16.529)	Cash flows of the period	(2.136)	18.940	(21.076)	-111,3%

(1) Productivity of periods shorter than a year is annualised to facilitate comparisons between different periods.
(2) EBITDAR: *Earnings Before Interest, Taxes, Depreciation, Amortization and aircraft Rentals* (i.e. EBIT gross of aircraft operating lease – excluding wet lease – and of amortization and provisions for risks and charges).
(3) EBITDA: *Earnings Before Interest, Taxes, Depreciation, Amortization.*
(4) EBIT: *Earnings Before Interest and Taxes.*
(5) Compared to “Net cash and cash equivalents“, the net financial position includes financial fixed assets and the amount of mortgages and debt towards leasing companies.

1. BOARD OF DIRECTORS REPORT ON OPERATIONS

1.1. Macro-economic scenario

After a slowdown in the last months of 2005, the first half of 2006 highlighted a recovery of global economy, especially in the Euro Zone and in Japan where the positive trend has been particularly strong. In this scenario, energy costs experienced a sharp increase. The price of crude oil has been on the rise in the first six months of the year, exceeding 60 dollars/barrel in the first quarter and 70 dollars/barrel in May because of the tension in the Middle East and, more importantly, to the Iranian crisis.

Crude oil
US$/barrel

2005	Crude oil	1 Half 2006	1 Half 2005	06/05 %
56,64	WTI-USA	67,46	53,03	27%
54,57	Brent-Europe	65,27	49,36	32%

Source: Energy Information Administration

From end December 2005 to end June 2006 the Euro has appreciated versus the US dollar. Conversely, in the first half of 2006 the average exchange rate showed a weakening of the Euro versus the US dollar compared to the first half of 2005, as shown in the following table.

Exchange rate

	1 Half 2006	1 Half 2005	30/06/06	30/06/05
EUR/USD	1,23	1,29	1,27	1,18

Source: Il Sole 24 Ore

The rising trend of interest rates was confirmed both in the Euro Zone (3M Euribor from 2.50 points at the beginning of January 2006 to 2.97 points at end June 2006, averaging 2.74 points in the first six months of 2006 and growing from 2.13 of the same period last year) and in the United Sates (3M Libor on US$ growing from 4.68 points at the beginning of 2006 to 5.51 points in June, averaging 5.06 points in the first six months of 2006 versus 3.13 points in the first six months of 2005).

1.2. Industry scenario

As to global air traffic, the first half of 2006 presented a sharp increase in the amount of passengers carried. According to IATA's (International Air Transport Association) June report, carried passengers grew by 6.7% compared to the previous year, given a 4.9% offer expansion and the resulting improvement of the load factor worldwide.

Similar data are recorded in Italy as well. Statistics by Assaeroporti (Italian airport association) highlighted an 8.5% traffic growth in the six months with a sharper increase of international traffic (9%) compared to domestic traffic, according to a long-established trend.

Turning to Eurofly's reference sector, the Astoi Observatory (Italian tour operator association) noted an extremely sustained growth of the Maldives, which recovered to the level preceding the Tsunami, and Kenya destinations (+14%). Positive signals are also coming from Mediterranean destinations with an increase of bookings for Spain (+10%) and Greece (+8%). Italian sea destinations have been growing strongly as well (+15%). Egypt – that in the first part of the year had suffered a decline compared to the previous year – posted a recovery in March and April with passengers equalling the 2004 level (please note that the first quarter of 2005 had been penalized by a decrease of passengers versus the previous year following the Taba terrorist attack in October 2004). This performance could not however be replicated in the following months also due to the political instability in the Middle East (Dahab attack at end April and Israel-Lebanon crisis), that resulted in a new decrease of traffic towards this area estimated at 20/30% versus 2005 by leading tour operators.

1.3. Regulatory framework

The main legislative actions in the first half of 2006 with an impact on airline carriers can be summarized following:

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

The legislator converted Decree no. 203 of September 30, 2005 (published on the Official Gazette, no. 243 of October 18, 2005) into a law through Law no. 248/2005 of December 2, 2005. This law includes a series of measures (the so-called "system requirements") whose target is to foster competition in domestic air traffic. The following are among the main measures of most immediate impact on airline carriers:

1. the cancellation of the surcharge, 50% for night flights, on landing, take-off, stop-over and maintenance rights on domestic airports;
2. the cancellation of so-called "royalties", surcharges applied by airport companies and the carrier

service suppliers, that are not connected to the actual sustaining of costs related to the services provided; a typical example are royalties on fuel supplies;

3. the reduction of airport fees (passengers, landing, take off, stop over) in an amount equal to the decline of royalty fees paid by airports;
4. the reduction, related to production recovery and development targets and the level of offered services and the amount of sustained expenses, of terminal and route taxes;
5. the acknowledgement of the airline carrier's responsibility in safety matters, with the consequent attribution of a share of the related compensation to the latter. The Ministry of Transportation and ENAC (National Agency for Civil Aviation) supplied indications to interpret the abovementioned law.

From a judicial point of view some domestic airport companies promoted and then appealed to obtain an annulment – with a previous suspension as a precautionary measure - of the Law no 248/05. In this context Eurofly – as the party benefiting from the application of the regulation – was also notified of an appeal promoted by the Company "Aeroporti di Roma" in front of the Regional Administrative Court of Latium against ENAC and the Ministry of Transportation. The Regional Administrative Court (TAR) adjourned the lawsuit to the hearing on October 26, 2006, to discuss the proposed appeal as it found no urgent reasons and did not believe it necessary to discuss the suspensive motion presented by the Company "Aeroporti di Roma".

In reference to the indications in point 2 related to the cancellation of royalties, we note that directives to explain the changes introduced in the regulation were issued by ENAC, Assaereo (Air Carrier Association) and other Category Associations on the subject.

The oil company ENI sued various air carriers, amongst which Eurofly, in the Court of Rome on the matter, requesting the court to verify and declare that they are obliged to pay ENI the amounts related to the royalty fee that the Oil company must disburse to airport management [(1)]. The first hearing is on December 15, 2006.

- **Rules and Regulations on flying and service time limits**

With the Rules and Regulations of March 23, 2005, ENAC fixed new limits for flight and service hours in addition to crew-rest requirements with the aim to increase flight security conditions.

These Rules are more stringent in regard to flight staff's working hours and include new laws for the composition of the crew. The Companies should have fully implemented the Rules and Regulations by March 26, 2006, with the exception of two laws concerning the so-called "reinforced flight crew", which should have become effective as of July 1, 2005.

[(1)] The amount is 242.276,27 Euro for Eurofly

Eurofly – together with other domestic airline carriers – made an appeal to the Regional Administrative Court of Latium to obtain the cancellation of the Rules and Regulations following a suspensive measure, as it believed some merit factors and the particularly short timing for the implementation of the rules were censurable.

With a judgement published on March 2, 2006, the Regional Administrative Court of Latium pronounced itself on the matter by partially accepting the appeal presented by Eurofly (and others), annulling only the parts of the Rules and Regulations on flight and service hours for Flight Assistants and validating the previous rules on the topic.

- **Protection of passenger rights: EC Reg. 261/04 and Law Decree 69/06**

In view of a complete implementation of the EC Reg. 261/04 *("Regulations establishing universal rules on passenger compensation and assistance for denied boarding, flight cancellation and prolonged delay abrogating the (EEC) Regulation no 295/91"),* the Legislator issued the Law Decree no 69 of January 27, 2006, which regulates *"Violation sanctions of the (EC) Regulation no 261/2004 that establishes universal rules on passenger compensation and assistance for denied boarding, flight cancellation and prolonged delay".*

This measure provides that airline carriers may be punished with administrative sanctions of various degrees if they violate the provisions of EC Regulation no 261/2004.

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

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

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

Moreover, on July 26, 2006 the EC Reg. 1107/2006 "*related to the rights of disabled passengers and passengers with reduced mobility in air transportation*" was published on the Official Journal of the EU.

These rules impose a series of laws to safeguard and assist disabled persons and persons with reduced mobility in air transportation, to protect them from discrimination and guarantee their assistance.

- **Law of December 28, 2005 no 262 (Law on Savings)**

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

The new law introduces changes in corporate governance, auditing, brokerage and sanctions. The Company will incorporate some of the adjustments in its Articles of Association and internal procedures according to legal terms.

Particularly, the Law on Savings:

- amends the Consolidated Act on financial brokerage (Law Decree February 24, 1998 no 58, TUF) in the parts related to the appointment of Board members and the composition and powers of the board of statutory auditors;
- amends art. 2393 and 2393-bis of the civil code on corporate responsibility lawsuits against board members;
- introduces measures to safeguard minorities;
- introduces new rules on the obligation of companies listed on regulated markets to inform the market on stock option plans to company managers, employees and collaborators;
- modifies the civil code articles related to some corporate crimes, i.e. forged corporate communication (art. 2621 c.c.) and forged corporate communication damaging the company, its shareholders or creditors (art. 2622 c.c.). With reference to the administrative responsibility of juridical persons as provided by Law 231/2001, money penalties envisaged in par. 25 ter, have been doubled.

- **Law Decree 196/03: Personal Data Protection Act**

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

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

In this context the Company satisfied all provisions of the Law Decree 196/2003. More specifically, it issued a Security Programmatic Document, whose objective is to provide – within the General Information Security Management System - a picture of the organizational, physical and logical safety measures adopted by the Company in handling those information classified as “personal information”, as per art. 4 of the Law Decree 196/2003.

1.4. Operations and operating activity

1.4.1. Aircraft fleet

In the first half of 2006 the Medium Range fleet was substantially the same as in the first half of 2005, as the A320 fleet had already reached eight aircraft in February 2005 after the entry of the eighth A320 and the completion of the MD80 fleet disposal.

The Long Range fleet consisted of three A330 aircraft in the first half of 2006. In the same period of 2005 the fleet availability was similar and included two A330 under operating lease and one in wet lease[2] in order to anticipate a fleet configuration of three aircraft and to satisfy market demand.

The current fleet configuration has been reached in May 2005 after the entry of the third A330.

On April 5, 2006 the A319 LR Corporate Jetliner aircraft entered the fleet. This aircraft had been acquired in finance leasing in May 2005 and then leased to the Saudi company NAS in 2005 and in the first quarter of 2006.

The following tables summarise Eurofly's fleet availability from January 2005 to June 2006, including aircraft in wet lease.

Registration mark	Type	Entry in fleet	Jan05	Feb05	Mar05	Apr05	May05	Jun05	Jul05	Agu05	Sep05	Oct05	Nov05	Dec05	Jan06	Feb06	Mar06	apr-06	May06	Jun06
I-EEZB	A330	Aug 02	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZA	A330	Sep 02	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZJ	A330	May 05					■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZC	A320	Oct 02	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZD	A320	Feb 03	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZE	A320	Mar 03	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZF	A320	Apr 03	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZG	A320	May 03	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZH	A320	Dec 04	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZI	A320	Dec 04	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-EEZK	A320	Feb 05		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
I-DAVD	MD-82	May 04	■																	
I-DAVC	MD-82	Jun 04	■																	
I-ECJA	A319	Apr 06																■	■	■

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

Unlike the first half of 2005 Eurofly did not resort to wet lease in the first half of 2006 and only used its own aircrafts.

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

The eight A320 Medium Range aircraft currently in fleet have been leased. 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 the leasing	Oct-02	Feb-03	Mar-03	Apr-03	May-03	Dec-04	Dec-04	Feb-05
End of the leasing	Oct-08	Feb-09	Mar-09	Apr-08	May-08	Dec-09	Dec-09	Oct-09
Duration of the leasing	6,0	6,0	6,0	5,0	5,0	5,0	5,0	4,7

The three A330 aircraft have also been leased, as indicated below:

Registration mark	I-EEZA	I-EEZB	I-EEZJ
Year of costruction	2000	2000	2005
Initiation of the leasing	Sep-02	Aug-02	May-05
End of the leasing	Apr-09	Apr-09	May-12
Duration of the leasing	6,6	6,7	7,0

The A319 is the only aircraft of Eurofly's fleet that was acquired through a ten-year financial leasing starting on June 1, 2005.

Fleet expansion

In the second half of 2005 Eurofly signed two operating leases - of eight and seven years respectively - for as many new A330-200 aircraft, whose delivery is due in December 2006 and March 2007 respectively.

In December 2005 Eurofly signed a purchase contract with Airbus for three A350-800 aircraft, whose delivery has been initially scheduled for 2013 and 2014. Eurofly is the Italian “launching customer” of the A350 aircraft, hence it is the first airline to buy this type of aircraft in Italy. This allowed the Company to benefit from extremely favourable acquisition terms. During the year Airbus has started to study a new version of this aircraft (A350-XWB) - urged by potential future clients - in an effort to improve their product versus competitors’ offers. As launching customer, Eurofly will be able to benefit from the best characteristics of the new aircraft, as per the agreements to be defined with Airbus in the coming months.

1.4.2. Commercial activity

The commercial activity in the first six months of the year was focused on the following goals:

- minimizing the impact of the terrorist attack in Sharm El Sheikh in July 2005 and of the hurricanes in the Caribbean area at the end of 2005;
- minimizing the effect of the lacked renewal of the agreement with Teorema Tour;
- launching new routes to New York from Rome (A330 aircraft) and Milan (A319 Corporate Jet).

In particular, the offer of capacity on the Medium Range leisure market decreased, since in 2005 the Company decided to lease two aircraft to the My Way carrier in ACMI[3] mode, until April 2006. This business, launched for tactical purposes, has been continued also with other carriers during the six months and, given its good results, it will be pursued in the future. Also, the Company did not acquire Medium Range aircraft in wet lease from third-party operators, as acquiring extra capacity in summer was deemed risky given the current market scenario, the low marginality expected for this deal and a more stringent regulatory framework regarding the exploitation of other carriers’ capacity.

Through these actions the productivity of Eurofly’s fleet remained in line with the previous year, despite potentially adverse events such as the lacked renewal of the agreement with Teorema Tour and the only partial recovery of traffic towards the Red Sea, penalized by cancellations in June following the crisis in the Middle East, to the levels of 2005.

On the other hand, the stop of business with Teorema Tour had a stronger impact on the Long Range segment, especially until April. The contract under negotiation provided for Long Range sales of circa Euro 11 million in the winter season to be achieved through rotations acquired from Teorema Tour and allotment (share of aircraft seats). While the rotations that had to be bought entirely were not replaced, as this turned out to be impossible just ahead of departures, almost all allotments have been sold through a massive use of multi-channel distribution. Indeed, Eurofly has equipped itself with the

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

necessary instruments to sell its flights to Tour Operators, travel bureaus and final users through various sales channels (call centres, web site, distribution with all GDS both in Italy and in flight destination countries); in this way they managed to increase the seat offer on these channels dramatically, obtaining good results in terms of loading.

In summer however, the termination of the contract with Teorema Tour did not affect business significantly (as reflected by fleet productivity in the six months), since the rotations acquired from Teorema Tour have been replaced by an increase of scheduled flights to New York from seven a week in 2005 to ten in 2006 for a longer period (in 2005: from mid June to mid September; in 2006: from mid May to mid November). A Rome-New York flight has been added this year to the existing routes from Bologna, Naples and Palermo. Thus Eurofly turned into the airline offering the highest number of connections between Italy and New York.

Furthermore, in May 2006 Eurofly launched the new “All Business” connection between Milan and New York operated through aircraft A319 CJ.

Eurofly should have acted as the reference carrier of the association Club Milano – Manhattan (MiMa) as from May 8, 2006 by making its 48-seat A319 CJ aircraft available as per a lease contract stipulated with said association.

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

The agreement with MiMa provided that the A319 aircraft was based at the ATA general aviation terminal of the Milano Linate airport.

The US Department of Transportation (DoT), through a document dated May 4, 2006, expressed itself for the first time in regard to the flights organized by the MiMa association and operated by Eurofly. Irrespective of the flight nature that Italian authorities classified as general aviation flights and consequently not subject to the restrictions provided for by the decree regulating traffic over Milano Linate, the US DoT temporarily prohibited the departure of Eurofly flights from Linate, being discriminatory against US carriers, which are not allowed to operate at the Linate airport due to limitations to the Open Sky regulations between Italy and the United States imposed by the Italian government. In particular, the US authorities requested the restoration of the reciprocal clause regarding operations at Linate, with special reference to the use of code sharing by US airline carriers, as necessary condition to authorize Eurofly to operate said connection on behalf of MiMa.

Following these statements by the US authorities, on May 29 Eurofly started to operate Milan – New

York flights from the Malpensa Terminal 2 on its own. The greater distance between the airport and the city is counterbalanced by the possibility to sell the flight through all standard distribution channels directly, whereas all the distinctive features of this exclusive connection in terms of rapid embarking, comfort on board, time of departure and arrival and customer care remained guaranteed. However, the revision of the marketing policy shortly after the start of operations has negatively affected revenues in the first business weeks, moreover it is expected to prolong the start-up period and, consequently, to postpone the breakeven for this connection.

Statistical data and unit revenues

Flight hours per type
In flight hours

2005		I Half 2006	I Half 2005	Δ	Δ %
36.827	**Block hours (a)**	18.983	18.207	776	4,26%
1.565	**ACMI (b)**	1.316	11	1.305	-
3.669	**REPRO (c)**	0	2.047	-2.047	-100,00%
42.060	**Total flight hours**	**20.299**	**20.266**	**33**	**0,16%**

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

Flight hours per SBU
In flight hours

2005		I Half 2006	I Half 2005	Δ	Δ %
27.996	**Medium Haul**	12.195	13.126	-931	-7,09%
14.064	**Long Haul**	7.687	7.140	547	7,66%
0	**All Business**	417	0	417	0,00%
42.060	**Total flight hours**	**20.299**	**20.266**	**33**	**0,16%**

The trend of flight hours in the first half of 2006 is substantially aligned with the first half of 2005, even though the mix has varied significantly.
Indeed, Eurofly's flight hours operated with Company aircraft both for own business (net flight hours) and on behalf of other operators (ACMI flight hours) increased. Conversely, Eurofly did not operate flights using third parties' aircraft (REPRO flight hours), which accounted for circa 10% of total flight hours in the first half of 2005. In this respect it should be noted that during the first half of 2005 Eurofly used third parties' aircraft in wet lease for both Medium and Long Range flights to cover part of a business which currently is either performed with own aircraft (Long Range) or is no longer performed (Medium Range operations in wet lease).
We highlight that the increase of ACMI hours – following to wet lease to My Way Airlines and other operators – all regard Medium Range flights.
As to the analysis of flight hours per SBU the following should be noted:

- start of business of the new SBU All Business, conditional upon the aforementioned decisions of the US DoT;

- reduction of Medium Range flight hours mainly due to the lack of wet lease in the first six months of 2006 and to flight cancellations, especially towards the Middle East;
- increase of Long Range flight hours, substantially due to the increase of the fleet of one machine month versus an aircraft productivity aligned with the same period last year.

Fleet productivity
Annualized Flight hours

2005		I Half 2006	I Half 2005	Δ	Δ %
3.192	**Medium Range**	3.049	3.043	6	0,20%
5.441	**Long Range**	5.125	5.464	-339	-6,20%
0	**All Business**	2.502	0	2.502	0,00%

Fleet productivity (included wet lease)
Annualized Flight hours

2005		I Half 2006	I Half 2005	Δ	Δ %
3.223	**Medium Range**	3.049	3.016	33	1,09%
5.335	**Long Range**	5.125	5.161	-37	-0,71%

The analysis of Medium Range fleet productivity (related to Eurofly's aircraft alone or including aircraft in wet lease) indicates a performance substantially in line with last year and consistent with the flight hours trend.

Long Range productivity is also in line with last year including in the calculation the aircraft in wet lease present in the first half of 2005. The figure for the first half of 2005, related to Eurofly's aircraft alone, in fact prevents a like-for-like comparison because the Company tried to concentrate activities on its two aircraft instead of using the three available aircraft more homogeneously, following the cancellation of operations on the Maldives.

Carried passengers					
2005		**I Half 2006**	**I Half 2005**	**Δ**	**Δ %**
1.603.240	**Total passengers**	727.163	736.517	-9.354	-1,27%
1.496.293	Eurofly	639.530	735.717	-96.187	-13,07%
106.947	Other carrier	87.633	800	86.833	-
1.199.611	Medium Haul	515.164	527.564	-12.400	-2,35%
403.629	Long Haul	211.386	208.953	2.433	1,16%
0	All Business	613	0	613	-

The total amount of passengers carried by Eurofly remained substantially stable, although, like flight hours, its mix changed through an increase of passengers carried by Eurofly on behalf of other carriers following the increase of the operated ACMI hours.
As to destinations, Medium Range passengers decreased as well as flight hours, whereas Long Range passengers increased following an expansion of the capacity offered. In this respect we highlight that the amount of Long Range passengers carried in 2005 was affected by the greater capacity of the Star aircraft (in wet lease) compared to Eurofly's aircraft (364 seats vs. 282).

Carried passengers - NY leisure scheduled flights					
2005		**I Half 2006**	**I Half 2005**	**Δ**	**Δ %**
36.764	Carried passengers	21.973	4.807	17.166	357,10%
54.144	Seat offered	38.352	9.870	28.482	288,57%
67,9%	Load factor	57,3%	48,7%	8,6	-

With reference to the leisure scheduled flights to New York – of great importance for the Company's product portfolio – the first half of 2006 highlighted a sharp increase in the seats offered and passengers carried due to a business expansion (from seven to ten flights per week). It should be noted that the load factor has grown by circa 9 percentage points, despite the start of the New York operations in mid May (one month earlier compared to last year, in low season) and the inauguration of the Rome-New York connection in competition with the main American and Italian airlines.

As to the start of the "All Business" connection from Milan to New York, the number of passengers is still unimportant since operations started at the end of May. The load factor of this flight in the launch month (June) was very low (16%), but in line with the forecasts made after its shift to Malpensa. However, this type of flight is expected to achieve its targets at regime later than traditional flights.

Revenue per flight hour
Euro

2005		I Half 2006	I Half 2005	Δ	Δ %
6.417	**Total Eurofly ***	**6.532**	**6.171**	**361**	**5,85%**
5.439	Medium Range	5.464	5.092	372	7,30%
8.255	Long Range	8.344	8.153	191	2,34%

**including A319 activity hours and revenues*

Unit revenue only includes revenue deriving from flights directly. The table does not take this revenue and related hours into account, since the ACMI business generates a much lower revenue per flight hour.

The analysis of revenue per flight hour shows an improvement compared to the first half of 2005 both in Medium and Long Range. The 2005 Long Range figure was influenced by a greater availability of seats on the Star aircraft used in the first four months of 2005. Net of this effect, the revenue growth was above 6% on average. Such a positive result was the consequence of a sales policy focused on yield improvement in a scenario of rising costs, especially fuel.

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

Negotiations between Eurofly and EADS Sogerma Services started in 2005 and aimed at creating a company based at the Malpensa airport providing maintenance services to all carriers present at the airport, stopped towards the end of the first half of 2006. This was the result of Sogerma's difficulties and the declared intention of its parent company EADS to reduce maintenance activities and to sell the company by 2006. Hence, Eurofly decided to rescind the maintenance contract with Sogerma in advance and called bids to select a new partner for maintenance works.

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

On March 17, 2006 Eurofly forwarded an expression of interest for the acquisition of Livingston Aviation Group, a company controlled by “I Viaggi del Ventaglio S.p.A”. The term sheet subsequently agreed upon by the parties defined, among other things, an enterprise value equal to Euro 50 million for 100% of LAG, a three-year commercial agreement between LAG / Eurofly and “I Viaggi del Ventaglio S.p.A.” providing minimum guaranteed sales worth Euro 100 million / year and the entry of I Viaggi del Ventaglio in Eurofly’s capital with a stake up to circa 15%.
“I Viaggi del Ventaglio” had granted Eurofly a period of exclusive talks expiring at the beginning of April, but then postponed to June 30 and subsequently to August 31 in order to allow the parties to negotiate the terms of the contract in view of the best possible definition of the two companies’ aggregation.
As per the agreement between Eurofly and “I Viaggi del Ventaglio”, on April 12 the Company made a payment in the amount of Euro 5 million, of which Euro 4 million were transferred in a term escrow account linked to the payment of the purchase price, and Euro 1 million was paid to I Viaggi del Ventaglio directly. The last payment was subject to a pledge on avionic spare parts in favour of Eurofly.
Simultaneously with the acquisition process, Eurofly and Livingston Aviation Group finalized an agreement regarding a joint offer of flights for both Tour Operators and the general market in the 2006/2007 winter season. The main goal of the agreement is to improve the product offered via the harmonization of the operating bases through a limitation of intermediate stops, a higher offer of direct flights, an optimization of flight frequency towards the main destinations served and a streamlining of the network for a more efficient employment of corporate resources. Please see paragraph 1.13.3 of this report.

1.4.5. Growth initiatives in Egypt

In order to strengthen its leadership in Egypt following changes in local regulations, in the first half of the year Eurofly started to study the feasibility of the creation of a foreign-capital airline with Egyptian flag. In the best of cases, it will take eight to twelve months for the new carrier to start operations in 2006/2007 winter season. Please, see paragraph 1.13.3 of this report.

1.5. Analysis of financial results

First half 2006 results should be analysed in the light of the different fleet composition and employment. In the first six months of 2005 Eurofly's fleet (63 machine months) was integrated by the use of passive wet lease in ACMI mode (operating and fuel costs borne by Eurofly) both in the Middle East and in Long Range (seven machine months). Thanks to the higher fleet availability in 2005 (69 machine months), in the first six months of 2006 Eurofly did not turn to passive wet lease, indeed it sold two aircraft to the airline My Way in active wet lease with ACMI mode until April 2006.

The total revenue in the first half 2006 was equal to Euro 135.5 million, up 5.3% versus the same period in 2005. The Long Range Business Unit posted a 12.16% revenue increase versus the first half of 2005, mostly thanks to the increase of flight hours and of revenue per flight hour. On the other hand the Medium Range revenue reported a decline of 7.05% because of the reduction of the available fleet (the Company did not turn to passive wet lease), the higher weight of lower-yield businesses (active wet lease with My Way) and the cancellation of flights towards the Middle East offset by the re-charging of contractual penalties to Tour Operators. At the end of May Eurofly launched the All Business activity by starting operations of A319, absent last year. The transfer of operations to the Malpensa airport described above and the subsequent revision of the sales policy shortly after the start of operations negatively affected the revenue for the period compared to expectations, influencing the economic result of the Business Unit and the Company.

In the six months the cost items reporting the most relevant growth are maintenance – due to the fleet expansion – and commercial and structure costs (the latter penalized by Euro 0.8 million of additional costs related to the LAG deal included among costs during the six months), due to the higher weight of scheduled flights and to the launch of All Business. The increase of fuel costs (despite the higher weight of the ACMI business) was counterbalanced by the decline of the other operating costs and of wet lease (both in Long Range in the first months of the year and in Medium Range in May and June).

Therefore, in the first half of 2006 EBITDAR grew compared to the same period in 2005 both in absolute (from Euro 9.8 million in the first half of 2005 to Euro 13.7 million in the first half 2006, up 39.6% versus the same period in 2005) and relative terms (margin from 7.7% to 10.5%). The expansion of the fleet under operating lease, the rising trend of interest rates to which some leasing agreements are indexed and of the Euro/Dollar exchange rate were the main drivers of the increase of the operating lease costs and consequently of the EBITDA decline, which went from Euro –2.1 million in the first half of 2005 to Euro –3.8 million in the first half of 2006.

The EBIT decline was influenced by the A319 aircraft as well, which entered the fleet in May 2005 and whose depreciation had a higher weight in the first six months of 2006 compared to the same period in 2005.

Also, EBIT suffered from provisions for credit write-downs worth Euro 1.5 million, the reasons of which are described in the Explanatory Notes.

The net loss of Euro 12 million (versus a loss of Euro 3.2 million in the first half 2005) was influenced

by the Euro 3.6 million of financial charges that also include both interest payables related to the leasing of A319 and negative forex differences due to the Euro revaluation between December 2005 and June 2006 (hence, mainly due to the lower value of the assets in Dollars).
The net financial position at the end of June 2006 was negative for Euro 10.9 million, while it was negative for Euro 4.1 million at December 31, 2005. The NFP trend is analysed in paragraph 3.4.1 of this report.
Net equity decreased to Euro 33.8 million due to the loss reported in the six months.

1.6. Staff

The following table shows the average staff figure in the six months from January to June 2006 and a comparison with the same figure in the first half 2005 and the situation for the whole of 2005.
The decrease of the average paid staff, as far as Ground Staff is concerned, is to be ascribed partly to an improvement of the organizational structures' efficiency and partly to a careful management of personnel in relation to the operating performance.
The trend of Flight Staff improved slightly compared to same period last year, especially as far as flight assistants are concerned, however despite the entry in fleet of the two aircraft A330 and A319, both used for Long Range destinations. The reference industrial standard for these aircrafts involves an employment factor of nine crews per A330 and five crews per A319. These values would have determined the need to increase staff by circa 100 units. Through a significant increase of the flight staff's per capita production and the optimization of its employment phases, Eurofly managed to include this aircraft in its fleet keeping staff substantially constant during the reference period.
It should be noted that as of June 30, 2006, Eurofly's average staff is relating to wholly the entire A330 staff and a portion of the staff related to the entry in fleet of A319, which started to operate at the end of May.

31.12.05	Categories	30.06.06	30.06.05	Change 06.06-06.05
8	Managers	11	8	3
187	Employees	177	191	-13
195	**Total ground staff**	**189**	**198**	**-10**
128	Pilots	130	128	2
266	Flight assistant	282	268	14
394	**Total flight staff**	**412**	**397**	**16**
589	**Total staff**	**601**	**595**	**6**

In the first half of 2006 the Company re-defined its organizational structure through the creation of three positions respectively focused on operating activities (that mainly includes the entities responsible for technical and production resources), commercial activities (that also includes the entities responsible for business development and marketing) and management and administrative activities (entities responsible for finance and control, administration, purchases, development of IT infrastructures and general services, investor relations).

In addition to these three macro areas, the Chief Executive Officer can rely on four departments: Human Resources & Legal Affairs, Quality, Safety & Security, Internal Auditing.

1.7. Research and Development

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

1.8. Treasury owned shares

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

1.9. Relationships with subsidiaries, affiliates, holdings and companies subject to their control

At June 30, 2006, the Company had no subsidiaries or affiliates.

1.10. Relationships with related parties

At June 30, 2006, the Company had no relationships with related parties. Moreover, because of the changes in the Board of Directors' structure on July 7, 2006 and described at paragraph 1.12, since then Banca Profilo has become a related party. Paragraph 1.11 however includes the information required by IAS 24.

1.11. Relationship with Banca Profilo

We are providing a brief summary of the amount and nature of the transactions carried out with companies of the Banca Profilo Group in the past six months.

Please note that the Company's first shareholder is Profilo Spinnaker Investment Fund, a closed-end Luxemburgian mutual fund that indirectly holds approximately 44% of the Company's share capital.

Profilo Spinnaker Investment Fund in fact owns a 99.7% shareholding of Spinnaker Holding S.A.'s share capital, which in turn controls 100% of Spinnaker Luxembourg S.A.'s capital, which in turn owns 44% of the Company's capital.
Profilo Spinnaker Investment Fund – of which Banca Profilo directly holds 57.9% - is managed by the company Profilo Management Company S.A., approximately 9.9% owned by Banca Profilo S.p.A.
Also, Banca Profilo holds a direct stake in the Company equal to 2.8%.

BANCA PROFILO GROUP	12/31/2005	6/30/2006
Trade receivables	39,883	-
Trade payables	(300,000)	(150,000)
Financial receivables	30,306,078	18,553,655
Financial payables	(10,102,756)	-
Mortgage loan	(4,761,128)	(4,517,670)
Other revenue	(71,482)	-
Costs of services	(992,029)	(199,920)
Financial income/(charges)	(392,059)	93,565

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

- **Trade receivables / payables and costs of services**

Trade receivables and payables at December 31, 2005, have been extinguished in the first quarter. More specifically, the Euro 300 thousand debt for IPO advisory services was settled in January 2006.
In the first half 2006 the Company sustained costs of services equal to Euro 200 thousand, of which:

- Euro 150 thousand advisory costs related to the acquisition project of the airline Livingston. The residual debt at the end of June amounted to Euro 150 thousand. Please note that in July debt fell to Euro 50 thousand.
- Euro 50 thousand of fees for the greenshoe exercise upon completion of the listing process, paid in full.

- **Financial receivables / payables and financial income / charges**

Eurofly has financial receivables towards Banca Profilo.
A portion of the IPO proceeds has been deposited in a special account with Banca Profilo, having EONIA as credit rate. At December 31, 2005 these funds amounted to Euro 30,306 thousand. During the past six months some funds have been used and transferred to other Company accounts. On the whole, at June 30, 2006 Eurofly's position towards Banca Profilo was positive for Euro 18,554

thousand, from which the mortgage – whose characteristics are described in the Explanatory Notes and of which Euro 4,518 thousand are still due – must be deducted.

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

In 2005 Banca Profilo had granted the Company a cash credit line worth Euro 10,000 thousand (revocable at any time, at an interest rate equal to the 3M Euribor increased by 1 percentage point and, with regard to the amounts extra credit line, equal to the 3M Euribor increased by 3.5 percentage points), guaranteed by a pledge on a capitalization contract with a lump sum premium.

In February 2006 the Company decided to extinguish that credit line, since the spread between the cost of money related to the use of the funds and the yield of the capitalization contract with lump sum premium pledged as credit guarantee (better described in the Explanatory Notes), could no longer justify the transaction. Therefore, the Company decided to sell said contract. Banca Profilo expressed interest in acquiring the contract and liquidated its counter-value at market conditions. The proceeds from the transfer of the policy have been used to extinguish the above-mentioned credit line of Euro 10,000 thousand. Said capitalization contract generated an interest income worth Euro 48 thousand in the period.

The net financial income reported in the first half of 2006 amounted to Euro 94 thousand and included Euro 233 thousand of interest receivables accrued on credit accounts of IPO proceeds and the aforementioned capitalization contract, net of Euro 139 thousand of interest payables accrued on the cash credit lines and on the mortgage.

In 2005 Banca Profilo granted the Company a stand-by credit line with 18 months minus one day maturity and reimbursable upon expiry in the amount of Euro 2,500 thousand, which was partially used during the first months of 2006. At June 30, 2006, the credit line had not been used.

In 2005 the Company stipulated forward exchange contracts with Banca Profilo to hedge against foreign exchange risk fluctuations. At December 31, 2005 forward purchases amounted to USD 10,500 thousand. In the first quarter of 2006 these were fully extinguished, while, at June 30, 2006 the Company had no forward exchange contracts with Banca Profilo.

1.12. Corporate governance

In the first half 2006 the Company's corporate governance remained in line with the requirements of the Corporate Governance Code of listed companies and with CONSOB's recommendations in this respect.

Such a system of corporate governance is basically aimed at creating shareholders value, being aware of the importance of the Company's business and of the associated need to consider all

interests involved for the carrying out of said business adequately.
In 2006 the Company intends to update its corporate governance system to guarantee a permanent alignment with the recommendations envisaged by the latest version of the Corporate Governance Code of the listed companies published in March 2006 and applicable after this date and to which the Company shall conform by end of fiscal year 2006.

- **Board of Directors**

As per art. 14 of the Articles of Association, the Company is managed by a Board of Directors comprised of five to nine members.
The Board of Directors is appointed by the Shareholders Meeting for a period established at the time of the appointment lasting no longer than three fiscal years, and it can be re-elected.
The Board of Directors has a key role in the organization of the company: it is responsible for developing the Company's strategic and organizational goals and for verifying the existence of the necessary controls to monitor the Company's performance.
On April 27, 2006, the Shareholders' Meeting appointed a new Board of Directors that will stay in office for three years until the day of the Shareholders' Meeting to approve the financial statements of the last year of office, more specifically the year ending on December 31, 2008.
During the past six months the Board of Directors held nine meetings which were regularly attended by the Board members and by the Board of Statutory Auditors.

The current members of the Board of Directors are following:

Name and surname	Position	Description
Giuseppe Bonomi	Chairman	Independent
Sandro Capotosti	Vice Chairman	Non Executive
Augusto Angioletti	CEO	Executive
Laura Sanvito	Member of the Board	Non Executive
Eugenio Lapenna	Member of the Board	Independent
Paolo Cantarella*	Member of the Board	Independent
Massimo Caccialupi	Member of the Board	Non Executive

** Coopted by the Board of Directors on July 7, 2006 following the resignation of Vice President Ruggeromassimo Januzzelli.*

The Chairman of the Board of Directors is the legal representative of the Company vis-à-vis third parties and in legal proceedings as provided for by art. 25 of the Company's Articles of Association.
The Vice Chairman is the legal representative of the Company vis-à-vis third parties and in legal proceedings as per art. 25 of the Company's Articles of Association in the event of absence or unavailability, also temporary, of the Chairman.

The Chief Executive Officer has the power to carry out any deed of ordinary administration and management of the Company, both in Italy and abroad, within the limits provided by the law (art. 2381 c.c.) and the Articles of Association, except for the matters falling under the Board's jurisdiction.

In order to provide a more complete information about Board member offices with other companies listed on regulated Italian and foreign markets, in holdings, banks, insurers or large enterprises, it should be noted that Mr. Giuseppe Bonomi has been a member of ANAS S.p.A.'s Board of Directors until last July. Currently, he is the President of Fondazione Comunitaria del Varesotto and Vice President of ESCO ITALIA Srl. The non executive Board member Mr. Paolo Cantarella also holds a seat in the Board of Inpartner – Investitori & Partner Immobiliari - in the foundation The Venice International and in the organizational committee for the XX Olympic Winter Games Turin 2006, and he is also the president of Fondazione Gruppo Abele.

Presently, the Company's Vice President Mr. Sandro Capotosti is the Chairman of the Board of Directors at Banca Profilo S.p.A., Profilo Holding S.p.A. and Profilo Real Estate Advisory S.r.l., as well as a member of Profilo Management Company SA.'s Board.

- **Compensation committee**

Following the appointment of the new Board of Directors during the April 27, 2006 Shareholders' Meeting, the Board meeting held on the same day nominated the following Board Members as members of the Compensation Committee:

- Mr. Paolo Cantarella, President
- Mr. Eugenio Lapenna
- Mrs. Laura Sanvito

The Compensation Committee, as provided for by art. 8 of the Corporate Governance Code of Listed Companies (2002 version), is in charge of examining the compensation criteria for the Company's top management, working out proposals for the Board as regards incentive mechanisms (stock option plans) and the remuneration of Chief Executive Officers and of people holding special offices.

As Members of the Company's Board of Directors, each member of the Compensation Committee will remain in office until the approval of the financial statements for the year ending on December 31, 2008.

In the past six months the Committee met twice. During the April meeting the Committee made a proposal to the Board in respect of the division of the Board members' annual remuneration fixed by the Shareholders' Meeting on April 27, 2006. During its next meeting the Committee deliberated on the remuneration of some of the Company's top managers.

- **Internal audit committee**

Following the appointment of the new Board of Directors during the April 27, 2006 Shareholders' Meeting, the Board meeting held on the same day nominated the following Board Members as members of the Internal Audit Committee:

- Mr. Giuseppe Bonomi, President
- Mr. Eugenio Lapenna
- Mr. Massimo Caccialupi

As provided for by art. 10 of the Corporate Governance Code of Listed Companies (2002 version), the April 27, 2006 Board meeting appointed an Internal Audit Committee with the task of: (i) assisting the Board of Directors in addressing, verifying and controlling the internal audit system; (ii) evaluating the work-plan prepared by the internal auditors and receiving their periodical reports; (iii) evaluating, together with the Company's administrators and auditors, the adequacy of the accounting principles used to prepare the financial statement; (iv) evaluating the proposals submitted by the auditing companies to obtain the audit assignment, as well as the audit work-plan and the results set out in the report and the indication letter; (v) reporting to the Board, at least every six months, in conjunction with the approval of the annual and interim financial reports, about the activity and the adequacy of the internal audit system; (vi) performing the other tasks assigned to the Committee by the Board of Directors.

Furthermore, the Internal Audit Committee is assigned the task of giving a non-binding judgement prior to the definition by the Company of operations with companies of Gruppo Banca Profilo or managers thereof, until Spinnaker Luxembourg S.A. will remain the Company's reference shareholder. Said judgement shall be compulsorily requested by the Board of Directors or by the Chief Executive Officer pro tempore as regards the operations on which he has full powers.

All members of the Internal Audit Committee, as Members of the Company's Board, will stay in office until the approval of the financial statements for the year ending on December 31, 2008.

In the past six months the Committee held three meetings in March and April.

- **Board of Statutory Auditors**

Art. 26 of the Company's Articles of Association establishes that the members of the Board of Statutory Auditors – three permanent and two deputy auditors – shall be appointed by the Shareholders' Meeting through the list voting system in order to ensure that one permanent auditor and one deputy auditor are nominated by the Shareholders' Meeting following the designation by the minority.

The April 27, 2006 Shareholders' Meeting appointed the current Board of Statutory Auditors that will stay in office for the three years 2006-2008.

The Board of Statutory Auditors consists of three permanent and two deputy members. These are:

- Mr. Marco Rigotti, President (permanent Statutory Auditor)
- Mr. Michele Saracino (permanent Statutory Auditor)
- Mr. Guido Mongelli (permanent Statutory Auditor)
- Mr. Dario Fangaresi (alternate Auditor)
- Mr. Antonio Cigala (alternate Auditor)

- **Internal dealing**

As from April 1, 2006 the internal dealing – i.e. transparency of operations on shares and financial instruments of listed companies carried out by their managers and by persons closely linked to the latter – underwent a profound change following the implementation of the EU regulations on market abuse through "Legge comunitaria" 2004 (law of April 18, 2005 no 62 integrating the provisions of art. 114 of Testo Unico della Finanza) and the coming into force of the secondary regulations dictated by CONSOB (art. 152-sexies to 152-octies and enclosure 6 of the Issuers' Regulations).

During its meeting on July 7, 2006 the Board of Directors implemented the requirements of the new regulations, approved the final text of the procedure regarding operations performed by relevant entities (and subjects closely linked to the latter) on the company's financial instruments – which replaces the code adopted by Eurofly S.p.A.'s Board of Directors during the September 13-15, 2005 meetings – and the Rules to manage Insider Information and to create a Register of Persons having access to insider information as per art. 115 bis of TUF.

Therefore, the new internal dealing rules are directly applied by the Company to the purchase, sale, subscription and exchange of Eurofly shares or of the associated financial instruments performed by "relevant entities". The last category encompasses the shareholders owning at least 10% of Eurofly S.p.A.'s capital, the Board members and the Statutory Auditors of Eurofly S.p.A., as well as (to date) other managers – identified in the company based on the reference regulations – who have regular access to insider information and are empowered to take management decisions that might influence the Company's development and future prospects.

The transparency requirements apply to all the aforementioned operations with a total counter value of up to Euro 5,000 per year, also those carried out by persons closely linked to the "relevant entities".

While issuing the measures to implement the new reference regulations for internal dealing internally, Eurofly S.p.A.'s Board of Directors deemed it opportune to envisage the possibility that the Company makes announcements on behalf of Relevant Entities according to the terms defined by the adopted Operating Procedure.

Eurofly S.p.A.'s Board of Directors deemed it opportune to provide for the compulsory abstention of the "relevant entities" from carrying out operations subject to internal dealing rules during the blocking periods that last approximately one month each and fall shortly before the approval of the annual and interim financial statements, as decided by the Board of Directors.

According CONSOB's recommendations, the operations subject to internal dealing rules announced by Eurofly S.p.A. to the market and carried out as from April 1, 2006 by the identified "relevant entities" and persons closely linked to them, are:

- Purchase of 26,300 shares by the Chief Executive Officer of the company Augusto Angioletti between May 29 and June 5, 2006 at an average price of Euro 3.79

- **Measures adopted as regards administrative responsibilities of juridical persons (D.lgs. 231/2001)**

With reference to the measures taken by the Company according to the provisions of decree 231/2001 (Administrative responsibility of juridical persons) and, consequently, in view of the creation of an organizational, management and control model to prevent crimes regarding relationships with public administration and on company matters, it should be noted that activities aimed at defining and implementing said organizational model are currently underway.

1.13. Main events occurred after first half 2006 end

1.13.1. Selection of a new partner for maintenance activities

After the closing of the half-year the tender called by Eurofly to select a new partner for maintenance activities was still open. At the current stage the bids have been almost completed with positive expectations in terms of service quality and costs. Moreover, there exists a real interest in the possibility that the bidders set up a maintenance company at the Malpensa airport.

1.13.2. Suspension of negotiation with "I Viaggi del Ventaglio" for the acquisition of Livingston Aviation Group without exclusive right

The period of exclusive negotiations that "I Viaggi del Ventaglio" had granted to Eurofly within the acquisition project of Livingston ended on August 31. "I Viaggi del Ventaglio" confirmed its willingness to pursue the ongoing negotiations, but not in exclusive, also in the attempt to share the project with potential new investors of the Group.

Pursuant to the aforementioned and as regards the progress of negotiations with "I Viaggi del Ventaglio", Eurofly decided to stop the Livingston acquisition project.

1.13.3. Creation of a company in Egypt

Considering the evolution of the political situation in the Middle East, the Company resolved to interrupt its project to set up an Egyptian flag charter company to avoid increasing its exposure to this area. This decision had no significant economic effects.

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

The first hearing of the arbitration related to the dispute with Teorema Tour S.p.A. took place on July 12, 2006. On that occasion the board of arbitrators established the rules of the arbitration and the first deadlines for the parties. At the beginning of October Eurofly and Teorema Tour S.p.A. shall present a memorandum including questions, evidences and documents simultaneously, while in mid November they shall simultaneously submit the reply memorandum. The board of arbitrators eventually fixed the hearing for the treatment and the potential conciliation attempt on December 5.

1.13.5. Tax police inspection

On May 23, 2006 the tax police started a partial fiscal investigation regarding the income tax for fiscal year 2004. Investigations are still under way and have not produced comments or significant results or conclusive indications about the hypothetical minutes that will be drawn up at the end of the inspection.

1.14. Predictable development of operations

For the first half of 2006 the Company expected a result lower than the one reported in the same period last year. This was mainly due to the start of A319's operations and to the performance of the two other Business Units, especially Medium Range. The Medium Range revenue estimates were cautious since linked to the forecasts of winter traffic towards the Red Sea, an area that is still recovering after the terrorist attacks of summer 2005, to a lower fleet availability as a result of the decision not to increase wet lease capacity in summer, and to the increase of ACMI hours (characterized by lower yields compared to own business). Margins were penalized by the increase of leasing costs (partially indexed to interest rates) and fuel prices. Also, expectations for Long Range were conservative with a higher revenue in the first half of 2006 versus 2005 thanks to a higher fleet availability, but once again with rising leasing and fuel costs that compressed margins.

The operating loss of the first six months exceeded estimates because of the extension of the start-up period for the All Business activity (as a consequence of the shift of activities from Linate to the Malpensa airport), of the worsening of the external variables and of a weak performance of the Medium Range BU. Net income was furthermore penalized by provisions for credit write-downs, financial charges and higher-than-estimated foreign exchange differences.

The following table summarizes the main data of operations in July/August:

Flight hours per type
In flight hours

	July-August 06	July-August 05	Δ	Δ %
Block hours	9.451	8.941	510	5,70%
ACMI	117	49	68	138,78%
REPRO	36	1.270	-1.234	-97,17%
Total flight hours	**9.604**	**10.260**	**-656**	**-6,39%**

Flight hours per SBU
In flight hours

	July-August 06	July-August 05	Δ	Δ %
Medium Range	5.738	7.124	-1.386	-19,45%
Long Range	3.060	3.135	-75	-2,40%
All Business	806	0	806	0,00%
Total flight hours	**9.604**	**10.260**	**-656**	**-6,39%**

The flight hours operated with third-parties' machines in wet lease (REPRO hours) are almost entirely related to Medium Range. Hence, the reduction of hours compared to the same period last year is mainly the result of a decline of the capacity offered.

On the other hand the unexpected weakness of the Egyptian market and the cancellation of operations towards Israel following the crisis in the Middle East translated into a decrease of flight hours compared to expectations.

Long Range flight hours are broadly in line with estimates, falling 2.4% compared to July-August 2005.

The performance of A319, despite growing, still suffers from the forced turnaround in the marketing strategy following the transfer from Linate to Malpensa.

According to the Company, a trend reversal of the macro elements that negatively affected the results of the first six months is unlikely. In particular, the transfer of All Business from Linate to Malpensa and the subsequent re-definition of the marketing and distribution strategy will lead to a result below expectations for the current year in terms of carried passengers, load factor and unit revenue.

This situation is also penalized by the aforementioned weakness of the Medium Range business resulting from the difficulties of the Tour Operators to sustain demand, and by the unfavourable trend of the external variables.

The Company, expecting to close fiscal year 2006 at a loss, is studying measures, also of structural nature.

2. FINANCIAL STATEMENTS

2.1. Balance sheet

Riclassified balance sheet

30.06.05		30.06.06	31.12.05	Change
55.069	Tangible fixed assets	58.198	59.902	(1.704)
4.788	Other intangibles	4.874	5.240	(365)
34.249	Other long term and financial investments	24.420	34.981	(10.561)
1.145	Deferred tax assets	4.165	2.887	1.278
95.251	**Total non current assets**	**91.657**	**103.009**	**(11.352)**
2.151	Stocks	2.778	2.140	638
42.205	Trade receivables and other receivables	47.839	45.978	1.861
6.491	Other assets	9.920	6.415	3.505
11.246	Cash and cash equivalents	35.029	40.749	(5.719)
62.094	**Total current assets**	**95.567**	**95.282**	**285**
0	**Non current assed for disposal**	0	0	0
157.345	**Total assets**	**187.224**	**198.291**	**(11.067)**
6.667	Share capital	13.355	12.965	390
4.557	Reserves	32.486	33.286	(800)
(3.201)	Profit / (losses)	(11.992)	(2.775)	(9.218)
8.023	**Total net equity**	**33.849**	**43.476**	**(9.627)**
31.489	Long term loans	33.731	34.874	(1.143)
26	Defferred tax liabilities	238	185	53
3.079	Long term provision for risk and charges	3.288	3.049	239
34.594	**Total non current liabilities**	**37.257**	**38.108**	**(851)**
72.819	Trade payables and other liabilities	83.141	80.590	2.552
32.638	Short term loans	23.088	26.671	(3.584)
2.149	Current portion on long term loans	2.258	2.203	55
7.122	Short term provisions for risk and charges	7.631	7.243	388
114.728	**Total current liabilities**	**116.118**	**116.707**	**(589)**
0	**Non current liabilities for disposal**	0	0	0
157.345	**Total net equity and liabilities**	**187.224**	**198.291**	**(11.067)**

Translated from the original version in Italian

2.2. Income statement

We are presenting a comparison between the first half 2006 and the first half 2005.

2005	% on revenues	Riclassified income statement	I half 2006	% on revenues	I half 2005	% on revenues	Change	Change %
		Euro/000						
271.475	100,0%	Revenues from sales and services	130.872	100,0%	127.859	100,0%	3.013	2,4%
5.986	2,2%	Other revenues and income	4.616	3,5%	764	0,6%	3.852	504,4%
277.461	**102,2%**	**Total revenue**	**135.488**	**103,5%**	**128.623**	**100,6%**	**6.865**	**5,3%**
2.674	1,0%	Direct commercial expenses	3.194	2,4%	1.444	1,1%	1.750	121,2%
72.535	26,7%	Jet Fuel	41.018	31,3%	32.748	25,6%	8.270	25,3%
39.143	14,4%	Staff costs	19.427	14,8%	19.319	15,1%	108	0,6%
33.137	12,2%	Materials and maintenance services	18.698	14,3%	16.297	12,7%	2.401	14,7%
84.156	31,0%	Other operating costs and wet lease	31.311	23,9%	42.687	33,4%	(11.377)	-26,7%
14.280	5,3%	Other commercial and corporate costs	8.147	6,2%	6.317	4,9%	1.830	29,0%
27.034	10,0%	Operative rentals	17.464	13,3%	11.875	9,3%	5.589	47,1%
4.836	1,8%	Depreciation and amortization	3.278	2,5%	1.507	1,2%	1.771	117,6%
2.000	0,7%	Other provisions	1.487	1,1%	322	0,3%	1.165	362,0%
559	0,2%	Provisions for risk and charges	436	0,3%	518	0,4%	-82	-15,8%
280.357	**103,3%**	**Total costs**	**144.459**	**110,4%**	**133.034**	**104,0%**	**11.425**	**8,6%**
(2.896)	**-1,1%**	**Operating results**	**(8.971)**	**-6,9%**	**(4.411)**	**-3,4%**	**(4.560)**	**103,4%**
(225)	-0,1%	Financial income /(charges)	3.623	2,8%	(328)	-0,3%	3.952	1204,3%
(2.671)	**-1,0%**	**Pre tax profit**	**(12.594)**	**-9,6%**	**(4.083)**	**-3,2%**	**(8.511)**	**-208,5%**
1.685	0,6%	Tax charges	(602)	-0,5%	698	0,5%	(1.300)	-186,1%
(1.581)	-0,6%	(Profit)/Loss on sales of assets	0	0,0%	(1.580)	-1,2%	1.580	100,0%
(2.775)	**-1,0%**	**Net profit/(Loss)**	**(11.992)**	**-9,2%**	**(3.201)**	**-2,5%**	**(8.791)**	**-274,6%**

Translated from the original version in Italian

We are presenting a comparison between the second quarter of 2006 and the second quarter of 2005.

Riclassified income statement	**II quarter 2006**	**% on revenues**	**II quarter 2005**	**% on revenues**	**Change**	**Change %**
Euro/000 UNAUDITED						
Revenues from sales and services	69.520	100,0%	66.770	100,0%	2.749	4,1%
Other revenues and income	3.468	5,0%	702	1,1%	2.766	394,1%
Total revenue	**72.988**	**105,0%**	**67.472**	**101,1%**	**5.515**	**8,2%**
Direct commercial expenses	2.727	3,9%	1.087	1,6%	1.640	150,9%
Jet Fuel	22.275	32,0%	17.965	26,9%	4.310	24,0%
Staff costs	9.913	14,3%	9.925	14,9%	(12)	-0,1%
Materials and maintenance services	9.533	13,7%	8.154	12,2%	1.379	16,9%
Other operating costs and wet lease	17.278	24,9%	22.173	33,2%	(4.895)	-22,1%
Other commercial and corporate costs	4.786	6,9%	3.142	4,7%	1.644	52,3%
Operative rentals	8.617	12,4%	6.438	9,6%	2.179	33,8%
Depreciation and amortization	1.655	2,4%	781	1,2%	874	112,0%
Other provisions	1.487	2,1%	322	0,5%	1.165	0,0%
Provisions for risk and charges	192	0,3%	(335)	-0,5%	527	-157,3%
Total costs	**78.462**	**112,9%**	**69.649**	**104,3%**	**8.812**	**12,7%**
Operating results	**(5.474)**	**-7,9%**	**(2.177)**	**-3,3%**	**(3.297)**	**151,4%**
Financial income /(charges)	2.498	3,6%	(496)	-0,7%	2.993	604,1%
Pre tax profit	**(7.972)**	**-11,5%**	**(1.682)**	**-2,5%**	**(6.290)**	**-374,0%**
Tax charges	(372)	-0,5%	194	0,3%	(566)	-291,7%
(Profit)/ Loss on sales of assets	0	0,0%	(207)	-0,3%	207	-100,0%
Net profit/(Loss)	**(7.600)**	**-10,9%**	**(1.669)**	**-2,5%**	**(5.931)**	**-355,4%**

Translated from the original version in Italian

3. EXPLANATORY NOTES

EXPLANATION ADDED FOR ENGLISH TRANSLATION PURPOSES

The half-year report at June 30, 2006, has been translated into English from the original version in Italian, which has been prepared in accordance with the international accounting principles ("IAS/IFRS")

3.1. Accounting principles, valuation criteria and estimates used in the half-year report at June 30, 2006

We are presenting the accounting principles, valuation criteria and estimates used by the Company to draw up the half-year report at June 30, 2006 and to determine the accounting values of fiscal year 2005 according to IAS/IFRS.

- **General criteria**

This half-year report has been drawn up according to IAS/IFRSs issued by IASB, as homologated by the European Union. IAS/IFRSs stand for International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) respectively and are integrated with IFRIC's interpretations, previously called SIC.

This report has been prepared based on the historical cost principle, except for the revaluation of some financial instruments. The main accounting principles adopted are set out in the following paragraphs.

- **Recognition of costs and revenue**

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

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

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

- **Post employment benefits**

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

- **Taxes**

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

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

- **Non current assets**

Intangible assets

Intangible assets comprise costs, inclusive of additional charges, sustained to acquire intangible resources provided that their amount can be quantified and the Company can easily identify and control these assets.
Intangible assets are accounted for at their purchase or production cost inclusive of additional charges and amortized according to their future utility period. In case of impairment loss, intangible assets are written down accordingly based on the criteria set out in the paragraph "Impairment loss of intangible and tangible assets" described below.
The amortization periods of the various intangible assets items are the following:

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

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

Tangible assets

Tangible assets are accounted for provided that their cost can be determined reliably and that the Company may profit by their future financial benefits.
Tangible assets are booked at their purchase or production cost, inclusive of additional charges and the portion of direct and indirect costs reasonably connected with the assets. The benefits obtained from these investments are entered in the income statement along the necessary period to correlate them with the associated costs, from which they are deducted directly. In case of impairment loss, the

tangible fixed assets are written down accordingly based on the criteria set out in the paragraph “Impairment loss of intangible and tangible assets” described below.

Tangible assets are regularly depreciated at flat rates in each fiscal year based on economic/technical rates determined in relation to the residual possibilities to use the assets. The assets consisting of components with a different useful life are considered separately in determining the depreciation. The useful life and depreciation criteria are reviewed periodically and in the event of significant differences from the assumptions previously applied, the amortization rate is adjusted using the “projection” method.

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

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

The applied rates are reduced to 50% for the assets coming into operation during the period, since this percentage represents the weighted average of the coming into operation of the assets during the year. Depreciation starts when the assets are ready for use.

In particular, the depreciation rates are following:

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

- modifications and standardizations of the aircraft fleet are depreciated according to the life of the operating leasing contracts.

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

The depreciation of the aircraft is determined based on a single-component approach: engines in 6 years and cell components in 25 years.

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

The costs of operating lease instalments are included at constant rates based on the life of the contract. The benefits obtained or to be obtained or granted or to be granted as incentives to enter operating leases are also accounted for at constant rates based on the duration of the contract.

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

Impairment of tangible and intangible assets
At each reference date the Company reviews the book value of its tangible and intangible assets looking for indications of asset impairment. If these indications are found, the Company estimates the recoverable amount of these assets in order to assess their potential impairment. If the recoverable value of an asset cannot be estimated individually, the Company estimates the recoverable value of the source of cash flows to which the asset belongs. In particular, this minimum aggregation unit corresponds to the Business Unit (Medium Range, Long Range and All Business).
The recoverable amount is the highest value between the fair value net of the selling costs and the value in use. In determining the value in use, the future estimated cash flows are discounted to their present value based on a rate gross of taxation that reflects current market valuations of the value of money and of business-specific risks.
If the recoverable amount of an asset (or of a source of cash flows) is estimated below its book value,

it is reduced to the minimum recoverable value. An impairment is immediately charged to the income statement.
When there are no longer reasons for an impairment, the book value of the asset (or of a source of cash flows), except for goodwill, is raised up to the new value deriving from the estimate of its recoverable amount, but not above the net book value of that asset if it had not been written down for impairment loss. The value recovery is immediately booked in the income statement.

Non current assets held for sale

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

- **Current assets and liabilities**

Inventories

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

Financial instruments

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

- Trade receivables

Trade receivables are disclosed at their nominal value adequately written down in order to reflect the estimated loss on receivables.

- Financial assets

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

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

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

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

- Cash and cash equivalents

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

- Financing, bank loans and bank overdrafts

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

- Trade payables

Trade payables are booked at their nominal value.

- Derivatives and accounting for hedging operations

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

Derivatives are initially entered at cost, then they are valued at fair value at the subsequent closing dates and charged to the income statement, as no structured procedures determining their hedging efficacy exist.

- **Provisions**

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

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

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

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

3.2. Main variations of the balance sheet

3.2.1. Non current assets

At June 30, 2006 the non current assets amounted to Euro 91,657 thousand decreasing by Euro 11,352 thousand with respect to December 31, 2005.

At June 30, 2006 **Tangible Assets** amounted to Euro 58,198 thousand with respect to Euro 59,902 thousand at December 31, 2005, decreasing by Euro 1,704 thousand mainly due to the depreciation of the period.

The variations are indicated in the following table.

Euro/000	Gross value				Accumulated depreciation				Net Value
	Gross value as at 31/12/05	Increases	Decreases	Gross value as at 30/06/06	Accumulated depreciation 31/12/05	Depreciation of the year	Decreases	Accumulated depreciation 30/06/06	
1) Land and buildings	8.426	10	-	8.436	314	126	-	440	7.996
2) Installation and machinery	50.419	613	113	50.919	5.010	2.062	5	7.067	43.852
3) Equipment	817	2	-	819	343	47	-	390	428
4) Other assets	2.073	66	-	2.139	1.134	120	-	1.254	885
5) Fixed tangibles under construction	4.967	69	-	5.037	-	-	-	-	5.037
Total tangible assets	**66.702**	**759**	**113**	**67.350**	**6.802**	**2.355**	**5**	**9.152**	**58.198**

The increases of the year are mainly the consequence of improvements of the aircraft fleet (Euro 322 thousand), besides of the purchase of avionic temporary components worth Euro 291 thousand.

At June 30, 2006 **Intangible Assets** amounted to Euro 4,874 thousand versus Euro 5,240 thousand at December 31, 2005. They decreased by Euro 365 thousand due to Euro 557 thousand of investments in the period and Euro 923 thousand of amortization in the period.

The variations are indicated in the following table.

Euro/000	Gross value				Accumulated amortization			Net value
	Gross value as at 31/12/05	Increases	Decreases	Gross value as at 30/06/06	Accumulated amortization 31/12/05	Amortization of the year	Accumulated amortization 30/06/06	
1) Start up costs	5.565	196	-	5.761	3.107	562	3.669	2.092
2) Research, development and advertising costs	432	-	-	432	160	43	203	228
3) Concessions, licenses, trademarks and similar rig	1.931	316	-	2.247	573	168	741	1.506
6) Fixed assest under construction	32	-	-	32	-	-		32
7) Other intangible fixed assets	1.753	46	-	1.799	633	149	782	1.017
Total intangible fixed assets	**9.713**	**557**	**-**	**10.271**	**4.474**	**923**	**5.397**	**4.874**

The increases are mainly the result of investments in software (Euro 316 thousand) and start-up costs for new activities in Russia.

At June 30, 2006 the **Financial Assets** amount to Euro 24,420 thousand.

30.06.05	*Euro/000*	30.06.06	31.12.05	Change
18.462	Financial receivables	13.134	18.906	(5.772)
6.541	Security deposits on operating leases	8.670	10.869	(2.199)
9.246	Other security deposits	2.616	5.206	(2.590)
34.249	**Total financial assets**	**24.420**	**34.981**	**(10.561)**

These assets strongly decreased from December 31, 2005, mostly because of the sale of capitalization contract with lump sum premium for Euro 10,841 thousand, better described at paragraph 1.11.

The write-down of financial receivables is to be mainly ascribed to the net effect of the disposal of the aforementioned contract and to an increase of Euro 5.000 thousand linked to the Livingston deal (see paragraphs 1.4.4 and 1.13.2). More specifically, Euro 4,0 million have been paid in a term escrow account related to the payment of the purchase price, and Euro 1 million were paid to "I Viaggi del Ventaglio" directly subject to a pledge on avionic spare parts in favour of Eurofly.

The decrease of the guarantee deposits on operating leases and of the other guarantee deposits is linked to their redemption during the six months following their replacement with guaranties.

At June 30, 2006 **Advance Taxes** amounted to Euro 4.165 thousand increasing by Euro 1.278 thousand with respect to December 31, 2005. This increase is linked to the taxed provisions to the bad debt reserve and to cyclical maintenance carried out during the first half of 2006.

3.2.2. Current assets and liabilities

At June 30, 2006 **current assets** amount to Euro 95.567 thousand, substantially in line with December 31, 2005.

There follows a description of the main items:

- The "inventories", equal to Euro 2.778 thousand, mainly regard avionic material.
- "Trade receivables and other credit", in the amount of Euro 47.839 thousand (net of the bad debt reserve of Euro 8.700 thousand), increased (by Euro 843 thousand) with respect to December 31, 2005. It should be noted that the period was characterized by two trends, one linked to the quicker collection of charter proceeds and the other linked to the increase of scheduled flight tickets in the US market, which, compared to the Italian market, presents a delayed collection of credit card payments of approximately one month.

  Provisions for bad debt reserve were equal to Euro 1.487 thousand in the half-year, while Euro 301 thousand have been used. Consistently with 2005, also in the first half of 2006 the Company accounted for large accruals to the bad debt reserve in order to adequately face the risk that some specific positions become due and the general risk connected with the worsening of the clients' solvency capacity connected with the difficult Tour Operating market in Italy, as well as with disputes and litigations. In respect of the litigation with Teorema Tour S.p.A., of which notice was given in the financial statements as at December 31, 2005, it should be noted that on April 19, 2006 Eurofly started the arbitration as provided for by the agreement, notifying its arbitrator to the counterpart. On May 9, 2006 Teorema Tour notified the appointment of its arbitrator to Eurofly. We highlight that the litigation regards Eurofly's accounts receivables towards Teorema Tour for approximately Euro 3 million and USD 3 million, as well as penalties for breach of contract due to flight cancellations in the amount of Euro 14,7 million, which were not accrued in the balance sheet having been contested by the counterpart. On the other hand Teorema Tour claims an amount of approximately Euro 1,2 million. The evolution is described at paragraph 1.13.4.

As to the other litigations, no particular developments in respect to what announced in the financial statements at December 31, 2005, occurred.

With reference to the trade relationship with the Ministry of Defence – since July 2004 – some differences in the interpretation of the contractual provisions emerged, whose effects on the credit position at June 30, 2006, equal to Euro 6,1 million, are being analysed with legal support.

- The "other assets" item, equal to Euro 9.920 thousand, mainly includes deferred charges related to insurance, marketing, lease and operating costs.
- Cash and cash equivalents went from Euro 40.749 thousand at December 31, 2005 to Euro 35.029 at June 30, 2006. The fluctuation of this item is analysed thoroughly in the description of the net financial position and of the cash flow statement at paragraphs 3.4.1 and 3.4.2.

At June 30, 2006 **current liabilities** amounted to Euro 116.118 thousand, almost in line with the balance at December 31, 2005.

There follows a description of the main items:

- "At June 30, 2006 "trade payables and other payables" amounted to Euro 83.141, increasing by Euro 2.552 thousand. As highlighted in the table below, the increase is linked to the net effect between a reduction of the amounts due to suppliers and the increase of deferred income. The decrease of the amounts due to suppliers is the result of a higher payment punctuality, according to an industry-specific trend.

  The increase of accrued expenses and deferred income is substantially the consequence of the invoicing of the July flights in June and of the sale of scheduled flight tickets pertaining to the following months.

30.06.05		30.06.06	31.12.05	Change
1.840	Advanced payment	1.694	2.017	(323)
50.401	Debts due to supplier	46.612	52.826	(6.214)
1.730	Debts due to tax authorities	1.262	3.009	(1.748)
1.006	Debts due to Social Security and Insurance	1.077	1.615	(538)
3.208	Other debt	2.850	4.863	(2.012)
14.634	Accrued expensed and deferred income	29.645	16.259	13.386
72.819	**Commercial debts and other debts**	**83.141**	**80.590**	**2.551**

- The amounts due to banks fall from Euro 26,671 at December 31, 2005 to Euro 23.088 thousand at June 30, 2006. The fluctuation of this item is analysed thoroughly in the description of the net financial position and of the cash flow statement at paragraphs 3.4.1 and 3.4.2.
- The current portions of long-term financial debts, equal to Euro 2.258 thousand, are almost in line with the level of December 31 and June 30, 2005. This item consists of the short-term portion of the mortgage and of the financial debt related to the purchase of aircraft A319CJ through a financial lease.
- The provisions for risks and charges (current portion), equal to Euro 7.631 thousand, are basically in line with the balance at December 31, 2005. These provisions mostly consist of provisions to aircraft phase-out reserves accounted for by the Company – counterbooking are tangible assets – in view of the future costs of fleet replacement. The portion of these charges related to the 2006 first half is booked in the “depreciation and amortization” item of the income statement for Euro 402 thousand. The half-year provision, equal to Euro 436 thousand, is related to the provisions for cyclical engines maintenance calculated based on hours of employment, and are classified as “accruals to provisions for risks and charges” of the income statement.

3.2.3. Non current liabilities

At June 30, 2006 the non-current liabilities amounted to Euro 37.257 thousand showing a minor decrease (Euro 851 thousand) with respect to their balance at December 31, 2005.

There follows a description of the main items:

- Long-term financial loans decrease from Euro 34.874 thousand at December 31, 2005 to Euro 33.731 thousand at June 30, 2006. They consist of medium/long-term portions of debt towards Banca Profilo related to the mortgage loan, of debt towards LOCAT regarding the financing of A319 CJ and of financing of shareholders, unchanged compared to the previous fiscal year and equal to Euro 4,5 million.
- Deferred tax liabilities come at Euro 238 thousand and are mainly the consequence of the valuation at fair value of the forward exchange contracts and of the fiscal effect related to the

accounting of the financial lease of aircraft A319 CJ according to IAS 17.

- The accrual to provisions for risks and charges amounts to Euro 3.288 and is almost entirely pertaining to the Severance Pay Fund.

3.2.4. Movements of net equity

The net equity varied from Euro 43.477 thousand at December 31, 2005 to Euro 33.849 thousand at June 30, 2006. The movements, detailed below, regard the greenshoe exercise in January 2006 and the half-year loss.

Euro/000	**Share capital**	**Share premium**	**Legal reserve**	**Statutory reserve**	**Profit (loss) carried forward**	**Profit (loss) of the year**	**Total**
Net equity 31 December 2005	**12.965**	**29.127**	**478**	**3.681**	-	**(2.775)**	**43.476**
Appropriation on 2005 results					(2.775)	2.775	
Greenshoe exercise	390	1.975					2.365
1 Half 2006 net loss						(11.992)	(11.992)
Net equity 30 June 2006	**13.355**	**31.102**	**478**	**3.681**	**(2.775)**	**(11.992)**	**33.849**

3.3. Income statement

3.3.1 First half 2006 results

Revenue

In 2006 revenue from sales and services have grown by more than Euro 3.013 thousand compared to the first half of 2005, despite flight hours in the two periods being substantially aligned.

This is mainly the result of the growth of Long Range and the start of the All Business activity, which more than offset the decline of Medium Range revenues, as highlighted in the following table.

Revenue from sales and services

Euro/000

2005		I Half 2006	I Half 2005	Change	Change %
-	All Business	441	-	441	na
149.204	Medium Range	62.798	67.558	-4760	-7,05%
122.271	Long Range	67.634	60.301	7.333	12,16%
271.475	**Total**	**130.873**	**127.859**	**3.013**	**2,36%**

The decline of Medium Range revenues is the effect of volumes and flight hours mix. The first factor is linked to a decrease of flight hours as a consequence of the lower capacity offered (no active wet lease in summer). The second is related to the higher weight of the ACMI business in the six months, that involves a lower unit revenue for the charter business (as per ACMI contracts, operating and fuel costs are borne by the buyer). Conversely, it should be noted that the average charter revenue in the six months were up 7% with respect to last year.

As to Long Range, the increase of revenue from sales and services is due to the combined effect of the increase in flight hours of over 7.6% and in the average revenue per flight hour of approximately 2%.

The All Business activity is discounting start-up problems, as described in the previous sections.

The trend of flight hours, productivity and revenue per flight hour have been discussed in the previous paragraphs of this report on operations.

The other revenue reports a significant increase of Euro 2,8 million, mainly due to the active rent of aircraft A319 in the first half of 2006 for an amount of approximately Euro 1 million, to approximately Euro 1,4 million of penalties charged to Tour Operators for cancellations in June as required by contractual provisions, and to approximately Euro 1,7 million related to contributions for operating expenses obtained in support of the All Business activity.

<u>Costs</u>

- **Direct commercial costs**

Commercial costs rise by Euro 1.750 thousand and their weight on revenues goes from 1.1% in the first half of 2005 to 2.4% in the first half of 2006. The expansion of the Long Range scheduled business and the start of All Business activity mostly determined a significant growth of commercial and distribution costs on global systems.

- **Jet fuel**

Fuel costs increase by more than Euro 8 million with a weight on revenue from sales and services rising from 25.6% to 31.3%. This growth must be ascribed to the price increase of crude oil and refined products that affect Jet Fuel quotations, and to the strengthening of the US dollar in the first half of 2006 with respect to the same period in 2005, which have been only partially offset by the positive effect of the carrying out of part of Medium Range activities through ACMI contracts (fuel and other operating costs borne by the client).

- **Staff**

Staff costs are substantially aligned with the first half of 2005 with a weight on revenue declining slightly. Despite the fleet expansion, the average flight staff increased modestly reflecting a more efficient employment of the resources.

- **Materials and maintenance services**

The costs for materials and maintenance services increase by circa Euro 2.401 thousand with a weight on revenue from sales and services rising from 12.7% in the first half 2005 to 14.3% in the same period in 2006. The increase of these costs is mainly the result of the entry in fleet of the third A330 in operating lease at the end of May 2005, which replaced the 2005 wet leases (maintenance costs not borne by Eurofly), and of A319. Maintenance costs have been also influenced by the trend of the US dollar exchange rate.

- **Other operating costs and wet lease**

As indicated in the table below, the costs under analysis show a decrease compared to the previous period.

2005	% on revenues		I Half 06	% on revenues	I Half 05	% on revenues	Change	Change %
71.172	26,3%	Other operating costs	31.311	23,9%	34.682	27,1%	-3.371	-9,7%
12.984	4,8%	Wet lease	0	0,0%	8.005	6,3%	-8.005	-100,0%
84.156	**31,0%**	**Total**	**31.311**	**23,9%**	**42.687**	**33,4%**	**-11.377**	**-26,7%**

This reduction is due to the lack of passive ACMI lease costs for circa Euro 8 million, of which approximately Euro 1,9 million for Medium Range activities (operated in 2005 to increase the capacity offered in summer) and Euro 6,1 million on Long Range activities (operated in the first months of 2005 while waiting for the entry in fleet of the third A330). In 2006 the Long Range operations have been covered by Eurofly's third A330, which entered the fleet in May 2005.

The decrease of the other operating costs is mainly due to the replacement of the own business with ACMI activities for third parties, whose operating costs are borne by the client, to the renewal of contracts with some suppliers, especially as regards airport services, and to the implementation of the "System requirements" regulations (law 248/2005 of December 2, 2005). On the other hand, the increase of some operating costs is related to the US dollar appreciation and to the increase of insurance charges following the fleet expansion.

- **Other commercial and corporate costs**

This cost item increases by approximately Euro 1,8 million.

This growth should be mainly ascribed to an increase of the expense for commercial campaigns and sponsorships, amongst which those related to the National Italian Football Team, to costs previously suspended and related to the start of A319, to higher insurance charges deriving from an increase in passengers carried and to additional charges linked to the LAG acquisition represented by consultancy fees.

- **Rentals**

The increase of operating rentals is described in the table below:

2005		I Half 06	I Half 05	Change	Change %
17.581	A320	10.726	7.880	2.846	36,1%
9.435	A330	6.737	3.995	2.742	68,6%
27.034	**Total**	**17.464**	**11.875**	**5.589**	**47,1%**

The increase of leases for the Medium Range fleet is the result of various factors, such as the increase of interest rates (to which the rentals of five of the eight A320 leased are indexed), the higher amount of machine months compared to last year and the renegotiation of some contracts expired in August 2005, which lead to an increase of the lease values of three aircraft, as well as the aforementioned appreciation of the US currency.

As to the Long Range fleet, the increase is principally linked to the entry in fleet of the new A330, besides the aforementioned trend of foreign exchange. Such a cost increase partly offsets the minor wet lease costs sustained in 2005 to have a long Range fleet of three aircrafts.

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

The increase of depreciation and amortization is mainly justified by the entry in fleet of A319 CJ (in the first half of 2006 it generated D&A costs of approximately Euro 1,1 million versus Euro 0,2 million in the first half of 2005), besides by higher D&A costs deriving from the modifications of the A330 fleet during 2005.

The increase of the other provisions is mainly the result of the accruals to the bad debt reserve already analysed at paragraph 3.2.2.

Operating result

Given the trend of revenue and costs illustrated in the previous paragraphs, the operating result of the first half of 2006 is negative for Euro 8.971 thousand, falling from the negative result of Euro 4.411 thousand of the same period last year. The associated margin has fallen from –3.4% to –6.9%.

- **Financial income and expenses**

The trend of financial expenses is shown in the following table:

Euro/000	**I Half 06**	**I Half 05**	**Delta**
Interest payable on A319 leasing	(734)	(128)	(606)
Fair value on derivatives	(460)	52	(512)
Commissions on granted credit lines	(220)	(119)	(101)
Other income and financial charges	(303)	(238)	(65)
Loss/(gains) on exchange rates	(1.906)	761	(2.667)
Total income and financial charges	**(3.623)**	**328**	**(3.951)**

The increase of financial expenses is mainly the consequence of the higher cost of the financial expenses on the A319 lease, of costs for bank guaranties replacing securities deposits and of the calculation of the fair value on forward exchange contracts in US dollars (as better illustrated at paragraph 3.4.1), of other expenses and financial expenses and net loss on exchange rates.

The loss on exchange rates mostly refers to unrealized items related to the write-down of the guarantee deposits following the US dollar devaluation with respect to the Euro compared to the end of 2005 and the first six months of 2006.

- **Taxes**

In the first six months of 2006 taxes are positive for Euro 602 thousand. The first half of 2006 highlights a tax benefit connected with the payment of deferred tax assets for approximately Euro 1.146 thousand with respect to an allocation of current taxes, related to IRAP alone (regional tax for productive activities), of approximately Euro 545 thousand.

- **Result of the period**

Based on the aforementioned, the half-year result is negative for Euro 11.992 thousand with respect to a negative result of Euro 3.201 thousand in the previous period, which also benefited from Euro 1.580 thousand of capital gains on the sale of MD80/82.

3.3.2. Second quarter 2006 results

In the second quarter operations have expanded by 325 hours compared to the same period in 2005 as a result of an increase of 621 hours in Long Range and a decrease of 713 hours in Medium Range. The increase of Long Range hours is due to a higher fleet availability, whereas the decline of Medium Range hours mainly result from a lower capacity offered (lack of additional aircraft in wet lease) and from cancellations of flights towards the Middle East made in June.

Flight hours per SBU
In flight hours

2005		II quarter 2006	II quarter 2005	Δ
27.996	**Medium Range**	6.924	7.637	-713
14.064	**Long Range**	3.737	3.116	621
0	**All Business**	417	0	417
42.060	**Total flight hours**	**11.078**	**10.753**	**325**

The revenue of the period reflects the hours' trend. The total increase of Euro 2.7 million is mainly the result of the Long Range business, which has grown by Euro 5.1 million compared to the same period last year, partially offset by a decrease of Medium Range revenues of approximately Euro 2.8 million.

Revenue from sales and services
Euro/000

2005		II quarter 2006	II quarter 2005	Change	Change %
-	All Business	441	-	441	na
149.204	Medium Range	38.733	41.591	-2858	-6,87%
122.271	Long Range	30.346	25.179	5.167	20,52%
271.475	**Total**	**69.520**	**66.770**	**2.749**	**4,12%**

The other revenue show a significant increase principally due to the contributions for operating expenses obtained in support of the launch of All Business, besides the revenue for penalties emerging in the quarter.

In the second quarter of 2006 costs equal Euro 78,5 million, up approximately Euro 8,8 million compared to the same period in 2005.

The rising trend of this item also reflects the changes in the fleet structure and capacity offered,

besides the higher fuel costs and the additional costs related to the LAG acquisition project.
In order to better understand the trend of the second quarter, the following table shows the EBITDAR and EBITDA figures.

€/000	II Quarter 2006	II Quarter 2005	Change	Change %
EBITDAR	6.476	5.028	1.449	28,8%
Percentage on total revenue	9,30%	7,50%		
EBITDA	-2.140	-1.410	-730	51,8%
Percentage on total revenue	-3,10%	-2,10%		

EBITDAR has grown in absolute terms and in margins mainly through a reduction of operating costs and wet lease. On the other hand, EBITDA has fallen due to higher leasing costs.

The depreciation of A319 and the accruals to the bad debt reserve are the main drivers of the EBIT decline. The result of the second quarter shows a decline from the same period in 2005 due to higher financial expenses, partly offset by deferred tax assets.

3.4. Financial income and expense

3.4.1. Net financial position

In the past six months the Company's net financial position has evolved as follows:

30 June 05	Amounts Euro/000	30 June 06	31 Dec 05	Change	31 March 06
18.462	RECEIVABLES CLASSIFIED AS FINANCIAL FIXED ASSETS	13.134	18.906	(5.772)	8.097
1.346	CASH AND CASH EQUIVALENT	21.774	32.272	(10.498)	25.067
9.900	DERIVATIVES CONTRACTS INCLUDED IN CASH EQUIVALENTS	13.256	8.477	4.779	-
11.246	SUB-TOTAL CASH AND CASH EQUIVALENTS	35.029	40.749	(5.720)	25.067
(22.790)	AMOUNTS DUE TO BANKS	(9.707)	(18.529)	8.822	(6.984)
(9.848)	DERIVATIVES CONTRACTS INCLUDED IN BANK DEBTS	(13.380)	(8.142)	(5.238)	
(32.638)	SUB-TOTAL BANK DEBTS	(23.088)	(26.672)	3.584	(6.984)
(28.638)	AMOUNTS DUE TO LEASING COMPANIES	(26.971)	(27.816)	845	(27.396)
-	AMOUNTS DUE TO SHAREHOLDERS	(4.500)	(4.500)	-	(4.500)
(5.000)	AMOUNTS DUE TO OTHER CREDITORS	(4.518)	(4.761)	243	(4.518)
(36.568)	**NET FINANCIAL POSITION**	**(10.914)**	**(4.093)**	**(6.820)**	**(10.234)**

The decrease of receivables classified as financial fixed assets is to be ascribed to the disposal of a capitalization contract with lump sum premium of approximately Euro 10,8 million included in receivables classified as financial fixed assets, and to the creation of a Euro 5 million deposit for the LAG acquisition.

Also, the net financial position did not benefit from the proceeds of the aforementioned disposal as these were used to settle the amounts due to banks.

The worsening of the net financial position is due to the cash absorption analysed in the cash flow statement section.

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

30 June 05	*Amounts Euro/000*	30 June 06	31 Dec 05	Change	31 March 06
(36.568)	**NET FINANCIAL POSITION**	**(10.914)**	**(4.093)**	**(6.821)**	**(10.234)**
(18.462)	RECEIVABLES CLASSIFIED AS FINACIAL FIXED ASSETS	(13.134)	(18.906)	5.772	(8.097)
0	AMOUNTS DUE TO SHAREHOLDERS	4.500	4.500	0	4.500
	AMOUNTS DUE TO LEASING COMPANIES				
26.971	*Non current portion*	25.213	26.104	(891)	26.104
	AMOUNTS DUE TO OTHER CREDITORS				
4.518	*Non current portion*	4.018	4.270	(252)	4.018
(23.541)	**SHORT TERM NET FINANCIAL POSITION**	**9.683**	**11.875**	**(2.191)**	**16.291**
	DEBTS DUE TO LEASING COMPANIES				
1667	*Current portion*	1758	1712	46	1292
	AMOUNTS DUE TO OTHER CREDITORS				
482	*Current portion*	500	491	9	500
(21.392)	**CASH AND CASH EQUIVALENTS**	**11.941**	**14.077**	**(2.136)**	**18.082**

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

i. Receivables classified as financial fixed assets

At June 30, 2006 receivables classified as financial fixed assets, amounting to Euro 13.134 thousand, were represented for Euro 8.134 thousand by a restricted bank deposit with Unicredit, pledged as a collateral to obtain a bank guaranty from Unicredit as security for the financial leasing agreement stipulated with Locat S.p.A. for the purchase of A319 CJ in May 2005. The bank guaranty lasts until the thirtieth day following the expiry of the aforementioned ten-year financial leasing agreement. The residual Euro 5 million are represented by the deposit paid in for the acquisition of LAG in the six months: see also paragraph 3.2.1.

Besides the value of the time deposit with Unicredit, at December 31, 2005, these receivables, equal to Euro 18,906 thousand, included a capitalization contract with lump sum premium worth Euro 10.841 thousand, pledged as a collateral for the credit lines granted by Banca Profilo.

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

ii. Cash and cash equivalents

Cash and cash equivalents at June 30, 2006, equal to Euro 35.029 thousand, consist of credit balances of bank accounts, which benefited from the greenshoe exercise. This figure also includes the valuation at fair value of derivative forward exchange contracts of US currency (USD) at June 30, 2006 amounting to approximately Euro 13,3 million.

As of December 31, 2005 said derivative contracts were worth Euro 8,4 million.

The valuation of these contracts at fair value had an overall impact on the income statement of Euro 460 thousand in the first half of 2006.

Analysis of financial debts

iii. Amounts due to banks

The amounts due to banks are equal to Euro 23.088 thousand and are represented by bank overdrafts besides the value of the forward exchange contracts of US currency still valid at June 30, 2006 and amounting to approximately Euro 13,4 million.

The balance at December 31, 2005 included forward exchange contracts in US dollar for approximately Euro 8,1 million.

At June 30, 2006 total credit lines amounted to Euro 50.800 thousand, of which Euro 35.976 thousand have already been used.

More specifically, these amounts have been used for advance payments of invoices for Euro 9.707 thousand, bank guaranties for Euro 20.167 thousand and factor advance for Euro 6.102 thousand.

Total credit lines increased by Euro 4 million, because Unicredit Factoring raised the credit line from Euro 9 million to Euro 13 million.

The percentage of credit lines and advance payments employed at June 30, 2006 was of 37.73% versus 74.21% at December 31, 2005.

iv. Amounts due to lease companies

These amounts are equal to Euro 26,971 thousand and represent the undue instalments of the aforementioned leasing agreement for the A319 CJ aircraft stipulated with LOCAT S.p.A.

v. Amounts due to shareholders for financing

The amounts owed to shareholders are equal to Euro 4.500 thousand and are related to the non-interest-bearing 24-month loan issued by Spinnaker Luxembourg S.A. and collected on November 18, 2005 in order to strengthen the Company's financial position in view of the IPO.

vi. Amounts due to other creditors

The amounts owed to other creditors are equal to Euro 4.518 thousand, of which Euro 500 thousand payable in 12 months, and include a mortgage loan contracted with Banca Profilo for an amount of Euro 5 million in December 2003 for the purchase of a building located in Via Bugatti, 15 - Milan. The mortgage has a ten-year maturity and is split in 20 deferred six-monthly instalments. The interest rate is equal to an annual fixed rate of 1% until the second instalment and, subsequently, to the six-month Euribor increased by 130 Bp every year. This debt is guaranteed by a senior mortgage on the building worth Euro 10.000 thousand. The variation compared to December 31, 2005 is due to the payment of the third instalment worth Euro 243 thousand.

The portion of debt due beyond five years amounts to Euro 1.840 thousand.

3.4.2. Cash Flow Statement

The analysis of the cash flows is represented as follows:

30 June 2005	*CASH FLOW STATEMENT*	30 June 2006	31 March 2006	31 December 2005
(4.863)	**A. - CASH AND CAHS EQUIVALENT AT THE BEGINNING OF THE PERIOD**	**14.077**	**14.077**	**(4.863)**
	B.- CASH FLOWS (TO)/ FROM OPERATIONS			
(3.201)	Profit (loss) of the year	(11.992)	(4.392)	(2.775)
1.507	Depreciation and amortization	3.278	1.622	4.836
(1.581)	Gains from fixed assets disposal	-	-	(1.581)
-	Write down of fixed assets	-	-	-
(9.268)	Net change in working capital	(4.354)	(6.934)	(7.820)
152	Net variation of staff leaving indemnity	239	162	121
(12.392)		**(12.830)**	**(9.541)**	**(7.218)**
	C.- CASH FLOWS FROM/(FOR) DISPOSAL/(INVESTMENT) IN FIXED ASSEST			
	Investments in fixed assets:			
(1.306)	* Intangible	(557)	(270)	(2.622)
(39.394)	* Tangible	(759)	(399)	(46.710)
(15.434)	* Financial	(5.660)	(67)	(17.290)
24.059	Proceeds from the sales of fixed assets	5.489	1.675	25.199
(32.077)		**(1.488)**	**939**	**(41.423)**
	D.- CASH FLOWS FROM FINANCIAL ACTIVITY			
-	Shareholders loan	-	-	4.500
28.773	Withdrawal of the A319 financial loan	-	-	28.773
4.302	Policy disposal	10.841	10.841	4.302
-	Sale of capitalization contracts	(243)	(243)	(239)
(135)	Payment of A319 financial loan installments	(845)	(419)	(957)
32.940		**9.753**	**10.178**	**36.379**
	E. - CASH FLOW FROM OPERATIONS ON EQUITY			
-	Increase of share capital	390	390	5.900
(5.000)	Dividends	-	-	(5.000)
-	Share capital variations connected to the finalization of the listing process	2.039	2.039	30.303
(5.000)		**2.429**	**2.429**	**31.203**
(16.529)	**F. - CASH FLOWS DURING THE PERIOD (B+C+D+E)**	**(2.136)**	**4.005**	**18.940**
(21.392)	**G. - CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD (A+F)**	**11.941**	**18.082**	**14.077**

Please note that in the first half of 2006 the Company modified the structure of its Cash Flow Statement highlighting the variations of cash and cash equivalents instead of the short-term net financial position, as required by IAS/IFRS.

The cash flow components for the period are analyzed below.

i. Cash flows to operations

This cash flow was negative for Euro 12,830 thousand in the first half of 2006, mainly due to the loss of the period and to the increase of the working capital in the period of Euro 4.354 thousand.

The trend of working capital suggests a strong improvement in the second quarter compared to the first, also thanks to a better management of proceeds from charter operations.

ii. Cash flow for investments

In the first half of 2006 this cash flow was negative for Euro 1.488 thousand.

The investments made in this period amount to Euro 6.976 thousand while disposals amount to Euro 5.489 thousand.

Basically, Euro 5.000 thousand of the investments relate to two deposits made in view of the LAG acquisition: the first equal to Euro 1.000 thousand directly and the second equal to Euro 4.000 thousand. The second amount is deposited in an escrow as security for the acquisition project. Further investments include Euro 377 thousands for software upgrades and acquisition of hardware, Euro 322 thousand for aircraft improvements and Euro 291 thousand for the purchase of avionic components.

As to disposals, this period benefited from the talks that the Company started at the end of 2005 with its main service providers to replace the guarantee deposits granted to suppliers against special contractual clauses, with bank or insurance guaranties. This generated a positive cash flow of approximately Euro 4.7 million in the period under analysis.

iii. Cash flow from financial activity

In the first half of 2006 this cash flow was positive for Euro 9,753 thousand and resulted from the sale of the already mentioned capitalization contract with lump sum premium worth Euro 10,841 thousand and from the payment of the short-term instalments of the A319 leasing and of the mortgage.

iv. Cash flow from operations on equity

The positive cash flow of Euro 2,429 thousand mostly regards funds deriving from the greenshoe exercise in January 2006 to complete the listing process.

4. IAS/IFRS APPLICATION AND EFFECTS

4.1. Overview

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

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

In particular, art. 81-bis previously mentioned requires that half-year reports include a quantitative reconciliation of the result and net equity at the closing date of the previous six months, determined according to the reporting criteria applied to the previous year's financial statements compared to the values resulting from the application of the international accounting principles.

The quarterly report at March 31, 2006, to which one should refer for a through analysis of the IAS effect, included:

- a description of the main differences between the Italian criteria previously used and IAS/IFRSs;
- the accounting treatments chosen by the Company among the accounting options envisaged by IAS/IFRSs ;
- the optional exemptions provided for by IFRS 1 and used by the Company;
- the information requested by CONSOB Resolution no 14990 of April 14, 2005 in respect of the reconciliation between the equity at January 1, December 31, 2005 and March 31, 2005 and net income for the fiscal year ended December 31, 2005 and for the first quarter of 2005, through the application of the Italian accounting standards and IAS/IFRSs respectively;
- the detailed effects of the transition to IAS/IFRSs on the balance sheet at January 1 and December 31, 2005 and on the income statement of fiscal year 2005.

4.2. Reconciliation between previously used Italian accounting principles and IAS/IFRSs with reference to the first half of 2005

The effect on net equity at January 1, 2005 and June 30, 2005 and on net income for the first half of 2005 are set out below:

Euro/000	**Net equity as of 01/01/05**	**Distribution of dividends**	**I Half 2005 results**	**Net equity as of 30/06/05**
PREVIOUS PRINCIPLES	**16.224**	**-5.000**	**-3.251**	**7.973**
Accounting for contracts for exchange risk management			52	52
Accounting for financial leased fleet			24	24
Total fiscal effect			-26	-26
IAS IFRS PRINCIPLES	**16.224**	**-5.000**	**-3.201**	**8.023**