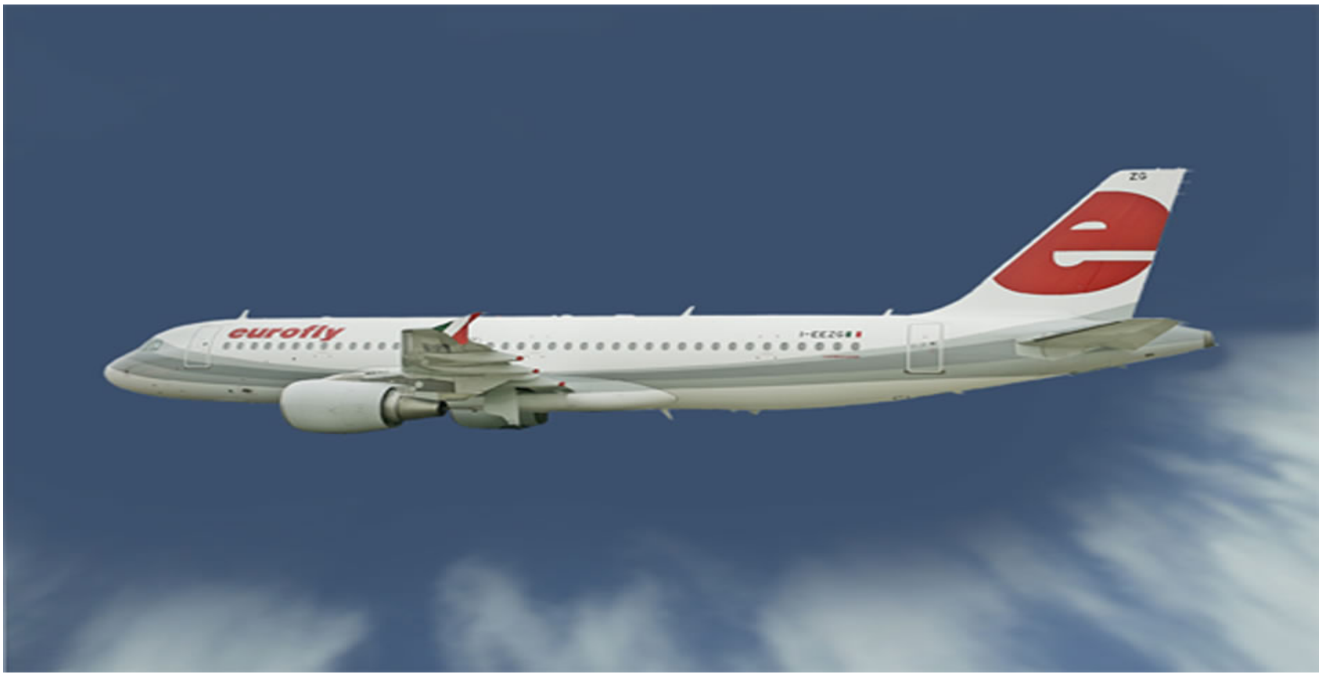


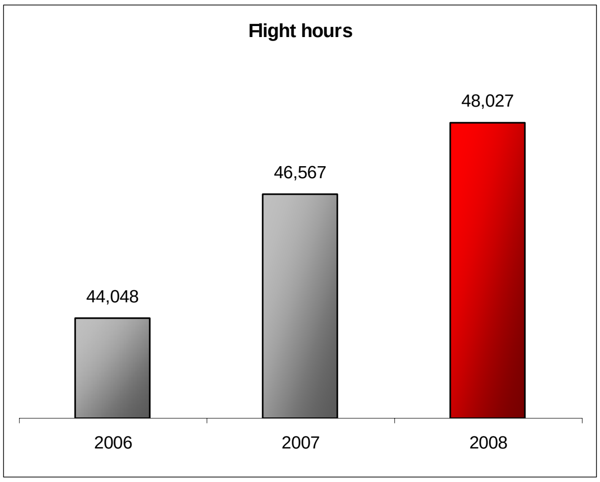
eurofly

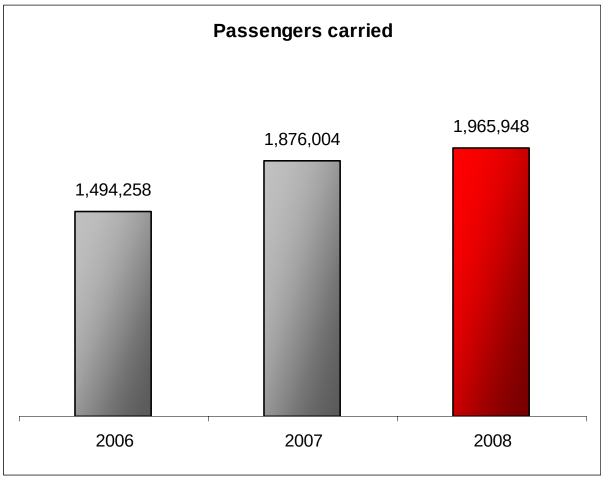
ANNUAL FINANCIAL REPORT AS AT 31 DECEMBER 2008

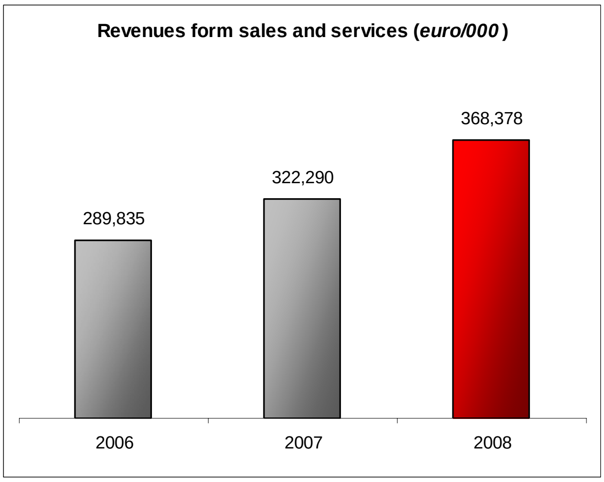
This document has been translated into English for the convenience of readers outside of Italy.
The original Italian document should be considered the authoritative version

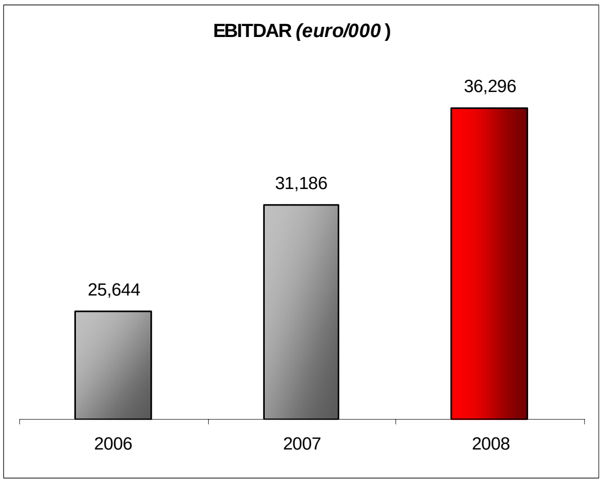
Eurofly S.p.A. – Registered office: Via Ettore Bugatti 15, Milan (Italy) – Share capital EUR 39,178,238.92
R.E.A. Milan no. 1336505 – Milan Companies Register no.05763070017 –
VAT no. 03184630964 - Tax code no.05763070017
Subject to management and co-ordination by Meridiana SpA under Art. 2497-bis of Italian Civil Code.

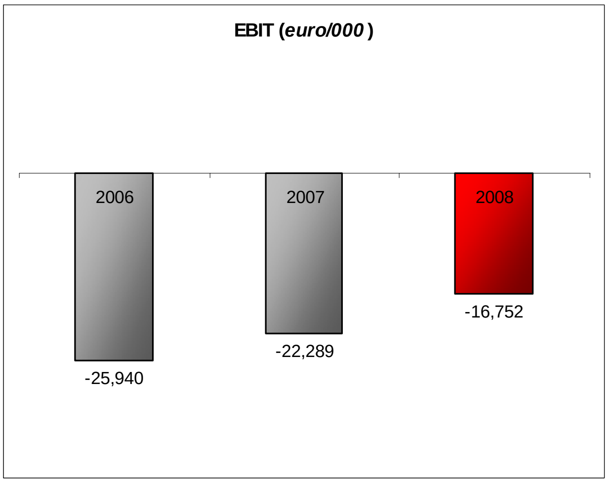
SUMMARY OF PERFORMANCE IN FYs 2006 - 2007 - 2008

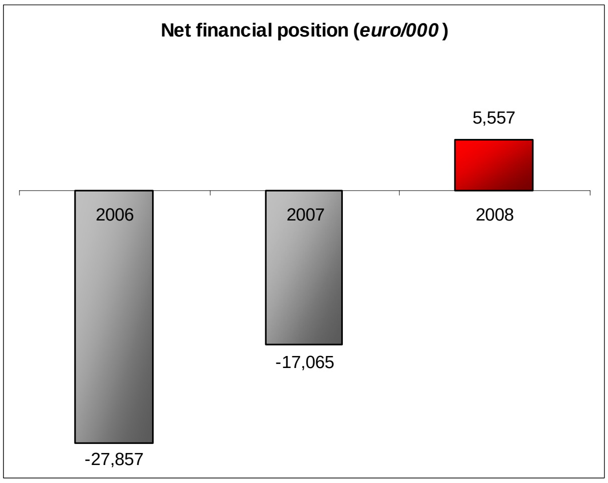












Below we show the main performance indicators of the financial year (FY) 2008, compared with those of the previous FYs, followed by a brief comment on 2008 performance vs. 2007.

Unless otherwise specified, Euro/000

Key operating indicators	**2008**	**2007**	**2006**
Total flight hours	48,027	46,567 *	40,930
Passengers carried	1,965,948	1,876,004 *	1,488,420
Fleet availability, rented and in wet lease (machine months)	142	144 *	132
Productivity of long-haul fleet (flight hours)	4,857	5,015	5,318
Productivity of medium-haul fleet (flight hours)	3,593	3,255	3,097
Summary Income Statement	**2008**	**2007**	**2006**
Revenue from sales and services	368,378	322,290	282,731
Total revenue	378,773	331,695	287,055
EBITDAR (1)	36,296	31,186	30,472
As a % on revenue from sales and services	9.9%	9.7%	10.8%
EBITDA (2)	(6,443)	(14,666)	(4,649)
As a % on revenue from sales and services	-1.7%	-4.6%	-1.6%
EBIT (3)	(16,752)	(22,289)	(16,374)
As a % on revenue from sales and services	-4.5%	-6.9%	-5.8%
Net profit (loss) for year	(18,498)	(21,757)	(29,139)
Summary Balance Sheet	**2008**	**2007**	**2006**
Total non-current assets	50,770	42,142	85,264
Total current assets	89,289	81,141	74,772
Total assets	140,059	123,283	160,036
			-
Equity	28,438	(5,406)	16,702
Total non-current liabilities	9,903	11,566	36,690
Total current liabilities	101,717	117,123	106,644
Total equity and liabilities	140,059	123,283	160,036
Investments	**2008**	**2007**	**2006**
Investments	795	1,384	2,611
Other financial data	**2008**	**2007**	**2006**
Net financial position (4)	5,557	(17,065)	(27,857)
Net cash and cash equivalents	8,849	(8,960)	(4,124)
Cash flow for the period	17,809	(4,836)	(18,201)
Average employee headcount	718	696	620

** Excluding data relating to the All Business BU (discontinued in 2007)*

(1) EBITDAR: *Earnings Before Interest, Taxes, Depreciation, Amortization and aircraft Rentals* (i.e. EBIT before the costs of operational hire of aircraft – excluding wet leases – and depreciation & amortization, provision for liabilities and charges, provision for doubtful receivables, and write-downs of non-current assets).
(2) EBITDA: *Earnings Before Interest, Taxes, Depreciation and Amortization.*
(3) EBIT: *Earnings Before Interest and Taxes.*
(4) With respect to the item "Cash and cash equivalents", the net financial position includes the components detailed in the section "Net financial position".

- In terms of total flight hours operating activity grew by 3.1% vs. 2007 with an increase in Medium-Haul operations and a slight decrease in Long-Haul operations.

- Revenues from sales and services, which totalled € 368,378 thousand, grew by 14.3% over 2007. This growth reflected upward adjustment of selling prices to higher fuel costs and an increase in the number of passengers carried (+4.8%).

- EBITDAR, totalling € 36,296 thousand, improved by 16.4% YoY. EBITDAR margin also progressed, rising from 9.7% in 2007 to 9.9% in 2008.

- The operating result – i.e. EBIT – although negative in outright terms (with an operating loss of € -16,752 thousand), improved substantially over 2007 (with a € 5,537-thousand reduction in operating loss). It did so despite higher provisioning for doubtful receivables due to the occurrence of insolvencies and to deterioration of our assessment of receivables' recoverability. Improvement was particularly evident in the Medium-Haul operating segment.

- The bottom line showed a net loss of € -18,498 thousand. The loss was € 3,259 thousand less than in 2007.

- The year-end net financial position showed net cash of € 5,557 thousand as compared with net financial debt at 2007 year-end € -17,065 thousand, mainly thanks to the flows generated by the cash capital increases carried out in January, February and December 2008.

- In 2008 the average employee headcount increased by 22 resources vs. 2007 due to the strengthening of some operating units.

eurofly

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1. CORPORATE BODIES

BOARD OF DIRECTORS
(In office until shareholder approval of Annual Financial Report for year ended 31 December 2008)

President	Lorenzo	**CAPRIO** (3) (5)
Chief Executive Officer	Giovanni	**ROSSI** (1)
Vice President	Franco	**TRIVI** (4)
Directors	Luca	**RAGNEDDA** (1)
	Sergio	**ROSA** (1)
	Emilio	**CREMONA** (2)
	Alessandro	**GIUSTI** (2)
	Gian Carlo	**ARDUINO** (2) (4) (5)
	Giuseppe	**LOMONACO** (2) (4) (5)

BOARD OF STATUTORY AUDITORS
(In office until shareholder approval of Annual Financial Report for year ended 31 December 2008)

President	Marco	**RIGOTTI**
Standing statutory auditors	Michele	**SARACINO**
	Guido	**MONGELLI**
Substitute statutory auditors	Dario	**FANGARESI**
	Antonio	**CIGALA**

INDEPENDENT AUDITOR **DELOITTE & TOUCHE S.p.A.**
(Mandate extended to 2008-13 by the AGM of 8 May 2007)

(1) Executive Director
(2) Independent Director
(3) Significant member as indicated in points 3C1 and 3C2 of Corporate Governance Code, independent when appointed
(4) Member of Internal Auditing Committee
(5) Member of Remuneration Committee

2. MANAGEMENT REPORT ON OPERATING PERFORMANCE

(Translated from the original version in Italian)

To Our Shareholders

FY 2008 ended with a net loss for your Company of € -18.5 million (mn) as compared with a loss of € -21.7 mn in the previous year. Total revenues grew by 14.2% vs. 2007 reaching the amount of € 378.8 mn. 2008 results were slightly better than the forecasts made in the Business Plan approved at the end of July 2008.

The bottom-line result reflected significant provisioning for doubtful receivables totalling € 5.8 mn and was affected by non-recurring events as explained later on in this report.

During 2008 the Company faced an extraordinary increase in the cost of jet fuel, which reached particularly high and totally unexpected price levels (historically unprecedented), in the summertime, during the Company's peak operating period.

This cost increase was partly passed on to end-user customers via the following mechanisms:

a) Rate adjustments envisaged in contracts with tour operators that make it possible to offset the economic effects of cost increases
b) Presence of a fuel surcharge in tickets sold directly to end-users, which, albeit with time constraints and commercial limits, permit partial reduction of the effect of extra fuel cost on margins.

During 2008, the Company - while confirming implementation of nearly all the projects (excluding those relating to catering) envisaged in the three-year restructuring plan approved in 2007 – was forced to acknowledge the new situation arising from the increase in fuel prices via review of the Business Plan. On 30 July 2008 the Board of Directors therefore approved a new 2008-2012 Business Plan, in which, besides adjusting the macroeconomic variables to the new levels reached, identified and consolidated – in a long-term perspective – all the remedial measures necessary to offset these trends.

After two years of both operational and commercial rationalisation and efficiency enhancement, FY2008 featured achievement by your Company of the first important results. In particular, breakeven point was reached for medium-haul operations carried out using the Airbus A320 aircraft for both charter and scheduled activities.

As far as long-haul operations are concerned, these made heavy losses in 2008 (largely caused by the high cost of fuel, which in long-haul operations accounted for as much as 45% of total costs). The Company has consequently decided – also in response to the slack demand caused by the present adverse economic situation – to reduce the number of A330 aircraft from four to three as of April 2009, while undertaking simultaneous and consistent headcount reduction.

Once again during 2008, as done in the previous year, we undertook some major projects to streamline the Company and improve its efficiency, with special reference to the organisation and to management of some key processes such as, for example:

a) Greater integration of commercial activities through both the agency and tour operator channel, via the associate companies SameItaly and Wokita.
b) Creation of just one operations unit at Milan Malpensa airport via transfer of the organisation from terminal T2 to T1 and centralisation of related managerial activities.
c) Rationalisation of purchasing functions, via greater integration at group level.
d) Integration of information technology activities, also as regards the joint Meridiana and Eurofly website.
e) Implementation of the administrative/accounting system used by the parent company.

As described in section 2.2 “Significant events subsequent to year end” and in section 2.3 “Business outlook”, performance in FY2008 and in the early months of FY2009, during which the capital operation was completed, confirms – despite the decline in demand caused by the adverse economic situation – the reasonableness of Plan forecasts and underlying assumptions, even though they are significantly influenced by the trend of scenario variables beyond the Company’s control and by effective implementation of strategic actions planned for the future.
By way of confirmation of projected results’ sensitivity to such variables, in February 2009 the Board of Directors approved the 2009 Budget based on forecasts of the same scenario variables (i.e. fuel prices, exchange rates, and interest rates) aligned with the most recent tendencies. It includes the effects of the remedial actions taken by directors to address the changed economic and industry environment, permitting achievement in 2009 of results in line with those projected for the same year in the 2008-2012 Business Plan.

2.1. Operating progress and activities

2.1.1. The fleet

As at 31 December 2008 the Eurofly medium-haul fleet consisted of seven Airbus A320 aircraft, held by virtue of operating lease contracts with premier aircraft leasing companies.

In October 2008 and February 2009 two A320 aircraft (I-EEZC and I-EEZD) exited from fleet operations following expiry of the operating lease contracts

The 2008-2012 Business Plan approved by the Board of Directors on 30 July 2008 envisages a total medium-haul fleet of nine A320 aircraft in 2009 and ten in 2010. As regards this, at the beginning of December 2008 a Letter of Intent was signed, with subsequent signature of operating lease contracts for two Airbus A320-232 aircraft for a five-year period, starting in March 2009 (registration marks I-EEZN and I-EEZO). In addition, on 5 December 2008 Eurofly signed a Letter of Intent, then completed with an operating lease contract for a further Airbus A320-200 aircraft for a six-year period, as from 30 April 2009 (registration mark I-EEZP).

At the end of December 2008, the long-haul fleet consisted of four Airbus A330 aircraft. In April-May 2009, two A330s (I-EEZA and I-EEZB) are expected to leave the fleet, once again due to expiry of the operating lease contract.

Based on the 2008-2012 Business Plan, the long-haul fleet will consist of three A330 aircraft, following the exit of I-EEZA and I-EEZB and the entry into the fleet of EEZM).

We recall the fact that at the end of March 2007 the fifth A330 aircraft had entered the fleet and was transferred via an operating lease first to the Spanish airline Air Comet (until March 2008) and then to the Israeli airline Israir Airlines & Tourism Ltd. (until February 2009). As of March 2009 the aircraft has returned to form part of Eurofly’s fleet with the registration mark I-EEZM.

As better described in the “Business Outlook” section, in view of medium-haul market potential and in line with what is projected in the 2009 Budget, we are considering the possibility of acquiring, via an operating lease, another Airbus A320 by the end of the first half of 2009. This would bring forward this aircraft’s entry into the fleet compared with the 2008-2012 Business Plan projections and bring the total medium-haul fleet up to its full strength of ten aircraft.

The A319 Corporate Jetliner aircraft remained in the fleet until January 2008, when its operation was definitively transferred to Alba – Servizi Aerotrasporti SpA.

The following table summarises the Eurofly fleet from January 2007 to December 2008.

Registration mark	Type	Entry in fleet	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
I-EEZB	A330	Aug-02																								
I-EEZA	A330	Sep-02																								
I-EEZJ	A330	May-05																								
I-EEZL	A330	Dec-06																								
I-EEZC	A320	Oct-02																								
I-EEZD	A320	Feb-03																								
I-EEZE	A320	Mar-03																								
I-EEZF	A320	Apr-03																								
I-EEZG	A320	May-03																								
I-EEZH	A320	Dec-04																								
I-EEZI	A320	Dec-04																								
I-EEZK	A320	Feb-05																								
I-ECJA	A319	Apr-06																								

The main data of the operating lease contracts relating to the seven A320 medium-haul aircraft and to the five A330 long-haul aircraft (also including the aircraft that in 2008 was wet-leased to Israir Airlines & Tourism Ltd.) are summarised in the following tables – which indicates the low average age of our fleet.

Registration mark	I-EEZD	I-EEZE	I-EEZF	I-EEZG	I-EEZH	I-EEZI	I-EEZK
Year of consutruction	2002	2003	2003	2003	1997	1997	1999
Lease end date	Feb-09	Mar-15	Apr-13	May-13	Dec-15	Dec-15	Oct-15
Lessor	Macquarie	Macquarie	GECAS	GECAS	GECAS	GECAS	GECAS

Registration mark	I-EEZA	I-EEZB	I-EEZJ	I-EEZL	I-EEZM
Year of consutruction	2000	2000	2005	2006	2007
Lease end date	Apr-09	Apr-09	May-12	Dec-14	Mar-14
Lessor	ILFC	ILFC	ILFC	CIT	ILFC

In line with industry practice, Eurofly buys and sells operating capacity on a temporary basis via wet lease agreements. As specifically regards the 2008 summer season, Eurofly acquired additional capacity via the wet lease-in of an MD-80 aircraft of ItAli Airlines SpA.. This practice is also confirmed for the 2009 summer season where a wet lease-in is planned as from May.
Generally speaking, the operating lease agreements currently in place have the following features:

- They do not contain automatic renewal clauses, while terms and hand-back arrangements are pre-established.
- They envisage supply of guarantees to lessors, via security deposits or suretyships
- Maintenance costs are incumbent on the Company. For major maintenance (maintenance done every 6-12 years, jet-engine overhaul, and landing-gear overhaul), Eurofly pays lessors a monthly quota to cover such costs.
- They do not provide the possibility of unilateral termination (by either of the two parties) in normal circumstances. There are termination clauses in the event to comply with contractual terms (late payments, for example).
- There are clauses restricting insurance indemnities in the lessor's favour and restrictions on operating subleasing to other carriers.

2.1.2. Actions to improve the standard of services

Starting in 2007, we identified and initiated a series of actions designed to improve the standard of customer service. They specifically aim to (a) increase operating punctuality, (b) mitigate inconvenience to passengers in the event of operating inefficiencies, (c) improve passenger cabin functionality and appearance, and (d) improve and extend the catering service.
These projects were largely implemented and normalised during FY2008.

Ground Operations

In May 2007 a team of seven people on duty on a year-round 24/7 basis was set up (GOS – Ground Operations Control), dedicated to overseeing ground operations for all airports of origin and destination of the Company's flights via guidance, supervision and control of airport operators, handling companies, and other airport services, in concert with local supervisors. GOS operates according to standards agreed with Meridiana, in accordance with the procedures already existing in the latter company. Its objectives are to obtain the required services according to contractual service levels, notify non-performance in this respect, and intervene in cases of inefficiency, in accordance with the provisions of corporate policies and of the ENAC (Italian Civil Aviation Authority) Passenger Rights Charter.

Milan Malpensa Airport

Our organisation for Malpensa Airport has been upgraded with a number of resources dedicated to operations supervision appropriate to operating requirements.

Operations Control

We have revised our organisation in order to give the Operations Control unit greater autonomy and decision-making capacity.

At the end of August 2007 the Operations Control unit was transferred to Malpensa Airport in a single operating room working on a year-round 24/7 basis, adjacent to the MCC (Maintenance Control Centre) and to scheduled line maintenance. This was done to create the necessary synergies between the operating units responsible for managing programmed ground and flight operations and for handling all activities relating to management of service inefficiencies. This in turn is intended to make related decisions faster and more effective.

Malpensa Terminal

Coming into line with the restructuring project for Malpensa airport promoted by SEA, the airport operator, following the increase in low-cost flights and the decrease of Alitalia traffic, we decided, in order to provide better services to passengers and tour operator clients, to transfer our Malpensa operation from Terminal T2 to Terminal T1. This terminal is the base for the majority of scheduled flights (thus making it possible for us to offer connections with other carriers' flights) and the arrival point of the Malpensa Express train. It also has better and more extensive airport services and facilities. The transfer took place in June 2008 and in just a short time there were tangible demonstrations of the higher standard of services provided.

Single operations site

In order to concentrate staff and activities concerning operations and achieve more efficient operational management, we decided to transfer all the company operations departments to a single site in Malpensa. This project was completed in May 2008, in parallel with the start of Terminal T1 operations.

The positive results of integration are evident, i.e. an increase in punctuality in 2008 vs. 2007 of 5 percent points and the outstanding result of the IOSA (IATA Operational Safety Audit) at the end of February 2009.

By the end of March 2009 the 24/7 functions (Scheduled flight maintenance, Operations Control, and Crew Briefing Centre) will also be transferred to a dedicated airside area in the vicinity of Terminal T1, thus further facilitating operating activities.

Cabin quality

Various prevention, monitoring and remedial actions have been taken to improve the general state of cabins. A dedicated cabin maintenance team has been set up consisting of a supervisor and five technicians working on a rota basis. They specifically handle inspections and repairs of seats and in-flight entertainment (IFE) systems and, more generally, look after the passenger cabin quality of the Company's aircraft. Changes have been made to make IFE systems more reliable and seats more comfortable. Stock levels for cabin spare parts have been increased and purchase is currently underway of missing items. Relationships with the main parts and materials suppliers have been considerably improved in order to assure continuous supply of services and products, as necessary. Lastly, we have launched a project to upgrade cabin decor with the introduction of new materials and colours. This will be completed during the first half of 2009.

Quality of onboard services

A task force was set up – featuring commercial, purchasing and operations skills and responsibilities. It has now totally defined the processes and choices relating to onboard services and catering in order to assure an enhanced offering and reduce the overall cost of the service.

2.1.3. Commercial business

The demand for air transport, above all in the leisure/holiday segment, features marked seasonality. As far as Eurofly is concerned, peak activity occurs in the third quarter of the year, whereas the periods of less intensive activity are the second and fourth quarters, with the exception of the periods close to major festive occasions and public holidays (Christmas/New Year, Easter and long weekends). In the first quarter, there is less medium-haul activity than in the other months of the year, whereas long-haul leisure activity towards exotic and tropical locations is particularly lively.

Medium-haul (destinations within five hours' flying time) charter/leisure programming for the Winter 2008-09 season featured major programming – de facto annual – towards Egypt (the Red Sea), the Canary Islands (Fuerteventura and Tenerife) and traditional religious tourism destinations (Lourdes and Tel Aviv, mainly from Milan Malpensa and Bergamo). In view of the traffic potential and our designation as a scheduled carrier for connections with Israel, as of 17 December 2008 we activated a scheduled weekly Milan Malpensa-Tel Aviv flight. During 2009 this will be followed by new flights from Rome and Verona and increased frequencies from Milan Malpensa.

The flights for Sharm El Sheik are also programmed both as charter and scheduled connections. Thanks to creation of a mini operating base in Sharm El Sheik, they connect ten regional airports in Italy (Ancona, Bari, Bergamo, Milan Malpensa, Naples, Pisa, Rimini, Rome Fiumicino, Turin, Venice, and Verona).

Scheduled traffic with Egypt has been further intensified with our designation, as of the Summer

2008 season, as a scheduled carrier for the Milan Malpensa-Cairo route (two direct flights per week). Charter programming (in split charter mode, i.e. flights commissioned by and operated on behalf of several tour operators) includes direct flights from and to Hurgada out of Milan Malpensa; to Marsa Alam from Verona, Bergamo and Milan Malpensa; and doubling of flights to El Alamein from Verona, Bergamo, Milan Malpensa and Rome Fiumicino. Besides this it also includes internal flights programmed according to excursions to archaeological sites (Abu Simbel, Luxor and Cairo) included in tour operators' packages.

The Winter 2008-09 season once again featured confirmation of the following domestic scheduled flights based on code-sharing with Meridiana (alternating operations as marketing or operating carrier):
- Milan Linate - Naples (2 daily flights),
- Milan Linate - Catania (3 daily flights),
- Milan Linate - Palermo (1 daily flight),
- Milan Linate - Rome (2 daily flights, always as marketing carrier).

To these must be added a series of medium-haul international scheduled connections, featuring a hybrid business/leisure-incoming vocation, i.e.

- 2 weekly flights - Bologna - Moscow - Bologna (every Tuesday and Friday),
- 1 daily flight - Naples - Paris (in code-sharing with Meridiana, as marketing carrier),
- 2 daily flights - Milan Linate - Paris (in code-sharing with Meridiana, as market carrier),
- 2 weekly flights - Milan Malpensa – Cairo - Milan Malpensa (every Monday and Thursday, inaugurated on 16 June 2008),
- 2 weekly flights - Milan Malpensa – Dakar - Milan Malpensa (every Wednesday and Thursday, inaugurated on 18 June 2008), operated with the Airbus A330 fleet.

In addition, we operate the traditional scheduled flights with an outgoing vocation, i.e.

- 1 weekly flight - Milan Malpensa – Fuerteventura - Milan Malpensa and Bologna – Verona – Fuerteventura - Verona - Bologna (every Monday)

In the face of intensification of medium-haul operations, both charter and scheduled, the fleet was adjusted as indicated in the earlier sub-section 2.1.1 – "The fleet".

In the long-haul business, our commercial efforts focused on:

i) Definition of a code-sharing agreement with Lauda/Livingston to rationalise the long-haul network for tropical destinations as from the start of the Winter leisure season (as of 13 December 2008) with Eurofly acting as operating carrier for flights from/to the

Indian Ocean always operated by Eurofly (up to eight flights for the Maldives, of which one via Sri Lanka-Colombo), eight flights for Kenya of which six via Tanzania (Zanzibar), three Mauritius flights, of which one via the Seychelles, while flights for the Caribbean (Mexico/Yucatan and Dominican Republic) are managed by Lauda/Livingston as operating carrier and sold by Eurofly as marketing carrier.

ii) Cessation of continuation of scheduled flights from New York to Bari, Lamezia Terme and Pescara and cessation of Bologna-New York flights with a parallel increase in activity on the Rome-New York and Naples-New York routes

Adjustment of the fleet to three Airbus A330 aircraft is in function of the strategy described above, which we believe will make it possible to achieve the breakeven point also in the long-haul operating segment.

- Operating statistics

Flight hours by type
flight hours

	2008	2007	Change	% change
Block hours (a)	46,249	46,085	164	0.4%
ACMI (b)	652	591	61	10.3%
Reprotection (c)	1,126	468	658	140.6%
Total flight hours	**48,027**	**47,144**	**883**	**1.9%**

(a) flight hours operated by Eurofly with own aircraft
(b) flight hours operated for third parties with Eurofly's aircraft wet-leased to third parties
(c) flight hours operated for Eurofly with third parties' aircraft wet-leased by Eurofly

Flight hours by SBU
flight hours

	2008	2007	Change	% change
Medium-haul	28,486	26,259	2,227	8.5%
Long-haul	19,541	20,308	-767	-3.8%
All Business	0	577	-577	-100.0%
Total flight hours	**48,027**	**47,144**	**883**	**1.9%**

In 2008 the number of flight hours grew by 883 hours vs. 2007, with a 1.9% YoY increase. Growth was more limited in operations using our own aircraft (+164 hours, i.e. +0.4%) and greater in operations using third-parties' aircraft (+658 hours, i.e. +140.6%). This was due to use of the ItAl Airlines MD 80 aircraft in the summer months for some Italian destinations.

Analysis shows that, excluding 2007 operations using the Airbus A319 aircraft, flight hours grew by 3.1%. Medium-haul operations featured an increase of 2,227 hours (+8.5%) thanks to the incidence of scheduled connections. The -3.8% decrease in long-haul flight hours was due to (a) the decrease in operations towards Kenya in the first part of FY2008 because of the country's well-known internal disorders and (b) the slight reduction of outward capacity offered for New York/JFK, only partly counterbalanced by the effect of the new outward connections with Mauritius/Seychelles. It should also be remembered that in FY2007 a scheduled connection with India was operational and then discontinued in September of the same year.

Fleet productivity
annualized flight hours

	2008	2007	Change	% change
Medium-haul	3,539	3,255	284	8.7%
Long-haul	4,857	5,015	(158)	-3.2%

Medium-haul productivity grew by 8.7% YoY (we point out that in the last quarter of 2008 the fleet consisted of seven aircraft, instead of eight as in 2007), whereas long-haul productivity, based on like-for-like fleet, decreased slightly (-3.2%).

Passengers carried

	2008	2007	Change	% change
Eurofly*	1,933,409	1,851,288	82,121	4.4%
Other carriers**	32,539	28,001	4,538	16.2%
Medium-haul	1,422,851	1,154,601	268,250	23.2%
Long-haul	543,097	721,403	(178,306)	-24.7%
All Business	0	3,285	(3,285)	-100.0%
Total passengers	**1,965,948**	**1,879,289**	**86,659**	**4.6%**

** Eurofly passengers*

*** Passengers carried by Eurofly on behalf of other carriers*

In 2008 the total number of passengers carried by Eurofly grew by 4.6% overall vs. 2007, thanks to the 23.2% increase for medium-haul scheduled connections. Conversely, long-haul passengers decreased by -24.7% YoY for the reasons indicated above.

Passengers carried - Scheduled flight to NY				
	2008	**2007**	**Change**	**% change**
Passengers carried	127,507	133,051	-5,544	-4.17%
Seats offered	175,404	186,804	-11,400	-6.10%
Load factor	72.7%	71.2%	0.01	2.06%

In 2008, the number of passengers carried on scheduled connections with New York decreased by -4.2% due to the lower capacity offered. The load factor further improved, topping 72%.

Passengers carried - Scheduled flights Milan Linate-South Italy and Naples-Par				
	2008	**2007**	**Change**	**% change**
Passengers carried	401,337	67,146	334,191	497.71%
Seats offered	586,380	115,200	471,180	409.01%
Load factor	68.4%	58.3%	0.10	17.43%

As regards scheduled operations from Milan Linate airport to Palermo, Naples and Catania, and from Naples to Paris initiated at the end of October 2007, passengers carried during 2008 totalled 401,337 and the average load factor was 68.4%.

2.1.4. Significant events in FY2008

Below we highlight the main corporate, commercial and operating events characterising FY2008.

- **Capital increases in cash and kind**

In the early months of 2008 two operations to recapitalise the Company were executed, the first in cash and the second in kind.

The cash capital increase, totalling € 15 mn, offered as a rights issue to shareholders, took place between January and February 2008. Meridiana – exempted from the obligation to launch a public tender offer (as per the CONSOB - Italian securities & exchange commission - note dated 26 November 2007) – subscribed a higher number of shares than those originally pertaining to it, thereby increasing its equity interest in Eurofly from 29.85% to 38.27%.

In the following month of March, the capital increase in kind was completed for a total value of € 8 mn. Pursuant to Article 2441, 5th paragraph, of the Italian Civil Code, this operation was reserved for Meridiana. In line with the provisions of the 2008-2010 Business Plan it was completed via the contribution of two 50% equity interests in the companies Wokita Srl and SameItaly Srl (previously 100% owned by Meridiana).

Meridiana's equity interest in Eurofly thus further grew from 38.27% to 46.10%.

- **Exoneration from monitoring of covenants as at 31 December 2007**

On 19 March 2008 the banks party to the Company's debt restructuring agreement signed on 27 November 2007 stated they did not intend to monitor the financial covenants relating to the agreement, as regards the milestone of 31 December 2007, thereby solving the issue of formal non-compliance with the covenants on that date.

- **New business plan**

On 30 July 2008 the Board of Directors approved the new 2008-2012 Business Plan. Given the unexpected rise in the cost of jet fuel, which had reached much higher prices than those used in the 2008-2010 Business Plan approved on 27 October 2007, the Board of Directors deemed it advisable to devise a new plan such as to consider the current levels of macroeconomic variables (mainly fuel costs and the €/USD exchange rate) and pinpoint – consolidating them in a long-term perspective – all the remedial measures necessary to make up for the increase in operating costs.

The new 2008-2012 Business Plan envisages:

- Consolidation of the present mix of scheduled/charter connections net of any opportunities arising from any new set of the Italian air transport industry.
- Consolidation of medium-haul operations, already at substantial operating break-even in 2008, via rationalisation and optimisation of destinations served and of operating logistics.
- Rationalisation of long-haul operations and concentrations on links between Italy and Africa/Indian Ocean, where Eurofly has market shares of more than 50%.
- Consolidation of scheduled operations between Italy and New York.
- Further improvement of the standard of ground and onboard service also via revamping of aircraft cabins.

The projects for the Company's turnaround, some of which are already in place, include, among others, (a) continuation of integrated commercial development with Meridiana thanks to development of the website and the growth and expansion of SameItaly and Wokita; (b) further development of synergies with the Meridiana group – with special reference to aircraft maintenance, purchasing, IT platforms and logistics; (c) continuation of projects to rationalise and reduce G&A and overhead costs; and (d) renewal for a further 12 months of the solidarity agreement for employees.

- **New cash capital increase**

The 2008-2012 Business Plan also envisaged a new cash capital increase by the end of 2008, in the form of a rights issue to shareholders, with the aim of assuring a new inflow of financial resources. The latter in turn were intended to (i) restore the Company to adequate levels of capitalisation (with positive effects also as regards the assumption of continuation of business, with reference to the obligation to meet the 2008-09 financial covenants agreed for the revolving line of bank credit up to a maximum of € 15 mn), (ii) permit creation of the prerequisites to roll out the Business Plan, and also (iii) permit gathering of possible further resources in order to take up the market opportunities presumably arising from any new set of the air transport industry.

On 10 September 2008 the Shareholders' Meeting resolved a cash capital increase totalling € 44 mn vs. € 55 mn proposed by the Board of Directors.

On 29 August 2008, Meridiana irrevocably committed to subscribing € 20 mn as part of this operation. The capital increase start on 1 December 2008 and during the period of offer of rights, which ended on 19 December, shares were subscribed for a total value of € 29.97 mn. Consistently with the commitment announced, Meridiana fully subscribed its share of the increase.

- **Disorders in Kenya at the beginning of 2008**

At the beginning of 2008, events of a socio-political nature occurred in Kenya due to disorders breaking out following the outcome of the general elections at the end of 2007. As a consequence of the violent clashes occurring, the Italian Foreign Ministry, like other European Foreign Ministries, urged Italian citizens to postpone trips to Kenya already planned.

In the early months of the year, the Company had to reduce its flights towards Kenya significantly, with consequent reduction of capacity offered and repositioning of the remaining operations in nearby Zanzibar (section 4.2 "Significant non-recurring events and transactions").

- **Evolution of legal disputes**

During 2008 there were significant developments concerning the main legal disputes underway. For detailed analysis of these, readers should refer to the comments made in section 4.4 "Balance sheet items" of the explanatory notes to accounts concerning "Trade and other receivables", "Trade and other payables" and also "Provisions for liabilities and charges". Due to deterioration of our evaluation of some commercial counterparties and, in particular, following the bankruptcy of a travel operator (Maxitraveland) declared on 15 October 2008 and Alitalia's declaration of bankruptcy on 28 August 2008, during the year it was decided to make further accruals for provision for doubtful receivables.

- **Agreements concerning A350 aircraft**

At the end of January 2008 Eurofly and Airbus decided to terminate the agreement signed on 30 December 2005 concerning purchase of three long-haul A350 aircraft. Airbus's decision to start working on a new version of this aircraft (A350-XWB) featuring more advanced technologies had led to protraction of delivery times by 24 months vs. the 2013 and 2014 deadlines originally envisaged for Eurofly. In view of this and of the fact that the new aircraft's flight instrumentation will no longer be similar to that of the A330, Eurofly decided not to convert the original A350 order to the new A350-XWBs. Based on this decision, the parties reached agreement also envisaging release of the down payments paid to Airbus (a refund of € 1,926 thousand has already been obtained) and recognition by Airbus of a credit for Eurofly for the purchase of aviation goods and services, which at 2008 year-end, after utilisation during the year, amounted to € 3,786 thousand.

- **New air traffic rights**

In the early months of 2008 Eurofly started to market scheduled connections with the Seychelles. In addition, the ENAC (the Italian civil aviation authority) designated the Company as the assignee of scheduled rights to Cairo, Senegal, and Israel – routes already activated – and Ukraine, a route not yet operational. Specifically, Eurofly started to operate flights from Milan Malpensa airport to Tel Aviv starting on 17 December 2008. On 12 January this year Eurofly informed the ENAC of its willingness to operate 14 new routes from Malpensa to some international destinations. At the moment there is no news concerning assignment of these routes, before assignment of which the countries concerned have to modify the quotas granted to each individual party and new calls for tender have to be put out.

- **Incorporation of EF-USA Inc**

March 2008 featured incorporation of EF-USA Inc., a new sales representation company, 51% owned by GCVA Inc. (a company not associated with Eurofly SpA) and 49% by Eurofly, to replace, starting on 1 April 2009, the previous General Sales Agent for the North American market, whose contract was due to expire at the end of March 2008.

- **Expansion of operations unit at Milan Malpensa airport**

As highlighted earlier in sub-section 2.1.1 of this report, at the beginning of June 2008 we completed expansion and reorganisation of our operating facilities at Milan Malpensa airport, with consequent transfer of non-flight staff from the downtown Milan offices, in order to improve the integration and efficiency of the processes of maintenance, supervision & control, planning and management of operations. As a result of this transfer and expansion, at year-end 2008 the unit in question was staffed by 167 people.

- **US Customs audit**

In August 2008 the US Customs authorities performed an audit of Eurofly's operations in North American territory in the period April 2004-March 2008, in particular as regards user (i.e. passenger) fees and other local taxes. Eurofly provided all the information requested, signing the final audit report indicating a total of USD 356 thousand for amounts still to be paid for taxes on tickets sold.

- **Complaint to the European Commission**

Eurofly filed a complaint with the European Commission, Director General Competition, concerning application of community rules, with special reference to those concerning abuse of dominant position and control of concentration deals and to the Alitalia/AirOne/CAI deal. As regards this, a meeting with the relative directorate to discuss the complaint is scheduled for 15 April.

In parallel, an appeal is being prepared before the Court of First Instance (CFI) of the European Communities against the decision with which the European Commission, Directorate General Transport & Energy (DG TREN) considered the CAI deal not to be state aid under the rules of the Treaty, as it was instead considered to be by Eurofly in a complaint submitted to the DG TREN. The appeal must be filed by 1 April. Lastly, the case underway before the Latium Regional Administrative Court concerning opposition to the measure with which the Italian Antitrust Authority considered the CAI deal compatible with competition rules. The hearing to debate the matter is scheduled for 20 May 2009.

- **Manifestation of interest in assets of Alitalia under official administration**

In response to the invitation of the Special Commissioner Augusto Fantozzi, on 29 September Eurofly submitted a manifestation of interest in purchase of the corporate assets of Alitalia under official administration and other companies belonging to the Alitalia under official administration. Group, with specific but not exclusive reference to slots. Following a specific letter received from the Special Commissioner, on 2 October 2008 Eurofly submitted an amendment to the aforementioned manifestation of interest. To date the Special Commissioner has not followed up Eurofly's manifestation of interest. Given this, on 13 January 2009 Eurofly applied to the Economic Development Ministry to gain timely access to the documentation concerning sale of Alitalia under official administration assets to the CAI group. Following the request dated 4 February 2009 received from the Economic Development Ministry, on 17 February 2009 amended the above application, then receiving on 19 February 2009, authorisation from the

Ministry to access the documentation concerning the sale of the assets of Alitalia Linee Aeree Italiane SpA under official administration to Compagnia Aerea Italiana – CAI.

The new 2008-2012 Business Plan in any case does not include any specific investments connected with the above manifestation of interest, and achievement of the objectives of the new 2008-2012 Business Plan is in no way subject to such investments.

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2.1.5. *Analysis of operating and financial results*

Below we make some comments on FY2008 operating and financial results and related reported indicators. For thorough analysis, reference should be made to the explanatory notes to accounts.

Reclassified income statement

Euro/000	**2008**	**% on revenue**	**2007**	**% on revenue**	**Change**	**% change**
Revenue from sales and services	368,378	100.0%	322,290	100.0%	46,089	14.3%
Other revenue	10,395	2.8%	9,405	2.9%	989	10.5%
Total revenue	**378,773**	**102.8%**	**331,695**	**102.9%**	**47,078**	**14.2%**
Direct commercial costs	10,315	2.8%	7,671	2.4%	2,643	34.5%
Revenue net of direct commercial expenses	**368,458**	**100.0%**	**324,023**	**100.5%**	**44,435**	**13.7%**
Fuel	135,842	36.9%	98,243	30.5%	37,599	38.3%
Staff costs	37,467	10.2%	38,354	11.9%	(887)	-2.3%
Materials and maintenance services	45,529	12.4%	45,365	14.1%	165	0.4%
Other operating costs and wet lease costs	92,971	25.2%	92,941	28.8%	29	0.0%
Other commercial and overhead costs	20,353	5.5%	17,935	5.6%	2,419	13.5%
Sub-total costs	**332,162**	**90.2%**	**292,838**	**90.9%**	**39,325**	**13.4%**
EBITDAR	**36,296**	**9.9%**	**31,186**	**9.7%**	**5,110**	**16.4%**
Operating lease rentals	42,739	11.6%	45,852	14.2%	(3,113)	-6.8%
EBITDA	**(6,443)**	**-1.7%**	**(14,666)**	**-4.6%**	**8,223**	**56.1%**
Depreciation and amortization	3,441	0.9%	3,951	1.2%	(509)	-12.9%
Write-off of non-current assets	122	0.0%	0	0.0%	122	0.0%
Provision for doubtful receivables	5,779	1.6%	2,820	0.9%	2,959	104.9%
Provisions for liabilities and charges	967	0.3%	852	0.3%	115	13.5%
Total depreciation & amortization and provisions	**10,309**	**2.8%**	**7,623**	**2.4%**	**2,686**	**35.2%**
EBIT (operating profit(loss))	**(16,752)**	**-4.5%**	**(22,289)**	**-6.9%**	**5,537**	**24.8%**
Net finance income (expense)	(2,329)	-0.6%	(2,474)	-0.8%	145	5.9%
Pre-tax profit (loss)	**(19,082)**	**-5.2%**	**(24,763)**	**-7.7%**	**5,682**	**22.9%**
Income taxes	584	0.2%	3,006	0.9%	(2,422)	-80.6%
Profit/(loss) from discontinued operations	0	0.0%	1	0.0%	(1)	100.0%
Net profit (loss) for year	**(18,498)**	**-5.0%**	**(21,757)**	**-6.8%**	**3,259**	**15.0%**

Euro/000	2008	2009
Equity	28,438	(5,406)
Net financial position	5,557	(17,065)

EBITDAR margin	9.9%	9.7%
EBITDA margin	-1.7%	-4.6%
EBIT margin	-4.5%	-6.9%
ROE	-65.0%	na
Cash flow for period	17,809	(4,836)
Short-term financial debt/total debt	0.64	0.86
Net financial position/EBITDAR	n.a.	(0.55)
Net financial position/equity	n.a.	n.a.

In 2008 **total revenues**, amounting to € 378,773 thousand, increased by over 14% (i.e. by € 47,078 thousand) vs. 2007. This was the consequence of a price effect (increase in average revenue per flight hour) caused by upward adjustment of rates to fuel price trends as envisaged by charter sales contracts (which permit coverage of fuel cost increases) and of the higher number of passengers carried (as highlighted in the earlier analysis of operating statistics).

Total revenues for medium-haul business amounted to € 186,930, with a 26.1% YoY increase due both to the effect of the rate adjustments indicated above and to greater activity for scheduled connections (as also highlighted by the operating statistics). Conversely, compared with 2007, total revenues for long-haul business, amounting to € 191,843 thousand, progressed by € 8,444 thousand (+4.6% YoY) mainly because of the above price effect, whereas activity suffered a decrease due, among other things, to (a) the Kenyan disorders in early 2008 and (b) discontinuation, in September 2007, of the Rome-Delhi connection.

Revenues from sales and services, totalling € 368,378 thousand, grew by 14.3% YoY for the reasons highlighted above.

The 10.5% growth of **other revenues** (€ 10,395 thousand in 2008 vs. € 9,405 thousand in 2007) was due to higher revenues for the subleasing of an A330 aircraft that entered the fleet in March 2007 to other carriers (to the Air Comet airline for 12 months and subsequently to the carrier Israir Airlines & Tourism for a similar period).

Due to the considerable increase in fuel prices during 2008, albeit partly attenuated by USD depreciation, the cost of **fuel** increased in absolute value by € 37,599 thousand, bringing its weight on sales revenues up from 30.5% in 2007 to 36.9% in 2008. **Staff costs** totalled € 37,467 thousand, with a decrease of -2.3% YoY thanks to optimisation of operating resources and to normalised application of the solidarity agreement as from April 2007. This cost item as a % on sales decreased from 11.9% in 2007 to 10.2% in 2008. **Maintenance materials and services**, amounting to € 45,529 thousand, remained stable vs. 2007, with a weight on sales that decreased from 14.1% in 2007 to 12.4% in 2008.

Other operating costs and wet lease costs amounted to € 92,971 and remained stable vs. 2007. Set against greater use of aircraft in ACMI mode, particularly in the third quarter; higher operating costs for some airports, and the increase in municipal surcharges [the Italian equivalent of air passenger duty – APD] as per Italian Legislative Decree dated 27 October 2008, this cost item benefited from weakening of the US dollar against the Euro.

Other **direct & general commercial costs and overhead costs**, which, combined, amounted to € 20,353 thousand, increased in absolute value vs. 2007, although remaining stable as a % on sales revenues (5.5% in 2008 vs. 5.6% in 2007).

EBITDAR, which totalled € 36,296 thousand, increased by € 5,110 thousand (+16.4%) vs. the amount reported in 2007. This performance was attributable to the positive effect of medium-haul business (with EBITDAR growing by € 6,920 thousand vs. 2007, +44%) thanks to greater operating activity and higher margins, whereas long-haul EBITDAR deteriorated by € 1,810 thousand (-11.7%). As well as to less activity, this decrease was also due to the higher penalisation of the increase in fuel costs, whose weight on revenues is higher than for medium-haul business. The cost of **operating leases** amounted to € 42,739 thousand vs. € 45,852 thousand in 2007. This decrease was due to average depreciation of the US dollar, the currency in which operating lease contracts are expressed, partly offset by the higher costs caused by the entry into the fleet of the fifth Airbus A330 as from March 2007.

As a result of the above, there was an **EBITDA** loss of € -6,443 thousand, with improvement (of € 8,223 thousand, +56.1%) over the 2007 result.

This result was once again driven by the medium-haul segment (which featured an increase of € 10,070 thousand between 2007 and 2008, thus consolidating EBITDAR improvement), whereas the long-haul segment showed deterioration of performance (€ -1,847 thousand, in line with the change in EBITDAR).

EBIT ended the year negative by € -16,752 thousand, with improvement of € 5,537 thousand over 2007, notwithstanding the penalisation of the significant amount of **provisioning for doubtful receivables**, which in 2008 totalled € 5,779 thousand vs. € 2,820 thousand in 2007. Higher provisioning was due to the bankruptcy of a tour operator and to the Alitalia Group's declaration of insolvency.

Going into detail, medium-haul EBITDA amounted to € 1,039 thousand (vs. € -8,016 thousand in 2007) and long-haul EBITDA amounted to € -17,791 thousand (vs. € -14,274 thousand in 2007).

As a consequence of the above trends and given the substantial equivalence of the contribution from financial operations (in 2007 net finance expense was € 2,474 thousand while in 2008 it was

€ 2,329 thousand), there was a **pre-tax loss** of € -19,082 thousand, with improvement compared with the 2007 loss of € -24,763 thousand).
After income taxes for the year (current regional business tax (IRAP) of € 979 thousand set against net advance corporate tax of € 1,563 thousand), there was a **net loss** of € -18,498 thousand as compared with a 2007 net loss of € 21,757 thousand).
We point out that tax losses carried forward and recovery of temporarily non-deductible provisions and expenses have been quantified based on taxability prospects supported by the new 2008-2012 Business Plan and by 2009 Budget results.

Equity as at 31 December 2008, inclusive of the year's net loss, totalled € 28,438 thousand, as opposed to negative equity of € -5,406 thousand at 2007 year-end. During 2008 three recapitalisation operations were completed for a total of € 52,411 thousand. In January 2009 the last capital increase was concluded with subscription of new shares for a total value of € 2,701 thousand.

The year-end **net financial position** showed net cash of € 5,557 thousand vs. net financial debt of € -17,065 thousand at the end of 2007, thanks to the proceeds of the cash capital increases booked during the year.

In terms of reported financial indicators, EBITDA margin grew from 9.7% in 2007 to 9.9% in 2008 thanks to the lower weight on sales of maintenance materials & services and of operating and wet lease costs, albeit set against an increase in the weight of fuel costs, which largely neutralised the benefits indicated for the two cost categories just highlighted.

In addition to the items already commented on above, EBITDA margin, which improved from -4.6% to -1.7%, benefited from the reduction of operating lease fees caused by USD depreciation against the Euro. EBIT margin improved from -6.9% in 2007 to -4.5% in 2009 notwithstanding higher provisioning. At 2008 year-end ROE (which in 2007 was not meaningful due to negative equity of € -5,406 thousand) was -65.0%. Cash flow in the period was positive by € 17,809, having been positively affected by the capital increases completed.
Given the characteristics of the revolving stand-by credit facility negotiated with a pool of banks in November 2007 (reference should be made to section 4.8 "Net financial position" for details), the Company has a debt structure biased towards short-term maturities. In 2007 the net financial debt/EBITDAR ratio was 0.55 whereas in 2008 it is not meaningful as the Company was in a net cash position. The net financial debt/equity ratio in the years considered is not meaningful as, at 2007 year-end, the Company had negative equity and at 2008 year-end had a cash surplus. As regards the operating indicators typical of the business, reference should be made to the operating statistics presented in the specific paragraph.

2.2. Significant events subsequent to year end

2.2.1. Operating performance in the first two months of 2009

Consistently with the business's seasonality, January and February 2009 featured a net loss. This result was also burdened by the operating events, highlighted in the following sub-section, involving an Airbus A330, as well as by the uncertainties concerning the present crisis of world economics. Results nevertheless showed improvement over the same period in 2008, also thanks to the still favourable trend in fuel costs. The Company's capital and financial position benefited from the cash-in from the capital increase completed at the beginning of the current year.

2.2.2. Operating events in January 2009

At the beginning of 2009 a technical problem occurred on a long-haul aircraft that temporarily reduced regular performance of the Company's long-haul operations. More specifically, due to technical problems the I-EEZL aircraft remained grounded in Zanzibar for approximately three days. This made it necessary to reprotect passengers departing both from Zanzibar and from Mombasa, as well as to manage consequent delays in other localities in Italy and abroad. To do this we promptly made wet lease agreements with other carriers in order to operate the flights in a period that is at the very height of the peak season. As regards this event, the legal procedures to safeguard the Company's interests vis-à-vis the providers of technical maintenance services have been initiated.

2.2.3. Conclusion of recapitalisation operation

Between 12 and 16 January 2009 the capital increase was concluded with the so-called auction of unopted rights, at the end of which a further 27,012,921 shares had been subscribed for a total value of € 2,701,292.10. At the end of recapitalisation 326,751,332 shares were issued, for a total value of € 32,675,133.20. Meridiana's equity interest in Eurofly increased from 46.10% to 60.73%. At the end of this operation share capital increased to € 39,178,238.92.

2.2.4. Approval of 2009 Budget

The external environment has changed, particularly as regards the trend in fuel costs and the €/USD exchange rate. In addition, FY2008 results, although substantially in line with 2008-2012 Business Plan projections, featured a different mix in terms of operating segment profitability and individual routes – more punitive for long-haul business and in particular for the destinations of this segment. Accordingly, on 26 February 2009 the Company's Board of Directors, even though confirming Plan forecasts for the explicit period 2010-2012, approved a budget for FY2009 that confirms achievement of an operating result – albeit not positive - substantially in line with the forecasts contained in the 2008-2012 Plan. Going into greater detail, the Budget (i) is based on expected trends of the scenario variables (fuel, exchange rates, and interest rates) aligned with those recently achieved and (ii) includes the effect of the remedial actions – already described in previous sections – taken by management to address the changed economic and industry environment. These assumptions and actions permit achievement of results in 2009 aligned with those projected for the same FY in the 2008-2012 Business Plan and include:

- Acquisition via an operating lease of another Airbus A320 as from the end of the first half of 2009, thus bringing forward this aircraft's entry into fleet and bringing the total medium-haul fleet up to its full complement of ten aircraft, while instead confirming reduction of the long-haul fleet, which on a normalised basis will consist of three A330 aircraft.
- Establishment of the code-sharing agreement with Lauda/Livingston to rationalise the long-haul network for tropical destinations as from the start of the Winter leisure season (i.e. as from 13 December 2008), as described in the earlier subsection 2.1.3 "Commercial business".
- Wind up of the flights from New York to Bari, Lamezia Terme and Pescara as well as of the Bologna-New York flights, with a corresponding increase of operations on the Rome-New York and Naples-New York routes.
- Worsening of assumptions concerning NWC (net working capital) management connected with expectations – based on the economic situation – of longer receivables collection times, while prudently keeping supplier payment times unchanged, with increase of the expected term for collection of the amounts receivable from the Labour Ministry for the solidarity contribution, already confirmed in 2008.
- Activation of the third year of the so-called "solidarity agreement" for in-force personnel.
- Possible sale at year-end of the Company's headquarter building.

2.2.5. Adoption of the organisational, management and control model pursuant to Italian Legislative Decree 231/2001

Pursuant to Italian Legislative Decree 231/2001 [relating to legal entities' administrative liability for white-collar crimes], the Company adopted its own organisational, management and control model by means of a formal resolution passed by the Board of Directors.

The Model is the result of a specific work project initiated during FY2008, carried out via identification of corporate risks; drafting of conduct protocols included in the so-called Special Section of the Model; definition of some general tools – including the Code of Business Ethics and the penalty system specific to our corporate reality; and regulation of the Oversight Committee via a specific statute indicating, among other things, its composition, requisites, tasks, and powers.

The members of the Oversight Committee, all possessing adequate requisites of independence, autonomy, professional skill, and continuity of action, were appointed by the Board of Directors on 27 March 2009, in accordance with the committees own Bylaws.

2.3. Business outlook

In the light of operating trends in 2008 and of the tendencies emerging in the air transport industry market in this first part of the year, the uncertainty concerning any short- and long-term forecasting process increases. This is also due to uncertainties relating to evolution of the recent adverse economic situation, which could affect sales volume and commercial relations/risks.

Moreover, achievement of Budget targets and of the longer-term objectives of the 2008-2012 Business Plan is significantly influenced by the trend in scenario variables such as the volatility of (a) fuel costs (even though now set at more favourable levels), exchange rates and interest rates; (b) aircraft load factor, (c) average revenue per passenger and also (d) revenue per flight hour for charter flights, the dynamics of which are not under the Company's control and the weight of which is particularly important for achievement of results expected in the 2008-2012 Business Plan as well as in the 2009 Budget.

Given the restructuring operations regarding competing airlines, the Italian air transport industry's evolution could exacerbate the competitive scenario. Furthermore, any adverse development of the legal disputes indicated in the explanatory notes and of counterparties' solvency (particularly related to tour operators) compared with assumptions possible thus far, may have a greater negative impact on the Company's income statement than estimated when assessing the adequacy of provisions for bad debts, liabilities and charges, and when measuring the liabilities.

Lastly, differences in the forecasted performances realized by the associated companies Wokita Srl and SameItaly Srl, whose prospective profitability is equally affected by the uncertainties of the macroeconomic scenario to which the Company is subject, could lead to recognition of impairment of these equity interests.

Financial statements for the year ended on 31 December 2008 have been prepared in the going concern assumption. In applying such criteria, Directors are aware of various uncertainties arising from the trend in scenario variables indicated above, not controllable by the Company as well as from the actual implementation of the strategic actions included in the 2009 Budget and 2008-2012 Business Plan – including planned renewal by the end of the first half of 2009 of the solidarity agreement for 12 months – which are subject to the uncertainty in their actual occurrence typical of any future events.

More specifically, the Directors believe that, by virtue of the level of capitalisation achieved with the share capital increases, any achievement of a result possibly lower than expected due to an adverse trend in scenario variables would not significantly affect the Company's capital equilibrium. On the contrary, any significant deterioration of expected operating results caused by the above-mentioned facts could affect compliance with the financial covenants – subject to 6-monthly checks – established in the long-term loan agreement made in November 2007. This would given the lender banks the right to foreclose and demand immediate loan repayment, thereby jeopardising the Company's financial equilibrium and eliminating the going-concern assumption based on which financial statements as at 31 December 2008 have been drawn up.

As regards this, a more specific situation of uncertainty stems from the high sensitivity of the parameters measured to assess compliance with the financial covenants to uncontrollable scenario variables. The combined trend of these external factors could lead to achievement of results different to those expected, thus not permitting compliance with the covenants.

The Directors – also considering the current trend of scenario variables substantially aligned with 2009 Budget projections and despite results lower than expected in the first two months of 2009 – nevertheless consider the Budget assumptions (including renewal of the solidarity agreement) and its forecasts, both as up to 30 June 2009 and for the whole of FY2009, reasonable (with consequent compliance with covenants on the 6-monthly checkpoint dates envisaged). They do so also considering the effect of the remedial actions that the 2009 Budget envisages with respect to the 2008-2012 Business Plan.

As regards this, it is to be pointed out the limited level of bank debt expected in the next 12 months thanks to the positive effect on liquidity of the capital increases mentioned earlier, which have also permitted a higher level of capitalisation. In addition, the Company believes to be able to manage net working capital adequately, also considering flexible settlement of receivable and payable positions, consistently with the extension of payment terms obtained in the past from suppliers and such as to reduce the overall risk of financial shortfalls.

It is in consideration of all the above that the Directors, albeit in the presence of the various uncertainties highlighted, decided to consider the going concern assumptions reasonable in the circumstances for the preparation of financial statements as at 31 December 2008.

It is pointed out that had the going-concern assumption not applicable, the Company would not be able to realise its assets – and in particular intangible assets, deferred tax assets (amounting to € 10.9 mn) and equity investments – and also to meet its liabilities during the normal course of business, at values matching those included in the individual financial statements as at 31 December 2008.

2.4. Risks and uncertainties to which the Company is exposed

In conducting its business the Company is exposed to risks and uncertainties stemming from externally generated factors relating to the general macroeconomic environment or specific to the air transport industry in which operations take place. It is also exposed to internally generated risks stemming from strategic decisions and internal operating risks.

Throughout FY2008 identification and mitigation of such risks was systematically performed by the functions concerned, permitting timely handling of any risk emerging. The Company's limited level of capitalisation and the presence in the loan agreement of covenants relating to profitability, amplify the impact on liquidity risk caused by operating events in the macroeconomic or air transport industry environment in which the Company is running its operations. They make management of enterprise risk important for continuation of business, i.e. for the Company's ability to operate in conditions of autonomous economic and financial equilibrium.

As regards risk management, although leaving functional responsibilities for risk identification, monitoring and mitigation unchanged, the Company has implemented a centralised risk management project. This is also intended to allow better measurement of the impact of each risk on going-concern assumption, reducing its occurrence and/or limiting its impact depending on the factor causing it (irrespective controllable or not controllable by the Company).

The main risks identified, monitored and managed by Eurofly are the following, i.e. risks depending on or relating to:

1) External variables.
2) Competition.
3) Demand/macroeconomic cycle.
4) Financial management.
5) Terrorist attacks/natural calamities/atmospheric events/epidemics or serious accidents.
6) Commercial factors.
7) Operating inefficiencies.
8) Operations management.
9) Reliance on key suppliers.
10) Non-achievement of synergies with group companies.
11) Finance.
12) Environmental and social factors.

Risks dependent on external variables

In FY2008 fuel cost, which is linked to oil price trends and to the dynamics of international markets, was equivalent to 36.9% of the Company's revenues from sales and services. Notwithstanding the index-linking mechanisms envisaged in contracts with tour operations, the trend of this variable is of major importance for corporate results.

As regards foreign exchange risk, we point out that some of our main production factors are settled in USD. This is because of the fact that some markets – such as fuel, aircraft leasing, and insurance – use the USD as the reference currency and also because of our foreign activity. Conversely, by way of partial compensation, the Company generates part of its sales in USD and holds non-current assets in USD consisting of deposits paid to suppliers as security for aircraft lease contracts and for other supplies.

As regards coverage of the risks stemming from changes in the two external variables mentioned, it should be remembered that charter contracts concluded by the Company with tour operators indeed provide the possibility of adjusting agreed prices to changes in fuel cost and the EUR/USD exchange rate at the time of the flight. The coverage provided by this clause, however, features some limitations. In practice, charter contracts are negotiated about six months in advance of actual flight operation. In addition technical computation methodologies for the determination of such adjustments imply a time lag between the change in fuel prices and/or exchange rate and actual application of adjustments. Moreover, in the event of major changes in these external variables concentrated in a short time span, price adjustment, even though contractually guaranteed, hits a limit in terms of the market's ability to absorb the increases.

As regards scheduled business and with special reference to fuel cost, in the air transport industry fuel surcharges are applied to ticket prices, albeit on a deferred basis, in order to recoup at least part of this cost increase.

It should also be borne in mind that, as specifically regards the fuel surcharge, transfer of the risk of the increase in fuel prices and/or exchange rates to the prices applied to customers is also affected by reasons of commercial advisability and by the behaviour of competing airlines.

For the above reasons, the Company, even though it has the contractual and commercial mechanisms outlined above to limit related risks, is nevertheless partly exposed to the effects of any adverse trends in the variables mentioned above. In any case, by virtue of the presence of the contractual coverage mentioned above, thus far it has not been the Company's practice to hedge the risk of fuel price increase using derivative instruments.

Risk relating to competition

Air transport features strong competition, which has grown in the last few years following evolution of the industry and ongoing liberalisation of air routes. Competition comes both from existing market players and from new airlines or new modes of transport. In the present environment featuring deterioration of the economic cycle and lessening of the public's spending power, airlines are seeking to safeguard their business volume by accentuating price-based competition.

This is reflected in growing pressure on rates and fares and consequent stress on margins. Eurofly is addressing this situation by (1) intensifying its offering for specific destinations, on which to strengthen its position, presenting itself as tour operators' preferential counterparty for these specific routes and (2) improving the standard of onboard services to assure a positioning in line with higher fares and rates (see also sub-section 2.1.2 "Actions to improve the standard of services"). Besides this, obviously Eurofly also markets promotional offers, above all in off-peak seasonal periods.

Risks relating to changes in the general economic scenario

In both the business and leisure segments, air transport is correlated with the overall economic scenario. Given this, any periods of adverse economic trends or of recession lead to a reduction in the number of passengers, also because of lower consumer and corporate spending power. Occurrence of such circumstances, together with the prevalence of fixed vs. variable costs in Eurofly's cost structure, may put pressure on margins. Because of this, Eurofly implements actions to improve the efficiency of the operating lever with the aim of mitigating the effect of lower revenues on margins, while monitoring impact on going-concern in order to take timely actions needed to maintain such status.

Risks relating to financial position management

The Company has a financial position featuring much higher current than long-term financial exposure. This, together with the presence of negative net working capital and of a significant amount of past-due payables, may cause situations of financial stress. In addition, specific difficulties of commercial counterparties (tour operators and financial intermediaries handling collection of credit-card payments, etc.) can lead to non-collection or late collection of credit.

Lastly, a negative trend in operating performance could trigger a demand from banks for early repayment of the loan or make it necessary to find new financial resources to replace or supplement the revolving stand-by loan currently in place. This may be difficult, particularly in the present credit-crunch environment. As stated earlier in the introduction to this section, Eurofly implements actions for constant monitoring of controllable variables to reduce the effect of any adverse occurrences on profitability, and indirectly on liquidity, also checking the effects of external variables, in order to take the timely remedial action needed to assure maintenance of going-concern status.

Risks relating to terrorist attacks/natural calamities/atmospheric events/epidemics or serious accidents

The occurrence of natural calamities, epidemics and terrorist attacks – especially in places that, because of their particular tourism standing, feature major demand for air transport – may cause, generally in the short-medium term (depending on the gravity of events) a significant downturn in consumer demand for air transport. The Company is therefore exposed to the risk of occurrence of such events having negative effects on it from an economic/financial standpoint.

The effects on profitability and liquidity caused by these negative events are mitigated thanks to differentiation of our offering (in terms both of development of scheduled business and of the geographical areas served) and to continuous updating of security and safety procedures to meet the industry's stringent regulatory requirements.

Lastly of all, there is the eventuality – innate in the air transport business – albeit remote, of the occurrence of accidents to the fleet of greater or lesser gravity, occurrence of which could jeopardise continuation of the business as a going concern.

Commercial risks

Over the years the tour-operating industry, Eurofly's main target, has undergone profound change caused both by (1) disintermediation of the tourism business in favour of "DIY" approaches and (2) the tendency towards industry concentration, leading to fewer but larger tour operators. To address the first of these two tendencies, Eurofly has gradually increased its offering of scheduled flights, also via development of online sales. As far as concentration of the tour operating industry is concerned, Eurofly – thanks to its established presence and in-depth knowledge of the industry – has successfully increased business with the most important and reliable tour operators, giving greater assurance of contractual compliance (contracts are in any case always covered by performance deposits and suretyships provided by tour operators and by clauses providing for cash-in before the flight and possibly also the power to suspend the flight in the event of non-payment).

Set against the benefits of the focus on the top tour operators in terms of counterparty solidity, the risk must be pointed out of possible discontinuation of dealings with one of these customers, smaller in number but very significant in terms of business.

Risk relating to occurrence of operating inefficiencies

The Company is exposed to the risk of occurrence of operating inefficiencies. These may concern both problems regarding the fleet – with the risk of temporary suspension of normal operations – and non-provision or partial provision of services/supplies by third-party operators. As regards this, we recall the fact that Eurofly uses services provided by outside parties (air traffic control, management of airport and ground assistance services, catering and maintenance services) to perform some ground operations (pre-flight operations concerning passengers, baggage and goods in the airport) as well as efficient aircraft maintenance. There is therefore a risk of lack of or partial coverage of third-party service output. The onset of further operating and commercial complications, which are accentuated by business seasonality, may make management of the event difficult, also in terms of costs for passenger reprotection. In order to reduce these risks, Eurofly has developed agreements with other carriers and suppliers who assure their support if operating events occur, above all in foreign airports.

Operating management risks

The Company is exposed to a series of risks concerning, among others:

1. The possibility of fraud relating to credit collection for sales completed via credit cards. This risk is managed via good knowledge of such occurrences and by elimination of the collection channel in more problematical cases, or by agreements with parties specialised in managing such events.
2. Failure to comply with regulations in the event of amendments or of incorrect interpretation of the same, both purely in the business sphere and, more generically, as regards our status as a listed company. This risk is managed via internal control and external control systems, also with the aid of advisors who assure compliance with current regulations;
3. Major dependence on information systems to assure adequate and efficient continuity of the air transport service. For this the Company has implemented back-up and constant-assistance procedures, also with the aid of specialised providers.
4. The importance of relations with trade unions, which are particularly active in the flight personnel category and, in the case of union tensions, can affect the Company's operations. From this point of view, the Company has set up a dialogue-based approach with trade unions with the aim of assuring respect of workers' rights as part of effective and efficient management of the processes generating value for the Company.

Risk relating to dependence on key suppliers

Eurofly uses third-party service providers (air traffic control, management of airport and ground assistance services, catering and maintenance services) to perform some ground operations (pre-flight operations concerning passengers, baggage and goods in the airport) as well as efficient aircraft maintenance. There is a risk of lack of or partial coverage of third-party service output. This may translate into waste or failure to identify savings, costs to be charged back or penalties to be filled for deviations vs. contractual provisions. Similarly, Eurofly outsources important activities and poor quality service could jeopardise performance of activities. In order to assure close monitoring and control of these suppliers' services, as well as to reduce any risk of interruption of supply, the Company has implemented an automated assessment and rating system for key suppliers. Also envisaged is the presence in contracts of clauses concerning quality control, compliance with all the requirements of the various regulators, and penalties in the event of inefficiencies or non-performance ascertained and appropriately notified.

Risk relating to non-achievement of synergies with group companies

The 2008-2012 Business Plan is also based on development of group synergies in the operational and commercial and also managerial spheres. Non-implementation or incomplete implementation of development and integration activities could have significant effects on expected results.

Financial risks

As regards financial risks not discussed previously, readers should refer to the specific section in the explanatory notes – 4.14 "Disclosure on financial risks".

Environmental and safety risks

As regards environmental risks, reference should be made to section 2.7 "Environment".

As regards the subject of occupational safety, the Company safeguards this aspect pursuant both to Italian Legislative Decree 81/2008 (Italian Consolidated Safety Act) and to specific regulations, also via application of the organisational, management and control model envisaged by Italian Legislative Decree no. 231 of 8 June 2001. As specifically regards the subject of worker health and safety in workplaces, the Company constantly monitors all potential risks, risk assessment procedures, and the characteristics necessary for organisational and management models to assure prevention and worker protection.

This is also done via regular meetings, as required by the legislator, where review takes place of risk assessment documents, trends in injuries and professional illnesses, the criteria for choice of personal devices together with their technical features and effectiveness, and information and training programmes for managers, for those with specific responsibilities, and for workers.

2.5. Performance of associate companies

Under Article 93 of the Italian Consolidated Finance Act, Eurofly does not control any company.
Eurofly owns shareholdings in associate companies consisting of 50% equity interests in Wokita Srl and SameItaly Srl, contributed by Meridiana SpA as part of the capital increase in kind completed in March 2008, and of a 49% equity interest in EF-USA.
Although they are 50% owned by Eurofly, pursuant to Article 25 of Italian Legislative Decree 127 of 9 April 1991 Wokita and SameItaly are considered to be subsidiaries of Meridiana SpA for the purposes of preparation of the latter's consolidated financial statements.

SameItaly Srl, founded at the end of September 2007, acts as General Sales Agent for Italy for Meridiana and Eurofly, as well as for the tour operator Wokita, in the segment consisting of the trade (i.e. travel agencies), entities and companies, with the aim of creating strong group synergies and optimising commercial distribution costs.

Wokita Srl, founded in February 2008 to promote development of online tour operating business within the Meridiana group, is active in the creation and marketing of tour packages and in direct sale to final consumers of individual services via its portal.

March 2008 saw the setting-up of EF-USA Inc., a new sales representation company, 51% owned by GCVA Inc. (a company not associated with Eurofly SpA) and 49% by Eurofly, to replace, starting on 1 April 2009, the previous General Sales Agent for the North American market, whose contract was due to expire at the end of March 2008. EF-USA's business consists of management and direction of sales and customer-care services in North America on behalf of Eurofly, with income consisting of sales commissions. Creation of appropriate information flows and the presence in EF-USA's Board of Directors of senior managers of Eurofly SpA assures proper control of decision-making and operating processes.

The following table shows the associate companies' main FY2008 business and financial results.

2008	SameItaly Srl	Wokita Srl	EF-USA Inc
	(Euro/000)		*(USD/000)*
Total revenues	4,711	8,552	1,330
EBIT	871	88	-150
% on revenues	18.5%	1.0%	-11.3%
Pre-tax profit	518	39	-141
Net profit (loss)	221	-10	-141
Equity	563	193	-141
Net financial position	+281	+2.147	+201
Cash flow for year	+169	+946	+201
Investments	65	47	62

More specifically:

- SameItaly ended the year with a net profit of € 221 thousand, under budget due to lower volume brokered because of the Group's different direct/indirect sales mix, higher operating costs (services), and also to non-recurring costs for restructuring of the sales network.
- In 2008 Wokita substantially broke even in bottom-line terms. This result was achieved notwithstanding the less than positive trend of the tourism industry, consumers' every-increasing attention to the price factor and tendency to reduce average holiday duration, as well as competition from other operators in online sales of packages.
- EF-USA's actual results showed a loss due to lower sales in the USA of New York-Italy flights, weakening of the sales currency (USD) vs. the Euro, and the presence of high fixed costs.

In the face of the present economic situation and the difficult situation faced by the travel/air transport industry, the associate companies' management, in concert with shareholders, is assessing all appropriate remedial actions – in terms of organisation, investments, and training – to align short-term business and financial performance with the forecasts of their business development plans.

More specifically, we report that the Boards of Directors of SameItaly Srl and Wokita Srl have reviewed the companies' business plan, reorganising the sales set-up and commercial relationships in order to meet demand requirements better and increase sales (both business and consumer) brokered in forthcoming years. Based on an updated evaluation by independent third parties, these lead us to believe that the carrying value of associate companies in the separate financial statements as at 31 December 2008 is still sustainable.

As already highlighted earlier, performance different to that expected by associate companies, whose prospective profitability is equally affected by the uncertainties of the macroeconomic scenario to which the Company is subject, could lead to recognition of impairment of these shareholdings – not envisaged today.

2.6. Human resources

As detailed in the following table, during 2008 the average payroll headcount increased by some 22 employees vs. 2007. These increases all took place among ground staff, whereas the average headcount for flight staff remained in line with that of the previous year.

Categories	2008	2007	Change
Managers	13.0	11.0	2.0
Office workers	214.3	191.2	23.1
Total ground staff	**227.3**	**202.2**	**25.1**
Pilots	141.5	139.3	2.2
Flight attendants	349.5	354.5	-5.0
Total flight staff	**491.0**	**493.8**	**-2.8**
Total staff	**718.3**	**696.0**	**22.3**

The increase in resources among ground staff was primarily due to Operations, where there were three main areas of action to report, i.e.

- Ground Operations Support (GOS): the unit, set up in the second half of 2007 to assure supervision and control of airport operations throughout the company network, was brought up to full staffing strength during FY2008 via work organisation based on total 24/7 coverage.
- Maintenance: the increase in the number of resources was justified by the need to assure constant coverage at Milan Linate airport and by the increase of the number of routes for which onboard technical personnel is necessary.
- Technical Division: during 2008 we strengthened some recently created areas and reinforced staffing levels to handle a higher workload.

As regards the seniority of Eurofly employees in terms of tenure, the length of service of the three staff categories is detailed below (as a % of each category total).

Length of service	Flight attendants	Pilots	Ground staff
0-2 years	31%	33%	44%
2-5 years	21%	23%	30%
5-8 years	5%	6%	13%
>8 years	43%	38%	13%

During 2008 there were no substantial changes in the company's organisational structure, apart from some microstructural changes relating to the action areas mentioned above.

As far as staff training and development is concerned, during 2008 mandatory activities – mainly technical – were completed both for ground and flight staff. By way of example, these included basic courses for non-certified flight attendants, machine courses for maintenance staff, airport security courses, specific courses on fleet machines for maintenance and technical staff, and simulator sessions for pilots and commanders.

During 2008 we launched a training and development programme for flight attendants, dedicated in particular to senior crew members and cabin service managers, to assure consolidation and standardisation of Eurofly's typical services, in accordance with current commercial needs. The programme will be completed by the end of the first half of 2009.

2.7. Environment

The fleet used by Eurofly, considering also its characteristic degree of modernity, is in line with present environmental requirements as regards both air and noise pollution. There are therefore no particular environmental problems capable of affecting the Company's utilisation of its aircraft.

We highlight the fact that Eurofly is monitoring the specific regulation in the process of being applied concerning emission trading (EU directive 2008/101/CE). In this respect, in the near future airlines will have to comply with some organisational and procedural requirements in order to contribute globally to limitation of greenhouse gas emissions.

Below we specify some aspects concerning environmental impact and the related regulation.

Emission Trading Scheme – ETS

In November 2008 the European Council adopted EU directive 2003/87/CE in order to include air transport activities in the European Emission Trading Scheme (ETS). This directive introduces a system for trading greenhouse-gas (CO_2) emission quotas in order to fulfil Kyoto Protocol commitments effectively by means of an economically efficient tool.

As from 1 January 2012, all flights leaving or arriving at an EU airport will be included in the EU ETS. All airlines operating such flights will be included, regardless of whether or not they are based in the EU. Every operator will have a certain amount of quotas (partly free and partly paid) and can buy additional quotas on the market. Overshooting of these quotas will be subject to sanctions.

Reduction of ETS costs by reducing fuel consumption

CO_2 emissions are directly proportional to fuel consumption. Given this, in order to reduce the economic impact of the coming into force of the ETS engine builders are working on technological improvements to aircraft to reduce their consumption. In turn, airlines are introducing specific fuel-saving maintenance and operating procedures.

Eurofly's current efforts to reduce fuel consumption

Eurofly is currently monitoring all aircraft in its fleet to establish optimal consumption and performance levels, also via control instruments supplied by Airbus. This information, together with analysis of operating reports and flight plans, permits identification of the optimal quantity of fuel to fly a given route.

Noise pollution

As regards issues concerning noise pollution, the Eurofly fleet's aircraft possess the noise certificate, regulated by the Navigation Code, in Heading V of the Second Part "Air Navigation" and Italian Royal Decree no. 356 of 11 January 1925. This certifies compliance with both European and American regulations.

2.8. Research and development activities

Because of the nature of its business, the Company does not perform any research and development activity in the strict sense of the term.

2.9. Security policy document

During FY2008 Eurofly updated its Security Policy Document, in particular as regards activities relating to the handling and protection of personal data pursuant to Italian Legislative Decree 196/03.

2.10. Composition of share capital

As at 31 December 2008, Eurofly's share capital totalled € 6,503,105.72 and consisted of 28,043,438 ordinary shares, without explicit par value.

Following authorisation by the CONSOB (Italian securities & exchange commission) to publish the prospectus concerning the listing of 3,558,718 Eurofly shares already issued at the time of the capital increase in kind reserved for Meridiana and completed on 11 March 2008, these shares – previously unavailable – were admitted to trading on the electronic equity market of Borsa Italiana SpA.

Share capital consists exclusively of freely transferable ordinary registered shares, which equally envisage the rights and obligations established by current statutory regulations. Each ordinary share attributes the right to a proportional share of the earnings for which distribution is resolved and of the final equity emerging at the time of liquidation, as well as a voting right without any limitation.

5% of earnings reported in the statutory financial statements of Eurofly SpA are allocated to the Legal Reserve until the latter reaches the equivalent of one fifth of share capital, with the rest allocated according to the resolutions passed by the Shareholders' Meeting.

The other items of information required by Article 123-bis of Italian Legislative Decree 58/1998 (the Italian Consolidated Finance Act) are contained in the Corporate Governance Report, which is published together with this report.

2.11. Company locations

Eurofly SpA has its registered and administrative offices in Milan (Italy) at the address of Via Ettore Bugatti 15. It also has branch offices in New York (USA) at the JFK airport and in New Delhi (India). This latter office is not operational also because of suspension in September 2007 of the Rome-New Delhi connection operated by the Company during 2007.

2.12. Management & co-ordination and related-party transactions

Eurofly is subject to management and co-ordination by Meridiana SpA, which, following the capital increase resolved by the Shareholders' Meeting on 10 September 2008 and concluded in January 2009, controls it with a 60.73% equity interest,

As per Article 2497-bis and sexies of the Italian Civil Code, below we show the main data of Meridiana's financial statements as at 31 December 2007. For the description of transactions with Meridiana and other related parties, reference should be made to section 4.9 "Related-party transactions".

Euro/000	
Total revenues	430,868
Total costs	416,995
Operating profit (loss)	13,912
Pre-tax profit	8,847
Net profit	1,114
Cash flows	6,375
Cash and cash equivalents	32,808
Intangible assets	626
Equity	110,748

2.13. Certification pursuant to Article 37 of the CONSOB Market Regulation and Article 2.6.2, paragraph 13, of the Regulation for Markets Organised and Operated by Borsa Italiana S.p.A.

Pursuant to Article 37 of the Regulation entitled "Regulations for implementation of Legislative Decree no. 58 of 24 February 1998 on financial markets" (adopted by the CONSOB with Resolution no. 16191 of 29 October 2007 and subsequently amended by Resolution no. 16530 of 25 June 2008) and Article 2.6.2, paragraph 13, of the Regulation of Markets Organised and Operated by Borsa Italiana SpA, the Company, which is subject to management and co-ordination activities by Meridiana SpA, herewith certifies that it:

a) Has complied with publication obligations pursuant to Article 2497-bis of the Italian Civil Code.
b) Has the capacity to negotiate transactions with customers and suppliers on an independent arm's length basis.
c) Has no centralised cash pooling relationship outstanding with the company that exercises group management or with other companies of the group to which the Company belongs.

d) Has as a sufficient number of independent directors to ensure that their opinions have a material impact on decisions taken by the Board of Directors.

2.14. Reference scenario

2.14.1. Macroeconomic picture

2008 featured a major economic crisis, which originated in the USA in mid 2007 and later spread to all world economies. The primary factors of the crisis, at least in the initial phase, were high commodity prices, the real estate crisis, the credit crunch and the slump in stock market confidence. In the first three months of 2008 the crisis mainly concerned the financial area. It was only in the final part of the year that it also involved the real economy, with cases of recession involving the main world economies. Starting in the autumn of 2008 we have witnessed a significant decline in commodity prices. These tendencies have been confirmed and amplified in the early months of 2009.

The price of oil, which had hit peaks as high as USD 150/bbl (barrel) in August, as from September gradually decreased, then reaching prices stable in the range of USD 40-50/bbl.

Crude Oil

USD/barrel

Crude Oil	2008	2007	Dec 08	Dec 07
WTI - USA	99.5	66.2	41.1	91.7
Brent - Europe	96.8	67.1	40.0	90.9

Source: Energy Information Administration - US Government

In terms of average exchange rate, the Euro appreciated against the USD in 2008 vs. 2007. This trend was particularly marked in the first part of the year, whereas in the second part the USD strengthened.

Exchange rate

	2008	2007	31 Dec 08	31 Dec 07
EUR/USD	1.4706	1.3706	1.2917	1.4721

Source: Il Sole 24 Ore

The economic crisis and credit crunch caused a decrease in interest rates in the final part of 2008, more markedly in the USA than in the Eurozone, where interest rates generally increased in 2008 vs. 2007.

This reduction of benchmark rates was not followed by a real reduction of corporate finance expenses due to the increase in risk premium rates.

Interest rates (3-month)

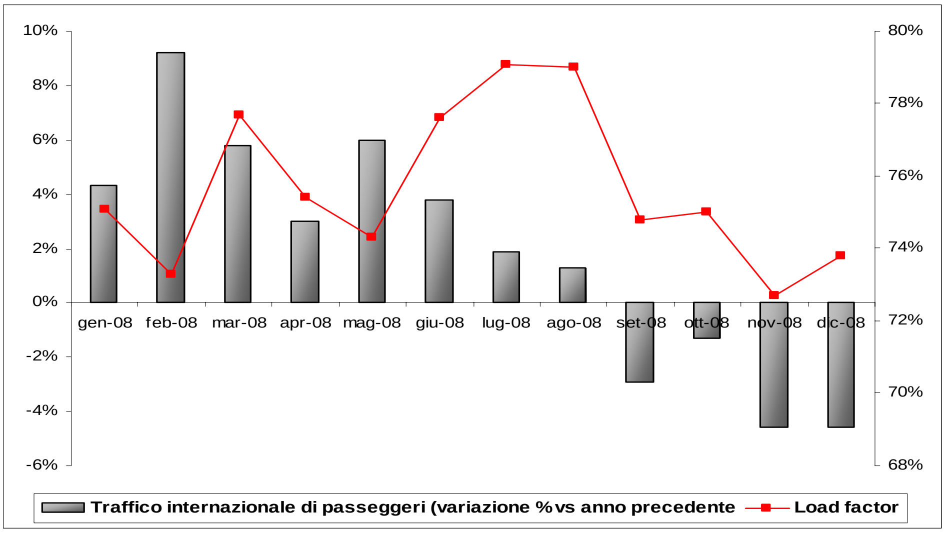
	2008	2007	Dec 08	Dec 07
EURIBOR	4.713	4.330	3.431	4.927
LIBOR (USD)	2.911	5.300	1.829	4.962

Source: British Bankers' Association

2.14.2. Industry scenario

At the end of 2008, in terms of global air traffic the number of passengers carried grew slightly. In its periodical report IATA shows traffic growth of just 1.6% YoY (in 2007 passenger traffic grew by 7.6%) and an average load factor of 75.9%. The chart below shows the monthly trend in 2008 of the YoY change in the number of passengers compared with the same month in 2007, together with the monthly load factor.

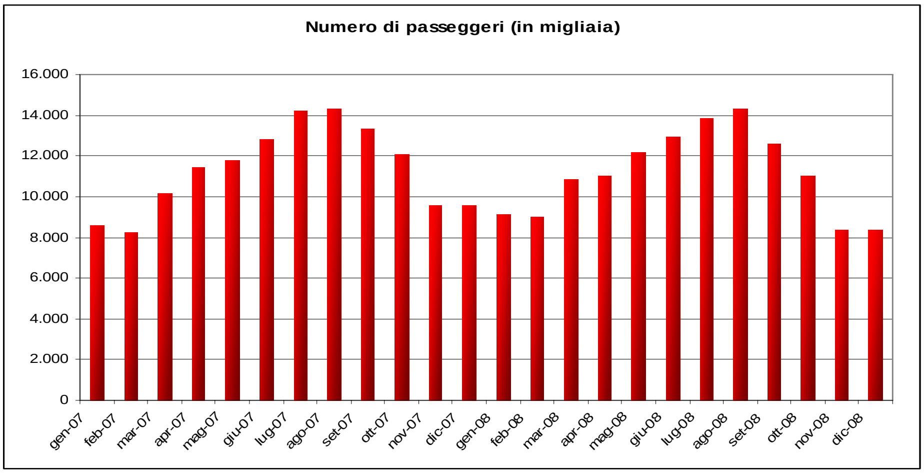
In particular, the last quarter of the year featured a downturn in passengers compared with the same period in 2007 – a sign of slowdown in air transport demand connected with the negative economic situation underway.



Source: International Air Transport Association

Air traffic in Italy showed similar tendencies. Assoaeroporti (Italian airport operators' association) statistics show a -1.8% YoY decrease in the main Italian airports' traffic in 2008. The chart below shows the monthly number of passengers in transit in Italian airports in 2008 and 2007.

eurofly



Source: Assoaeroporti

During 2008 the tourism market featured the increase in crude oil prices in the first part of the year and then by the general economic crisis – events that undermined consumer confidence with effects on travel-spending propensity.

Last but not least, recent cases of political instability and terrorism in some emerging countries have accentuated the climate of uncertainty, with possible associated adverse repercussions on international travel.

According to data published by the UN World Tourism Organization, in the first eight months of 2008 there was a slowdown in the growth of international of tourism, with growth of 3.7%, lower than expected and differing according to geographical area (Europe +2%, Africa +3%, Asia & Pacific +4%, America +6% and, lastly, the Middle East +17%, once again confirming its standing as the region with the biggest increase in arrivals).

The growth rate in 2009 should be around 2-3%, even though the present international economic situation could cause further lowering of estimates during the year.

Due to the climate of economic uncertainty, which has a negative affect on consumer confidence and travel propensity, the recent tendencies are to reduce the number and duration of holidays, giving preference to medium-haul destinations and paying greater attention to value for money (price/quality ratio).

2.14.3. Legislative and regulatory framework

The main legislative and regulatory measures and developments affecting the Italian air transport industry are as summarised below.

Italian Law 248/2005 on “System Requirements”

Decree no. 205 of 30 September 2005, definitively enacted as Law 248/2005 on 2 December 2005, established a series of measures (the so-called “system requirements”) aiming not only to encourage greater competition in national air transport but also to rationalise the airport operator sector and make it more efficient.

Various national and EU regulations were issued in order to ensure – with special reference to the rates and fees applied by airport operators – that the latter’s monopoly situation did not lead to abuse of dominant position vis-à-vis users of their services and, in particular, air carriers.

EU directive 96/67/CE concerning free access to the ground assistance market in EU airports, implemented by Italy with Legislative Decree 18/1999, marked a key milestone in regulatory evolution since it dictated some fundamental principles – then reiterated in Italian Law 248/2005 - i.e. (i) correlation of fees applied by airport operators with actual costs and anchoring of the same to measurable and verifiable factors; (ii) accounting unbundling, (iii) promotion of competition, (iv) compulsory certification, and (vi) obligation for the airport operators to assure transparent, objective and non-discriminatory conditions for access of ground service providers and air carriers to centralised airport infrastructures.

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With specific reference to the principle indicated in point (i) and to the related question concerning so-called royalties, Article 11-terdecies (13) of Italian Law 248/2005 establishes that *“airport operators and service providers cannot apply premiums, in particular royalties, on the supply of fuel, that are not effectively connected with the costs borne to offer the said service”*

In application of these legislative provisions, the Italian Civil Aviation Authority (ENAC) identified, for each Italian airport, the fees applicable by operators as regards fuel replenishment (fuel royalties) and issued a series of ordinances, i.e. ordinance, ref. 60600 of 15 September 2006, (ii) ordinance, ref. 70963 of 31 October 2006, (iii) ordinance, ref. 23931 of 13 April 2007, (iv) ordinance, ref. 25269 of 19 April 2007, and (v) ordinance, ref. 28001 of 3 May 2007.

Assaereo, the Italian association of air transport carriers and operators – in the belief that the measures issued by the ENAC were contradictory and also that ENAC had no power to regulate and establish fees and premiums - with petition no. 10724 filed on 14 November 2006 and with a subsequent petition indicating additional motives filed on 31 May 2007 with the Latium Regional Administrative Court (RAC) asked for cancellation, after suspension, of all measures issued by the ENAC during 2007 concerning the provision of fuel in airports.

With its ruling no. 11154 of 12 November 2007, notified on 30 November 2007, the RAC rejected the petition and additional motives. The administrative court nevertheless properly made a distinction between the positions of airport operators and those of service providers (in the case in point the oil companies), clarifying that the latter had the prerogative of determining the service's "price", whereas the "premium on price" concerned the airport operator.

On 28 December 2007 an appeal was filed with the Italian Council of State against the above-mentioned ruling 11154/07 to get it overturned and for every consequent statutory measure concerning cancellation of the ENAC ordinances specified above.

With its ruling no. 1416, lodged on 10 March 2009, the Council of State upheld the appeal and consequently ordered cancelled of the ENAC ordinances that had been opposed in first instance. More specifically, the Council accepted the airlines' argument - based on EU directives, on CIPE (Italian inter-ministry economic planning committee) resolution no. 86/2000 and on Italian Legislative Decree no. 248/2005 – according to which the premium can be imposed only in strict relation to, and after demonstration of, the costs effectively incurred for supply. The Council of State also considered illegitimate the establishment by the ENAC of a fixed amount of fuel royalties for each cubic metre of fuel supplied within each airport system.

As regards the related legal dispute with the oil companies ENI and Exxonmobil concerning fuel royalties, reference should be made to the specific comments contained in the explanatory notes concerning Liabilities.

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As regards the subject of catering royalties, the ENAC sent to Assaereo, to the airport operators (SEA (Milan) and AdR (Rome)), and also to Assoaeroporti, IBAR (the Italian Board of Airline Representatives) and Assocatering (the Italian caterers' association) the ordinances ref. 0035898 of 5 June 2007, ref. 0035899 of 5 June 2007 and ref. 0072411 of 7 November 2006 with which it established royalties on catering activities at the airports of Rome Fiumicino, Rome Ciampino, Milan Linate and Milan Malpensa.

Assaereo - with its petition no. 8153/07 filed on 18 September 2007 with the Latium RAC (Regional Administrative Court) against the ENAC, Assocatering, Aeroporti di Roma and SEA, the Transport & Infrastructures Ministry and the Finance Ministry – applied for cancellation, after suspension, of the aforementioned ordinances, deeming the royalties established therein not consistent with the criteria identified by Legislative Decree 18/1999, CIPE resolution 86/2000 and by Legislative Decree 248/2005. At the hearing on 25 October 2007 the parties asked for adjournment for debate of the merit of the petition.

The Company is waiting for the RAC to fix the relevant hearing. In the meantime we report that, once again for matters concerning catering royalties, on 26 February 2008 the company Servair Air Chef served a court order to pay an amount of about € 54,500. Eurofly prepared and served a writ opposing the order based on the same reasoning on which the petition filed with the administrative court is based. At the hearing on 22 January 2009 the judge rejected provisional enforcement of the court payment order and adjourned the hearing to 1 July 2009.

Directive on tariff regulation for airport services offered on an exclusive basis (resolution no. 38/2007 of the CIPE – Inter-ministry economic planning committee).

In implementation of the provisions of Article 11-undecies (11) of Italian Law 248/2005, on 15 June 2007 the CIPE, in view of the "need to proceed with systematic redefinition of matters concerning the mechanisms for calculation of airport fees for services rendered on an exclusive basis", passed a resolution approving the "Directive on tariff regulation for airport services offered on exclusive basis", repealing its previous resolution no. 86 of 4 August 2000 (CIPE resolution no. 38/2007).

On 21 November 2007 Assaereo – considering CIPE resolution no. 38/2007 illegitimate and unjustified because (i) it repealed the previous resolution 86/2000 without reiterating principles, thus disregarding all the indications contained in community and national regulations, and (ii) deviated from the provisions of Italian Law 285/2005, EU directive 96/67/CE and Italian Legislative Decree 18/1999 – notified to the relevant administrations its petition 10702/2007 asking the Latium RAC to cancel the said CIPE resolution.

On 18 March and 18 June 2008, Assaereo lodged additional motives for petition 10702/2002, asking, among other things, that the Latium RAC cancel the "Application guidelines – Directive on tariff regulation for airport services offered on an exclusive basis" developed by the ENAC.

The Company is waiting for the first section of the RAC to fix the hearing to debate the merit of the petition and additional motives.

In compliance with the provisions of CIPE resolution 38/2007 and the ENAC Application Lines – notwithstanding the fact that they have been officially opposed by Assaereo – preparatory work is underway between the ENAC and the operators of the various Italian airports to conclude long-term programme contracts.

Consistently with the decision of the Milan Malpensa Users' Committee on 20 January 2004 and according to the provisions of CIPE resolution 86/2000 and the subsequent resolution 38/2007, on 17 June 2008 Eurofly – following the notifications sent to SEA (the Milan airports operator) on 8 February 2007 and 19 April 2007 advising of payment of only 65% of the fees requested by

SEA for use of centralised infrastructures – served a writ on SEA SpA demanding refund of 35% of the fees received by the latter from 2001 to 2006 for use of centralised airport infrastructures and paid in excess of the calculations of the Malpensa Users' Committee. The refund requested for this reason amounts to € 1.9 mn.

Regulation of flight and service time limits

On 23 March 2005 the ENAC approved the "Regulation of flight and service time limits and rest requirements for flight personnel" (the so-called FTL (Flight Time Limitations) Regulation). Following the edition of 23 March 2005 – and also because of the RAC ruling of 2 March 2006 that partly cancelled the FTL Regulation – three further editions were issued, of which the last one on 19 December 2006.

On 16 July 2007 the ENAC approved the flight operations circular OPV-20, with which it intended to provide air operations and their flight-deck and cabin-crew staff with appropriate tools to interpret the Regulation's requirements. The objective was to permit proper application of the regulation when planning both service rotas and related flight programmes.

On 26 July 2007 the airlines, including Eurofly, notified the ENAC of very major reservations concerning the circular's contents. They also pointed out the impossibility of implementing the requirements imposed as from 1 August 2007, such as, for example, modification of aircraft's interior set-up to adapt crew-rest seats.

ENAC therefore accepted the carriers' request, postponing the coming into force of the regulation to 28 October 2007.

On 24 October 2007 Eurofly, together with the other air carriers notified the Italian Civil Aviation Authority (ENAC) and the Infrastructures & Transport Minister, as opposing parties, and the ANPAC (the Italian association of commercial aviation pilots), as an opposite interested party, of the petition no. 8775/05 filed with the Latium RAC asking for cancellation, after suspension, of ENAC circular OPV-20.

At the end of the hearing in camera on 8 November 2007, the RAC, with its ordinance no. 5191/2007, rejected the above request for suspension deeming that – with specific reference to point 4.13 (concerning "the rest seat for crew members") – the use of seats featuring reclinability exceeding 45° did not show any contrast between circular OPV-20 and the FTL regulation and that the carrier in any case was allowed to request approval of equivalent solutions. To date the hearing to debate the merit of the petition has not yet been fixed.

Eurofly came into line with the above ruling and, with its notification dated 23 October 2008, the ENAC provisionally approved the arrangement for cabin-crew rest seats.

Still on the subject of flight staff's flight times, at international and EU level on 12 December 2006 the European Parliament and Council approved EC Regulation 1899/2006, which amended and supplemented EC Regulation 3922/1991. In particular, this 2006 regulation introduced, in heading Q of Annex III the community regulation for flight and service time limits and rest requirements – rules that, as from 16 July 2008, have replaced the ENAC regulation and, in particular, the FTL Regulation. On 10 July 2008 the ENAC approved its “Regulation supplementing heading Q of Annex III of EC Regulation 3922/1991”, introducing new provisions more restrictive than both the FTL Regulation and the EU regulation.

On 7 November 2008 Eurofly and Assaereo filed petition 10100/08 with the Latium RAC applying for cancellation of this “Regulation supplementing heading Q of Annex III of EC Regulation 3922/1991” approved by the ENAC on 10 July 2008. To date the Infrastructures & Transport Ministry and the ENAC have not joined proceedings. The Company is waiting for the RAC to fix the hearing.

Regulation of TV cameras onboard aircraft

With its circular OPV-22 the ENAC asked Italian airlines to define a programme for adaptation to security requirements and to install TV cameras on board of aircraft by the end of July 2008.

Eurofly is implementing the programme of modifications to aircraft, which it plans to complete by the end of 2009, obtaining an extension of implementation times from the ENAC.

Safeguarding of passengers’ rights: EU Regulation EC 261/04, Italian Legislative Decree 69/06 and EU Regulation EC 1107/2006

In order to achieve fuller application of the EU regulation EC 261/04 (“Regulation establishing common rules for passenger compensation and assistance in the event of denied boarding, cancellation or prolonged delay of flights, repealing Regulation EEC 295/91”), the Italian legislator enacted Legislative Decree no. 69 of 27 January 2006 concerning “Provisions for sanctions for breach of Regulation EC no. 261/2004, which introduces common rules for passenger compensation and assistance in the event of denied boarding, cancellation or prolonged delay of flights”. This measure establishes that if the air carrier breaches the provisions of the said Regulation EC no. 261/2004 it can be punished with administrative fines of varying amounts.

Compared with the previous situation, it reinforced all the measures to assure that the carrier respects and assures passenger rights. The ENAC was appointed as the NEB (National Enforcement Body) for application of the regulation and issuing of any administrative sanctions.

On 23 June 2006 the ENAC issued the circular series APT 23, defining the procedural approaches for application of sanctions.

With its recent sentence of 22 December 2008, the European Court of Justice – with reference to Article 5, paragraph 3, of Regulation EC 261/04 concerning exoneration of the carrier’s obligation to pay pecuniary compensation in the event of flight cancellation due to force majeure – ruled that a technical problem with an aircraft that led to cancellation of the flight did not come within the notion of “exceptional circumstances” unless said problem arose from events that, by virtue of their nature or origin, did not relate to the air carrier’s normal course of business and were beyond its real control. “The circumstance that an air carrier has respected an aircraft’s minimum maintenance requirements it is not in itself sufficient to demonstrate that the carrier in question has taken ‘all appropriate measures’ and to free it from the obligation of paying the pecuniary compensation envisaged”.

In addition, on 26 July 2006 the Official Journal of the European Union published Regulation EC 1107/2006 “concerning the air transport rights of disabled persons and persons with reduced mobility”. This regulation, which came into forced on 28 July 2008, establishes a series of rules to protect and assist disabled persons and persons with reduced mobility as regards air travel, both to protect them from discrimination and assure assistance for them.

Regulation of fees for hold-baggage security check service

On 2 August 2007 the Italian tour operators’ association (ASTOI) and some tour operators notified the relevant administrations and entities (ENAC, Infrastructures & Transport Minister, Assaeroporti and Assaereo) of its petition 8586/063 asking the Latium RAC for cancellation, after suspension, of the decree dated 14 March 2003 of the Deputy Infrastructures & Transport Minister concerning rules for the hold-baggage security check service and of the ENAC’s subsequent notes on the subject.

With its sentence 1754/2008 the RAC cancelled ENAC note no. 421693 of 26 June 2003 with which it had required tour operators to pay airport operators fees for the hold-baggage security check service, instead stating that Article 2 of the decree of 14 March 2003 assigned this cost directly and solely to the air carrier, which, as “collection agent” must then pay to the airport operator the amount collected from tour operators.

This sentence is currently the subject of a difference of opinion on interpretation between ASTOI and Assaereo.

Italian Law no. 166 of 27 October 2008: "Definitive enactment as law, with amendments of Decree Law no. 134 of 28 August 2008 concerning urgent measures for restructuring of major enterprises in crisis”

Law no. 166 of 27 October 2008, published in the Official Italian Gazette no. 252 of 27 October 2008, defined the new rules reforming the procedures for officially controlled administration of major companies in crisis.

Among the main rules contained in the Law, we highlight the municipal surcharge [the Italian equivalent of APD] on passenger fees – included in the fares of all air carriers (Italian or foreign) operating in Italian territory – which was increased by € 3.00 per passenger. The increase in the surcharge is designed to fuel the special fund to support income and employment and to retrain and upgrade personnel in the air transport industry.
The law specifies that the higher sums coming from the surcharge increase must be directly paid by the parties responsible for collection into a special account opened at the central state treasury managed by the INPS (state pension & welfare agency) and registered in the name of the above special fund. Every six months the Italian Civil Aviation Authority (ENAC) reports to the fund the number of passengers checked in for boarding at domestic airports in the previous six months, split between users of domestic and international flights by individual airport.

Italian Legislative Decree no. 231 of 8 June 2001 (liability of legal entities)

Following the coming into force of Legislative Decree no. 231 of 8 June 2001 – which concerns legal entities' administrative liability for certain criminal offences, committed in the interest or to the benefit of the legal entity by senior corporate managers and by those subject to the latter's management or supervision – during 2008 we initiated the project to adapt our organisational system to the decree's requirements. On 17 February 2009, Eurofly's Board of Directors approved the organisational, management and control model and in the next Board meeting on 27 March 2009 appointed the members of the Oversight Committee. For more details, readers should refer to the Corporate Governance Report.

2.15. Own shares

No direct or indirect sales or purchases of own shares were completed during the year. As at 31 December 2008 the Company did not hold any treasury shares.

2.16. Corporate governance

In compliance with regulatory obligations, every year Eurofly prepares a Corporate Governance report. Besides providing a general description of the corporate governance system applied by Eurofly, the report provides information about ownership and about adherence to individual requirements of the Corporate Governance Code for listed Italian companies, to which Eurofly adheres. This report is available on the website www.eurofly.it, in the Corporate Governance section. Below we summarise the report, inviting readers to consult the complete document for full details.

Corporate governance system. The Issuer is organised according to the traditional management and control model indicated in Articles 2380-bis et seq. of the Italian Civil Code, i.e. with a Shareholders' Meeting, Board of Directors, and Board of Statutory Auditors. During 2007-2008 and in the early months of 2009 the Board of Directors took some measures to apply the principles and recommendations contained in the new Corporate Governance Code.

Board of Directors. Pursuant to Article 14 of the Company Bylaws, the Company is managed by a Board of Directors, consisting of from five to nine members, as resolved by the Ordinary Shareholders' Meeting. Directors can be re-elected.

The number of directors reflects the need to structure the Board of Directors in the way best suited to the Company's needs. In addition, it enables the Company to use different types of professionalism and integrate different skills and experiences, thus maximising shareholder value. The Board of Directors currently consists of nine members (of which four independent) whose term of office will lapse when shareholders approve financial statements for the year ended on 31 December 2008.

Directors' professional resumés are lodged at the company's registered headquarters and are available on the Issuer's institutional site www.eurofly.it in the Investor Relations/Information for Shareholders section.

As the corporate body responsible for the Company's corporate governance system, the Board of Directors plays a central role in corporate organisation. Its responsibilities and functions include strategic and organisational guidelines and verification of the existence of the controls necessary to monitor the Issuer's performance. Pursuant to Article 19 of the Company Bylaws, it is vested with all the widest powers to manage the Company. To do this it can resolve or accomplish all acts that it deems necessary or useful for accomplishment of the corporate purpose, except for those that the law and Company Bylaws reserve as the prerogative of the Shareholders' Meeting.

Guidelines for related-party transactions. In order to assure concrete implementation of the recommendations contained in Article 9 of the Corporate Governance Code drawn up by the Italian committee for the corporate governance of listed companies ("the Code"), at its meeting on 28 March 2008 the Board of Directors, based on the prior opinion of the Internal Control Committee, identified the criteria and guidelines regulating the procedures for approval and execution of related-party transactions – undertaken by Eurofly and its associate companies – to ensure that they are completed according to criteria of material and procedural correctness.

The principles adopted by the Company concerning related parties ("the Principles") are available on its website.

Internal Board committees. In accordance with the provisions established by the Corporate Governance Code, the Board of Directors – within the powers accorded to it by Article 19 of the Company Bylaws – has set up some internal Board committees with consultative, propositive or control functions, which are assured the right of access to relevant information.

The internal committees can draw on the services of external advisors and can be endowed with adequate resources within the limits of a budget established by the Board of Directors. They consist of three members. The committees currently in place are the:

Compensation Committee - Albeit in the absence of a specific bylaw provision in this respect, on 31 January 2008 the Board of Directors, coming into line with the guidance contained in the Corporate Governance Code, passed a resolution appointing the new members of the Compensation Committee. The latter had already been set up previously by the Board resolution of 16 March 2007, which also approved the regulation governing the committee's tasks and operation.

Internal Auditing Committee - With the resolution passed on 16 March 2007, the Board of Directors appointed the members of the Internal Auditing Committee – already created by the Board resolution of 18 July 2006, which also approved the regulation governing this committee's tasks and operation. In view of the entry of new Board members on 30 November 2007 following the resignation of some previous members, on 31 January 2008 the Board of Directors reviewed the committee's membership and confirmed the members previously appointed. The Internal Control Committee performs preparatory support activities for the Board of Directors for questions concerning internal control and risk management. It also performs propositive and consultative functions.

Internal control system. The Board of Directors sets the guidelines for the internal control system – meaning the combination of rules, procedures and organisational facilities designed to permit, via an appropriate process of identification, measurement, management and monitoring of the main risks, healthy and proper business management consistent with stated objectives.

In order to monitor the efficiency of business operations, the reliability of financial information, legal and regulatory compliance, and the safeguarding of corporate assets, the Board looks after prevention and management of enterprise risks concerning the Issuer. It does so via definition of guidelines for the internal control system able to ensure that such risks are properly identified and adequately measured, monitored, managed and assessed.

The Board also regularly checks and assesses the internal control system's adequacy, efficacy and effective operation.

In this respect the Company has endowed itself with organisational and information systems that, combined, are able to assure monitoring of the administration system and of the adequacy and reliability of accounting records, as well as observance of procedures by the various company functions.

Independent auditor. On 30 April 2007 the Shareholders' Meeting, in view of the requirements of Article 159, paragraph 4, of the Italian Consolidated Finance Act as amended by Legislative Decree 303/2006 in co-ordination with Law no. 262 of 28 December 2005 concerning rules for legal auditing of issuers, resolved to extend assignment to Deloitte & Touche SpA – pursuant to Article 8, paragraph 7, of Legislative Decree 303 of 29 December 2006 – for legal auditing of the statutory annual financial statements of Eurofly SpA for a further 6 (six) financial years, i.e. for FYs 2008-2013.

Financial reporting officer. On 28 May 2008, the Board of Directors, having taken note of the positive opinion of the Board of Statutory Auditors, decided to appoint as Financial Reporting Officer, effective as of 3 June 2008, Maurizio Cancellieri, Chief Financial Officer of Eurofly SpA.

Pursuant to Article 19 of the Issuer's Company Bylaws, the financial reporting officer – besides meeting the requisites of reputability established by current regulations for those who perform administration and senior management functions – also has professional requisites featuring specific competence in administrative and accounting matters. This competence, duly ascertained by the Board of Directors on the same date, has been acquired through professional experience in positions of adequate responsibility for an appropriate period of time.
The financial reporting officer was appointed by the Board of Directors after receiving the favourable opinion of the Board of Statutory Auditors.

Board of Statutory Auditors. The Board of Statutory Auditors consists of three standing statutory auditors and two substitute statutory auditors. The statutory auditors hold office for three financial years, until the date of the shareholders' meeting called to approve the accounts relating to their last FY of office, and can be re-elected. Their compensation is decided by the shareholders' meeting at the time of their appointment for the entire term of office.

Statutory auditors must possess the requisites established by the law and by other applicable rules and regulations. As far as professional requisites are concerned, the subjects and business sectors strictly relating to those of the Company are the aviation and airport sectors and sectors relating to the same, as well as matters concerning the subjects of law, private corporate law, and administration, business economics, and those relating to corporate auditing and organisation. Members of the Board of Statutory Auditors are subject to the limits on the total number of directorships and statutory auditing offices held, as established by CONSOB (Italian security & exchange commission) regulations.

The Board of Statutory Auditors in force as at the date of this Report was appointed by the Ordinary General Meeting of Shareholders on 27 April 2006 and will remain in office until shareholder approval of statutory financial statements for the year ended on 31 December 2008.

The Board of Statutory Auditors, implementing the powers assigned to it by law and by the Company Bylaws, has performed, and performs, an activity of monitoring of Company management, watching over compliance with regulatory and statutory requirements, observance of principles of proper administration and, in particular, the adequacy of the organisation, administration and accounting approach adopted by the Company and its operation. Consistently with the provisions of Article 19 of the Company Bylaws, as a rule information is given to the Board of Statutory Auditors at meetings of the Board of Directors. When specific circumstances make it seem appropriate, such communication can also be performed in writing to the President of the Board of Statutory Auditors.

In performing its activity, the Board of Statutory Auditors has regularly co-ordinated its work with the Internal Audit function and with the Internal Auditing Committee.

Codes. As regards further corporate governance tools in place, these include the following Codes:

- Regulation for the management of privileged information with the related register of persons having access to such information and the associated procedure for external disclosure of corporate documents and information, particularly those of a price-sensitive nature
- Internal Dealing Code, governing procedures for transactions executed by relevant parties and by persons closed linked to the same in financial instruments relating to the Company’s shares.

2.17. Shareholdings owned by directors, statutory auditors and strategically accountable managers

Pursuant to Article 79 of the CONSOB Regulation for Issuers no. 11971/1999, it is herewith stated that no director, statutory auditor or strategically accountable manager owned – directly or indirectly or via companies controlled by the same – shareholdings in the Company as at 31 December 2008, nor did they own any at the beginning of the financial year.

Similarly, the same persons did not buy or sell Eurofly SpA shares during FY2008.

2.18. Board of Directors' proposals to the Shareholders' Meeting

To Our Shareholders,

The FY2008 statutory financial statements of Eurofly SpA show a total loss of € -18,497.672.

The Board of Directors' proposes that you:

- Approve the statutory financial statements as at 31 December 2008 of Eurofly SpA
- Carry forward the year's loss of € -18,497,672.

Milan, 27 March 2009

On behalf of the Board of Directors

Lorenzo Caprio

President

Giovanni Rossi

Chief Executive Officer

3. FY2008 FINANCIAL STATEMENTS

3.1. Balance Sheet

Euro	**31.12.08**	**31.12.07**	**Change**
Property, plant and equipment	13,065,189	19,566,721	(6,501,532)
Intangible assets	1,354,350	2,558,922	(1,204,573)
Financial assets	8,793,412	10,944,773	(2,151,361)
Financial assets with parent company	3,017,892	0	3,017,892
Other receivables	3,155,026	0	3,155,026
Deferred tax assets	10,940,579	9,071,912	1,868,667
Equity investments	8,000,311	0	8,000,311
Total non-current assets	**48,326,758**	**42,142,328**	**6,184,430**
Inventories	3,215,707	2,875,842	339,864
Trade and other receivables	59,225,353	57,894,778	1,330,575
Trade receivables and other receivables vs partent company	5,657,072	1,081,273	4,575,800
Other assets	10,459,410	12,334,456	(1,875,046)
Cash and cash equivalents	13,174,585	6,954,719	6,219,866
Total current assets	**91,732,127**	**81,141,067**	**10,591,059**
Total assets	**140,058,885**	**123,283,395**	**16,775,489**
Share capital	6,503,106	1,023,169	5,479,937
Reserves	40,433,016	15,327,899	25,105,117
Profit/(Loss)	(18,497,672)	(21,757,020)	3,259,348
Net equity	**28,438,450**	**(5,405,952)**	**33,844,402**
Long term borrowings	2,758,485	3,274,588	(516,102)
Deferred tax liabilities	251,078	127,942	123,137
Provisions for risks and charges	6,893,647	8,163,437	(1,269,790)
Total non-current liabilities	**9,903,211**	**11,565,967**	**(1,662,756)**
Trade and other payables	91,719,366	92,761,440	(1,042,074)
Trade and other payables vs parent company	2,482,569	1,938,857	543,712
Bank debt	4,325,646	15,914,311	(11,588,666)
Current portion of long-term borrowings	533,026	514,318	18,708
Short term borrowings	0	4,322,812	(4,322,812)
Provisions for risks and charges	2,656,617	1,671,642	984,975
Total current liabilities	**101,717,224**	**117,123,381**	**(15,406,157)**
Total equity and liabilities	**140,058,885**	**123,283,395**	**16,775,489**

Translated from the original version in Italian

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3.2. Income Statement

Note	Income Statement	2008	% on revenue	2007	% on revenue	Change	% change
	Euro						
23	Revenue from sales and services	368,378,422	100.0%	322,289,674	100.0%	46,088,748	14.3%
24	Other revenue	10,394,514	2.8%	9,405,036	2.9%	989,478	10.5%
	Total revenue	**378,772,936**	**102.8%**	**331,694,710**	**102.9%**	**47,078,226**	**14.2%**
25	Direct commercial costs	10,314,858	2.8%	7,671,434	2.4%	2,643,424	34.5%
26	Fuel	135,842,080	36.9%	98,243,490	30.5%	37,598,590	38.3%
27	Staff costs	37,466,915	10.2%	38,353,537	11.9%	-886,622	-2.3%
28	Materials and maintenance services	45,529,368	12.4%	45,364,607	14.1%	164,761	0.4%
29	Other operating costs and wet lease	92,970,865	25.2%	92,941,485	28.8%	29,380	0.0%
30	Other commercial and corporate costs	20,353,199	5.5%	17,934,639	5.6%	2,418,560	13.5%
31	Operating lease costs	42,738,759	11.6%	45,851,651	14.2%	-3,112,892	-6.8%
32	Depreciation and amortization	3,441,468	0.9%	3,950,532	1.2%	-509,065	-12.9%
33	Write off of non current assets	121,759	0.0%	0	0.0%	121,759	100.0%
34	Provision for doubtful receivables	5,778,959	1.6%	2,820,126	0.9%	2,958,833	104.9%
35	Provisions for liabilities and charges	967,113	0.3%	852,216	0.3%	114,897	13.5%
	Total costs	**395,525,343**	**107.4%**	**353,983,717**	**109.8%**	**41,541,626**	**11.7%**
	Operating profit (loss)	**(16,752,407)**	**-4.5%**	**(22,289,007)**	**-6.9%**	**5,536,600**	**-24.8%**
36	Net finance income (expense)	2,329,267	0.6%	2,474,188	0.8%	(144,922)	-5.9%
	Pre-tax profit	**(19,081,673)**	**-5.2%**	**(24,763,195)**	**-7.7%**	**5,681,522**	**-22.9%**
37	Income taxes	584,002	0.2%	3,005,652	0.9%	(2,421,650)	-80.6%
38	Profit/(loss) from discontinued operations	0	0.0%	523	0.0%	(523)	-100.0%
	Net profit (loss) for year	**(18,497,672)**	**-5.0%**	**(21,757,020)**	**-6.8%**	**3,259,348**	**-15.0%**

Translated from the original version in Italian

3.3. Statement of changes in equity

Euro/000	Share capital	Share premium reserve	Legal reserve	Other reserves	Statutory reserve	Retained earnings	Losses covered within the year	Payment for future capital increase	Profit (loss) for year	Total
Equity at 31 December 2006	**13,355**	**31,102**	**478**		**3,681**	**(2,775)**			**(29,139)**	**16,702**
Allocation of 2006 loss						(29,139)			29,139	
Coverage of losses carried forward		(28,233)			(3,681)	31,914				
Waiver of shareholder loan				177						
January-September 2007 loss coverage	(7,088)	(2,869)	(478)							
October 2007 loss coverage	(5,244)			(135)			5,379			
Impact of deferred-tax adjustment on equity				(378)						**(378)**
Adjustment for actuarial losses (IAS 19)				(150)						**(150)**
Profit (loss) for year									(21,757)	**(21,757)**
Equity at 31 December 2007	**1,023**	**0**	**0**	**(486)**	**0**	**0**	**15,814**	**0**	**(21,757)**	**(5,406)**
Allocation of 2007 loss						(5,943)	(15,814)		21,757	
Capital increase in cash	5,231	9,438								**14,668**
Capital increase in kind	249	7,520								**7,769**
2nd capital increase in cash								29,974		**29,974**
Adjustment for actuarial losses (IAS 19)										**(69)**
Profit (loss) for year									(18,498)	**(18,498)**
Equity at 31 December 2008	**6,503**	**16,958**	**0**	**(555)**	**0**	**(5,943)**	**0**	**29,974**	**(18,498)**	**28,438**

Translated from the original version in Italian

3.4. Cash Flow Statement

Euro/000	**2008**	**2007**
Cash and cash equivalents at beginning of financial year	**(8,960)**	**(4,124)**
Pre-tax loss	(19,082)	(24,763)
Profit/loss of discontinued operations	-	1
Tax effect on discontinued operations	-	593
Adjustments for:		
- Annual depreciation & amortization	3,441	3,951
- Foreign exchange (gain)/loss on transactions in foreign currency	320	1,115
- Other financial charges	2,009	1,359
- Capital (gains)/losses on disposal of property, plant & equipment	-	-
Change in trade and other receivables	(5,900)	(9,737)
Change in inventory	(340)	78
Change in trade and other payables (incl. current provisions)	(161)	9,251
Interest and other financial charges paid	(2,177)	(1,582)
Income taxes paid	-	(946)
Realized foreign exchange gain/(loss) for transactions in foreign currency	337	1,420
Unrealized foreign exchange gain/(loss) for transactions in foreign currency	(657)	(2,535)
Write-down of non-current assets	122	-
Net change in post-employment benefit liability	(127)	(916)
Cash flow from the A319 BU operations	-	254
Cash flow generated (absorbed) by operating activities	**(22,214)**	**(22,458)**
Investments in non-current assets:		
* Intangible	(89)	(148)
* Property, plant and equipment	(706)	(1,236)
* Financial	(4,680)	(867)
* Equity investments	(0)	-
Interest received	168	223
Cash flow from the A319 BU disposal	-	16,849
Change in disposal value of other non-current assets	5,727	1,185
Cash flow generated (absorbed) by investing activities	**420**	**16,006**
Release of restricted bank deposits included in current assets	-	3,000
Payment of loan instalments	(497)	(486)
Payment of A319 loan instalments	-	(898)
Cash flow generated (absorbed) by financing activities	**(497)**	**1,616**
Proceeds from share capital increase	10,125	-
Advance proceeds received for future share capital increase	29,974	-
Cash flow generated by capital operations	**40,099**	**-**
Net increase (decrease) in cash and cash equivalents	**17,809**	**(4,836)**
Cash and cash equivalents at financial year-end	**8,849**	**(8,960)**

Translated from the original version in Italian

4. EXPLANATORY NOTES TO ACCOUNTS

(These explanatory notes have been translated from the original version in Italian)

These individual financial statements as at 31 December 2008 have been prepared according to current regulations for listed companies and have been drawn up in Euros (€), which is the Company's functional currency. They have been prepared in accordance with the international accounting standards endorsed by the European Union.

The Income Statement and Balance Sheet schedules are presented in Euro units, taking rounding of individual items into account, whereas the Cash Flow Statement and Statement of Changes in Equity are presented in thousands of Euro, as are the amounts shown in the Explanatory Notes.

As it does not control any equity holding under Article 93 of the Italian Consolidated Finance Act), Eurofly SpA prepares only individual financial statements.

As regards financial statements, the Company presents the balance sheet distinguishing between current and non-current assets and liabilities. The income statement is based on classification of revenues and costs by nature – a format considered more representative than the so-called presentation "by function". The statement of net equity includes all changes in equity recognised. The cash flow statement is drawn up using the "indirect" reporting method.

An asset/liability is classified as current when it meets one of the following criteria:

- It is expected to be realised/discharged or is expected to be sold or used in the normal business cycle or
- Is held principally for trading or
- Is expected to be realised/discharged within 12 months after balance sheet date.

In the absence of all three conditions, assets/liabilities are classified as non-current.

With reference to CONSOB resolution 15519 of 27 July 2006, given the non-material nature of the items concerned, income and costs stemming from non-recurring transactions or from events that do not often occur in the normal course of business are not shown separately in the income statement. Any such items are nevertheless discussed in subsection 4.2 "Significant non-recurring events and transactions". As regards the disclosure required by IAS 14, we point out that primary segmentation is by business segment (Medium-Haul and Long-Haul). As instead regards specification in separate lines of related-party transactions, as envisaged by CONSOB resolution 15519 of 27 July 2006, given their material nature, receivables and payables vs. the parent company are shown separately on the face of the balance sheet. As regards revenues and costs relating to transactions with the parent company and financial and business transactions with other related parties, these are disclosed in section 4.9 "Related-party transactions".

4.1. Accounting standards, accounting policies, and use of estimates applied in preparation of financial statements as at 31 December 2008

Below we present the accounting standards, accounting policies and use of estimates by the Company to prepare its individual financial statements as at 31 December 2008. They are the same as those used for the comparative financial year.

- **General standards and policies**

These financial statements have been prepared on the basis of the IAS/IFRS international accounting standards issued by the IASB, as endorsed by the European Union. The term "IAS/IFRS" means the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs), supplemented by the interpretations issued by the IFRIC (formerly called SIC).

The financial statements have been drawn up based on historical cost, modified as required by the valuation of some financial instruments and assuming continuation of business as a going concern. In particular, with reference to the requirements contained in IAS 1, we specify that individual financial statements as at 31 December 2008 have been prepared under the going concern assumption, albeit with the various uncertainties highlighted in the earlier section 2.3 "Business outlook".

The most important accounting policies adopted are shown below.

- **Recognition of costs and revenues**

Sales and purchases of goods are recognised when goods are respectively delivered to the customer or to the Company, with transfer of the significant risks and rewards associated with ownership of the goods. Sales and purchase of services are recognised according to their execution and completion status on each reporting date, taking into account, in particular, the flight date for passenger transport services, calculated according to the total value of the service rendered or received.

Interest income and expense is recognised applying the accrual accounting principle. Costs relating to the taking out of loans are charged to the income statement when they are incurred. Ancillary costs for the issue of a financial instrument or for a capital increase are directly deducted from the proceeds of the loan or capital increase to which they refer. Commissions paid to agencies for the sale of scheduled air tickets are charged to the income statement when related revenues are recognised.

Charge-backs of costs borne on third parties' behalf are recognised as a reduction of the cost to which they relate.

Dividends are recognised when the shareholders' right to collect them arises. This normally occurs in the financial year when the investee company's shareholder meeting approving distribution of earnings takes place.

- **Employee post-employment benefits**

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

"Post-employment benefit provision" [formerly known as "employee severance indemnity provision"] expresses the liability towards employees for the benefits accrued as up to reporting date in compliance with current laws and contractual agreements. This liability is considered similar to a defined-benefit plan, the cost of which is calculated using the actuarial Projected Unit Credit method and performing actuarial valuations at the end of each financial year. Actuarial gains and losses are recognised in equity on the reporting date. The cost relating to employees' past service is recognised immediately to the extent that the benefits have already accrued or otherwise is amortised on a straight-line basis over the average period in which benefits are expected to accrue.

Until 31 December 2006, post-employment benefit provision was considered a defined-benefit plan. The rules for such provision were changed by Italian Law no. 296 of 27 December 2006 (the 2007 National Budget Law) and by subsequent decrees and regulations enacted in the early months of 2007. They now envisage payment of post-employment benefits as they accrue to a separate entity (pension fund or central treasury fund of the INPS (state pension & welfare agency). In the light of these changes – and in particular as regards companies with at least 50 employees – under IAS 19 post-employment benefit provision must be considered a defined-benefit plan solely for benefits accrued before 1 January 2007 (and not yet paid out at balance sheet date), whereas after this date it is considered to be a defined-contribution plan.

- **Income taxes**

Income taxes for the period are the sum of current and deferred taxes.

Current taxes are based on the period's taxable income. Taxable income differs from income reported in the income statement because it excludes positive and negative items that will be taxable or deductible in future financial years (temporary taxation differences) and also excludes items that will never be taxable or deductible (permanent taxation differences). The liability for current income taxes is calculated using current tax rates or tax rates substantively enacted as at balance sheet date.

Deferred taxes are the taxes the Company expects to pay or to recover on the temporary differences between the accounting value of assets and liabilities and the corresponding tax value

used in calculating taxable income. Deferred tax liabilities are generally recognised for all temporary taxable differences, whereas deferred tax assets are recognised to the extent that, based on the Company's approved business plans, future taxable income is considered likely. In particular, the carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that the existence of sufficient taxable income to permit total or partial recovery of such assets no longer seems likely.
Deferred taxes are calculated based on the tax rate that the Company expects to be in force when the asset is realised or the liability extinguished. Deferred taxes are recognised directly in the income statement, except for those relating to items recognised directly in equity, in which case related deferred taxes are also recognised directly in equity.
Deferred tax assets and liabilities are offset when (a) there is a legal right to offset current tax assets and liabilities, (b) they refer to taxes owed to the same tax authority, and (c) the Company intends to settle current tax assets and liabilities on a net basis.

- **Non-current assets**

Intangible assets

Intangible assets include the costs, inclusive of ancillary costs, borne to acquire resources lacking physical substance on condition that their amount can be reliably measured and the asset is clearly identifiable and controlled by the Company.
They are recognised at purchase or production cost inclusive of ancillary costs and are amortised according to their period of future usefulness. If impairment of value emerges, the intangible assets is written down accordingly following the criteria indicated in the later policy "Impairment of assets".
Below we indicate the amortisation periods applied for the various categories of intangible assets:

- Development costs relating to initial training of pilots are amortised in a three-year period, while those relating to the launch of new products/services from which long-lasting future economic benefits are expected are amortised in five years
- Concessions, licenses, trademarks and similar rights are amortised in a ten-year period
- Costs relating to preparation of the website are amortised in five years.

Useful life and the amortisation criterion are reviewed regularly. If significant changes are found compared with the assumptions previously applied, the amortisation rate is corrected using the prospective method.

Property, plant and equipment

These assets are recognised on condition that their cost can be reliably measured and that the Company will be able to enjoy their future economic benefits.

They are booked at purchase or production cost, inclusive of ancillary costs and of the portion of direct and indirect costs that can be attributed to the asset. Investment grants obtained are recognised in the income statement over the period necessary to match them with related costs and are directly deducted from such costs. If impairment occurs, the item of property, plant and equipment concerned is written down accordingly following the criteria indicated in the next policy “Impairment of assets”.

Property, plant and equipment assets are systematically depreciated on a straight-line basis according to economic/technical rates established in relation to the assets’ residual possibility of utilisation. Assets consisting of components with different useful lives are considered separately when calculating depreciation. Useful life and the depreciation policy are regularly reviewed and, if changes are found compared with the previous assumptions made, the depreciation rate is corrected using the prospective method.

Generally speaking, the asset’s useful life is subject to annual confirmation. It is changed if, during the period, enhancement maintenance has been performed or replacements made that change the useful life of the main investment.

Enhancement and maintenance expenses that significantly increase the production capacity or safety of tangible assets, or that lengthen the useful life of such assets, are capitalised and go to increase the value of the tangible asset to which they apply. Routine maintenance costs are directly expensed in the income statement.

The annual depreciation rates applied are reduced by 50% for assets entering service during the course of the financial year, as this percentage is representative of the weighted average of asset’s entry into service over the 12-month time span. Depreciation starts when the assets are ready for use.

Specifically, the annual depreciation rates applied are as follows:

- Land	not depreciated	
- Buildings	50 years	2%
- Lightweight constructions	10 years	10%
- Plant	10 years	10%
- Equipment	7 years	14%
- Rotable components	12 years	8.33%
- Data processing machinery	5 years	20%
- Office furniture and machinery	8.3 years	12%
- Internal means of transport	5 years	20%
- Cars	4 years	25%
- Communication systems	5 years	20%

- Modifications and standardisations performed on fleet aircraft are depreciated based on the duration of operating lease contracts.

Improvements made to third-party assets are classified among property, plant and equipment based on the nature of the cost borne. The depreciation period is the shortest between the asset's residual useful life and contract duration.

Depreciation for aircraft is calculated – according to the component-based approach – depreciating engines and cell components over a 25-year time span.

Lease contracts are classified as finance leases whenever contract terms are such as to substantially transfer all the risks and rewards of ownership to the lessee. All other leases are considered to be operating leases.

Assets held under finance lease contracts are recognised as Company assets at the fair value on the date when the contract is concluded, adjusted for ancillary costs for conclusion of the contract and any costs incurred to take over the contract or, if lower, at the present value of the minimum payments owed for the lease contract. The corresponding liability vis-à-vis the lessor is included in the balance sheet as a financial liability. Lease rental payments are split between principal and interest to achieve a constant rate of interest on the residual liability. Finance expense is directly charged to the period's income statement.

Rental costs relating to operating leases are recognised on a straight-line basis according to contract duration. Benefits received or to be received or paid or to be paid as incentives to enter into operating lease contracts are also recognised on a straight-line basis over the contract's duration.

Cyclical maintenance and end-of-contract restoration costs are capitalised as an increase of the tangible asset to which they refer and depreciated respectively for the period of validity of cyclical maintenance or over the duration of the aircraft's operating lease contract.

Equity investments

Investments in associate companies are recognised at cost, adjusted for any impairment. Any positive difference emerging at the time of purchase between acquisition cost and the fair value of the Company's share of the associate's equity is thus included in the investment's carrying value. Any write-downs of this positive difference (which is the goodwill accorded to the associate's business at the time of acquisition) are not written back in later years even if the conditions that caused the write-down cease to exist. If the Company's proportional share of any losses made by the associate exceeds the investment's carrying value, the investment's value is written off and the portion of any further losses is recognised as provision in liabilities if the Company is under obligation to answer for such losses.

Dividends received are recognised in the income statement, when the right to receive payment of such dividends has been established, only if arising from distribution of earnings subsequent to acquisition of the associate. If they instead come from distribution of the associate's pre-acquisition reserves, the dividends are booked as a reduction of the equity investment's cost.

Impairment of assets

On each reporting date the Company reviews the carrying value of its property, plant and equipment, intangible assets and equity investments to see whether there are indications that assets have suffered impairment of value. If such indications exist, the recoverable amount of the assets concerned is calculated to establish the possible write-down amount. When it is not possible to estimate an asset's recoverable value individually, the Company estimates the recoverable value of the cash-generating unit (CGU) to which the asset belongs. In our specific case, this minimum unit of aggregation is the business unit (Medium-Haul and Long-Haul) as regards intangible assets and property, plant and equipment, while for equity investments it is the actual investee company concerned.

The recoverable amount is the higher out of fair value net of selling costs and value in use. In calculating value in use, estimated future cash flows are discounted to present value applying a pre-tax rate that reflects current market assessments of the time value of money and of risks specific to the assets.

If the recoverable amount of an asset (or of a CGU) is estimated to be lower than its recoverable amount, the asset is written down to this lower recoverable amount and an impairment loss is immediately recognised in the income statement.

When there is no longer any reason to maintain a write-down, the carrying value of the asset (or of the CGU) – with exception of goodwill (which, in the case of equity investments, is the positive difference emerging at the time of purchase between acquisition cost and the Company's share at fair value of the associate's equity) – is written back up to the new value deriving from estimation of its recoverable value, but not beyond what the asset's net carrying value would have been if impairment had not been recognised. Reinstatement of value is immediately recognised in the income statement.

Non-current assets and liabilities held for sale

Non-current assets (and asset disposal groups) classified as "held for sale" are valued at the lowest out of their previous carrying value and fair value less costs to sell.

Non-current assets (and asset disposal groups) are classified as "held for sale" when their carrying value is expected to be recovered via disposal rather than via their use in the Company's operations. This condition is met only when (a) sale is highly probable, (b) the asset (or asset disposal group) is available for immediate sale in its/their present state, and (c) management has committed to sale, which is set to take place within 12 months after the date of classification in this category.

In compliance with IFRS 5 requirements, for the months between the last approved annual financial statements and disposal date the post-tax profit or loss made in the year by assets and liabilities held for sale is classified in the income-statement line “Profit/loss of discontinued operations” together with such operations’ economic effects net of ancillary costs to sell.

- **Current assets and liabilities**

Inventories

Inventory – consisting of stocks of technical materials, catering materials and scheduled air tickets – is posted at specific cost or, if lower, at presumed realisable value based on market trends. This lower value is not maintained in subsequent years if the reasons for it no long exist and value is reinstated, if the conditions exist to do so, within the limits of the original purchase cost.

Financial instruments

Financial assets and liabilities are recognised at the time when the Company becomes a party to the instruments’ contractual clauses.

- Trade receivables

Trade receivables are recognised at nominal value less appropriate devaluation to reflect estimated losses on receivables.

- Financial assets

Financial receivables relating to capital redemption contracts are measured at cost, i.e. nominal value, plus interest accrued. This value is not lower than the value of initial insured capital plus guaranteed minimum return. Financial receivables relating to performance deposits are posted at nominal value, which coincides with presumed realisable value.

Receivables for security deposits for utilities are measured at nominal value, which coincides with presumed realisable value. Receivables for deposits against contractual commitments with third parties are posted at nominal value and adjusted, if necessary, to align the amount paid with presumed recovery value.

On subsequent reporting dates, financial assets that the Company intends and is able to hold to maturity are recognised at amortised cost net of any impairment write-downs.

Financial assets other than those held to maturity are classified as held for trading or available for sale. They are measured at fair value at the end of every period. When financial assets are held for trading, valuation gains and losses stemming from changes in fair value are recognised in the period’s income statement. Conversely, in the case of financial assets available for sale, valuation gains and losses stemming from changes in fair value are recognised until the assets are sold or suffer impairment, in which cases total gains or losses previously recognised in equity are recognised in the period's income statement.

- Cash and cash equivalents

The item relating to cash and cash equivalents includes cash and current bank accounts, demand deposits, and other short-term, highly liquid financial investments that can be readily monetised and are subject to insignificant risk of changes in value.

- Bank & other loans and bank overdrafts

Bank and other interest-bearing loans and bank overdrafts are recognised on the basis of cash-in accounts less transaction costs. They are subsequently measured at amortised cost using the effective interest-rate method.

- Trade payables

Trade payables are recognised at nominal value.

- Derivative instruments and accounting treatment of hedges

The Company's liabilities are primarily exposed to financial risks of exchange-rate fluctuations. The Company does not use derivative instruments for trading.

Derivative instruments are initially recognised at cost and on subsequent reporting dates are adjusted to fair value through profit and loss as there are no structured procedures in place to determine their effectiveness with respect to the hedging purpose for which they were set up.

- **Provisions**

The Company makes provisions when it has a present obligation as the result of a past event and it is likely that it will have to settle the obligation. Provisions are accrued on the basis of management's best estimate of the costs needed to settle the obligation and are discounted to present value when the effect is material.

- **Items in foreign currency or subject to foreign exchange risk**

Receivables and payables originally expressed in currencies of countries not belonging to the Eurozone are converted into Euro at the exchange rates in force on the related transaction dates. Foreign exchange differences realised upon collection of receivables or payment of payables in foreign currencies are recognised in the income statement. Non-current assets in foreign currencies are recognised at the exchange rate in force when they were purchased or at the lower exchange rate in force on period-end date if the reduction is considered long-lasting.

Assets and liabilities originally expressed in the currencies of non-Eurozone countries and still outstanding at year-end – also including non-current assets of a monetary nature – are aligned with the year-end spot exchange rate. Related gains and losses are shown in the income statement and any net gain is allocated to a specific reserve that cannot be distributed until actual realisation.

- **Use of estimates**

Preparation of the individual financial statements and related explanatory notes requires management to make estimates and assumptions that affect the entity of balance sheet assets and liabilities and disclosure concerning contingent assets and liabilities as at balance sheet date. The estimates and assumptions used are based on experience and on other factors considered relevant. Actual results may therefore differ from such estimates. Estimates and assumptions are reviewed regularly. The effects of any change made to them are reflected in the income statement of the financial year when the estimate is revised, or also in subsequent years if revision affects both the current year and future years.
We summarise below the critical judgement processes and key assumptions used by management in applying accounting standards and policies concerning the future, that may have significant effects on reported figures or for which there is a risk of having to make adjustments to the carrying value of assets and liabilities in the financial year following the one to which these financial statements refer.

Provision for doubtful receivables

Provision for doubtful receivables reflects management's estimates of losses on the customer's.
The estimate of such provision is based on the losses expected by the Company based on experience with similar receivables, current and historical past-due receivables, losses and collections, careful monitoring of credit quality, and on forecasts of economic and market conditions – supported in this by the opinions of the legal advisors representing the Company in pre-litigation and litigation phases. Specific reference should be made to section 4.4 "Note 9 – Trade and other receivables" in these explanatory notes for considerations on the main litigation underway concerning credit recoveries.

Recoverable value of non-current assets

Non-current assets include property, plant and equipment and other assets, intangible assets and also investments in associated companies. Management regularly reviews the carrying value of non-current assets held and used and of assets held for disposal, when events and circumstances make such review necessary. This activity is performed using estimates of expected cash flows and appropriate discount rates to calculate present value. It is also based on a combination of assumptions concerning future events and actions by the Company's management bodies that may not necessarily occur according to forecast terms and timing.

More specifically, as indicated in section 2.3 “Business outlook”, the future profitability of the Company and associate companies is affected by trends in scenario variables beyond the Company’s control. These include the trend in the EUR/USD exchange rate and interest rates, the price of jet fuel, aircraft load factor, average revenues per passenger, and average revenues per flight hour in the case of charter flights. Non-achievement of the 2008-2012 Business Plan could make the Company unable to realise its assets at values matching those recorded in individual financial statements as at 31 December 2008.

Deferred tax assets and liabilities

The Company records current and deferred taxes based on current regulations. Recognition of taxes requires use of estimates and assumptions concerning the approach to interpretation – in relation to transactions completed during the financial year in question – of applicable regulations and their effect on the Company’s taxation. In addition, recognition of deferred tax assets and liabilities requires use of estimates concerning expected taxable income and its development, as well as effective tax rates. These activities are performed via analysis of transactions completed and of their tax profile, also with the support, when necessary, of external advisors for the various aspects addressed. They also take the form of simulations and sensitivity analyses of expected taxable income. In particular, recoverability of deferred tax assets as at 31 December 2008, partly connected with use in future years of tax losses carried forward, depends on achievement of the 2008-2012 Business Plan. The latter is subject to the constraints on realisation and uncertainties indicated in section 2.3 “Business outlook”. Non-achievement of the Business Plan may make the Company unable to realise deferred tax assets at values matching those reflected in individual financial statements as at 31 December 2008.

Inventory write-down

Inventory write-down is an estimation process subject to uncertainty as regards calculation of the replacement value of aircraft components and consumables, which varies over time depending on market conditions.

Defined-benefit plans

Post-employment benefit provision is classifiable as a defined-benefit plan for the part accrued as up to 31 December 2006. Management uses various statistical assumptions and assessment factors with the aim of anticipating future events to calculate the costs, liabilities and assets relating to such plans. Assumptions relate to discount rate, the expected return on assets servicing the plan, and the rates of future pay increases. In addition, the actuarial experts advising the Company also use variables subject to estimate such as, for example, mortality and turnover rates.

Contingent liabilities

The Company is involved in lawsuits and tax disputes relating to complex and difficult issues and interpretations and with a varying degree of uncertainty, including the facts and circumstances regarding each case, jurisdiction and the different laws applicable.

Given the uncertainties inherent to these issues, it is difficult to predict with any certainty the liability that may arise from such disputes.

Given this, management, having received the opinion of its legal advisors and legal and tax experts, estimates a liability for such disputes and litigation when it believes a cash outflow will occur and when the amount of consequent losses can be estimated reasonably. If a cash outflow becomes possible, but the amount cannot be calculated, this fact is disclosed in the notes to accounts.

- **New accounting standards and interpretations**

As from 2008 the following IASs/IFRSs and interpretations were applicable but have had no effect on the accounts of Eurofly SpA:

- IFRIC 14 – IAS 19 – Assets for defined benefit plans and minimum funding requirements (applied retrospectively as from 1 January 2008)
- IFRIC 12 – Service concession contracts
- Amendment to IAS 39 – Financial instruments: recognition and measurement and to IFRS 7 – Financial instruments: disclosures. In special circumstances this permits reclassification of certain balance sheet assets – excluding derivatives contracts – from the accounting category “Assets measured at fair value through profit and loss (FVTPL)” to the category “Assets available for sale with fair value changes recognised in equity” or, in the case of receivables, from the accounting category “available for sale” to the category “held to maturity” if the entity intends and is able to hold such instruments for a given future period. The amendment was applicable as from 1 July 2008 but its adoption has not had any effect on this set of financial statements.
- IFRIC 11 “Group and treasury share transactions”, which supplements the principles of IFRS 2 concerning share-based payments.

The following IASs/IFRSs and interpretations already published will be applicable as from 2009:

- IFRS 8 – Operating Segments, which must be applied as from 1 January 2009 and replaces IAS 14 – Segment Reporting. The adoption of this standard will not have any effect in terms of valuation of balance sheet items or as regards the segment information provided by the Company in its individual financial statements, as the business segments identified for the purposes of IAS 14 correspond to IFRS 8's definition of operating segment.

- On 29 March 2007 the IASB issued a revised version of IAS 23 – Borrowing Costs, which must be applied as from 1 January 2009
- On 6 September 2007 the IASB issued a revised version of IAS 1 – Presentation of Financial Statements, which must be applied as from 1 January 2009. The new version of the standard requires that all changes caused by transactions with shareholders be shown in the statement of changes in equity.
- On 10 January 2008 the IASB issued an updated version of IFRS 3 – Business Combinations, and amended IAS 27 – Consolidated and Separate Financial Statements. The main changes made to IFRS 3 concern elimination of the obligation, in the case of step acquisition of subsidiaries, to measure the subsidiary's individual assets and liabilities at fair value at each subsequent step. The new rules must be prospectively applied as from 1 January 2010.
- On 22 May 2008 the IASB issued a set of IFRS amendments (collectively called "Improvements"). Below we mention those indicated by the IASB as changes that will lead to changes in the presentation, recognition and measurement of items in accounts:
  - IFRS 5 – Non-current assets held for sale and discontinued operations: the amendment must be applied as from 1 January 2010;
  - IAS 1 – Presentation of financial statements (revised in 2007): the amendment must be applied as from 1 January 2009;
  - IAS 19 – Employee benefits: the amendment must be prospectively applied as from 1 January 2009;
  - IAS 20 – Accounting treatment and disclosure of government loans: the amendment must be prospectively applied as from 1 January 2009;
  - IAS 23 – Borrowing costs: the amendment must be applied as from 1 January 2009;
  - IAS 28 – Investments in associates, and IAS 31 – Investments in joint ventures: these amendments must be applied as from 1 January 2009;
  - IAS 36 – Asset impairment: greater disclosure is required if assets' recoverable value is calculated using the DCF method. The amendment must be applied as from 1 January 2009;
  - IAS 38 – Intangible assets: the amendment must be applied as from 1 January 2009 and establishes recognition in the income statement of promotion and advertising costs;
  - IFRIC 13 – Customer loyalty programmes (to be applied as from 1 January 2009);

- IFRIC 15 – Agreements for the construction of real estate (to be applied as from 1 January 2009 but not yet endorsed by the European Union).

4.2. Significant events and non-recurring transactions

Below we highlight and analyse some significant non-recurring events, the consequences of which are reflected in FY2008 income-statement, balance-sheet and financial results.

Description	Equity		Net loss for the year		Debt		Cash flow (*)	
Euro/000	Amount	%	Amount	%	Amount	%	Amount	%
Reported amounts (A)	**28,438**		**-18,498**		**5,557**		**8,849**	
Solidarity agreement	(13,653)	-48.0%	(8,486)	45.9%	(5,577)	-100.3%	(5,577)	-63.0%
Tax effect on above events	*3,754*	13.2%	*2,334*	-12.6%		0.0%		0.0%
Total non-recurring operations (B)	**(9,898)**	**-34.8%**	**(6,153)**	**33.3%**	**(5,577)**	**-100.3%**	**(5,577)**	**-63.0%**
Adjusted notional amounts (A+B)	**18,540**		**(24,650)**		**-19**		**3,272**	

(*) The related increase or decrease in cash and cash equivalents in the period

As mentioned earlier in sub-section 2.1.5 “Analysis operating and financial results”, as from 1 April 2007, application started, for a 24-month period, to all employee categories of a solidarity agreement – envisaged by Italian Law 223/91 as one of the alternatives to collective dismissal.

The solidarity agreement made a positive contribution to the FY2008 result of some € 8,486 thousand before tax, and had a positive effect of € 13,653 thousand on equity (considering the cumulative effect from 1 April 2007 to 31 December 2008), while improving liquidity and net financial position by € 5,577 thousand (corresponding to the part already collected in FY2008). As regards application of this agreement, due to expire in March 2009, the Company intends to enjoy of the opportunity to renew the agreement for a further year with this starting before the end of the first half of 2009.

We also point out that FY2008 featured accrual to provision for doubtful receivables of € 5,779 thousand, of which € 5,517 thousand due to commercial counterparties’ declaration of insolvency (the bankruptcy of Maxitraveland declared in October 2008 and official administration of the Alitalia group), following which all residual receivable items were totally written down.

The period’s result was also affected by the Kenyan disorders, which caused revenue shrinkage of some € 5.9 mn and EBITDA some € 1.5 mn lower than expected.

Lastly, as a consequence of the exceptionally high fuel prices hit during 2008, fuel cost in the year in question had an incidence of 36.9% on sales revenues vs. 30.5% reported in 2007, with an outright increase of € 37,599 thousand (+38.3% YoY).

Finally, we specify that, during FY2008, Eurofly SpA did not undertake any atypical and/or unusual transactions as defined in CONSOB memorandum DEM/6064293 of 28 July 2006.

4.3. Comparability of financial statements

It is pointed out that, in view of their increased significance, trade receivables and payables vis-à-vis the parent company Meridiana SpA have been shown in separate items of the balance sheet respectively called “Trade and other receivables vs. parent company” and “Trade and other payables vs. parent company”. Consequently, for comparison purposes, in the balance sheet for the year ended on 31 December 2007 receivables and payables vis-à-vis the parent company have been reclassified in the same items.

4.4. Balance sheet analysis

Non-current assets

As at 31 December 2008, non-current assets amounted to € 48,327 thousand vs. the amount of € 42,142 thousand as at 31 December 2007, increasing by a total of € 6,184 thousand.

- Note 1 – Property, plant and equipment

Property, plant and equipment, amounting to € 13,065 thousand at the end of 2008, featured a net increase due to the changes indicated below.

Euro/000	**Historical cost**				**Cumulative depreciation**				**Net value**	**Net value**
	As at 31/12/07	Increases	Decreases / Write-	As at 31/12/08	As at 31/12/07	Annual depreciation	Decreases	As at 31/12/07	31/12/08	31/12/07
1) Land and buildings	8,814	216	-	9,030	1,076	339	-	1,415	7,615	7,738
2) Plant and machinery	13,139	320	114	13,344	7,242	1,603	96	8,749	4,595	5,897
3) Equipment	819	-	-	819	533	95	-	627	191	286
4) Other assets	2,198	273	-	2,471	1,584	222	-	1,806	665	614
5) Tangible assets under construction	5,032	- 103	4,929	-	-	-	-	-	-	5,032
Total property, plant and equipment	**30,002**	**706**	**5,043**	**25,664**	**10,435**	**2,259**	**96**	**12,599**	**13,065**	**19,567**

The item “Land and buildings” relates to the office building at Via Ettore Bugatti 15, Milan, to which a total mortgage of € 10,000 thousand is attached in the lender bank’s favour. The item “Plant and machinery” includes rotable components, improvements to leased aircraft in the fleet, and the capitalised costs of future cyclical maintenance work.

Investments in the year totalled € 706 thousand and mainly referred to improvements to owned buildings (€ 75 thousand) and to leasehold buildings for the new Milan Malpensa base (€ 80 thousand), purchases of plant and machinery (€ 320 thousand – specifically, improvements to fleet aircraft (€ 126 thousand) and aviation components (€ 194 thousand)), and hardware purchases of € 224 thousand reported in the “Other assets” item. The costs of future cyclical maintenance work are recognised in tangible assets and depreciated according to the policies outlined in the earlier section 4.1 “Accounting standards, accounting policies, and use of estimates applied in preparation of financial statements”.

Among decreases occurring in the year, we highlight release of the down payments paid to Airbus following termination at the end of January 2008 of the contract to purchase three A350 aircraft for € 4,929 thousand. This mutually agreed termination (already discussed in the Management Report) did not cause, and will not cause, either negative impact on Eurofly’s income statement or further financial requirements. This is because, of the amount paid as a down payment, € 1,926 thousand was collected as return of the same and € 3,786 thousand was recognised by the counterparty as a credit usable for the purchase of goods and services by the end of 2013. Of the latter amount €

631 thousand is posted in current trade & other receivables, while € 3,155 thousand is posted in non-current trade & other receivables, net of the related effect of discounting to present value, estimated on the basis of normal requirements for purchases of goods and services.

- Note 2 – Intangible assets

Intangible assets amounted to € 1,354 thousand, down by € 1,205 thousand vs. the amount as at 31 December 2007, mainly because of annual amortisation. The following table details the changes in this caption.

Euro/000	Historical cost				Cumulative amortisation			Net value	Net value
	As at 31/12/07	Increases	Decreases/ Write-offs	As at 31/12/08	As at 31/12/07	Annual amortisation	As at 31/12/07	31/12/08	31/12/07
1) Start-up and expansion costs	5,681	64	111	5,634	4,744	523	5,267	366	937
2) Development costs	463	-	-	463	353	96	450	14	110
4) Concessions, licenses, trademarks and similar rights	2,104	25	-	2,130	1,196	307	1,504	626	908
7) Other intangible assets	1,847	-	-	1,847	1,244	255	1,499	348	604
Total intangible assets	**10,096**	**89**	**111**	**10,074**	**7,537**	**1,182**	**8,719**	**1,354**	**2,559**

Start-up and expansion costs, amounting to € 366 thousand, mainly include costs for training pilots and maintenance staff (€ 282 thousand) and costs borne to open technical facilities at foreign airports (€ 84 thousand).

Concessions, licenses, trademarks and similar rights include the value of the Eurofly trademark (€ 349 thousand) as well as costs borne for the use of software licenses for a residual net value of € 277 thousand.

Other intangible assets mainly relate to the residual net value of ancillary costs borne for entry into the fleet, via operating lease contracts, of the A320 and A330 aircraft currently in the fleet.

Investments made in the year, totalling € 89 thousand, mainly referred to software investments (€ 25 thousand) and to training costs for achievement of mandatory licenses for flight and technical staff (€ 64 thousand). Decreases related to reversal of start-up & expansion costs no longer having any future usefulness (€ 8 thousand) and to write-off of € 103 thousand of the net residual value of costs borne for technical facilities at New York airport, posted following the negative performance of some long-haul routes – as already discussed in the Management Report. In October 2008 this also led to discontinuation of scheduled flights from Bari, Bologna, Lamezia Terme, Naples, Pescara, and Palermo to New York.

- Note 3 – Financial assets

Financial assets amounted to € 8,793 thousand. The decrease vs. the 2007 year-end figure was due to the net effect of (a) reclassification of € 2,433 thousand of security deposits lodged with aircraft lessors to current other receivables in view of hand-back of some aircraft whose contracts are due to expire and (b) payment of new deposits to those lessors, together with the decrease in other performance deposits.

Euro/000	**31.12.08**	**31.12.07**	**Change**
Security deposits on operating leases	6,587	7,895	(1,308)
Other performance deposits	2,206	3,050	(844)
Total financial assets	**8,793**	**10,945**	**(2,152)**

- Note 4 – Financial assets vs. parent company

Financial assets vs. the parent company Meridiana SpA amounted to € 3,018 thousand and consist of the interest-earning performance deposits for the pledge set up by the parent company on one of its current accounts to guarantee the bank for the issue of a suretyship concerning operating lease contracts concluded by Eurofly SpA. This deposit is regulated at the same conditions as the pledge set up by the parent company with the bank concerned.

- Note 5 – Other receivables

Other receivables amounted to € 3,155 thousand and refer to the non-current portion of the credit with Airbus for the purchase of aviation goods and services, following the agreement for amicable termination of the contract to purchase three long-haul A350 aircraft (see sub-section 2.1.4 “Significant events in FY2008”)

- Note 6 – Deferred tax assets

As at 31 December 2008 deferred tax assets amounted to € 10,941 thousand. Movements in deferred taxes in the year were as follows:

	Balance as at 31.12.2007				Balance as at 31.12.2008		
	Temporary differences	Statutory tax rate	Advance taxes paid	FY2008 movements	Temporary differences	Statutory tax rate	Advance taxes paid
Deferred tax assets for advance corporate tax (IRES)							
Risk provisions	3,528	27.50%	970	-609	2,919	27.50%	803
Write-downs/-offs of non-current assets	678	27.50%	187	0	678	27.50%	187
Bad-debt provision	2,000	27.50%	550	0	2,000	27.50%	550
Entertainment & gift expenses	11	27.50%	3	2	13	27.50%	4
Net interest on arrears	-49	27.50%	-13	49	0	27.50%	0
Trademark amortisation	45	27.50%	12	0	45	27.50%	12
Unrealised foreign exchange gains and losses	1,763	27.50%	485	-876	887	27.50%	244
2005 IPO costs (reducing equity)	1,531	27.50%	421	0	1,531	27.50%	421
2008 capital-increase costs (reducing equity)	0	27.50%	0	568	568	27.50%	156
Tax losses carried forward	22,661	27.50%	6,232	7,505	30,166	27.50%	8,296
Total advance corporate tax (IRES)	**32,167**		**8,846**	**6,639**	**38,806**		**10,672**
Deferred tax assets for advance regional business tax (IRAP)							
Risk provisions	3,528	3.90%	138	1,112	4,640	3.90%	181
Write-downs/-offs of non-current assets	678	3.90%	26	0	678	3.90%	26
Entertainment & gift expenses	11	3.90%	0	2	13	3.90%	1
Trademark amortisation	45	3.90%	2	0	45	3.90%	2
IPO costs (reducing equity in compliance with IFRSs)	1,531	3.90%	60	0	1,531	3.90%	60
Total advance regional business tax (IRAP)	**5,792**		**226**	**1,114**	**6,906**		**269**
Total deferred tax assets			**9,072**				**10,941**

The decrease of € 1,869 thousand in deferred tax assets mainly relates to recalculation of recoverability of losses and taxed provisions/expense in the light of the most recent forecasts developed in this respect by the Board of Directors. More specifically, deferred tax assets include the tax benefit of € 8,296 thousand associated with tax losses carried forward originated in FYs 2006, 2007 and 2008. This corresponds to tax losses considered totalling € 30,166 thousand against projected taxable income totalling € 37.3 mn in these losses' carry-forward period. It is pointed out that the total tax losses that could be carried forward for these FYs would amount to approximately € 60 mn.

Recognition of deferred tax assets is supported by (a) a recoverability analysis performed by directors based on taxable income indicated by the 2009 Budget and by the 2008-2012 Business Plan (with reference to the subsequent FYs 2010-2012) and (b) a further project to 2013 of the last year of the plan, based on inflation data and the plan's trends. The projection for this latter year do not embed any expectation of efficiency improvement as well as of benefits from uncontrollable variables such as to make unreasonable the assumptions based on which this projection has been developed. Besides this, the analysis includes prudential adjustment of the total benefits recognisable based on the income forecasts available for the time span considered to allow for their major exposure to scenario variables beyond the Company's control – with special reference to the volatility of fuel prices, exchange rates and interest rates vs. levels assumed. Readers should refer to section 4.1 “Use of estimates” for information on the effects on the valuation of deferred tax assets of non-achievement of the future taxable income assumptions stemming from the 2009 Budget and 2008-2012 Business Plan.

- Note 7 – Equity investments

This item, amounting to € 8 mn, refers to the 50% equity interests in the companies Wokita Srl and SameItaly Srl, contributed by Meridiana at € 2,925 thousand and € 5,075 thousand respectively, as part of the capital increase in kind executed during the first quarter of 2008. The contribution, coming within the scope of those definable as “under common control”, was recognised at fair value in consideration of the additional cash flows, compared with those existing prior to the operation, stemming from synergies developed between the Company and the associate companies. The associates’ business performance is illustrated in the earlier sub-section 2.1.4, to which reference should be made for further details. The results achieved by the associates during 2008 and the new business plans approved by the Boards of Directors of Wokita Srl and SameItaly Srl lead to the believe that the carrying value of the associate companies in individual financial statements as at 31 December 2008 is still sustainable. As already stated earlier, performance deviating from expectations by the investee companies, whose prospective profitability is influenced by the same uncertainties in the macroeconomic scenario as those to which the Company is subject, could cause recognition of impairment of these equity investments, which is not envisaged today. Maintenance of the investments’ carrying value is supported by the valuation – updated to reporting date – performed by an independent expert, who, in consideration of the companies’ business plans, has confirmed the values emerging at the time of contribution. More specifically, this valuation – which does not show the need to write down the equity investments’ initial recognition value – shows that it is heavily dependent on achievement of the revenue levels assumed in the business plans and is dependent on the traffic generated by Meridiana, by the Company and by other carriers. This is subject to uncertainties associated with the reference macroeconomic scenario and evolution of the industry’s structure (more significant for the business model of Wokita Srl, which is in the start-up phase, than for that of SameItaly Srl). This uncertainty is reflected in an increase in risk premium. Specifically, the WACC used for valuation of Wokita Srl is about 21% while that of SameItaly Srl is about 13%. Sales respectively -10% and -5% lower than the amounts projected in the two companies’ business plans would align the expert independent valuation with the equity investments’ carrying value in these financial statements.

Eurofly also owns a 49% equity interest in the US corporation EF-USA Inc., which operates and directs sales and customer-care services on Eurofly’s behalf, on an exclusive basis in North

America. In view of the negative result reported by the associate in its first period of operation, proportional accrual has been made in provisions for liabilities and charges to cover the associate's loss (see Note 22 Provisions for liabilities and charges).

Current assets

As at 31 December 2008 current assets amounted to € 91,732 thousand, with growth vs. the balance of € 81,141 thousand as at 31 December 2007.

- Note 8 – Inventories

Inventories, totalling € 3,216 thousand, increased by € 340 thousand and consisted of aviation consumables. This item is shown net of inventory obsolescence provision, which at year-end amounted to € 299 thousand, in line with the 2007 year-end amount.

- Note 9 – Trade and other receivables

Trade and other receivables amounted to € 59,225 thousand vs. € 57,895 thousand as at 31 December 2007. These receivables are shown net of provision for doubtful receivables. Points to be underlined are:

- The slowdown in collection of sales of scheduled flights via US international credit cards – which envisage worse conditions for transfer of funds intermediated and collateral deposits
- The increase of € 2,854 thousand in receivables for advances to staff under the solidarity agreement not yet repaid, which amounted to € 6,348 thousand
- Reclassification to other receivables of € 2,443 thousand of lessor security deposits refundable within 12 months against hand-back of aircraft.

Cumulative provision for doubtful receivables as at 31 December 2008 was € 11,302 thousand, with a decrease of € 905 vs. 2007. The net change in cumulative provision was the result of major new provisioning of € 5,779 thousand due to deterioration of the assessment of some positions under dispute (in particular for the bankruptcy of the tour operator Maxitraveland and for Alitalia's state of insolvency, as already discussed in section 4.2), more than offset by use of provision for definite losses arising from initiation of creditor arrangement procedures.

Among the most significant disputes underway in terms of the entity of claims made, we highlight:

- Arbitrations proceedings vs. Teorema Tour SpA., regarding Eurofly's receivable vis-à-vis Teorema Tour SpA of some € 3 mn and USD 3 mn, as well as penalties of € 14.7 mn for flight cancellations (the latter are not recognised in the balance sheet). Teorema Tour SpA has challenged Eurofly's demands and in return has claimed a receivable of some € 1.2 mn.

As regards the status of proceedings, we report that on 19 April 2006 Eurofly initiated the arbitration procedure contractually envisaged. Some preliminary hearings took place during 2006 and 2007 and on 2 October 2007 the arbitration board re-examined arbitration concerning some preliminary questions of merit (to clarify the applicability or otherwise of the penalties). On 20 May 2008 the arbitrators issued a partial ruling recognising Teorema Tour SpA's debt as regards the penalties, but at the same time reserving the right to decide on their amount. With the ordinance of 18 November 2008 the official technical advisor was appointed, with this followed by appointment of the parties' technical advisors, who lodged their memorandums in February 2009. With the ordinance dated 12 March 2009 the president of the arbitration board extended the deadline for filing of the official appraisal report to 29 May 2009.

In the meantime, in order to secure its rights to the receivables, Eurofly has initiated various legal actions in the Milan courts, also in order to preserve/reconstitute the assets of Teorema Tour SpA. Specifically:

- On 24 September 2007, it served a writ for summons against Teorema Tour SpA, BNP Paribas Lease Group SpA (Locafit) and Esse Real Estate Srl to achieve a declaration of inefficacy of the sale of a building, formerly owned by Teorema Tour SpA, to Locafit and simultaneous financial leasing of the same by Locafit to Esse Real Estate Srl.

  With the order dated 18 March 2009 the court, while confirming the need for a technical advisory opinion to ascertain the building's value and Teorema's capital and financial status at the time of the deal, believed it preferable, before ordering it, to wait for the definitive arbitration ruling to be filed, and therefore adjourned the case to 22 September 2009.

- On 10 June 2008, it served a writ for summons designed to annul or, on a secondary basis, revoke the suretyship given by Teorema Tour SpA to BNP Paribas Lease Group SpA (Locafit) as security for the finance lease agreement made by the latter with Esse Real Estate Srl. At the hearing on 3 December 2008 Essevi (as the company taking over Teorema Tour by incorporation) and Esse Real Estate joined proceedings and the court stated its intention to decide later on Eurofly's petition to unite this case with the action concerning simulation/clawback of the property sale. The court once again asked Teorema to deposit a cautionary amount exceeding 50% of the receivable claimed and adjourned the case to 29 September 2009.

- On 31 July 2008, it served a writ for summons to oppose the merger between Teorema Tour SpA and Essevi Srl. While Essevi joined proceedings on 2 December 2008 and the parties lodged their final memorandums on 7 February 2009, in the meantime the merger of the two companies had been executed. Teorema had consequently been merged by incorporation in Essevi Srl (which has quota capital of € 100,000.00) with consequent confusion of the two companies' assets. At the hearing on 5 March 2009 the court dismissed Eurofly's demands, sentencing the Company to refund litigation expenses.

On 3 July 2008 Teorema made a proposal for a transaction settlement agreement, which Eurofly did not accept.

- Arbitration proceedings vs. MG Viaggi SpA concerning Eurofly's receivable vis-à-vis the same of approximately € 2 mn. As regards the status of proceedings, we report that Eurofly initiated arbitration proceedings in October 2006. During 2007 some preliminary hearings took place with the lodging of memorandums and appointment of an official technical advisor to ascertain the correctness of the amounts requested by Eurofly. With the ruling issued on 26 November 2008 the arbitration board sentenced MG Viaggi to payment of a total sum of € 1.1 mn to Eurofly as well as to settlement of 75% of the arbitration proceedings' expenses. In January 2009 Eurofly petitioned the Milan courts to obtain enforcement of the arbitration ruling. This was granted in the early days of March.

- Petition against the Italian Defence Ministry concerning the commercial relationships – which started in July 2004 and ended in June 2006 – in relation to which differences emerged concerning interpretation of contractual clauses, the effects of which on Eurofly's credit position amount to about € 4.2 mn.
  For part of the above amount (about € 1.1 mn), on 5 October 2007 filed a petition for a first payment order, which was issued by the Rome courts in the early days of November 2007. On 11 January 2008 the Defence Ministry notified its formal opposition to the payment order. In the hearing of 24 September 2008 and the subsequent hearing of 6 February 2009 the court granted time for the filing of memorandums and took time to decide later on the admission of preliminary inquiry resources. With the ordinance dated 17 February 2009 the court admitted use of an official technical advisory opinion to establish the price contractually owed by the Ministry and therefore adjourned the hearing to 10 June 2009.
  For the remaining amount (about € 3.1 mn), Unicredit Factoring SpA – to which Eurofly had assigned part of its receivables vs. the Defence Ministry with the factoring contract dated 11 July 2005 – on 26 November 2007 filed a second petition for a payment order, which was issued by the Rome courts on 22 January 2008. On 21 March 2008 the Defence Ministry

notified its opposition to this payment order. At the hearing on 4 November 2008 Eurofly asked for the granting of provisional enforcement of the payment order. This request was rejected by the court with the ordinance dated 5 November 2008. The case was adjourned to the hearing of 6 May 2009.

- Petition against the tour operator Maxitraveland SpA concerning Eurofly's receivable vis-à-vis the same of € 5.5 mn (for chartering of aircraft and contractual penalties). Between June and July 2008 the Company served an injunctive relief order based on a cheque and lodged two petitions for issue of court payment orders. In September 2008 the Milan courts issued the payment orders against Maxitraveland SpA, granting provisional enforcement of the decree based on cheques totalling € 1,250,057.22. In order to recover the amount indicated in the injunctive relief order, in September 2008 a distraint order was served.
  The tour operator was declared bankrupt on 15 October 2008. Eurofly filed a petition to be included among recognised liabilities for the amount of € 6.4 mn, of which € 5.5 mn for principal and € 873 thousand for interest accruing on the receivables until the declaration of bankruptcy. At the hearing to verify receivables held on 13 February 2009, the court receiver admitted Eurofly as a credit for the amount of € 2.9 mn, which Eurofly intends to oppose by virtue of its rightful credit claims.

For the sake of full disclosure, we note the following controversies concerning other counterparties:

- Litigation with financial intermediaries for credit-card sales in the USA, relating to Eurofly's receivable of USD 2.2 mn vis-à-vis financial intermediaries appointed to process sales via credit cards in the USA. Court proceedings are currently still in the preliminary phase. On 27 July 2008, the court ordered seizure of USD 300 thousand, with release of this sum to Eurofly on 3 October 2008. The Company has filed memorandums and documents supporting its rights to the receivables in order to recover the further amounts.

- Arbitration proceedings vs. Air Comet, relating to Eurofly's receivables vis-à-vis the same of USD 2.8 mn and € 580 thousand as per the lease contract signed by the parties on 26 March 2007. Eurofly initiated arbitration proceedings at the London International Chamber of Commerce in August 2008 to recover the above amounts. At the hearing on 24 October 2008, even though the counterparty failed to join proceedings, the controversy continued with appointment of the entire arbitration board.
  On 14 January 2009 Eurofly supplemented its request, asking for a further sum of € 13,373.04.

- Litigation with the company Aertre – Aeroporto di Treviso SpA, relating to the accident that occurred on 6 August 2002. On 25 July 2008 the Venice courts handed down a judgement condemning Aertre and the Italian Defence Ministry jointly and severally to pay Eurofly damages for € 1.3 mn. On 3 October 2008 Aertre paid Eurofly the sum of € 684 thousand in relation to the judgement handed down, whereas on 13 October 2008 the Defence Ministry notified filing of an appeal against the judgement.

  Eurofly, Aertre, ENAC (the Italian Civil Aviation Authority) and Assicurazioni Generali (the insurer) joined proceedings. At the initial hearing on 4 March 2009 the judge took time to decide. With order issued on 17 March 2009 the judge took a decision, rejecting the petition filed by the Defence Ministry for suspension of provisional enforcement and adjourning specification of conclusions to 11 February 2015. The amount collected on 3 October 2008 is recognised in the balance sheet as at 31 December 2008 in the liability item “Trade & other payables” pending definitive adjudication of the controversy.

- Litigation with the airport operator SEA, concerning the fee in excess of the amounts decided by the Malpensa Users’ Committee for use of centralised infrastructures.

  With a writ for summons served on 17 June 2008, Eurofly summoned Società Esercizi Aeroportuali SpA (SEA) to appear before the Milan Civil Court, asking that SEA be ordered to return 35% of the fees received from 2001 and 2006. The refund requested for this reason amounts to € 1.9 mn. The hearing was fixed for 19 March 2009. At this hearing the court granted time for submittal of memorandums pursuant to Article 183 of the Italian Code of Civil Procedure and adjourned the hearing to 27 October 2009 for discussion of preliminary investigatory resources.

Lastly, the presence is noted of guarantees issued by commercial counterparties to the Company’s benefit consisting of security deposits totalling € 2,727 thousand and suretyships totalling € 900 thousand.

While inviting readers to refer to the earlier section 4.1 “Accounting standards, accounting policies and use of estimates for preparation of financial statements” for considerations concerning the estimative nature of the process to gauge the collectability of receivables – and the consequent intrinsic uncertainties relating to the appropriateness of the provision for doubtful receivables recognised in the balance sheet - we confirm that provision for doubtful receivables as at 31 December 2008 is deemed appropriate.

- Note 10 – Trade and other receivables vs. parent company

Trade and other receivables vs. the parent company amounted to € 5,657 thousand. The increase of € 4,576 thousand vs. 2007 was due to the growth of scheduled flight sales procured by Meridiana on Eurofly's behalf, as well as to ACMI rental activity. These receivables are regulated by normal collection conditions, as better specified in the later section 4.9 "Related-party transactions".

- Note 11 – Other assets

Other assets amounted to € 10,459 thousand. Their decrease of € 1,875 thousand vs. 2007 was due in particular to the decrease in prepaid expenses for maintenance, rentals and insurance.

- Note 12 – Cash and cash equivalents

At the end of December 2008 cash and cash equivalents totalled € 13,175 thousand, growing vs. the 2007 year-end figure of € 6,955 thousand mainly thanks to the proceeds from the cash capital increases collected in 2008. These totalled € 40,642 thousand (the product of (a) € 14,991 thousand corresponding to the first capital cash increase net of offsetting of the debt vs. Meridiana of € 4,323 thousand and (b) € 29,974 thousand corresponding to the amount collected in December 2008 from the second cash capital increase).
Reference should be made to the later sections 4.7 "Cash flow analysis" and 4.8 "Net financial position" for analysis of the year's cash flows.

- Note 13 - Equity

Shareholders' equity at the end of December 2008 amounted to € 28,438 thousand vs. negative equity of € -5,406 thousand at 2007 year-end, as is better detailed in section 4.6 "Equity analysis". We also recall the fact that January 2009 marked completion of the capital increase with the subscription of new shares for a total value of € 2,701 thousand.

Non-current liabilities

As at 31 December 2008, non-current liabilities amounted to € 9,903 thousand as compared with € 11,566 thousand at the end of 2007. The decrease of € 1,633 thousand was due to contraction of long-term borrowings and of provisioning for liabilities and charges.

- Note 14 – Long-term borrowings

Long-term borrowings consist of the medium-/long-term portion of € 2,758 thousand of the debt towards Banca Profilo for the mortgage loan. The loan was taken out with Banca Profilo in December 2003 for the original amount of € 5 mn for purchase of the company HQ building located in Via Ettore Bugatti 15, Milan. The loan has a 10-year maturity and is based on payment of 20 deferred 6-monthly instalments. The present interest rate is 6-month Euribor plus 1.3 percent points on an annual basis. This debt is secured by a first mortgage of € 10 mn on the same building. The decrease vs. the 2007 figure was due to reclassification of current-portions of the debt.

The portions of the loan falling due after more than five years amount to € 330 thousand. The following table shows the loan amortisation plan:

Annual repayments of principal	*Euro/000*
2009	533
2010	574
2011	595
2012	618
2013	641
2014	330

- Note 15 – Deferred tax liabilities

Deferred tax liabilities amounted to € 251 thousand vs. € 128 thousand as at 31 December 2007. Deferred tax liabilities as at 31 December 2008 also included posting of taxes on post-employment benefit provision calculated using the actuarial Projected Unit Credit method.

- Note 16 – Provisions for liabilities and charges

Accrued provisions for liabilities and charges amounted to € 6,894 thousand vs. € 8,163 thousand as at 31 December 2007 and consisted of the following items:

Euro/000	**31.12.08**	**31.12.07**	**Change**
Restoration & handback	4,185	5,328	(1,143)
Post-employment benefit provision	2,708	2,835	(127)
Total provisions for liabilities and charges	**6,894**	**8,163**	**(1,269)**

The decrease was mostly due to reclassification of maintenance provisions and costs for the planned restoration and hand-back of aircraft to be completed within 12 months.

Valuation of post-employment benefit provision in compliance with IAS 19 led to a liability of € 2,708 thousand as at 31 December 2008. This valuation was performed taking into account the new Italian regulations concerning post-employment benefits established by Law no. 296 of 27 December 2006.

The table shows the movements during the year in post-employment benefit provision:

Euro/000	
Post-employment benefit provision as at 31.12.07	**2,835**
Total service costs	0
Interest expense	134
Other changes	-356
Actuarial gain / (loss)	96
Post-employment benefit provision as at 31.12.08	**2,708**

The portion of post-employment benefit recognised in the FY2008 income statement amounted to € 1,551 thousand.

Changes occurring in the year in other provisions for liabilities and charges are detailed below:

Euro/000	31.12.07	Accruals	Reclassification to current liabilities	Utilisation	31.12.08
Restoration & handback provision	5,328	0	(1,143)		4,186
Other provisions for liabilities and charge	**5,328**	**0**	**(1,143)**	**0**	**4,186**

Accrued maintenance provisions of € 4,186 thousand include accruals for the costs of periodical maintenance incumbent upon the Company.

These provisions mainly consist of provision for the costs of periodical aircraft maintenance incumbent upon the Company to be used when aircraft are handed back ("Restoration & hand-back provisions").

Current liabilities

As at 31 December 2008 current liabilities amounted to € 101,717 thousand vs. € 117,123 thousand as at 31 December 2007.

- <u>Note 17 – Trade and other payables</u>

Trade and other payables totalled € 91,719 thousand with a decrease of € 1,042 thousand recorded during 2008.

Euro/000	**31.12.08**	**31.12.07**	**Change**
Payments received on account	2,889	2,611	278
Trade payables	43,709	50,239	(6,530)
Tax payables	1,941	1,808	134
Amounts due to social security & pension agencies	1,163	1,512	(349)
Other payables	5,312	6,336	(1,024)
Accrued expenses and deferred income	36,705	30,256	6,449
Total	**91,719**	**92,761**	**(1,042)**

Payments received on account amounted to € 2,889 thousand, in line with the previous year-end figure. Non-captive trade payables decreased by € 6,530 thousand due to reduction of payment times for creditor positions, partly reducing the reported overdue amount.
The increase in the year of accrued expenses and deferred income was due to greater advance invoicing of flights relating to subsequent months.

As regards the main adverse legal disputes outstanding with suppliers, we report what follows:

- Legal dispute with Alitalia concerning ten court payment orders in Alitalia's favour issued in the months of March-September 2007 by the Rome and Milan courts for a total of € 2.6 mn.
  As regards all the court payment orders served on it, the Company has filed opposition to them, objecting to the groundlessness of such demands in the amounts quantified by the counterparty and with a counter-petition asking for it to be ascertained and declared that Alitalia is under obligation to pay Eurofly SpA the total sum of € 2.2 mn as well as € 5 mn as compensation for breach of the pre-emption right.
  Following the declaration of the bankruptcy of Alitalia in a.s. (= under official administration), all lawsuits were interrupted, except the one for an amount of € 324,623.24. On 12 November 2008 Eurofly filed an application at the Rome courts to be recognised as an official creditor for the amount of € 7.4 mn. The hearing to discuss acceptance of this application is fixed for 16 June 2009. The proceedings interrupted can be taken up again within a six-month term.

- Legal dispute with the oil company ENI SpA concerning the writ of summons served on Eurofly, as well as on other airlines, for payment of € 242 thousand for fuel royalties. Eurofly asked the court to reject all the demands of ENI SpA and to sentence the latter to return the sums paid to it, as from 1997 onwards, as a surcharge for the supply of fuel at the airport for a total of some € 3.5 mn. At the hearing on 19 November 2008 the court, noting the admission of Alitalia Linee Aeree Italiane SpA to the official administration procedure, declared interruption of the court case. Proceedings can be taken up again by the party interested in doing so within a six-month deadline.

- Legal dispute with the oil company Exxonmobil Petroleum & Chemical Bvba concerning the writ of summons served on Eurofly in May 2008 by the oil company for payment of € 173 thousand for fuel royalties. Eurofly asked the court to reject all the demands of ENI SpA and to sentence the latter to return the sums paid to it, from 1998 onwards, as a surcharge for the supply of fuel at the airport for a total of some € 927 thousand. At the hearing on 28 January 2009 the judge adjourned the hearing to 22 April 2009 for discussion of preliminary petitions.

We point out the presence of guarantees given to suppliers in the form of suretyships for a total amount of € 11.7 mn.

As regards the legal disputes mentioned above, it is believed – also based on the opinions of the legal advisors representing the Company in the disputes, albeit in the context of intrinsic evaluative uncertainty better explained in the earlier section 4.1 "Accounting standards, accounting policies and use of estimates applied in preparation of financial statements" – that the Company will not incur further liabilities beyond those already reflected in the balance sheet as at 31 December 2008 via recognition of the debtor position vis-à-vis the counterparty.

- Note 18 – Trade and other payables vs. parent company

As at 31 December 2008 these payables amounted to € 2,483 thousand vs. € 1,939 thousand as at 31 December 2007.

They mainly refer to maintenance, supervision, handling and advisory services. For greater detail on the nature and terms governing transactions with the parent company, readers should refer to section 4.9 "Related-party transactions".

- Note 19 – Bank debt

Bank debt amounted to € 4,326 thousand and decreased by € 11,589 thousand vs. 2007. Of this debt € 4,000 thousand referred to the revolving stand-by cash facility negotiated with a pool of banks on 27 November 2007, while € 326 thousand referred to normal current account overdrafts. For details, reference should be made to the analysis of net financial position in section 4.8 "Net financial position".

- Note 20 – Current portion of long-term borrowings

The current portion of long-term borrowings, totalling € 533 thousand (vs. € 514 thousand at 2007 year-end) includes the current portion of the mortgage loan, the characteristics of which have already been examined in the notes relating to non-current liabilities.

- Note 21 – Borrowings from parent company

As at 31 December 2008 there was no amount in this liability category. At 2007 year-end it had consisted of the shareholder loan of € 4,323 thousand to Meridiana SpA, then used as part of the cash capital increase. Meridiana in fact subscribed part of its equity interest by offsetting its credit from a shareholder loan against the amount payable for subscription.

- Note 22 – Provisions for liabilities and charges (current portions)

This item, amounting to € 2,657 thousand, increased by € 985 thousand over 2007 solely because of provisioning for the period. The following table shows changes occurring in these provisions:

Euro/000	31.12.07	Accruals	Reclassification from non-current liabilities	Utilisation	31.12.08
Maintenance provision	1,217	600	1,143	(1,125)	1,835
Other provisions	455	367			822
Current provision for liabilities and charges	**1,672**	**967**	**1,143**	**(1,125)**	**2,657**

Other provisions for liabilities and charges, which amounted to € 822 thousand, relate to provision for legal and tax disputes underway, also including – besides those discussed below – those with passengers. The cost of these have been calculated based on the best possible estimate, made considering the past cost trend of such controversies. In particularly, we point out creation of liability provision for losses and other expenses relating to the associate company EF-USA Inc.

Below we comment on some of the legal disputes:

- Legal dispute with the tour operator Metafelix, relating to the writ of summons served by the tour operator on Eurofly in August 2005 for payment of some € 1.1 mn for alleged non-performance. With a non-final ruling (for which the grounds for judgement were notified on 5 June 2008), the Naples court, upholding the objection concerning jurisdiction, declared the actioning party’s claim unacceptable as regards some aspects, adjourning continuation of preliminary investigation to the hearing on 6 October 2008. At this hearing, the judge took time to decide later on the admission of investigatory resources. The next hearing to hear the first witness is fixed for 11 May 2009. In the meantime, negotiations are underway for amicable settlement of the case.

- Legal dispute with MyAir airline concerning the writ of summons served on Eurofly on 18 April 2008 by the competing airline (to which the Company has wet-leased aircraft) for payment of a sum of approximately € 500 thousand for alleged contractual non-performance. At the first hearing for the first appearance in court on 15 January 2009, the court granted time to file memorandums and adjourned the hearing to 18 June 2009 to discuss and decide on the preliminary petitions made by the parties.
- Legal dispute with the Corporate Aircraft company concerning the writ of summons served on Eurofly on 30 November 2007 suing for the amount of € 1 mn, for non-payment of the fee concerning mediator activities performed in disposal of the finance lease contract of the A319 aircraft. At the hearing on 10 March 2009 the case was adjourned to 29 October 2009 for testimonial evidence.
- On 7 October 2008 a writ of summons was served on Eurofly by 59 passengers suing for payment of the sum of € 385 thousand for operating inefficiencies that occurred in February 2008. We also report a further writ of summons served by 15 passengers suing for payment of € 110 thousand for inefficiencies that occurred in April 2007. The Company has joined proceedings in both lawsuits, challenging the opposing parties' claims.
- A partial tax audit concerning the 2004 tax period, performed by the Lombardy regional tax police squad and initiated on 23 May 2006. The audit was subsequently extended to FYs 2002 and 2003. 16 January 2007 marked preparation of the related audit report in which a series of tax criticisms were made – these are totally rejected and not concurred by Eurofly and are the subject of in-depth analysis and defensive actions. The items challenged by the Finance Police auditors related in part to transactions with low-tax countries, in part to excessive accruals for invoices to be received and, for a minimum part, to expensing of costs in years to which they did not relate. Specifically, the taxable income disputed vs. Eurofly was € 0.6 mn for the 2002 tax period, € 0.2 mn for the 2003 tax period, and € 1 mn for the 2004 tax period.

  On 17 April 2007 Eurofly filed an application for assessment with assent under Italian Legislative Decree 218/1997. As regards the 2002 tax period, the Company settled the amounts claimed by the Inland Revenue via payment of an amount of about € 10 thousand as taxes and sanctions. As regards the 2003 tax year, in December 2008 the Company accepted assessment with assent under Legislative Decree 218/1997, established the higher amounts assessed as being € 453 thousand and paying higher taxes (solely regional business tax (IRAP) due to the effect of tax losses outstanding), as well as sanctions and interest for a total of € 26 thousand.

- On 11 August 2008 the US Customs and Border Agency notified the start of an audit of Eurofly's tax activities and fulfilment of related official obligations in North America in the period April 2004 - March 2008, in particular as regards user (i.e. passenger) fees and other local taxes. Eurofly supplied the information and requests as per the deadlines and approaches indicated by the Agency. At the end of January 2008 the final audit report was signed indicating the amounts still to be paid for taxes on tickets as totalling USD 356 thousand. The Company has in any case prudently made accruals for any sanctions and interest emerging for non-payment of this sum in provisions for liabilities and charges
- Petitions pending before the Regional Administrative Court notified by the Neos airline against the ENAC (Italian Civil Aviation Authority) and Eurofly concerning cancellation, after suspension, of the effects of the assignment to Eurofly of rights on the Italy-Israel route. Eurofly has filed a counter-petition in the case of both petitions. At the hearings *in camera* on 8 January 2009 and 5 March 2009, discussion of suspension was adjourned to the discussion of merit.

For the sake of full disclosure, it is pointed out that normal management is underway of active and adverse trade disputes from which no further liabilities beyond those provisioned in accounts are expected.

While inviting readers to refer to the earlier section 4.1 "Accounting standards, accounting policies and use of estimates for preparation of financial statements" for considerations concerning the estimative nature of the process to gauge the appropriateness of provisions for liabilities and charges and the consequent intrinsic uncertainties, it is believed that provisions for liabilities and charges reported in the balance sheet as at 31 December 2008 are appropriate.

4.5. Income statement analysis

Revenues

- Note 23 – Revenues from sales and services

At 2008 year-end revenues from sales and services, totalling € 368,378 thousand, showed growth of 14.3% vs. 2007.

The revenue increase stemmed from the effect of upward price adjustments relating to the increase in fuel cost – net of the change in the EUR/USD exchange rate – as established in contractual agreements with tour operations, as well as increased operating activity (flight hours up by 3.1% YoY).

Revenue from sales and services				
Euro/ 000				
	2008	**2007**	**Change**	**% change**
Medium-Haul	185,280	145,051	40,229	27.7%
Long-Haul	183,099	177,238	5,861	3.3%
Total	**368,379**	**322,289**	**46,090**	**14.3%**

As highlighted in the table, the increase was ascribable to medium-haul business, which benefited from the growth of scheduled operations. The lower growth of long-haul business was due to the disorders occurring in Kenya at the beginning of 2008, discontinuation of connections to India at the end of the third quarter of 2007 and to less activity towards New York.

Revenues from sales and services include sales to related parties of € 1,635 thousand, of which € 1,492 thousand to the parent company Meridiana SpA, mainly for ACMI revenues.

- Note 24 – Other revenues

In 2008 revenues amounted to € 10,395 thousand vs. € 9,405 thousand reported in 2007. This growth was due to reclassification of items relating to the All Business business unit, which discontinued operations in 2007.

Revenues for aircraft rentals related to the sub-lease, initiated in April 2007, of an A330. Other sundry revenues also included intercompany chargebacks of € 226 thousand, of which € 86 thousand to the parent company Meridiana SpA.

Euro/000	**2008**	**2007**	**Change**	**% change**
Penalties	777	1,111	(333)	-30.0%
Aircraft rentals	9,177	10,311	(1,134)	-11.0%
Commission	200	528	(328)	-62.1%
Other sundry revenues	241	507	(267)	-52.6%
Reclassification of A319 BU items al	0	(3,052)	3,052	-100.0%
Total other revenues	**10,395**	**9,405**	**989**	**10.5%**

Costs

- Note 25 – Direct commercial costs

Direct commercial costs, which totalled € 10,315 thousand, increased vs. 2007 as a consequence of increased scheduled operations (for both medium- and long-haul business), which requires greater commercial efforts than charter operations.

The item also included € 4,924 thousand for related-party costs, of which € 2,940 thousand vis-à-vis the parent company, mainly for scheduled-flight sales commission.

- Note 26 – Fuel

Fuel cost, which had amounted to € 98,243 thousand in 2007 (with a weight of 30.5% on revenues from sales and services) increased by 38.3% and in 2008 amounted to € 135,842 thousand (36.9% on revenues from sales and services). This increase related to the trend in the price of oil, which hit exceptionally high levels during 2008, only partly counterbalanced by weakening of the USD (the currency in which fuel is traded) vs. the Euro.

- Note 27 – Staff costs

Notwithstanding the increase in the Company's headcount, as indicated in section 2.6, in 2008 staff costs, totalling € 37,467 thousand, showed a -2.3% decrease vs. 2007. This was largely due to application of the solidarity agreement, which has been in place since April 2007.

Euro/000	2008	2007	Change	% change
Wages and salaries	29,151	31,149	(1,998)	-6.4%
Social security charges	6,853	7,209	(357)	-4.9%
Post-employment benefits	1,464	796	667	83.8%
Reclassification of A319 BU items after discontinuation of operations	0	(801)	801	-100.0%
Total staff costs	***37,467***	***38,354***	**(887)**	**-2.3%**

We remind readers that, as part of the turnaround actions illustrated earlier, Eurofly, in order to address its manifest state of crisis, with its notification to the trade-union organisations and to the Italian Labour Ministry on 30 January 2007 had initiated a collective dismissal procedure for staff reduction pursuant to Articles 4 and 24 of Law no. 223 of 23 July 1991, for a total of 134 heads. With a trade-union agreement signed at the ministry on 15 March 2007, the eventuality of collective dismissals was averted via application of a solidarity agreement (envisaged as one of the alternative instruments to collective dismissal by Law 223/91) for a 24-month period starting on 1 April 2007. Signature of the solidarity agreement for all categories (flight-deck staff, cabin staff, and a substantial share of ground staff) froze their pay until 2009, except for an agreement concerning review of the certification allowances for maintenance staff. The benefit generated by the solidarity agreement in the period was approximately € 8,486 mn (see section 4.2 "Significant non-recurring events and transactions").

- Note 28 – Maintenance materials and services

In 2008 costs for maintenance materials and services totalled € 45,529 thousand and were substantially aligned with those of 2007. These costs benefited from the favourable trend of the EUR/USD exchange rate, which counterbalanced the increase in operating activity during the year. There was in any case an increase in maintenance costs following entry into the fleet of the fifth A330 at the end of March 2007, then subleased to third parties. The decrease of cost relating to rental of technical material was due to the engine segment.

We point out the presence of maintenance services totalling € 1,437 thousand performed by Meridiana SpA.

Euro/000	**2008**	**2007**	**Change**	**% change**
Aircraft maintenance	13,582	12,231	1,351	11.0%
Maintenance reserves	14,608	14,517	91	0.6%
Engineering and average	2,718	2,637	82	3.1%
Rental of technical material	731	1,813	(1,082)	-59.7%
Aircraft certification	641	643	(3)	-0.4%
Subtotal	**32,280**	**31,841**	**439**	**1.4%**
Aviation consumables	980	1,143	(162)	-14.2%
Subototal aircraft maintenance	**33,261**	**32,984**	**277**	**0.8%**
Catering	11,803	12,397	(593)	-4.8%
Other costs	465	394	72	18.2%
Reclassification of A319 BU items after discontinuation of operations	0	(409)	409	-100.0%
Total maintenance materials and services	**45,529**	**45,365**	**165**	**0.4%**

- Note 29 – Other operating costs and wet leases

Operating and wet lease costs, described below, totalled € 92,971 thousand and were substantially aligned with those of the previous year. We recall the fact that FY2007 wet lease costs also included costs relating to the purchase of seats established by the commercial agreement with the Livingston airline. In the third quarter of 2008 Eurofly acquired additional capacity via wet leasing of an MD-80 aircraft from ItAli Airlines for the summer season.

This item includes related-party costs of € 926 thousand, of which € 790 thousand vis-à-vis Meridiana, mainly for airport supervision activities and ACMI lease-ins.

Euro/000	**2008**	**2007**	**Var**	**Var %**
Other operating costs	88,371	84,291	4,080	4,8%
Wet leas	4,600	8,650	(4,050)	-46.8%
Total operating and wet lease costs	92,971	92,941	30	0.0%

The increase in operating costs was due – as regards handling costs – to increased activity during the period, while the increase in passenger fees was due to the increase in the number of passengers.

Euro/000	2008	2007	Var	Var %
Handling costs	25,642	24,863	780	3.1%
Flight control assistance	20,832	20,725	107	0.5%
Passenger fees	24,707	20,307	4,400	21.7%
Landing fees	6,391	6,147	244	4.0%
Flight staff transport & accommodation	6,068	7,386	(1,318)	-17.9%
Passenger reprotection	3,277	3,867	(590)	-15.3%
Aircraft insurance	621	818	(197)	-24.1%
Flight staff insurance	493	534	(41)	-7.8%
Other operating costs	340	285	55	19.4%
Reclassification of A319 BU items after discontinuation of operations	0	(641)	641	-100.0%
Total operating costs	**88,371**	**84,291**	**4,080**	**4.8%**

- <u>Note 30 – Other commercial and overhead costs</u>

Other commercial and overhead costs amounted to € 20,353 thousand and increased by 13.5% vs. 2007.

Euro/000	2008	2007	Var	Var %
Miscellaneous advisory services	9,080	6,371	2,709	42.5%
Other staff costs	2,098	2,565	(467)	-18.2%
Information technology	2,768	2,905	(137)	-4.7%
Insurance	1,066	1,228	(161)	-13.1%
General & administrative expenses	1,472	1,283	189	14.7%
Building rental	1,004	987	17	1.7%
Other overhead costs	1,630	1,483	147	9.9%
Compensation of directors and statutory auditors	747	693	54	7.8%
Lease and rental	488	444	44	9.8%
Reclassification of A319 BU items after discontinuation of operations	0	(24)	24	-100.0%
Other commercial and overhead costs	**20,353**	**17,935**	**2,419**	**13.5%**

As detailed in the table, greater use was made of advisory services, with special reference to operations support services and other minor services. Miscellaneous advisory service costs included marketing expenses of € 1,061 thousand.

Costs for overall advisory services provided by the parent company Meridiana amounted to € 1,275 thousand.

- <u>Note 31 – Operating lease rentals</u>

Operating lease rentals, amounting to € 42,739 thousand, featured a decrease of € 3,113 thousand.

Euro/000	**2008**	**2007**	**Change**	**% change**
Medium-Haul	17,056	20,206	(3,150)	-15.6%
Long-Haul	25,683	25,646	38	0.1%
Total operating lease rentals	**42,739**	**45,852**	**(3,113)**	**-6.8%**

Operating lease rentals for the A320 fleet decreased by € 3,150 thousand as a result of the trend in the EUR/USD exchange rate (operating lease contracts are denominated in USD) and to the exit of one aircraft during the fouth quarter. As regards the long-haul fleet, the positive effect of the exchange rate trend was offset by entry into the fleet of the fifth A330 at the end of March 2007, followed by its immediate subleasing to other airlines.

Commitments for future operating lease rentals for the A320/A330 fleet are timed as follows:

Operating rentals	**2009**	**2010**	**2011**	**2012**	**Further**	**Total**
US $ / 000	48,219	44,937	44,937	39,436	72,526	250,055
in Euro / 000	33,254	30,991	30,991	27,197	50,018	172,451

- Note 32 – Depreciation and amortisation

Depreciation and amortisation totalled € 3,441 thousand. The decrease of € 509 thousand was due to the limited investments made in the period.

- Note 33 – Write-off of non-current assets

In FY2008 write-offs of non-current assets were booked for a total of € 122 thousand, of which € 103 thousand relating to expenses of the branch at New York airport (see Note 2 Intangible assets), considered no longer recoverable, and € 19 thousand to some aviation components.

- Note 34 – Provision for doubtful receivables

This item, amounting to € 5,779 thousand, relates to accrual to provision for doubtful receivables. It showed a significant increase vs. the 2007 figure of € 2,820 thousand, as analysed in the paragraph concerning trade receivables.

- Note 35 – Provision for liabilities and charges

Accruals to provision for liabilities and charges amounted to € 967 thousand, with an increase of € 115 thousand, attributable to accruals to maintenance provisions and for various legal and tax disputes.

- Note 36 – Finance income (expense)

In 2008 net financial expense was € 2,329 thousand vs. € 2,474 thousand in 2007. The trend of net finance expense is shown in the following table:

Euro/000	**2008**	**2007**	**Change**	**% change**
Interest expense on A319 lease	0	(921)	921	-100.0%
Interest expense for post-employment benefits	(134)	(126)	(8)	100.0%
Commission on suretyships	(89)	(330)	241	-73.1%
Other finance income (expense)	(1,787)	(1,082)	(705)	65.2%
Foreign exchange gains (losses)	(320)	(1,115)	795	-71.3%
Reclassification of A319 BU items after discontinuation of operations	0	1,099	(1,099)	-100.0%
Net finance income (expense)	**(2,329)**	**(2,474)**	**145**	**-5.9%**

Other finance income (expense) includes net bank interest expense (€ -728 thousand), interest expense on the mortgage loan (€ -205 thousand), interest income vs. Meridiana SpA (€ 22 thousand) for a deposit guaranteeing the issue of suretyships to aircraft lessors, plus other net finance expense (mainly relating to banking expenses and interest on payment extensions for supply payables).

- Note 37 – Income taxes for period

Income taxes were accrued for a positive amount of € 584 thousand, consisting of current IRAP (regional business tax) of € 979 thousand net of net advance corporate taxes of € 1,563 thousand.

The following table shows the reconciliation between theoretical and reported taxation.

Euro/000

Corporate tax (IRES)	Taxable income	Tax
Pre-tax loss for the year	**(19,082)**	
Theoretical taxation (statutory rate = 27.5%)		**(5,247)**
Temporary differences taxable in subsequent financial years	(754)	
Temporary differences deductible in subsequent financial years	11,444	
Reversal of temporary differences from prior financial years	(11,779)	
Permanent tax changes	2,479	
Taxable income (tax loss)	**(17,692)**	
Theoretical IRES (corporate tax) on tax losses		**(4,865)**
Reported IRES		**0**

Regional business tax (IRAP)	Taxable income	Tax
EBIT	**(16,752)**	
Staff costs	37,467	
Write-off of non-current assets	122	
Provision for doubtful receivables	5,779	
Provision for liabilities and charges	967	
Adjusted EBIT	**27,582**	
Theoretical taxation (statutory rate = 3.9%)		**1,076**
Profit and losses not recognised for IRAP purposes	6,143	
Other changes	-8,629	
IRAP taxable income	**25,096**	
Reported IRAP (regional business tax)		**979**

- <u>Note 38 – Profit (loss) of discontinued operations</u>

As required by IFRS 5, in 2007 the item "Profit (loss) of discontinued operations" included all components of income and tax (including income tax) accruing in the period prior to disposal of the A319 aircraft's lease contract and the economic effects of that disposal. The overall effect in 2007 of cessation of operations, inclusive of operating results and the capital gain on disposal was virtually nil.

In 2008 this item does not comprise any amounts, as the operations were discontinued and the contract sold to the Alba company during 2007.

Net profit (loss) for the year

In the light of all the above, the bottom-line result in 2008 was negative by € -18,498 thousand, as compared with a loss of € -21,757 thousand in the previous year. Considering shares numbering 28,043,438, the loss per share was € -0.66.

4.6. Equity analysis

The items forming equity as at 31 December 2008 were:

- Share capital = € 6,503,105.72, consisting of 28,043,438 ordinary shares, with no indication of par value
- Share premium reserve = € 16,958 thousand
- Legal reserve and Statutory reserve = 0
- Other reserves = € -555 thousand
- Retained earnings = € -5,943 thousand
- Payments received for future capital increases = € 29,974 thousand
- Net loss for the year = € -18,498 thousand.

During 2008 three recapitalisation operations were executed:

1. A cash capital increase as a rights issue to shareholders for a total of € 14,991 thousand, of which € 5,231 thousand for share capital and € 9,760 thousand for reserves (before direct costs of € 414 thousand less € 92 thousand of advance taxes). 11,129,418 new shares were issued against the capital increase.
2. A capital increase in kind reserved for the shareholder Meridiana, for a total value of € 8,000 thousand, of which € 249 thousand for share capital and € 7,751 thousand for reserves (before direct costs of € 296 thousand less € 65 thousand for advance taxes), against which 3,558,718 shares were issued.
3. A further cash capital increase as a rights issue, exercised by 31 December 2008 for a total amount of € 29,974 thousand, all for share capital, with the issue of 299,738,411 shares. In January 2009 the operation ended with the subscription of a further 27,012,921 shares, for a total amount of € 2,701 thousand, all for share capital.

As a result of these recapitalisations, as at the date or preparation of these financial statements share capital totalled € 39,178 thousand, consisting of 354,794,770 shares without par value.

Description	Amount	Possibilities of use	Available portion	Distributable portion	Summary of utilisation in the previous two years	
					For coverage of loss	Other uses
Share capital	6,503	B			12,332	
Equity reserves						
Payment for future capital increase	29,974	A				
Share premium reserve	16,958	A, B, C	16,958	16,958	31,102	
Earnings reserves						
Legal reserve		B				
Statutory reserve		B,C			478	
Other reserves	-555				3,681	
Retained earnings	-5,943				135	528
Total	**46,936**		**16,958**	**16,958**		

Key:
A: for share capital increases
B: for coverage of losses
C: for distribution to shareholders

4.7. Cash flow analysis

As shown in the cash flow statement presented in section 3.4 – which illustrates the year's changes in cash and cash equivalents using the indirect method – 2008 featured cash generation of € 17,809 thousand. The components of the year's cash flow are analysed below.

- Cash flow absorbed by operating activity

In 2008 this cash flow was negative by € 22,214 thousand. The main causes of cash absorption were the pre-tax loss of € -19,082 thousand and the negative change of € 6,401 thousand in NWC (net working capital). Set against these amounts, depreciation & amortisation for the year amounted to € 3,441 thousand.

- Cash flow generated by investing activity

This area generated € 420 thousand of cash due to release of the down payments paid to Airbus (€ 1,926 thousand) and reclassification to current receivables of deposits to be returned for hand-back of aircraft (€ 2,443 thousand) net of issue of a bank suretyship to a lessor (€ -3,018 thousand) and of other investments in tangible and intangible assets (€ -795 thousand).

- Cash flow absorbed by financing activity

During FY2008 the cash flow from financing activity was negative by € -497 thousand, with absorption consisting of payment of mortgage loan instalments.

- Cash flow generated by capital operations

Two cash capital increases were executed during FY2008 for a total amount of € 40,099 thousand. The first of these increases generated net cash flow of € 10,125 thousand, while the second one generated cash flow of € 29,974 thousand by 31 December 2008 (and a further € 2,701 thousand in January 2009).

4.8. Net financial position

Euro/000			**31.12.08**	**31.12.07**	**Change**
A	Cash and banks	(1)	13,175	6,955	6,220
B.	Derivative contracts included in cash & cash equivalents	(1)	-	-	-
C.	**Cash and cash equivalents (A) + (B)**		**13,175**	**6,955**	**6,220**
D.	**Current financial receivables**		-	-	-
E.	Current bank debt	(1) (2)	4,326	15,914	(11,589)
F.	Derivative contracts included in bank debt	(1) (2)	-	-	-
G.	Current portion of non-current debt		533	514	19
H.	Other current financial debt		-	4,323	(4,323)
I.	**Current financial debt (E) + (F) + (G) + (H)**		**4,859**	**20,751**	**(15,893)**
J.	**Net current financial debt (I) - (C) - (D)**		**(8,316)**	**13,797**	**(22,113)**
K.	**Non-current financial receivables**		-	-	-
L.	Non-current bank debt		2,758	3,268	(510)
M.	Bonds issued		-	-	-
N.	Other non-current debt		-	-	-
O.	**Non-current financial debt (L) + (M) + (N)**		**2,758**	**3,268**	**(510)**
P.	**Net financial debt (J) - (K) + (O)**		**(5,557)**	**17,065**	**(22,622)**
Reconciliation with cash flow statement and balance sheet:					
(1)	Cash and cash equivalents		8,849	(8,960)	17,809
(2)	Bank debt		4,326	15,914	(11,589)

During 2008 two cash capital increases took place for a total amount of approximately € 45 mn. As well as for support of the Company's operations, the proceeds were also used to reduce

financial debt (consisting of the € 15-mn loan negotiated on 27 November 2007 with Banca Nazionale del Lavoro SpA, Unicredit Banca d'Impresa SpA, and Intesa San Paolo SpA).
Following receipt of these resources, the net financial position went from a situation of net debt of € -17,065 thousand at 2007 year-end to net cash of € 5,557 thousand at the end of 2008. As specifically regards items C, I, and O, we point out the following:

C – Cash and cash equivalents

As at 31 December 2008 cash and cash equivalents, consisting of cash and bank balances, totalled € 13,175 thousand. The increase of over € 6 mn related to the recapitalisation operations described above.

I – Current financial debt

It amounted to € 4,859 thousand and consisted of bank debt of € 4,326 thousand and of € 533 thousand for the current portion of non-current debt relating to the mortgage loan. At 2007 year-end a 24-month interest-free loan was in place, transferred from Spinnaker to Meridiana with the agreement concluded on 28 December 2006 and subsequently used to subscribe Eurofly's capital increase.

As at 31 December 2008 total overdraft facilities amounted to € 16,000 thousand and featured 27% utilisation. Suretyships totalled € 11,718 thousand and featured 84.3% utilisation.

On 27 November 2007 the Company's bank debt restructuring plan was signed. Banca Nazionale del Lavoro SpA, Unicredit Banca d'Impresa SpA and Intesa San Paolo SpA revised the loan agreements with Eurofly, replacing them with new agreements featuring the following terms and conditions: (i) the banks, with equal amounts, undertook to pay out, in replacement of current loans, a new cash revolving standby facility of up to a maximum of € 15 mn at a lower spread than the one previously applied; (ii) the maturity date for repayment of the new loan is 36 months; and (iii) the loan is accompanied by the standard clauses envisaged for similar transactions as well as by financial covenants.
More specifically, the latter consist of the net financial debt/EBITDAR and net financial debt/equity ratios. The ratios will be calculated based on annual and half-yearly financial statements starting from financial statements as at 31 December 2007. The benchmark ratios are indicated below:

I. Net financial debt /EBITDAR:
   - For 2007 non higher than (0.80)
   - For 2008 not higher than (0.60)
   - For 2009 not higher than (0.15).

II. Net financial debt/Equity:
- For 2007 non higher than (2.80)
- For 2008 not higher than (1.80)
- For 2009 not higher than (0.35).

Measurement of EBITDAR to calculate the net financial debt/EBITDAR ratio will take place every six months and will refer to the last 12 months (moving annual total) prior to measurement date.

As at 31 December 2008 the Company's financial position was positive and the covenants illustrated had been fully met.

O – Non-current financial debt

Non-current financial debt amounted to € 2,758 thousand and consisted of the portion payable after more than 12 months of the mortgage loan taken out from Banca Profilo.

4.9. Related-party transactions

As at 2008 year-end, Eurofly SpA was controlled by Meridiana SpA with a 46.10% stake. Following conclusion of the capital increase in January 2009, this stake increased to 60.73%.
Eurofly SpA's related-party transactions basically relate to services rendered and to a lesser extent to financial transactions, with the parent company Meridiana SpA, with associate companies (SameItaly Srl, Wokita Srl, and EF-USA Inc.) and with other companies forming part of the Meridiana Group.

Below we summarise financial and business transactions with related parties:

Euro/000

Description	Total	Meridiana		SameItaly		Wokita		EF-USA		Others		Group total	
	31/12/08	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Trade receivables	64,882	5,657	8.7%	197	0.3%	1	0.0%	192	0.3%	-	0.0%	6,047	9.3%
Non-current financial assets	11,811	3,018	25.6%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,018	25.6%
Current financial assets	13,175	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Trade payables	94,202	2,483	2.6%	247	0.3%	33	0.0%	-	0.0%	160	0.2%	2,922	3.1%
Non-current financial liabilities	2,758	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Current financial liabilities	4,859	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%

Description	Total	Meridiana		SameItaly		Wokita		EF-USA		Others		Group total	
	31/12/08	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Total revenue	378,773	1,578	0.4%	138	0.0%	145	0.0%	-	0.0%	-	0.0%	1,861	0.5%
Total costs	395,525	6,442	1.6%	590	0.1%	-	0.0%	764	0.2%	136	0.0%	7,932	2.0%
Finance (income)/expense	2,329	-22	-0.9%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-22	-0.9%

Description	Total	Meridiana		SameItaly		Wokita		EF-USA		Others		Group total	
	31/12/08	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Cash flow from operating activities	(22,214)	(4,032)	18.2%	80	-0.4%	44	-0.2%	(192)	0.9%	143	-0.6%	(3,958)	17.8%
Cash flow from investing activities	420	(3,018)	-717.8%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	(3,018)	-717.8%
Cash flow from financing activities	(497)	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%

The transactions formed part of the Company's normal business operations, were carried out at market conditions, i.e. at the conditions that would be applied between two independent parties, and were executed in the Company's interest.

They are discussed below.

- ***Trade receivables/payables***

Trade receivables outstanding as at 31 December 2008 vis-à-vis the Meridiana Group, amounting to € 6,047 thousand, mainly referred to ACMI rental of Eurofly aircraft to Meridiana and to code-sharing invoicing. Trade payables of € 2,922 thousand were mostly generated by maintenance, supervision, handling and other advisory services performed for Eurofly by Meridiana, as well as by the amount payable for agency activities performed by SameItaly and EF-USA.

- ***Financial assets/liabilities***

As at 31 December 2008 non-current financial receivables related exclusive to a security deposit of € 3,018 thousand paid by Eurofly to Meridiana against a pledge by Meridiana to a bank for a suretyship issued for an aircraft operating lease. On this restricted deposit interest receivable of € 22 thousand accrued.

There were no financial liabilities outstanding vis-à-vis related parties.

- ***Revenues/costs for purchase and supply of services***

As at 31 December 2008 revenues vs. related parties totalled € 1,861 thousand, mainly due to billing of Meridiana for flights in ACMI mode.

Costs, amounting to a total of € 7,932 thousand, were mainly generated by maintenance, handling and supervision services and by other advisory services performed by Meridiana SpA, as well as by commission earned by Meridiana on code-sharing sales on Eurofly flights and by SameItaly and EF-USA for agency activities (respectively in Italy and the USA).

For the sake of greater clarity, below we outline the main operating and trade transactions with Meridiana, Wokita, SameItaly, EF USA, and the other companies in the Meridiana Group.

Transactions with Meridiana

Cost transactions with Meridiana related to the following activities performed by the latter:

1. Contact centre services (via Meridiana's call centre)
2. Space control, inventory management and yield management services
3. Market analysis, commercial reporting and advertising services
4. Pricing, distribution and e-ticketing services
5. Revenue accounting (scheduled operations)
6. Services for integrated, unified management of the website
7. Code-sharing and interline sales services on medium- and long-haul flights
8. Aircraft maintenance and scheduled flight engineering services
9. Airport supervision services in some airports
10. Secondment of Meridiana staff to Eurofly to cover positions in the operations area
11. Intermittent advisory services concerning labour relations, purchasing, maintenance and operations management, network planning, marketing and sales
12. Provision, free of charge, of use of some slots at Milan Linate airport
13. Wet leasing of aircraft by Meridiana to Eurofly to operate on routes between Italy and Lourdes
14. Warranty via letter of patronage issued by Meridiana for the purposes of debt restructuring described in the earlier section 4.8.

Revenue transactions with Meridiana relate to the following activities performed by Eurofly:

1. Wet leasing of Eurofly medium-haul aircraft to Meridiana to serve connections to Moldavia
2. Secondment of Eurofly staff to Meridiana to cover positions in the operations area
3. A temporary interest-earning deposit provided to Meridiana for the issue of bank suretyships to aircraft lessors.

Transactions with SameItaly Srl

Eurofly has a general agency mandate in place with SameItaly, which promotes the sale in Italy of scheduled and charter air transport services to travel agencies and tour operations for commissions calculated on the basis of rates including fuel surcharges. The contract expires on 31 December 2012 and can be renewed. Commission income earned by SameItaly amounted to € 590 thousand.

An outward staff secondment agreement is in place for administrative and financial management, earning revenue for Eurofly of € 138 thousand.

Transactions with Wokita Srl

Eurofly currently has trade relations in place with Wokita concerning advance block sales of charter seats. New agreements are being developed for supply to Eurofly of further services concerning sale of tickets and packages online, with the aim of enabling Eurofly to present its offering of air products for leisure destinations directly to end-use consumers, with significant savings thanks to the absence of intermediation. During FY2008 charter space was sold to Wokita amounting to € 145 thousand.

Transactions with EF-USA

EF-USA's business is operation and management of sales and customer care services on Eurofly's behalf, on an exclusive basis in North America, based on fees consisting of sales commissions, which in 2008 amounted to € 764 thousand. The receivable of € 192 thousand indicated in the table stems from year-end offsetting of receivables and payables.

Transactions with other companies of the Meridiana Group

These transactions include handling services, other ground assistance services and associated ancillary fees, provided by Geasar SpA, the company managing services at Costa Smeralda airport in Olbia (Sardinia). In 2008 the total cost was € 136 thousand.

4.10. Compensation paid to directors, statutory auditors, general managers and strategically accountable managers

As required by Article 78 of CONSOB Issuers' Regulation no. 11971/99, the following table indicates the compensation paid to individual directors and statutory auditors and, on a collective basis, compensation paid to strategically accountable managers. The amounts are shown in Euros.

Full name	Office held in 2008	Term of office	Expiry (1)	Compensation for office held	Non-cash benefits	Bonuses or other incentive	Other compensation	Total
Lorenzo Caprio	President of the Board of Directors	01.01.2008 - 31.12.2008	2009	75,000	0	0	0	75,000
Giovanni Rossi	Chief Executive Officer	01.01.2008 - 31.12.2008	2009	200,000	0	0	0	200,000
Franco Trivi	Vice President	01.01.2008 - 31.12.2008	2009	70,000	0	0	0	70,000
Luca Ragnedda	Director	01.01.2008 - 31.12.2008	2009	70,000	0	0	0	70,000
Sergio Rosa	Director	01.01.2008 - 31.12.2008	2009	70,000	0	0	0	70,000
Alessandro Giusti	Director	01.01.2008 - 31.12.2008	2009	20,000	0	0	0	20,000
Gian Carlo Arduino	Director	01.01.2008 - 31.12.2008	2009	33,000	0	0	0	33,000
Emilio Cremona	Director	12.05.2008 - 31.12.2008	2009	12,740	0	0	0	12,740
Giuseppe Lomonaco	Director	01.01.2008 - 31.12.2008	2009	33,000	0	0	0	33,000
Marco Rigotti	President of the Board of Statutory Auditors	01.01.2008 - 31.12.2008	2009	59,994	0	0	0	59,994
Guido Mongelli	Standing statutory auditor	01.01.2008 - 31.12.2008	2009	47,327	0	0	0	47,327
Michele Saracino	Standing statutory auditor	01.01.2008 - 31.12.2008	2009	46,305	0	0	0	46,305
Strategically accountable managers					10,464		540,624	551,088

(1) Year when AGM is held for shareholder approval of accounts relating to the last financial year in the term of office
(2) Includes fringe benefits such as company cars and other benefits in kind

There are no stock option plans for directors and strategically accountable managers.

4.11. Fees paid to independent auditor

In compliance with the requirements of Article 149-duodecies (12) of the CONSOB Issuers' Regulation, the following table details the fees accorded to the auditing company Deloitte & Touche SpA, appointed as legal auditors, distinguishing between legal auditing services rendered to the Company and other services rendered by the said company, divided by type. No other services have been rendered by entities belonging to its network.

Service	*Euro/000*
Legal auditing services	57
Attestation services (provisional data prepared by directors, included in section 13.3 of Prospectus)	175
Signature of the tax return	3
Total	**235**

4.12. Segment reporting

As per IAS 14 requirements, the Company provides segment disclosure based on business segmentation between Medium- and Long-Haul business, as the Company's risks and rewards are significantly affected by the differences between the two businesses. Below we summarise the main characteristics of these two business segments:

- Medium-Haul business: includes flights lasting less than five hours, operated with the A320 fleet, with destinations in the European area and Mediterranean Basin. Among the main medium-haul destinations operated by the Company, we highlight the Balearic Islands, Canary Islands, Greece, Egypt, Israel and Russia, served mainly via charter flights, and scheduled connections between Milan Linate and south Italian cities. Medium-haul charter business features major seasonality, relating to the climate of the regions reachable within the flight time considered, making these destinations preferable in the summer season and less so in the winter season. The destination least affected by this typical seasonality is Egypt and because of this its traffic flows are constant and significant in percent terms. Given the predominance of charter flights, Medium-haul customers are mainly tour operators.
- Long-Haul business: includes flights lasting more than five hours, operated using the A330 fleet, with international and intercontinental destinations. The main long-haul destinations currently operated by the Company are the Maldives, Kenya, Mauritius, Dominican Republic, Mexico and the Seychelles, via both charter and scheduled flights, and New York with scheduled flights. Long-haul business features opposite seasonality to medium-haul business, thus making it possible to even out operations volume during the year. Long-haul customers consist mainly of tour operators, even if the presence of private individuals is more evident, given the greater weight of scheduled flight operations.

	Medium-Haul				Long-Haul				Total			
Euro/000	2008	2007	*Change*	*% change*	2008	2007	*Change*	*% change*	2008	2007	*Change*	*% change*
Total revenue	**186,930**	**148,296**	**38,634**	**26.1%**	**191,843**	**183,399**	**8,444**	**4.6%**	**378,773**	**331,695**	**47,078**	**14.2%**
Direct commercial costs	4,759	2,825	1,934	68.5%	5,555	4,847	708	14.6%	10,315	7,672	2,643	34.4%
Revenue net of direct commercial costs	**182,171**	**145,471**	**36,700**	**25.2%**	**186,287**	**178,552**	**7,735**	**4.3%**	**368,458**	**324,023**	**44,435**	**13.7%**
Fuel	55,944	37,875	18,069	47.7%	79,898	60,368	19,530	32.4%	135,842	98,243	37,599	38.3%
Staff costs	17,744	17,412	332	1.9%	19,723	20,941	(1,218)	-5.8%	37,467	38,353	(886)	-2.3%
Materials and maintenance services	19,180	19,201	(21)	-0.1%	26,349	26,164	185	0.7%	45,529	45,365	164	0.4%
Other operating costs and wet lease costs	54,912	46,308	8,604	18.6%	38,059	46,633	(8,574)	-18.4%	92,971	92,941	30	0.0%
Other commercial and overhead costs	11,735	8,939	2,796	31.3%	8,619	8,996	(377)	-4.2%	20,353	17,935	2,418	13.5%
Subtotal costs	**159,515**	**129,735**	**29,780**	**23.0%**	**172,648**	**163,103**	**9,545**	**5.9%**	**332,162**	**292,838**	**39,324**	**13.4%**
EBITDAR	**22,656**	**15,736**	**6,920**	**44.0%**	**13,640**	**15,450**	**(1,810)**	**-11.7%**	**36,296**	**31,186**	**5,110**	**16.4%**
Operating lease rentals	17,056	20,206	(3,150)	-15.6%	25,683	25,646	37	0.1%	42,739	45,852	(3,113)	-6.8%
EBITDA	**5,600**	**(4,470)**	**10,070**	**-225.3%**	**(12,043)**	**(10,196)**	**(1,847)**	**18.1%**	**(6,443)**	**(14,666)**	**8,223**	**-56.1%**
Depreciation and amortization	992	1,374	(382)	-27.8%	2,450	2,577	(127)	-4.9%	3,441	3,951	(510)	-12.9%
Provision for doubtful receivables	3,426	2,044	1,382	67.6%	2,475	776	1,699	218.9%	5,901	2,820	3,081	109.2%
Provisions for liabilities and charges	143	127	16	12.7%	824	724	100	13.8%	967	851	116	13.6%
EBIT (operating profit(loss))	**1,039**	**(8,016)**	**9,055**	**-113.0%**	**(17,791)**	**(14,274)**	**(3,517)**	**24.6%**	**(16,752)**	**(22,289)**	**5,537**	**-24.8%**

Euro/000	Medium-Haul		Long-Haul		Not allocated		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Non current assets	13,599	10,215	14,510	20,429	20,218	11,498	48,327	42,142
Current assets	28,720	25,410	40,608	38,116	22,404	17,615	91,732	81,141
Total assets	**42,319**	**35,625**	**55,118**	**58,545**	**42,622**	**29,113**	**140,059**	**123,283**
Net equity	0	0	0	0	28,438	-5,406	28,438	-5,406
Current liabilities	42,511	51,725	42,011	34,483	17,196	30,915	101,717	117,123
Non current liabilities	2,105	6,740	2,080	3,370	5,718	1,457	9,903	11,566
Total liabilities and net equity	**44,616**	**58,465**	**44,091**	**37,853**	**51,352**	**26,966**	**140,059**	**123,283**

In view of the adverse performance of the Long-Haul business in the period considered, the non-current assets attributed to the related CGU (cash-generating unit) were subjected to impairment testing. This was based on forecast operating cash flows taken, for the current financial year, from the 2009 Budget and, for FYs 2010-2012, from the 2008-2012 Business Plan. The recoverable value of the assets concerned was checked via calculation of value in use. This test did not reveal the need to recognise any impairment, with the exception of write-offs specifically identified concerning the long-haul start-up costs relating to the New York destination (section 4.5).

4.13. List of equity investments

In compliance with Article 126 of CONSOB Resolution 11971, the following table shows the equity interests with voting rights owned in unlisted companies that exceed 10% of capital, as at 31 December 2008.

Company name	**Registered HQ**	**Share capital**	**% owned**	**Direct/Indirect ownership**	**Equity** *(/000)*	**Profit (loss)** *(/000)*	**Book value** *(/000)*
Wokita Srl	Olbia	€ 35,000	50%	Direct	193	-9.8	€ 2,925
Sameitaly Srl	Olbia	€ 95,000	50%	Direct	563.1	221.2	€ 5,075
							$ 0,490
EF-USA Inc.	New Jersey USA	US$1,000	49%	Direct	-$141	-$141	-€ 0.35

4.14. Disclosure concerning financial risks

In this section we provide qualitative and quantitative terms of reference as regards the importance of the main financial risks identified and managed by the Company.

The Company is exposed to the following financial risks connected with its operations:

- Credit risks, meaning the possibility of default by a counterparty or the possibility of deterioration of the creditworthiness assigned to counterparties
- Market risks arising from exposure to fluctuations in interest rates and exchange rates
- Liquidity risk, i.e. the risk of available financial resources being insufficient to honour payment commitments.

The quantitative data shown below are not forecasts. In particular, sensitivity analyses concerning market risks cannot reflect the complexity and related reactions of the markets possibly arising from each change hypothesised.

As required by IFRS 7, below we detail the financial assets and liabilities as at 31 December 2008 identified for the purposes of this analysis.

Euro/000

Asset	Balance Sheet reference	31/12/2008	Loans & receivables
Financial assets	3-4-5	14,966.3	14,966.3
Non-current financial assets		**14,966.3**	**14,966.3**
Trade and other receivables	9-10	64,882.4	64,882.4
Other assets	11	10,459.4	10,459.4
Cash and cash equivalents	12	13,174.6	13,174.6
Current financial assets		**78,057.0**	**78,057.0**
Total financial assets		**93,023.3**	**93,023.3**

Euro/000

Liabilities	Balance Sheet reference	31/12/2008
Long-term borrowings	14	2,758.5
Future finance expense		265.0
Non-current financial liabilities		**3,023.5**
Trade and other payables	17	91,719.4
Current portion of long-term borrowings	20	533.0
Bank debt	19	4,325.6
Future finance expense		162.9
Borrowings from parent company	21	0.0
Current financial liabilities		**96,740.9**
Total financial liabilities		**99,764.4**

For the purposes of comparison, we also present the FY2007 tables.

Euro/000

Asset	Balance Sheet reference	31/12/2007
Financial assets	3-4-5	10,944.8
Non-current financial assets		**10,944.8**
Trade and other receivables	9-10	58,976.1
Other assets	11	12,334.5
Cash and cash equivalents	12	6,954.7
Current financial assets		**65,930.8**
Total financial assets		**76,875.5**

Euro/000		
Liabilities	Balance Sheet reference	31/12/2007
Long term borrowings	14	3,274.6
Future finance expense		2,164.0
Non-current financial liabilities		**5,438.6**
Trade and other payables	17	94,700.3
Current portion of long-term borrowings	20	514.3
Bank debt	19	15,914.3
Future finance expense		1031.0
Short-term borrowings	21	4,322.8
Current financial liabilities		**116,482.7**
Total financial liabilities		**121,921.3**

Credit risk

Albeit in parallel with steady development of scheduled business, today the Company still generates most of its sales via charter business, with the consequence that its ordinary customer base consists prevalently of tour operators. At contractual level, the risk of non-collection of credit is addressed by requiring payment in advance of actual flight dates and suretyships or performance deposits guaranteeing fulfilment of contractual obligations. At operating level, compliance with terms of payment is monitored constantly.

Over the years attention to this aspect has become more important as the tour operator industry has recently undergone a consolidation process, which has reduced the number of operators. Also because of this change, in the last few FYs customer concentration has increased considerably (in 2007 the top five customers accounted for 32% of charter sales whereas in 2008 the percentage rose to 47%).

In addition, the Company adopts a restrictive policy concerning late payments. It in any case selects its customers according to the reliability and soundness demonstrated by counterparties in their past commercial business conduct.

The following tables provide information on the Company's exposure to credit risk as at 31 December 2008.

Euro/000					
Description	31/12/2008	Past-due ageing			
		30 days	60 days	90 days	Beyond
Non-current financial assets not past due	**14,966.3**				
Trade and other receivables	30,169.6				
Deferred income for advance invoices	-23,842.0				
Cash and cash equivalents	13,174.6				
Current financial assets not past due	**19,502.1**				
Past-due trade receivables	31,222.9	14,784.1	3,823.6	300.6	12,314.7
Deferred income for advance invoices	-6,499.3	-6,499.3			
Total past-due receivables	**24,723.6**	**8,284.8**	**3,823.6**	**300.6**	**12,314.7**
Provision for doubtful receivables	-11,302.5	-11.3	-1.0	-1.4	-11,288.8
Net current financial assets past due	**13,421.1**	**8,273.5**	**3,822.6**	**299.1**	**1,025.9**

As regards receivables more than 90 days past due not covered by provision for doubtful receivables, considering (a) historical experience, (b) status of legal disputes, (c) legal opinions concerning them and also (d) guarantees issued by customers, the credit risk is considered to be mitigated.

The following table summarises trade and other receivables as at 31 December 2008 squared with the figure reported in the balance sheet.

Euro/000	
Trade receivables not past due	30,169.6
Past-due trade receivables	31,222.9
Provision for doubtful receivables	-11,302.5
Trade receivables	**50,090.0**
Tax receivables	873.9
Other receivables	13,918.5
Total trade and other receivables	**64,882.4**

For the sake of comparison, we present the same data relating to FY2007.

Euro/000

Description	31/12/2007	Past-due ageing			
		30 days	60 days	90 days	Beyond
Non-current financial assets not past due	**10,944.8**				
Trade and other receivables	32,547.3				
Deferred income for advance invoices	14.2				
Cash and cash equivalents	6,954.7				
Current financial assets not past due	**39,516.2**				
Past-due trade receivables	30,657.3	9,516.5	1,778.5	421.8	18,940.6
Deferred income for advance invoices	-2,554.6	-2,554.6			
Total past-due receivables	**28,102.7**	**6,961.9**	**1,778.5**	**421.8**	**18,940.6**
Provision for doubtful receivables	-12,207.6	-284.0	-53.4	-12.7	-11,857.6
Net current financial assets past due	**15,895.1**	**6,677.9**	**1,725.2**	**409.1**	**7,083.0**

Euro/000

Trade receivables not past due	32,547.3
Past-due trade receivables	30,657.3
Provision for doubtful receivables	-12,207.6
Trade receivables	**50,997.0**
Tax receivables	1,787.4
Other receivables	6,191.6
Total trade and other receivables	**58,976.1**

Market risk

Foreign exchange risk

As regards analysis of foreign exchange risk, reference should be made to the items illustrated in section 2.4. Below we show the effect on 2008 and 2007 pre-tax profit and on equity before the tax effect at respective year-ends of a positive (negative) 1-percent point change in the EUR/USD exchange rate, with reference to the financial assets and liabilities indicated by IFRS 7.

Euro/000

Impact on pre-tax profit	2008	2007
Shock up (+1% change in exchange rate)	-115	-136
Shock down (-1% change in exchange rate)	117	138

Euro/000		
Impact on equity before tax effect	2008	2007
Shock up (+1% change in exchange rate)	-115	-136
Shock down (-1% change in exchange rate)	117	138

Interest rate risk

Lastly, taking into account the fact that some of Eurofly's financial liabilities are at variable rates – and that the benchmark rate for some aircraft operating leases is also variable – the Company is exposed to risks caused by increases in interest rates.

Below we show the effect on 2008 and 2007 pre-tax profit and on equity before the tax effect at respective year-ends of a positive (negative) 1-percent point change in interest rates, with reference to the financial assets and liabilities indicated by IFRS 7.

Euro/000		
Impact on pre-tax profit	2008	2007
Shock up (+1% change in interest rate)	-183	-578
Shock down (-1% change in interest rate)	183	578

Euro/000		
Impact on equity before tax effect	2008	2007
Shock up (+1% change in interest rate)	-183	-578.0
Shock down (-1% change in interest rate)	183	578.0

Liquidity risk

Liquidity risk is the risk that financial resources may not be sufficient to meet all the obligations falling due. The following table summarises the timing of the Company's financial liabilities as at 31 December 2008 based on contractual payments not discounted to present value.

Euro/000

Description	31/12/2008	Due date				
		2 years	3 years	4 years	5 years	Beyond
Non-current borrowings	2,758.4	573.8	595.5	618.0	641.4	329.8
Future interest expense	265.0	98.1	76.4	53.9	30.5	6.2
Non-current liabilities not past due	**3,023.4**	**671.9**	**671.9**	**671.9**	**671.9**	**336.0**
Trade and other payables	68,019.4					
Current portion of long-term borrowings	533.0					
Bank debt	4,325.6					
Future interest expense	162.9					
Current borrowings	0.0					
Current financial liabilities not past due	**73,040.9**					
Current financial liabilities past due	**23,700.0**					
Total financial liabilities	**99,764.3**					

Solely for the purposes of IFRS 7 disclosure, the financial liabilities shown in the previous table also include the portions of interest that will be paid in future financial years – and consequently not yet included in the amount of financial debt reported as at 31 December 2008.

The resources coming from the capital increase completed in January 2009 and materialisation of the forecasts of cash flow from operating activity made in the 2009 Budget and 2008-2012 Business Plan – albeit set in the context of the various uncertainties described in the earlier section 2.3 "Business outlook" and relating to achievement of forecast objectives – besides normal management of past-due payables, lead us to believe that the Company is able to meet the payment obligations indicated above, even though we cannot rule out the possibility that, in certain periods of the year, Eurofly may find itself in situations of temporary financial stress.

It is pointed out that part of the cash-in from the last cash capital increase completed in January 2009 was used to pay past-due supplier payables.

2007 figures are shown below for the sake of comparison.

€/000

Description	31/12/2007	Due date				
		2 years	3 years	4 years	5 years	Beyond
Non-current borrowings	2,754.2	526.0	556.0	588.0	622.0	462.2
Future interest expense	398.9	1,003.0	903.0	117.0	83.0	58.0
Non-current liabilities not past due	**3,153.1**	**1,529.0**	**1,459.0**	**705.0**	**705.0**	**520.2**
Trade and other payables	79,769.7					
Current portion of long-term borrowings	537.3					
Bank debt	4,325.6					
Future interest expense	1,031.0					
Current borrowings	0.0					
Current financial liabilities not past due	**85,663.6**					
Current financial liabilities past due	**20,600.0**					
Total financial liabilities	**109,416.7**					

Milan, 27 March 2009

On behalf of the Board of Directors

Lorenzo Caprio
President

Giovanni Rossi
Chief Executive Officer

5. Certification of statutory annual financial statements pursuant to Article 154-bis of Italian Legislative Decree 58/1998 (Italian Consolidated Finance Act)

(Translated from the original version in Italian)

1. The undersigned Giovanni Rossi, in his capacity as Chief Executive Officer, and Maurizio Cancellieri, in his capacity as Financial Reporting Officer of Eurofly SpA, also considering the requirements of Article 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, herewith certify:

- The adequacy in relation to business characteristics and
- The effective application

of administrative and accounting procedures to construct financial statements during the course of FY2008.

2. No significant aspects emerged in this respect.

3. It is further certified that:

3.1 Statutory financial statements as at 31 December 2008:

a) Were prepared in compliance with applicable international accounting standards recognised in the European Union pursuant to regulation (EC) no. 1606/2002 of the European Parliament and Council, dated 19 July 2002, as well as with the measures enacted to implement Article 9 of Italian Legislative Decree no. 38/2005

b) Match the evidence of corporate books and accounting records;

c) Are appropriate, to the best of their knowledge, to provide true and fair representation of the issuer's assets & liabilities, business status, and financial position.

3.2. The management report includes a reliable analysis of operating performance and results as well as of the issuer's situation, together with a description of the main risks and uncertainties to which the issuer is exposed.

Milan, 27th March 2009

Giovanni Rossi	Maurizio Cancellieri
Chief Executive Officer	Financial Reporting Officer