

eurofly

Half-yearly financial report as at 30 June 2008

Eurofly S.p.A. – Registered office at Via Ettore Bugatti, 15, Milan (MI) - Share capital €6,503,105.72

Company subject to management and coordination activities by Meridiana S.p.A.

Milan Economic and Administrative Index no. 1336505 – Milan Companies Register 05763070017

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CONTENTS

Introduction	3
1. CORPORATE BODIES	5
2. INTERIM REPORT ON OPERATIONS	6
2.1. Operating performance	6
2.1.1. Half-year results	6
2.1.2. The fleet	11
2.1.3. Commercial business	12
2.2. Significant events during the first half of the year	17
2.3. Developments in shareholdings	20
2.4. Human Resources	22
2.5. Company offices	23
2.6. Research and development	23
2.7. Macroeconomic framework	23
2.8. Industry landscape	24
2.9. Legislative and regulatory framework	24
2.10. Significant events after the close of the first half of 2008	28
2.11. Outlook on operations	31
3. CONDENSED HALF-YEARLY FINANCIAL STATEMENTS AS AT 30 JUNE 2008	33
3.1. Financial statements	33
3.1.1. Balance sheet	33
3.1.2. Income statement	34
3.1.3. Statement of changes in net equity	36
3.1.4. Cash flow statement	37
3.1.5. Net financial position	38
3.2. Notes to the financial statements	39
3.2.1. Accounting standards	39
3.2.2. Financial statement comparability and business seasonality	41
3.2.3. Analysis of changes in the balance sheet	41
3.2.4. Analysis of financial performance	52
3.2.5. Analysis of changes in net equity	58
3.2.6. Financial position	59
3.2.7. Significant non-recurring events	63
3.2.8. Segment reporting	64
3.2.9. Transactions with related parties	65
3.2.10. List of shareholdings	68
4. Certification of the condensed half-yearly financial statements at 30 June 2008 in accordance with Article 81-ter of CONSOB Regulation 11971 of 14 May 1999 as amended	69

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

Registered Office at Via Ettore Bugatti, 15, Milan

Share capital of €6,503,105.72, fully paid-up

Entered in the Milan Companies Register under no. 05763070017 – Economic and Administrative

Index no. 1336505

Introduction

This half-yearly financial report as at 30 June 2008 has been prepared pursuant to Article 154-ter of the Consolidated Finance Act as amended by Italian Legislative Decree no. 195 of 6 November 2007, implementing Directive 2004/109/EC (also known as the “Transparency Directive”), in order to provide information on the Company’s financial performance and standing. The condensed half-yearly financial statements have been prepared in accordance with the IASs and IFRSs, and with IAS 34 in particular, as better described in section 3.2.1 of this report.

In the condensed half-yearly financial statements, the income statement and the cash flow statement for the half-year are compared to those of the same period of the previous year. The net financial position and balance sheet accounts as at 30 June 2008 are compared to the corresponding final figures as at 31 December 2007.

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

We present below the financial highlights and business indicators as at 30 June 2008, compared to those of the same period of 2007 and the 2007 financial year.

Unless otherwise specified, Euro/000

2007	Significant data	I half 08	I half 07	Change	% change
47,144	Total flight hours	22,691	22,739	(48)	-0.2%
1,879,289	Passengers carried	935,192	772,020	163,172	21.1%
156	Fleet availability, rented and in wet lease (machine months)	73	78	(5)	-6.4%
5,015	Productivity Long Range fleet (flight hours)	4,641	5,092	(451)	-8.9%
3,255	Productivity Medium Range fleet (flight hours)	3,280	2,959	321	10.8%
2007	Summary Income Statement	I half 08	I half 07	Change	% change
322,290	Revenue from sales and services	162,968	147,312	15,656	10.6%
331,695	Total revenue	168,789	150,748	18,041	12.0%
31,186	EBITDAR (1)	13,516	11,379	2,137	18.8%
9.7%	Percentage weight on revenue from sales and services	8.3%	7.7%		
(14,666)	EBITDA (2)	(7,441)	(11,297)	3,856	-34.1%
-4.6%	Percentage weight on revenue from sales and services	-4.6%	-7.7%		
(22,289)	EBIT (3)	(12,735)	(14,657)	1,922	-13.1%
-6.9%	Percentage weight on revenue from sales and services	-7.8%	-9.9%		
(21,757)	Result of the period	(14,962)	(16,298)	1,336	-8.2%
30.06.07	Summary Balance Sheet	30.06.08	31.12.07	Change	% change
40,515	Total non-current assets	47,875	42,142	5,732	13.6%
86,385	Total current assets	94,558	81,141	13,417	16.5%
126,900	Total assets	142,433	123,283	19,149	15.5%
404	Net equity	2,137	(5,406)	7,543	-139.5%
12,668	Total non-current liabilities	9,922	11,566	(1,644)	-14.2%
113,827	Total current liabilities	130,374	117,123	13,251	11.3%
126,900	Total net equity and liabilities	142,433	123,283	19,149	15.5%
2007	Investments	I half 08	I half 07	Change	% change
2,251	Investments	3,196	1,345	1,851	137.7%
30.06.07	Other financial data	30.06.08	31.12.07	Change	% change
(2,032)	Net financial position (4)	(2,959)	(17,065)	14,106	82.7%
4,481	Net cash and equivalents	585	(8,960)	9,544	106.5%
8,605	Cash flow of the period	9,544	(4,836)		

(1) EBITDAR: *Earnings Before Interest, Taxes, Depreciation, Amortization and aircraft Rentals* (aircraft operating leases – or “rentals” – do not include wet leases). EBITDAR also excludes provisions for risks and charges, other adjusting allocations, and the impairment of non-current assets.

(2) EBITDA: *Earnings Before Interest, Taxes, Depreciation, Amortization*.

(3) EBIT: *Earnings Before Interest and Taxes*.

(4) With regard to the item “Net cash and equivalents”, the net financial position includes the items described in section 3.1.5.

1. CORPORATE BODIES

BOARD OF DIRECTORS

(In charge until Annual Report as of 31 December 2008 approval)

President	Lorenzo	CAPRIO ⁽³⁾
Managing Director	Giovanni	ROSSI ⁽¹⁾
Vice President	Franco	TRIVI
Directors	Luca	RAGNEDDA ⁽¹⁾
	Sergio	ROSA ⁽¹⁾
	Emilio	CREMONA
	Alessandro	GIUSTI
	Gian Carlo	ARDUINO ⁽²⁾
	Giuseppe	LOMONACO ⁽²⁾

BOARD OF STATUTORY AUDITORS

(In charge until Annual Report as of 31 December 2008 approval)

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

INDEPENDENT AUDITING FIRM **DELOITTE & TOUCHE S.p.A.**

(Mandate extended to 2008 - 13 by the AGM of 8th May 2007)

(1) Executive Director

(2) Independent Director

(3) Significant component as indicated in points 3C1 and 3C2 of Corporate Governance Code, independent when appointed

2. INTERIM REPORT ON OPERATIONS

2.1. Operating performance

2.1.1. Half-year results

The first half of 2008 was characterized by major macroeconomic events, which must be included in the analysis of Eurofly's results. The period under review witnessed a marked slowdown of economic growth in western countries, an increase in the cost of fuel, and the weakening of the dollar against the euro, as well as socio-political tensions in Kenya, one of Eurofly's leading destinations.

- The economic and financial crisis, which began in the second half of 2007 in the United States, has affected both the real estate and the financial markets and has also spread to Europe, leading to a fall in consumption and production and a general slowdown of economic growth. Besides a direct fall in scheduled and charter flight revenues, the reduction in consumption has also affected the stability and solvency of tour operators.
- During the first half of 2008, oil price doubled in relation to the first half of 2007, and in July the cost per barrel exceeded USD 140, giving rise to an exceptional increase in the cost of fuel, which was not foreseeable at the time of preparing the 2008-2010 Business Plan.
- During the first half of the current year, the US dollar weakened against the euro, with the exchange rate rising from 1.47 at the beginning of January 2008 to 1.57 at the end of June 2008. Since several operating costs, particularly fuel, materials and maintenance services and operating rentals, are stated in this currency, the trend in exchange rates has favourably affected the Company costs.
- The beginning of 2008 saw socio-political events affecting Kenya owing to disturbances following the political elections at the end of 2007. Tensions between the ethnic opposition supporters, exacerbated by the division between the political factions, led to violent conflict as a result of which Farnesina, and other Eastern European ministries, issued a travel warning, advising citizens to postpone trips to Kenya.

The increase in the cost of fuel penalized the air transport industry in particular. Airlines were forced to review their strategies, changing their networks and offers, reducing the number of flights and the workforce in order to recover lost margins on revenues resulting from the slowdown of the economy and the increase in the cost of fuel.

Eurofly's results, just as those of other carriers in the industry, were negatively affected by trends in the cost of fuel. The negative effects deriving from these increases, which could not have been foreseen or controlled by the Company, were partially offset by the tariff adjustment mechanisms in both the scheduled and charter flights segments. The charter contracts arranged by the Company with tour operators provide for the possibility of adjusting prices depending on the actual cost at the time of the flight. This cover presents several limitations, which depend on the time difference between negotiating the contracts and making the flights, the presence of exemptions and, in the event of marked changes in the cost components subject to change, the capacity of the market to absorb the increases in flight prices, as well. With regard to scheduled business, the air transportation industry has seen increases in ticket prices (fuel surcharge) aimed at recovering at least some of the change in cost, taking the competitive landscape into account. Again in the presence of these price adjustment mechanisms and the positive effect of the weakening of the dollar in relation to the euro, the unforeseeable marked increase in fuel costs (€16,464 thousand compared to the first half of 2007) has led to an erosion of the Company's EBITDA in relation to that forecast in the 2008-2010 Business Plan for the first half of 2008. In fact, the cost of fuel during the first half of 2008 amounted to 37.2% of revenues, compared to the 31.2% estimated in the 2008-2010 Business Plan.

The instability generated on the tour operators market, together with the increase in fuel cost, has significantly impacted on the trend in net working capital which has been affected by the slowdown in credit collection times compared to those originally forecast in the 2008-2010 Business Plan, while payments to suppliers rose in absolute value, with the resulting increase in financial pressure, despite the positive effects generated by the capital increase completed in February 2008 (see section 2.2).

The increased insolvency risk of several counterparts has given rise to the need to revise estimates of credit recoverability with allocations to provision for bad debts for a total of €3.1 million, significantly higher than those originally forecast in the 2008-2010 Business Plan.

Finally, as a result of the socio-political disturbances in Kenya, one of Eurofly's main long range destinations, the Company had to significantly reduce flights to that destination, with the resulting

reduction in the capacity offered and the repositioning of its residual operations in nearby Zanzibar. Albeit an estimate, this critical state gave rise to a reduction in the final EBITDA in relation to that forecast in the 2008-2010 Business Plan of around €1.5 million.

The above context meant that the loss for the first half was significantly higher than that forecast in the 2008-2010 Business Plan, and that, due in part to the effect of seasonal factors described in the following section, at 30 June 2008 the Company falls under the provisions of Article 2446 of the Italian civil code. This loss stems from the marked seasonality that characterizes the Company's activities, however, and the resulting considerable erosion of share capital pursuant to Article 2446 of the civil code has already been reabsorbed in the next two months, i.e. July and August 2008. Consequently, as of the date of approval of this report, the Company no longer falls under the provisions of Article 2446 of the civil code.

The trend of external variables, fuel costs in particular, at the end of the first half and their expected short - and medium - term trends in the macroeconomic landscape have led to a revision of the Company's development strategies set out in the new 2008-2012 Business Plan, approved on 30 July 2008 by the Board of Directors, the characteristics of which are better defined later in this interim report on operations, together with the considerations made by the Board of Directors concerning business continuity for the purposes of preparing the condensed half-yearly financial statements as at 30 June 2008 (see sections 2.10 and 2.11).

Despite the events described above, the results for the first half of 2008 are an improvement on the same period of the previous year. Total income, which amounts to €168,789 thousand, grew by 12% compared to the first half of 2007 thanks to an increase in income per flight hour (determined in part by the adjustments resulting from the increase in fuel costs). In terms of revenues, this growth is mainly attributable to the medium range scheduled connections from Milano Linate to Naples, Catania and Palermo started last November by way of code sharing with Meridiana in order to mitigate the effect of seasonality typical of the medium range destinations served by the Company (see section 2.1.3). Margins for the medium range business improved mainly in Egypt. As mentioned above, compared to the first half of 2007, long range business was penalized by the political disturbances in Kenya; it should also be noted, however, that in the first half of 2007 the Roma-Delhi connection was operating, but was subsequently interrupted. Medium and long range revenues also benefited from the price adjustments resulting from the increase in fuel costs, which made it possible to attenuate the effect of the increase in the price of crude oil described in connection with the key macroeconomic variables. The growth in other revenues derives from the

sub-lease of the fifth A330 aircraft, which joined the fleet at the end of March 2007 and was then leased to other companies (see section 3.2.4 as well).

Owing to the considerable increase in crude price on the supplies market, which is not entirely recoverable through sales revenues and although it was attenuated by the weakening of the US dollar, the cost of fuel increased by over 37%, having a greater effect on turnover overall, amounting to 37.2% in the first half of 2008, as compared to 30% in the first half of 2007 (30.5% over the whole of 2007).

Despite the increase in the cost of fuel, EBITDAR, which amounts to €13,516 thousand, increased by €2,137 thousand compared to June 2007. In this case, too, the improvement is attributable to the medium range business (EBITDAR in the first half of 2008 of €7,444 thousand vs. EBITDAR of €5,969 thousand for the previous year), which benefited both from greater business during the period and from the improved margins, which had also grown thanks to the reduction in the effect of costs of materials and maintenance services and operating and staff costs (resulting from the application of the solidarity agreement). The long-range EBITDAR, amounting to €6,072 thousand, grew by €663 thousand compared to the same period in 2007, which had been penalized by the start-up costs of the connections to India and Mauritius.

The weakening of the dollar against the euro had a favourable effect on the cost of operating leases, which were down despite the inclusion of the fifth A330 aircraft in the fleet.

As a result of the above, EBITDA came to a loss of €7,441 thousand, an improvement of €3,856 thousand compared to the first half of 2007.

The greater allocation to provision for bad debts made during the first half of 2008 with regard to disputes, the worsening of contentious positions or increased risks of insolvency, mainly occurring during the second half of the semester, affected the operating loss, which fell to €12,735 thousand, compared to €14,657 thousand for the first half of 2007. The net loss amounted to €14,962 thousand, compared with €16,298 thousand for the first half of 2007.

During the first half of 2007, operations for the A319 business unit, classified under “profit/(loss) from discontinued operations”, had led to a loss of €355 thousand; however, the conclusion of the agreement with Alba – Servizi Aerotrasporti S.p.A. for Eurofly’s temporary operation of the aircraft up to the end of January 2008 allowed a positive margin of €217 thousand to be made in the first half of 2008, within the scope of managing ongoing business.

Reclassified income statement

2007	% on revenue		Jan-Jun 08	% on revenue	Jan-Jun 07	% on revenue	Change	% change
		<i>Euro/000</i>						
322,290	100.0%	Revenue from sales and services	162,968	100.0%	147,312	100.0%	15,656	10.6%
9,405	2.9%	Other revenue	5,821	3.6%	3,436	2.3%	2,385	69.4%
331,695	102.9%	Total revenue	168,789	103.6%	150,748	102.3%	18,041	12.0%
7,671	2.4%	Direct commercial expenses	4,223	2.6%	2,786	1.9%	1,437	51.6%
324,023	100.5%	Revenue net of direct commercial expenses	164,566	101.0%	147,962	100.4%	16,604	11.2%
98,243	30.5%	Jet fuel	60,695	37.2%	44,230	30.0%	16,464	37.2%
38,354	11.9%	Staff costs	18,220	11.2%	19,641	13.3%	(1,421)	-7.2%
45,365	14.1%	Materials and maintenance services	21,423	13.1%	20,983	14.2%	440	2.1%
92,941	28.8%	Other operating costs and wet lease	41,608	25.5%	43,384	29.5%	(1,775)	-4.1%
17,935	5.6%	Other commercial and corporate costs	9,105	5.6%	8,346	5.7%	759	9.1%
292,838	90.9%	Sub-total costs	151,050	92.7%	136,583	92.7%	14,467	10.6%
31,186	9.7%	EBITDAR	13,516	8.3%	11,379	7.7%	2,137	18.8%
45,852	14.2%	Operative rentals	20,957	12.9%	22,676	15.4%	(1,719)	-7.6%
(14,666)	-4.6%	EBITDA	(7,441)	-4.6%	(11,297)	-7.7%	3,856	34.1%
3,951	1.2%	Depreciation and amortization	1,776	1.1%	1,909	1.3%	(133)	-7.0%
0	0.0%	Write-off of non-current assets	0	0.0%	0	0.0%	0	0.0%
2,820	0.9%	Other provisions	3,124	1.9%	899	0.6%	2,225	100.0%
852	0.3%	Provisions for risks and charges	394	0.2%	552	0.4%	(158)	-28.5%
7,623	2.4%	Total depreciation and provisions	5,293	3.2%	3,360	2.3%	1,934	57.6%
(22,289)	-6.9%	EBIT (operating result)	(12,735)	-7.8%	(14,657)	-9.9%	1,922	13.1%
(2,474)	-0.8%	Financial income/(charges)	(1,288)	-0.8%	(772)	-0.5%	(516)	-66.8%
(24,763)	-7.7%	Pre-tax profit	(14,022)	-8.6%	(15,429)	-10.5%	1,407	9.1%
3,006	0.9%	Tax charges	(939)	-0.6%	(514)	-0.3%	(425)	82.8%
1	0.0%	Profit/(loss) from discontinued operations	0	0.0%	(355)	-0.2%	355	100.0%
(21,757)	-6.8%	Result of the period	(14,962)	-9.2%	(16,298)	-11.1%	1,336	8.2%

Equity at 30 June 2008 amounted to €2,137 thousand (vs. an equity deficit of €5,406 thousand as at 31 December 2007); the increase is the result of the favourable conclusion of the increases in capital, both in cash (€14,991 thousand) and in kind (€8,000 thousand) made during the first quarter of 2008, less charges related to the increases themselves (€486 thousand) and the loss for the half year of 2008 in the amount of €14,962 thousand.

As a result of the losses reported during the period, the Company falls under the provisions of Article 2446 of the civil code (reduction in capital due to losses exceeding one-third of the capital). However, this loss stems from the marked seasonality that characterizes the Company's activities,

and the resulting considerable erosion of share capital pursuant to Article 2446 of the civil code has already been reabsorbed in the subsequent two months, i.e. July and August 2008.

Consequently, as of the date of approval of this report, the Company does not fall under the provisions of Article 2446 of the Italian civil code.

It should be noted, however, as described in section 2.10, that the Board of Directors has already called for a meeting of shareholders for 9 September 2008 (and if a second call is necessary on 10 September) to decide on an increase in company capital by payment, in divisible form, for an overall equivalent value, including share premium, of a maximum of €55 million, offered as an option to shareholders pursuant to Article 2441(1) of the civil code, to allow the Company to: (i) restore the Company to adequate levels of equity; (ii) meet the prerequisites for the development of the approved Business Plan; and (iii) raise further resources in order to be able to make use of market opportunities presumably resulting from the restructuring of Italian air transportation, thereby restoring the necessary financial stability for business continuity, albeit in a context of considerable uncertainty determined by the macroeconomic landscape and the exogenous variables described above and further explained in section 2.11 below.

Net financial debt came to €2,959 thousand, a clear improvement on 31 December 2007 when it amounted to €17,065 thousand, as better explained in section 3.2.6.

2.1.2. The fleet

During the first six months of 2008, the composition of the fleet remained unchanged from the first half of 2007. The medium range fleet consists of eight A320 aircraft and the long range fleet of four A330 aircraft, all under operating leases. At the end of March 2007, a fifth A330 aircraft joined the fleet, transferred under an operating lease until March 2008 to the Spanish company Air Comet and then to the Israeli company Israil Airlines & Tourism Ltd for one year, renewable for a further 12 months.

At the end of June 2007, the financial lease arranged with Locat S.p.A. for the Airbus A319 CJ, which was used in 2006 mainly for the Milan-New York "All Business" connection, had been transferred to Alba – Servizi Aerotrasporti S.p.A. (hereinafter "Alba"). At the same time, Alba asked Eurofly to operate the aircraft temporarily on its own account by subleasing it. As described below, at the beginning of February 2008 operation of the A319 CJ ended, and it was definitively transferred to Alba.

The table below provides a summary of the Eurofly fleet from January 2007 to June 2008. The A319 forms part of the Eurofly fleet, as per the subleasing agreement with Alba.

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	
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																			

In line with the practice in the sector of acquiring or transferring operating capacity by means of wet leases, typically in the form of ACMI¹, Eurofly has acquired additional capacity by means of a wet lease on an MD-80 aircraft from ItAli Airlines, as from June for the summer season.

2.1.3. Commercial business

The medium range charter / leisure programme (destinations that can be reached within the threshold of 5 flying hours) is characterized by considerable annual programming – to Egypt (Red Sea), the Canary Islands and the traditional religious destinations (Lourdes, Tel Aviv), with an intensification during the summer months of flights to the traditional seaside destinations of the Mediterranean Basin – Spain (Balearic and Canary Islands), Greece (Rhodes, Kos, Samos, Santorini and Mykonos), Tunisia (Monastir, Djerba), Jordan (Aqaba, Taba) and Turkey (Bodrum, Antalya).

¹ *Aircraft, Crew, Maintenance and Insurance*. Contractual form of leasing aircraft from third parties or to third parties that provides for a fee including the costs of the aircraft, crew, maintenance and insurance.

Flights to Sharm El Sheik are also planned as scheduled connections and, thanks to the establishment of an operative mini-hub in Sharm El Sheik, connect 11 regional airports in Italy (Ancona, Bari, Bergamo, Bologna, Milano Malpensa, Naples, Pisa, Rome, Turin, Venice and Verona). The designation as a scheduled carrier for the Malpensa-Cairo route has also provided an incentive for scheduled traffic with Egypt, with the inclusion since 16 June of 2 direct flights per week, while the charter programme includes direct flights to and from Hurgada, Marsa Alam and El Alamein as well as internal flights for excursions included in the TO packages to archaeological sites (Abu Simbel, Luxor and Cairo).

As from the Winter 2007/08 season, a series of domestic connections have also been established, by way of code sharing with Meridiana and in particular:

- Milano Linate – Naples (one flight per day as operating carrier, one flight per day as marketing carrier);
- Milano Linate – Catania (two flights per day as operating carrier);
- Milano Linate – Palermo (one flight per day as operating carrier);
- Milano Linate – Roma (two flights per day as operating carrier);

while in the Summer 2008, again by way of code-sharing with Meridiana, three Malpensa-Olbia-Malpensa flights per week (every Monday, Thursday and Friday) and one Bergamo-Olbia-Bergamo flight per week (every Wednesday) have been added.

There is also a series of medium range international connections, with mixed business/leisure incoming flights, and specifically:

- 2 Bologna-Moscow-Bologna flights per week (every Tuesday and Friday);
- 1 Naples-Moscow-Naples flight per week (every Friday);
- 1 Naples-Paris flight per week (code-sharing with Meridiana, as operating carrier);
- 2 Milano Linate-Paris flights per day (code-sharing with Meridiana, as marketing carrier);
- 2 Milano Malpensa-Cairo-Milano Malpensa flights per week (every Monday and Thursday, inaugurated on 16 June 2008);
- 2 Milano Malpensa-Dakar-Milano Malpensa flights per week (every Wednesday and Friday as from 18 June 2008).

Finally, the following traditional outgoing scheduled flights are also operated:

- 1 Milano Malpensa-Fuerteventura-Milano Malpensa and Verona-Fuerteventura-Verona flight per week (every Monday);
- 3 Milano Malpensa-Mykonos-Milano Malpensa flights per week (Monday, Friday and Sunday) and one Verona-Mykonos flight (Sunday);
- 2 Milano Malpensa-Santorini-Milano Malpensa flights per week (every Monday and Thursday).

As regards long range routes, commercial efforts have concentrated on:

- i) the Milan-Rome-Mauritius route and consolidation of the Milan-Seychelles route, operative since mid-February 2008 via Mauritius once a week (Saturday);
- ii) resumption of the scheduled and charter programme to Mombasa as from 23 July, once a week (Friday from Milano Malpensa via Roma) and a further 3 charter flights via Zanzibar from Milano Malpensa and Roma (Wednesday and Thursday). The flight programme returned to levels before the political instability crisis at the beginning of the year;
- iii) resumption of Italy-New York scheduled flights, with intensified programming as from mid-May 2008 from and to 7 regional airports (Bari – new in 2008 – Bologna, Lamezia Terme, Naples, Pescara, Palermo and Rome) totalling 12 flights per week to JFK.

These flights complete the major long range scheduled and charter programme, with a further four scheduled flights to the Maldives, one to Cancun (Mexico) and one to Punta Cana (Dominican Republic).

Within the scope of contracting with tour operators, an ever greater critical state has been seen with regard to the application of the fuel adjustment clauses, which, considering the progressive and constant increase in the cost of oil per barrel, has negative repercussions on the organized tourism market and alters the market dynamics.

Statistics

Flight hours by type					
<i>flight hours</i>					
2007		1st half 2008	1st half 2007	Change	% change
46,085	Block hours (a)	22,082	22,069	13	0.1%
591	ACMI (b)	352	451	(99)	-22.0%
468	REPRO ©	257	219	39	17.7%
47,144	Total flight hours	22,691	22,739	(48)	-0.2%

(a) flight hours operated by Eurofly with own aircraft

(b) flight hours operated for third parties with Eurofly's aircraft rented in wet lease to third parties

(c) flight hours operated for Eurofly with third parties' aircraft rented in wet lease by Eurofly

Flight hours by SBU*flight hours*

2007		1st half 2008	1st half 2007	Change	% change
26,259	Medium Range	13,388	11,850	1,538	13.0%
20,308	Long Range	9,303	10,390	(1,087)	-10.5%
577	All Business	0	499	(499)	-100.0%
47,144	Total flight hours	22,691	22,739	(48)	-0.2%

During the first half of 2008, the number of flight hours remained unchanged as compared with the first half of 2007. As shown by the analysis by business unit, medium range flying hours increased by 1,538 hours (of which 31 relate to activities carried out with the A319 aircraft on Alba's behalf), thanks to the new scheduled connections between Italian cities. In long range, however, there was a fall of 1,087 hours, connected with the aforementioned decline of business in Kenya, which was only partially offset by the effect of the new connections to Mauritius / Seychelles and the new flights to New York – JFK.

Fleet productivity*annualized flight hours*

2007		1st half 2008	1st half 2007	Change	% change
3,255	Medium Range	3,280	2,959	321	10.8%
5,015	Long Range	4,641	5,092	(451)	-8.9%

Fleet productivity recorded a significant increase in medium range business, which flew 13% more hours with the same number of aircraft, while long range productivity fell by almost 10%, in line with the reduction in flight hours, and in this case also resulting from the reduction in capacity offered to Kenya.

Passengers carried

2007		1st half 2008	1st half 2007	Change	% change
1,851,288	Eurofly	919,042	750,047	168,995	22.5%
28,001	Other carriers	16,150	21,973	(5,823)	-26.5%
1,154,601	Medium Range	682,027	504,058	177,969	35.3%
721,403	Long Range	253,165	265,510	(12,345)	-4.6%
3,285	All Business	0	2,452	(2,452)	-100.0%
1,879,289	Total passengers	935,192	772,020	163,172	21.1%

The number of passengers carried by Eurofly, including both scheduled and charter flights, grew overall by about 21%, thanks to the medium range contribution which recorded a 35.3% increase in the number of passengers, mainly due to the new scheduled connections. Passengers carried on long range flights fell by 4.6%.

Passengers carried - NY

2007		1st half 2008	1st half 2007	Change	% change
133,051	Passengers carried	42,451	34,173	8,278	24.22%
186,804	Seat offered	64,296	60,348	3,948	6.54%
71.2%	Load factor	66.0%	56.6%	0.09	16.60%

Passengers carried - Milan Linate - Palermo, Catania, Naples and Naples Paris

2007		1st half 2008	1st half 2007	Change	% change
67,146	Passengers carried	228,118	-	-	-
115,200	Seat offer	324,484	-	-	-
58.3%	Load factor	70.3%	-	-	-

In 2008, the Roma Fiumicino-New York connection also operated in the winter months. In the first half of 2008, 42,451 passengers took this route and the flight recorded a load factor of 66%.

With regard to medium range flights, which include the connections between Milano Linate and Naples, Palermo and Catania, as well as the connection between Naples and Paris Charles de Gaulle, the load factor was more than 70%, and 228,118 passengers were carried.

2.2. Significant events during the first half of the year

Capital increase in cash

At the beginning of 2008, a capital increase in cash was made for an equivalent value of around €15 million.

On 11 January 2008, following the CONSOB authorization granted on 10 January 2008, the prospectus was published offering shareholders the option on 11,129,418 ordinary Eurofly shares at a unit price of €1.347. The increase in capital, which took place between 14 January 2008 and 15 February 2008, concluded with the full subscription of the shares offered for a total equivalent value of €15 million, of which €5.2 million comprised share capital and €9.7 million reserves. The liquidity generated by this increase in share capital amounted to €10.2 million, as Meridiana subscribed for some of its own shares by offsetting the amount receivable from a shareholder loan of €4,322,812.61. Meridiana, which was exempt from the obligation to make a public offering in accordance with the CONSOB memo of 26 November 2007, also subscribed for more shares than those attributable to it, and its interest in Eurofly's capital consequently rose from 29.95% to 38.27%.

Capital increase in kind

In March 2008, the increase in capital in kind was concluded for an equivalent value of €8 million, of which €0.2 million comprised share capital and €7.7 million reserves. The operation was reserved for Meridiana pursuant to Article 2441(4) of the civil code and, as provided for by the 2008-2010 Business Plan, and was effected by the contribution of two interests in the companies Wokita S.r.l. and Sameitaly S.r.l., each representing 50% of the capital.

For the purpose of the increase in capital, 3,558,718 shares were issued with a unit value of €2.248, fully subscribed by Meridiana. Following that transaction, Eurofly's share capital amounted to €6,503,106, divided into 28,043,438 shares with no declared par value. Meridiana's share of Eurofly's capital subsequently rose from 38.27% to 46.10%. The contribution was concluded on 11 March 2008.

At the date of this half-yearly report, the shares issued within the scope of the increase in capital have not yet been listed since, to allow the inclusion of the new business plan detailed below in the prospectus for admission to listing, the Company decided to postpone the request for publication of its own prospectus until the new business plan had been approved.

The contribution of these interests guaranteed Eurofly the possibility of setting up a commercial, marketing and direct sales organization nationwide supported by the agency channel and business sales, as well as the possibility of setting up a technologically advanced online commercial, distribution and marketing platform without making any acquisitions or having to incur start-up costs.

Exemption from the collection of covenants at 31 December 2007

On 19 March 2008, the banks signing the Company's bank debt restructuring agreement on 27 November 2007 declared that they did not wish to collect the financial covenants under that agreement, falling due on 31 December 2007, thereby resolving the matter of the formal non-observance of such covenants at 31 December 2007. The inspection of 30 June 2008 did take place on the due date; however, the aforementioned covenants were found to have been fully observed, as explained in section 3.2.6 below.

Uncertainties over the capacity to observe the covenants on subsequent dates, however, particularly at 31 December 2008 and at 30 June 2009, are examined in section 3.2.6, as well.

Developments in outstanding disputes

During the course of the half-year, significant developments were seen in the main disputes outstanding at the end of the previous year, including those with Alitalia, Teorema Tour S.p.A., Aeroporto Valerio Catullo di Verona, and the previous managing director Augusto Angioletti. These are examined in the explanatory notes relating to trade receivables and other receivables, trade payables and other payables, and provisions for risks and charges.

Finally, as a result of the worsening assessment of several commercial counterparts, it was decided to make further allocations to provision for bad debts during the course of the half-year.

Agreements concerning the A350 aircraft

At the end of January 2008, Eurofly and Airbus decided to terminate the agreement signed on 30 December 2005 for the acquisition of three A350 long range aircraft, with the resulting reimbursement and settlement of the deposits paid under the conditions better described in the explanatory notes, without any negative impact on the income statement or on funding requirements.

Agreements with Alba concerning the A319 aircraft

At the end of January 2008, Eurofly ended its operations with the A319CJ I-ECJA, temporarily carried out on Alba's behalf, initially until 31 October 2007 and thereafter for a further month up to 30 November 2007 and subsequently renewed by a sublease on the aircraft. From 1 February to 30 June 2008, Eurofly supplied Alba with (technical and operational) engineering services on that aircraft, as well as maintenance services on request.

Agreements with Israil concerning the A330 aircraft

At the end of March 2008, the operating lease was concluded on an A330 aircraft with the Spanish company Air Comet. That aircraft was subleased to the Israeli company Israil Airlines and Tourism Ltd. as from early April 2008 for one year with a possibility of renewal for a further 12 months.

Completion of the start-up phase of north-south connections in Italy

The early months of 2008 saw the completion of the start-up phase of the north-south routes from Milano Linate to Naples, Catania and Palermo, by code sharing with Meridiana. These connections, launched in November 2007, after a few initial problems connected with starting flights in the low season, posted solid performance in the early months of 2008, confirming the trend towards optimization of use of the A320 fleet by switching from the use of charter to scheduled flights.

New direct routes to Ukraine, Cairo, Senegal and Seychelles

Early in 2008, Eurofly began to offer connections with Seychelles. The Company was also appointed by ENAC to provide direct flights to Ukraine, Cairo and Senegal.

Formation of EF-USA Inc

EF-USA Inc., a new company with commercial representation, of which 51% is owned by GCVA Inc. (a company not related to Eurofly S.p.A.) and 49% by Eurofly S.p.A., was set up in March 2008 to replace the previous General Sales Agent as from 1 April 2008 on the North American market, whose contract expired at the end of March 2008.

Revision of the 2008/2010 business plan

On 28 May 2008, the Board of Directors indicated the need, which was later confirmed on 9 July, to revise the 2008-2010 Business Plan approved on 27 October 2007, essentially due to the unexpected extraordinary cost of fuel, which was significantly higher than that used in preparing the business plan, as well as to the need to introduce the resulting corrective measures. The new 2008-2012 Business Plan, which is described in section 2.10 below, was approved on 30 July 2008.

Expansion of the operating premises at Milano Malpensa

At the beginning of June 2008, the expansion and reorganization of the operating facilities at the Milano Malpensa airport was completed, with the resulting transfer of non-crew personnel from the offices in the city of Milan in order to make the maintenance, supervision and control, planning and management of operations more integrated and efficient. Following that transfer and expansion, the structure in question employed around 150 persons at the end of the first half of the year.

2.3. Developments in shareholdings

Eurofly does not exercise control over any companies as defined by Article 93 of the Italian Consolidated Finance Act.

The Company does have interests in associated companies, holding 50% of Wokita S.r.l. and Sameitaly S.r.l. and 49% of the newly-formed EF USA. Within the scope of the capital increase in kind concluded in March 2008, Meridiana S.p.A. assigned Eurofly S.p.A. a 50% interest in the companies Wokita S.r.l. and Sameitaly S.r.l.

Although Eurofly has a 50% interest in Wokita and Sameitaly, for the purposes of preparing the consolidated financial statements pursuant to Article 25 of Legislative Decree no. 127 of 9 April 1991, these companies are controlled by Meridiana S.p.A., which, from an accounting point of view, owns 50% directly and 23% indirectly through its interest in Eurofly.

Sameitaly S.r.l., set up at the end of September 2007, has assumed the role of General Sales Agent for Italy for Meridiana, Eurofly and the tour operator Wokita in the trade and business segment, in order to create strong group synergies and optimize commercial distribution costs.

Wokita S.r.l., established in February 2006 to promote the development of the online tour operating business within the Meridiana group, operates in the creation and marketing of tourist packages and

in the sale of individual services. The Wokita business model primarily involves online tour operating and secondarily online travel agency business. The strategy is based on the direct sale of tourist packages and individual services through its portal. Eurofly currently has commercial relations with Wokita; specific agreements are in the process of being defined for supplying Eurofly with further online ticket and package sales services.

Relations between companies in which Eurofly has an interest and Eurofly itself are governed by commercial contracts. Sameitaly holds a mandate to promote the sale of scheduled and chartered air transportation services to travel agencies and tour operators on a commission basis. The contract expires on 31 December 2012 and may be renewed.

The current economic climate and the difficult situation in the travel / air transportation industry owing to the cost of fuel have generated positive economic results for Sameitaly overall, although lower than forecast for the half-year. In particular, core business revenues amount to €2,323 thousand, which is around 13% lower than planned.

Sameitaly is, however, looking into suitable corrective measures in terms of organization, investments and training in order to improve its economic and financial performances in the short term.

During the half-year, Wokita continued to invest in the development of the information platform with projects aimed at optimizing the website, extending its functionalities (with business to business for Trade as well as business to consumer) and reducing management costs. As indicated elsewhere in this report, the first half of 2008 was characterized by extraordinary events (such as the disturbances in Kenya) and negative cost factors (fuel price), as well as the negative economic climate. In view of the reduced spending capacity, consumer choices were mostly based on price, with a tendency to buy at short notice and with lower average price than in the previous year. Despite this unfavourable context, gross business revenues of €5.7 million for the half-year were in line with expectations, while the marked seasonality of sales (which are concentrated in the summer period in particular) and the costs connected with developing the Company's business generated slightly lower results than originally expected.

As previously noted, EF-USA Inc., a new company with commercial representation, of which 51% is owned by GCVA Inc. (a company not related to Eurofly S.p.A.) and 49% by Eurofly S.p.A., was set up in March 2008 to replace the previous General Sales Agent as from 1 April 2008 on the North American market, whose contract expired at the end of March 2008.

EF-USA's activities consist of the operation and management of sales and customer care services on behalf of Eurofly, in North America, with fees being in the form of sales commission. The Company's activities are allowing agency costs to be contained and a greater control over activities in North America. The cash flows deriving from sales are also duly remitted to Eurofly S.p.A.

according to specific procedures. The presence of managers of Eurofly S.p.A. on the Board of Directors of EF-USA guarantees suitable monitoring of the decision-making processes. During the second quarter of 2008, the Company posted total sales (excluding taxes) of USD 19.6 million, slightly below budget forecasts that had set a target for the quarter of USD 20.6 million. Operating and start-up costs are in line with forecasts.

2.4. Human Resources

On 3 June 2008, Maurizio Cancellieri was appointed Chief Financial Officer for the Company (replacing Mauro Pasquali, who resigned on 31 January 2008) and, by decision of the Board of Directors and the favourable opinion of the Board of Statutory Auditors, financial reporting manager pursuant to Article 154-bis of Legislative Decree 58/98.

As shown in the table below, the comparison between the average workforce paid in the first half of 2007 and in the same period of 2008 shows an increase of 63 employees. The increase in the workforce, with regard to flight crew, was due to the need to adapt the organization to the new regulations on limits of employment and an increase in medium range and long range business (the latter only partially affected owing to the disturbances in Kenya). The increase in ground crew was, however, due to the reinforcement of several protective measures in operation, with hours of coverage being extended from 16 to 24 hours per day, and to the need to reorganize several staff functions required for the better functioning of control processes.

The table below shows a comparison between the average workforce paid in the first half of 2007 and in the first half of 2008.

31.12.07	Categories	30.06.08	30.06.07	Change 06.08/06.07
11	Managers	13	11	2
191	Office Workers	212	186	26
202	Total ground staff	225	197	28
139	Pilots	143	136	7
354	Flight assistants	376	348	28
494	Total flight staff	519	484	35
696	Total staff	744	681	63

Under a labour agreement signed through ministerial channels on 15 March 2007, Eurofly is applying the solidarity agreement for a period of 24 months as from 1 April 2007.

2.5. Company offices

The Company's registered and administrative offices are located at Via Ettore Bugatti no. 15, Milan (Italy). It also has secondary offices in New York (USA), at JFK airport, as well as in New Delhi (India), where the secondary office is not yet operational owing to the suspension in September 2007 of the Rome-New Delhi connection operated by the Company during the course of 2007.

2.6. Research and development

Given the nature of its business, the Company does not conduct any significant research and development activities.

2.7. Macroeconomic framework

During the first half of 2008, both the European and the American economies experienced a considerable slowdown. During that same period, the price of energy products posted an exceptional increase, as shown in the following table.

Crude Oil

USD/barrel

Crude Oil	1st half 08	1st half 07	June 08	June 07
WTI - USA	110.9	61.6	133.9	67.5
Brent - Europa	109.9	63.2	132.3	71.1

Source: Energy Information Administration – US Government

The euro was significantly stronger than the dollar, both in terms of the spot exchange rate between the end of December 2007 and the end of June 2008, and in terms of the average exchange rate between the first six months of 2007 and those of 2008.

Exchange rate

	1st half 08	1st half 07	30 June 08	June 07
EUR/USD	1.5306	1.3293	1.5764	1.4721

Source: Il Sole 24 Ore

Interest rates rose in the euro zone and fell in the US.

Interest rates (3m)

	1st half 08	1st half 07	30 June 08	Jan 08
EURIBOR	4.7%	4.0%	5.0%	4.5%
LIBOR (US\$)	3.0%	5.4%	2.8%	3.8%

Source: British Bankers Association

2.8. Industry landscape

As far as world traffic is concerned, the period January-June 2008 recorded a slowdown in the growth in number of passengers. In its periodic report on the first half of 2008, the IATA recorded a growth in passengers compared to the same period of 2007 of 5.4% (+3.8% in the month of June) compared to a growth of +6.3% in 2007, and a load factor of 75.5%, which is in line with the value for 2007.

Similar figures were recorded in Italy as well. Assaeroporti statistics show a growth rate during the January-June period of 3.3%, with a slowdown in the second quarter as compared with the first, which posted growth of 7.4%.

2.9. Legislative and regulatory framework

The main legislative measures impacting on the air transportation industry can be summarized as follows:

- Italian law no. 248/2005 on “System requirements”

With law 248/2005 of 2 December 2005, the Italian government converted Decree no. 203 of 30 September 2005 (published in *Gazzetta Ufficiale* no. 243 of 18 October 2005) into law. This regulation includes a series of measures (i.e. the “system requirements”) which seek to encourage greater competitiveness in domestic air transportation.

With particular reference to the issue relating to the elimination of royalties, it should be noted that, in the light of the wording of Article 11-*terdecies* of law no. 248/05, which provides that a surcharge and royalty may only be requested in addition to the payment for the service provided when the actual connection with the cost incurred by the service provider in providing the service can be proven, directives were issued by Ente Nazionale per l’Aviazione Civile (ENAC), Associazione Nazionale Vettori e Operatori del Trasporto Aereo (Assaereo), and other industry associations aimed at clarifying the changes introduced by this legislation.

Royalties on fuel

ENAC issued the following measures to Assaereo, airport management companies, Assaeroporti, Italian Board Airline Representatives (IBAR), and Unione Petrolifera: i) measure no. 60600 of

15 September 2006, ii) measure no. 70963 of 31 October 2006 iii) measure no. 23931 of 13 April 2007, and further measures issued during the course of 2007, including measure no. 25269 of 19 April 2007 and measure no. 28001 of 3 May 2007, redefining the royalties for several Italian airports.

In appeal no. 10724 filed on 14 November 2006 before the Lazio Regional Administrative Court (TAR), Assaereo applied for the annulment of the first two measures. Later, in an appeal on additional grounds, filed on 31 May 2007 before the Lazio Regional Administrative Court (TAR), Assaereo applied for the annulment of all further measures issued by ENAC during the course of 2007 relating to airport fuel supply.

In judgment no. 11154 of 12 November 2007, issued on 30 November 2007, the court rejected the appeal. On 28 December 2007, an appeal was filed against the aforementioned judgment no. 11154/07 with the Consiglio di Stato for the reversal thereof, and for any resulting decree regarding the annulment of the ENAC measures specified above. We are awaiting a date for the hearing to be set. With regard to the related dispute with the oil company ENI, refer to the specific comments contained in the explanatory notes on current liabilities.

Royalties on catering

ENAC issued to Assaereo, the airport management companies (SEA and AdR), Assaeroporti, IBAR, and Assocatering measure no. 0035898 of 5 June 2007, no. 0035899 of 5 June 2007, and no. 0072411 of 7 November 2006, redefining the royalties on catering activities at Fiumicino, Ciampino, Linate and Malpensa airports.

In appeal no. 8153/07 filed on 18 September 2007 before the Lazio Regional Administrative Court (TAR) against Enac, Assocatering, Aeroporti di Roma, SEA, the Ministry of Transport and Infrastructures and the Ministry of Finance, Assaereo applied for the annulment of the aforementioned measures.

We are waiting for the court to set a date for the hearing for an examination of the appeal.

- Use of centralized infrastructures

On 15 June 2007, considering the need for a reorganization of the mechanisms for determining airport duties for services rendered on an exclusive basis, the CIPE approved (by way of CIPE decision no. 38/2007) the directive on the tariff regulation of airport services offered on an exclusive basis, rescinding its previous decision no. 86 of 4 August 2000.

On 21 November 2007, Assaereo informed the competent authorities of appeal 10702/2007 asking the Lazio Regional Administrative Court (TAR) to annul the directive on the tariff regulation of airport services offered on an exclusive basis, approved by the CIPE on 15 June 2007 (CIPE decision no. 38/2007).

On 18 March and 18 June 2008, Assaereo filed additional grounds to appeal no. 10702/2007 with the first division registry, asking the Lazio Regional Administrative Court for, among other things, the annulment of the implementing guidelines – directive on the tariff regulation of airport services offered on an exclusive basis – drawn up by ENAC and published on its website (www.enac-italia.it).

We are waiting for the first division of the TAR to fix the hearing for the examination of the appeal and the additional grounds.

As resolved by the Comitato Utenti di Malpensa (*Users of Malpensa Committee*) on 20 January 2004 and as provided for by decision no. 86/2000 of the Interministerial Committee for Economic Planning (CIPE) and by subsequent decision no. 38/2007, referring to the notifications forwarded to SEA on 8 February 2007 and 19 April 2007 giving notice of payment of just 65% of the fees requested by the airport companies for the use of the centralized infrastructures, Eurofly served a summons on SEA S.p.A. on 17 June 2008 asking it to return 35% of the fees it had received between 2001 and 2006 for the use of the centralized airport infrastructures, paid in excess of the decisions of the Comitato Utenti Malpensa. The sum, the return of which was requested on that account, amounted to €1,938,038. The hearing is set for 20 November 2008.

- Regulation on limits to flying and service times

On 23 March 2005, ENAC adopted the regulation on the limits to flying/service times and rest requirements for crew (the “FTL Regulation”). Following the publication on 23 March 2005, and in view of the decision of the Regional Administrative Court (TAR) of 2 March 2006 partly annulling the FTL Regulation, a further three publications thereof were issued, the most recent of which on 19 December 2006.

On 16 July 2007, ENAC adopted Circular OPV-20, in which it aimed to provide air operators and operating and cabin crew with suitable instruments interpreting the requirements laid down by the regulations, in order to allow the correct application thereof, both when planning work shifts and in carrying out the relevant flight programme.

On 26 July 2007, the airlines, including Eurofly S.p.A., informed ENAC of their substantial reservations on the content of the Circular, pointing out that it was impossible to implement the rules laid down by 1 August 2007, such as the modifications to the configurations of the aircraft required to adapt the seats dedicated to crew rest. ENAC therefore accepted the carriers’ request, postponing entry into force until 28 October 2007.

On 24 October 2007, Eurofly, together with other air carriers, informed Ente Nazionale Aviazione Civile (ENAC) and the Ministry for Infrastructures and Transportation as opponents, and the Associazione Nazionale Piloti Aviazione Commerciale as an interested party, of appeal no.

8775/07 filed before the Lazio Regional Administrative Court (TAR), applying for the annulment, following suspension, of Circular ENAC OPV-20.

Following a closed-session hearing on 8 November 2007, by measure no. 5141/2007 the TAR rejected the aforementioned petition for suspension, considering, with particular reference to point 4.13 (concerning the crew rest seat), that the use of seats reclining more than 45° does not indicate any difference between Circular OPV 20 and the FTL Regulation and that the carrier is allowed to request the acceptability of equivalent solutions.

Eurofly S.p.A., while not agreeing with the aforementioned approach from a technical point of view, adapted the aforementioned provision and, by notification given on 22 April 2008, informed ENAC of the modifications made to the internal configuration of its aircraft. In a note dated 31 July 2008, ENAC informed the Company of the unacceptability of the solution proposed, also asking for further adaptations to be made to the rest seats for cabin crew no later than 15 August 2008, subsequently extending the deadline to 30 September 2008 upon the Company's request. In a note dated 13 August 2008, ENAC authorized the extension of this concession granted to 30 September 2008.

- Protection of passenger rights: Regulation (EC) 261/04 and Legislative Decree 69/06

For a fuller application of the regulations pursuant to Regulation (EC) 261/04 (the regulation establishing common rules on compensation and assistance to passengers in the event of denied boarding and of cancellation or long delay of flights, and repealing Regulation (EEC) no. 295/91), the Italian government issued Legislative Decree no. 69 of 27 January 2006 concerning penalties for the infringement of Regulation (EC) no. 261/2004 establishing common rules on compensation and assistance to passengers in the event of denied boarding and of cancellation or long delay of flights. This measure provides that, if the air carrier infringes the provisions of the aforementioned Regulation (EC) no. 261/2004, it may be penalized with administrative penalties of various amounts.

With regard to the previous situation, all necessary measures are reinforced to ensure that passenger rights are observed and guaranteed by the carrier. ENAC has been nominated as the organization responsible for applying the regulation and the possible imposition of administrative penalties.

On 23 June 2006, ENAC issued Circular "APT 23" defining the procedures for the imposition of penalties.

Moreover, on 26 July 2006 Regulation (EC) 1107/2006 was published in the Official Journal of the European Union "concerning the rights of disabled persons and persons with reduced mobility when travelling by air". This regulation, which entered into force on 26 July 2008, lays down a series of rules for the protection and assistance of persons with disabilities and persons with

reduced mobility in air transportation, both to protect them from discrimination and to guarantee their assistance.

- Law no. 262 of 28 December 2005 (Savings Act)

Law no. 262 of 28 December 2005, i.e. the “Savings Act”, entered into force on 12 January 2006, introducing numerous changes on corporate and financial matters, corporate governance, auditing, security brokerage, and penalties. These changes are designed to reinforce the internal control system of companies with listed shares in order to protect investors and regulate the financial market.

The new features introduced within the scope of the company organization include the position of financial reporting manager, assigned the task of preparing the company’s accounting documentation. The Company made several of the changes required by the new regulations to its own Articles of Association at the Extraordinary Meeting held on 28 June 2007, as well as to internal procedures.

2.10. Significant events after the close of the first half of 2008

New business plan

On 30 July 2008, the Board of Directors revised the 2008-2010 Business Plan approved on 27 October 2007 and extended the analysis to financial years 2011 and 2012.

In view of the unforeseeable fuel price, significantly higher than those used when preparing the 2008-2010 Business Plan, the Board of Directors considered it advisable to revise the previous Business Plan, adapting the macroeconomic variables (mainly the cost of fuel and the euro-dollar exchange rate) to the current price levels, to identify and consolidate all the corrective measures required to offset the increase in operating costs in the next few years.

The revised Plan covers the years 2008-2012 and changes some of the strategic guidelines previously indicated for the restructuring of Eurofly. It provides for the following in particular:

- the consolidation of the current mix of scheduled/charter connections net of any opportunities deriving from the aforementioned reorganization of Italian air transportation;
- the consolidation of the medium range business, already substantially breaking even in 2008, by further rationalization and optimization of the destinations served and operating logistics;

- a reduction in the long range operating fleet from four to three A330 aircraft and the resulting rationalization of activities and concentration on relations between Italy and Africa/Indian Ocean, where Eurofly has market shares in excess of 50%;
- the consolidation of scheduled flights between Italy and New York;
- a further improvement in the quality of the service offered on the ground and in flight, by the refitting of aircraft cabins, as well.

In accordance with the new strategic guidelines, it is planned to increase the number of medium range aircrafts to nine in 2009 and ten in 2010, while long range aircrafts will be reduced to three during 2009.

Plans for Company improvements, some of which are already in progress, also provide for the following:

- 1) completion of the paid increase in share capital of a maximum of €55 million;
- 2) development of other revenues (e.g. cargo, in-flight sales, additional sales services) in accordance with the policies implemented by competitors;
- 3) continued commercial development integrated with Meridiana thanks to the development of the website, and the growth and expansion of Sameitaly (a company dedicated to Eurofly's and Meridiana's sales in Italy) and Wokita (platform for the sale of online tourist products);
- 4) the further development of synergies with the Meridiana Group, with particular reference to aircraft maintenance, purchases, information platforms and operating logistics;
- 5) continuation of the projects for the rationalization and reduction in general costs and overheads;
- 6) renewal for a further 12 months of the employees' solidarity agreement;
- 7) possible sale of the property used as offices at Via Bugatti 15, Milan (Italy).

Further capital increase in cash

The 2008-2012 Business Plan provides for further cash recapitalization, to be offered as an option to shareholders pursuant to Article 2441(1) of the civil code, for a maximum of €55 million, to guarantee a new flow of financial resources in order to: (i) restore the Company to adequate levels of equity (with positive effects for the purposes of the business continuity, as well, with regard to the obligation to observe the financial covenants at 31 December 2008 and at 30 June 2009 established with regard to the loan of €15 million), (ii) allow the establishment of the requirements for the development of the Business Plan; and (iii) allow further funds to be raised in order to be able to take advantage of market opportunities presumably deriving from the aforementioned

reorganization of Italian air transportation. The extraordinary shareholders' meeting was called in relation to the above in order to approve this increase in capital for 9 and 10 September 2008 on the first and second call, respectively. On 29 August 2008, Meridiana assumed the irrevocable commitment to subscribe for that increase in capital in an amount of €20 million.

Audit of the U.S. revenue authorities

On 11 August 2008, U.S. Customs and Border Protection gave notice of the commencement of an audit on tax activities and related measures carried out by Eurofly in North America during the period April 2004 - March 2008, particularly with regard to passenger taxes and other local taxes. Eurofly is taking measures to satisfy the requirement for initial information within the time and according to the procedure laid down by the authority.

July performance

The month of July 2008, which also benefits from seasonal factors, posted net income, albeit lower than forecast due to the lower revenues obtained in long range business and unforeseen costs supporting operating activities.

Net debt at the end of July 2008 amounted to €11.7 million, compared to €2.9 million in June, mainly due to the worsening of the average collection period for trade receivables and average payment period for trade payables, together with the transfer on deposit to the parent company of a further sum for a pledge established by the latter as guarantee to a financial institution for the issue of a surety relating to contracts on the leasing of aircraft arranged by Eurofly S.p.A.

The composition of net financial position is as follows: (i) €4.5 million of liquid assets, less than the previous month due mainly to the trend in current assets; (ii) €12.9 million of current bank debts, down on the previous figure; (iii) €0.5 million of short-term mortgage instalments, similar to the June figure; (iv) €2.7 million of non-current financial debt relating to the non-current portion of the loan secured by mortgage; €0.3 million less than in June owing to the payment of the half-yearly instalment. Net liquid assets at 31 July 2008 amounted to a negative €8.4 million, compared to net liquid assets of €0.5 million at the end of June 2008.

2.11. Outlook on operations

As mentioned in section 2.10 above, on 30 July 2008 the Company's Board of Directors approved the 2008-2012 Business Plan, which provides for a further cash increase in capital. The targets defined in the new plan are as follows:

- in 2008, revenues of €376.3 million, EBIT loss of €18.6 million and net loss of €19.2 million;
- in 2009, revenues of €391.4 million, EBIT of €0.2 million and net loss of €2.1 million;
- in 2010, revenues of €403.2 million, EBIT of €5.8 million and net profit of €0.9 million;
- in 2011, revenues of €410.9 million, EBIT of €6.5 million and net profit of €1.6 million;
- in 2012, revenues of €414.3 million, EBIT of €9.9 million and net profit of €4.6 million.

In the light of the business trends in July and August and of confirmation based on the August figures of the expected trends in external variables provided for in the 2008-2012 Business Plan, the Board of Directors considers the earnings targets defined in the 2008-2012 Business Plan to be confirmed as of the date of approval of this half-yearly financial report and with reference to the next 12 months for the purposes of assessing business continuity in preparing the condensed half-yearly financial statements as at 30 June 2008.

In particular, it is important to note that the Company is approaching the second half of 2008 and the first half of 2009 with a clear perception of the risks connected with the various macroeconomic factors, including the weakness of the economy in general and the volatility of the cost of fuel, exchange rates, and interest rates, over which the Company has no control and which have a particularly significant effect on the achievement of expected results.

Moreover, the outlook for the Italian air transportation industry, in view of the current restructuring of competing airlines, could further affect the competitive landscape, either by determining potential monopolies on several routes or by increasing the pressure of competition based on prices.

The risks connected with the renegotiation of contracts with tour operators for the winter season should also be pointed out, owing to the increase in fuel price and the general stagnation of consumption in Italy, which could create negative effects on sales planned for the charter segment, and on the margins expected if the increase in costs is not recovered in sales prices.

Finally, a potential negative outcome of the disputes mentioned in this report and deterioration in the solvency of the other parties (particularly the tour operators) compared to that which is assumed today could have greater negative effects on the Company's income statement than estimated for

the purpose of assessing the consistency of the allocations to allowances for doubtful accounts, provisions for risks and charges, and the other recognized liabilities.

In this context of uncertainty, business continuity depends on whether (i) the assumptions made in preparing the Business Plan relating to the trend of several uncontrollable variables (particularly the cost of fuel, the trend of interest rates, the trend of the euro-dollar exchange rate, the aircraft load factor, and the level of average revenues) are realized and (ii) the subscription is taken up by the market, at least to the extent laid down in the Business Plan (including the subscription commitment already assumed by Meridiana), or, alternatively, a possible sale of company property takes place under conditions allowing further financial resources to be obtained in the amount laid down by the 2008-2012 Business Plan. In fact, as better described in section 3.2.6 of the explanatory notes, failure to satisfy the aforementioned conditions would give rise to non-observance of the covenants laid down by the loan agreement for €15 million, with the resulting possibility of the financial institutions exercising the right of immediate repayment thereof, giving rise to situations of financial imbalance which, in the absence of corrective measures not provided for in the 2008-2012 Business Plan, would be such as to affect the business continuity on which the condensed half-yearly financial statements as at 30 June 2008 have been based. Failure to satisfy the requirement of business continuity would give rise to the Company's incapacity to realize its assets, particularly the deferred tax assets, and to settle its liabilities during the normal course of business at values corresponding to those recognized in the condensed half-yearly financial statements as at 30 June 2008.

Milan, 29 August 2008

For the Board of Directors
The Chairman
Lorenzo Caprio

3. CONDENSED HALF-YEARLY FINANCIAL STATEMENTS AS AT 30 JUNE 2008

3.1. Financial statements

3.1.1. Balance sheet

30.06.07	Ref.	Euro/000	30.06.08	31.12.07	Change
20.462	1	Property, plant and equipment	13.666	19.567	(5.900)
3.253	2	Intangible assets	1.993	2.559	(566)
11.361	3	Financial assets	11.621	10.945	676
0	4	Financial assets with parent company	1.294	0	1.294
0	5	Other receivables	2.703	0	2.703
5.438	6	Deferred tax assets	8.598	9.072	(474)
0	7	Equity investments	8.000	0	8.000
40.515		Total non-current assets	47.875	42.142	5.732
2.761	8	Inventories	3.065	2.876	189
59.896	9	Trade and other receivables	62.947	57.895	5.052
828	10	Trade receivables and other receivables vs parent company	5.070	1.081	3.988
9.603	11	Other assets	7.891	12.334	(4.443)
13.297	12	Cash and cash equivalents	15.585	6.955	8.630
86.385		Total current assets	94.558	81.141	13.417
126.900		Total assets	142.433	123.283	19.149
13.355	13	Share capital	6.503	1.023	5.480
3.347	13	Reserves	10.595	15.328	(4.732)
-16.298	13	Profit/(Loss)	(14.962)	(21.757)	6.795
404		Total equity	2.137	(5.406)	7.543
3.528	14	Long term borrowings	3.018	3.275	(256)
0	15	Deferred tax liabilities	128	128	0
9.140	16	Provisions for risks and charges	6.776	8.163	(1.388)
12.668		Total non-current liabilities	9.922	11.566	(1.644)
97.327	17	Trade and other payables	110.315	92.761	17.553
522	18	Trade and other payables vs parent company	2.146	1.939	207
8.815	19	Bank debt	15.000	15.914	(914)
503	20	Current portion of long-term borrowings	526	514	11
4.500	21	Short term borrowings	0	4.323	(4.323)
2.159	22	Provisions for risks and charges	2.388	1.672	716
113.827		Total current liabilities	130.374	117.123	13.251
126.900		Total equity and liabilities	142.433	123.283	19.149

Translated from the original version in Italian

3.1.2. Income statement

Below is the income statement for the first six months of 2008 compared with the same period of 2007:

2007	% on revenue	Ref.	Income Statement	1st half 08	% on revenue	1st half 07	% on revenue	Change	% change
<i>Euro/000</i>									
322,290	100.0%	18	Revenue from sales and services	162,968	100.0%	147,312	100.0%	15,656	10.6%
9,405	2.9%	19	Other revenue	5,821	3.6%	3,436	2.3%	2,385	69.4%
331,695	102.9%		Total revenue	168,789	103.6%	150,748	102.3%	18,041	12.0%
7,671	2.4%	20	Direct commercial expenses	4,223	2.6%	2,786	1.9%	1,437	51.6%
98,243	30.5%	21	Jet fuel	60,695	37.2%	44,230	30.0%	16,464	37.2%
38,354	11.9%	22	Staff costs	18,220	11.2%	19,641	13.3%	-1,421	-7.2%
45,365	14.1%	23	Materials and maintenance services	21,423	13.1%	20,983	14.2%	440	2.1%
92,941	28.8%	24	Other operating costs and wet lease	41,608	25.5%	43,384	29.5%	-1,775	-4.1%
17,935	5.6%	25	Other commercial and corporate costs	9,105	5.6%	8,346	5.7%	759	9.1%
45,852	14.2%	26	Operative rentals	20,957	12.9%	22,676	15.4%	-1,719	-7.6%
3,951	1.2%	27	Depreciation and amortization	1,776	1.1%	1,909	1.3%	-133	-7.0%
2,820	0.9%	29	Other provisions	3,124	1.9%	899	0.6%	2,225	100.0%
852	0.3%	30	Provisions for risks and charges	394	0.2%	552	0.4%	-158	-28.5%
353,984	109.8%		Total costs	181,524	111.4%	165,405	112.3%	16,119	9.7%
(22,289)	-6.9%		Operating result	(12,735)	-7.8%	(14,657)	-9.9%	1,922	-13.1%
2,474	0.8%	31	Financial (income)/charges	1,287	0.8%	772	0.5%	515	66.8%
(24,763)	-7.7%		Pre-tax profit	(14,022)	-8.6%	(15,429)	-10.5%	1,407	-9.1%
3,006	0.9%	32	Tax charges	(939)	-0.6%	(514)	-0.3%	(425)	82.8%
1	0.0%	33	Profit/(loss) from discontinued operations	0	0.0%	(355)	-0.2%	355	-100.0%
(21,757)	-6.8%		Result of the period	(14,962)	-9.2%	(16,298)	-11.1%	1,336	-8.2%

Translated from the original version in Italian

Below is the income statement for the second quarter of 2008 compared with the same period of 2007:

Income Statement	II quarter 08	% on revenue	II quarter 07	% on revenue	Change	% change
<i>Euro/000</i>						
Revenue from sales and services	83,523	100.0%	75,040	100.0%	8,482	11.3%
Other revenue	2,165	2.6%	2,986	4.0%	(820)	-27.5%
Total revenue	85,688	102.6%	78,026	104.0%	7,662	9.8%
Direct commercial expenses	2,837	3.4%	1,434	1.9%	1,402	97.8%
Jet fuel	33,299	39.9%	23,421	31.2%	9,877	42.2%
Staff costs	9,011	10.8%	9,255	12.3%	(243)	-2.6%
Materials and maintenance services	10,952	13.1%	10,689	14.2%	263	2.5%
Other operating costs and wet lease	21,772	26.1%	23,539	31.4%	(1,766)	-7.5%
Other commercial and corporate costs	4,709	5.6%	4,586	6.1%	123	2.7%
Operative rentals	9,893	11.8%	12,107	16.1%	(2,214)	-18.3%
Depreciation and amortization	827	1.0%	973	1.3%	(146)	-15.0%
Other provisions	1,814	2.2%	899	1.2%	915	100.0%
Provisions for risks and charges	206	0.2%	391	0.5%	(185)	-47.3%
Total costs	95,320	114.1%	87,294	116.3%	8,026	9.2%
Operating result	(9,632)	-11.5%	(9,268)	-12.4%	(364)	3.9%
Financial (income)/charges	567	0.7%	472	0.6%	94	19.9%
Pre-tax profit	(10,199)	-12.2%	(9,741)	-13.0%	(458)	4.7%
Tax charges	(596)	-0.7%	(121)	-0.2%	(475)	392.9%
Profit/(loss) from discontinued operations	0	0.0%	992	1.3%	(992)	-100.0%
Result of the period	(10,795)	-12.9%	(8,869)	-11.8%	(1,925)	21.7%

Translated from the original version in Italian

3.1.3. Statement of changes in net equity

<i>Euro/000</i>	Share capital	Share premium reserve	Legal reserve	Other reserves	Statutory reserve	Losses carried forward	Losses covered within the year	Result of the period	Total
Net equity at 31st December 2006	13,355	31,102	478	0	3,681	(2,775)		(29,139)	16,702
Allocation of 2006 result						(29,139)		29,139	0
Coverage of loss carried forward		(28,233)			(3,681)	31,914			0
Renounce of shareholders loan				177					177
Jan - Sept 07 loss coverage	(7,088)	(2,869)	(478)	0			10,435		(0)
Oct 07 loss coverage	(5,244)			(135)			5,379		0
Impact of adjustment of deferred taxes on equity				(378)					(378)
Adjustment for actuarial loss (IAS 19)				(150)					(150)
Result of the period				0				(21,757)	(21,757)
Net equity at 31st December 2007	1,023	(0)	0	(486)			15,814	(21,757)	(5,406)
Allocation of 2007 result						(5,943)	(15,814)	21,757	0
Capital increase in cash	5,231	9,476							14,707
Capital increase in kind	249	7,548							7,797
Result of the period	0	0						(14,962)	(14,962)
Net equity at 30th June 2008	6,503	17,025	0	(486)	0	(5,943)	0	(14,962)	2,137

Translated from the original version in Italian

3.1.4. Cash flow statement

2007	Euro/000	I Half 08	I Half 07
(4,124)	Net cash and equivalents at the beginning of the period	(8,960)	(4,124)
(24,763)	Pre-tax loss	(14,022)	(15,429)
1	Profit/(loss) from sales of assets	-	(355)
593	Tax effect on sales of assets	-	593
	Adjustments for:	-	-
3,951	- Depreciation	1,776	1,909
1,115	- (Gain)/loss on exchange rates due to transactions in foreign currency	355	225
1,359	- Other financial charges	934	547
-	- Gains from sales of fixed assets	-	-
(9,737)	Change in trade receivables and other receivables	(3,823)	(3,025)
78	Change in stock	(189)	192
9,251	Change in trade payables and other liabilities (incl. current funds)	16,236	9,334
(1,582)	Interest and other financial charges paid	(1,021)	(730)
(946)	Taxes paid	-	(701)
1,420	Realized gain/(loss) on exchange rates due to transactions in foreign currency	(35)	1,462
(2,535)	Unrealized gain/(loss) on exchange rates due to transactions in foreign currency	(320)	(1,686)
-	Write-off of non-current assets	-	111
(916)	Net variation of staff leaving indemnity	(151)	173
254	Cash flow from the A319 BU operations	-	243
(22,458)	Cash flow from (used in) operating activities	(261)	(7,136)
	Investments in fixed assets:		
(148)	* Intangible	(64)	(61)
(1,236)	* Tangible	(183)	(857)
(867)	* Financial	(2,949)	(427)
223	Collected interests	87	182
16,849	Cash flow from the A319 BU disposal	-	16,849
1,185	Disposal value of other fixed assets	2,913	214
16,006	Cash flow from (used in) investing activities	(195)	15,901
3,000	Redemption of bank time deposits included in current assets	-	982
(486)	Payment of loan instalments	(245)	(243)
(898)	Payment of A319 loan instalments	-	(898)
1,616	Cash flow from (used in) financing activities	(245)	(159)
-	Increase of share capital	10,245	-
-	Cash flow from equity transactions	10,245	-
(4,836)	Increase (decrease) of net cash and cash equivalents	9,544	8,605
(8,960)	Net cash and equivalents at the end of the period	585	4,481

Translated from the original version in Italian

3.1.5. Net financial position

30 June 07		Euro/000	30 June 08	2007	Change
13,297	A. Cash	(1)	15,585	6,955	8,630
-	B. Derivative contracts included in cash	(1)	-	-	-
13,297	C. Cash and cash equivalents (A) + (B)		15,585	6,955	8,630
2,018	D. Current financial receivables		-	-	-
8,815	E. Current bank debt	(1) (2)	15,000	15,914	(914)
-	F. Derivative contracts included in bank debt	(1) (2)	-	-	-
503	G. Current portion of non-current debt		526	514	11
4,500	H. Current financial debt		-	4,323	(4,323)
13,819	I. Current financial debt (E) + (F) + (G) + (H)		15,526	20,751	(5,225)
(1,496)	J. Net current financial debt (I) - (C) - (D)		(59)	13,797	(13,856)
-	K. Non-current financial receivables		-	-	-
3,528	L. Non-current bank debt		3,018	3,268	(250)
-	M. Bonds issued		-	-	-
-	N. Other non-current debt		-	-	-
3,528	O. Non-current financial debt (L) + (M) + (N)		3,018	3,268	(250)
2,032	P. Net financial debt (J) - (K) + (O)		2,959	17,065	(14,106)
Reconciliation with cash flow and balance sheet tables:					
4,481	(1) Net cash and equivalents		585	(8,960)	(3,896)
8,815	(2) Bank debts		15,000	15,914	6,185

Translated from the original version in Italian

3.2. Notes to the financial statements

3.2.1. Accounting standards

The same accounting standards used for the annual report at 31 December 2007 have been applied to this half-yearly financial report at 30 June 2008 (see the annual report for more detailed information).

In particular, the condensed half-yearly financial statements at 30 June 2008 have been prepared based on the assumption of business continuity, despite the uncertainty and limitations described in section 2.11 above and section 3.2.6 below.

On 30 November 2006, the IASB issued IFRS 8 – Operating Segments – which must be applied as of 1 January 2009 in place of IAS 14 – Segment Reporting. The adoption of this standard will have no effect in terms of the measurement of the financial statement accounts.

On 29 March 2007, the IASB issued a revised version of IAS 23 – Borrowing Costs – which must be applied as of 1 January 2009. As of the date of this half-yearly report, the competent bodies of the European Union have not completed the endorsement process necessary to apply this standard.

On 6 September 2007, the IASB issued a revised version of IAS 1 – Presentation of Financial Statements – which must be applied as of 1 January 2009. The new version of this standard requires that all changes generated by transactions with shareholders are to be presented in a statement of changes in net equity. As of the date of this half-yearly report, the competent bodies of the European Union have not completed the endorsement process necessary to apply this standard.

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 to IFRS 3 concern the elimination of the requirement to measure the individual assets and liabilities of the subsidiary at fair value for all subsequent acquisitions in the event of step acquisitions of subsidiaries. The new rules must be applied prospectively from 1 January 2010. As of the date of this half-yearly report, the competent bodies of the European Union have not completed the endorsement process necessary to apply this standard and the related amendments.

On 22 May 2008, the IASB issued a set of improvements to the IFRSs. Below is a list of those that the IASB has pointed to as changes that will result in changes in the presentation, recognition and measurement of financial statement accounts.

IFRS 5 – Non-current assets held for sale and discontinued operations: the change must be applied as of 1 January 2010;

IAS 1 – Presentation of financial statements (revised in 2007): the change must be applied as of 1 January 2009;

IAS 19 – Employee benefits: the amendment must be applied prospectively as of 1 January 2009;

IAS 20 – Accounting for government grants and government assistance: the change must be applied prospectively as of 1 January 2009;

IAS 23 – Borrowing costs: the change must be applied as of 1 January 2009;

IAS 28 – Investments in associates – and IAS 31 – Investments in joint ventures: these amendments must be applied as of 1 January 2009;

IAS 36 – Impairment of assets: the change must be applied as of 1 January 2009;

IAS 38 – Intangible assets: the change must be applied as of 1 January 2009 and establishes the recognition through profit or loss of advertising and promotional costs;

IFRIC 12 – Service concession arrangements (must be applied as of 1 January 2008 and has not yet been endorsed by the European Union);

IFRIC 13 – Customer loyalty programmes (must be applied as of 1 January 2009 and has not yet been endorsed by the European Union);

IFRIC 14 and IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction (must be applied as of 1 January 2008 and has not yet been endorsed by the European Union);

IFRIC 15 – Arrangements for the construction of real estate (must be applied as of 1 January 2009 and has not yet been endorsed by the European Union).

It should also be noted that the preparation of interim financial statements requires the board members to make estimates and assumptions which influence the value of the revenues, costs, assets and liabilities, as well as the information about the contingent assets and liabilities at the date of the interim report. Should these estimates and assumptions – which are based on the board members' best estimates – differ in the future from the actual situation, they would be modified accordingly for the period in which the variation occurred. In particular, see section 2.11 concerning the critical issues that the commercial and fiscal disputes and risks of insolvency of the tour operators could lead to in terms of the appropriateness of the process of measuring provisions for risks and charges and provision for bad debts.

It should also be noted that complete valuations – particularly complex ones, such as the assessment of potential impairment of non-current assets – are generally carried out only for the annual report, when the necessary information is available, except when indicators should require the immediate impairment testing. Similarly, the actuarial valuations needed to determine

employee benefit provisions are normally performed in conjunction with preparation of the annual report.

Income taxes are measured based on the best estimate of taxable income and the expected average tax rate for the full year.

3.2.2. Financial statement comparability and business seasonality

It should be noted that, given their increased relevance, trade receivables and payables to the parent company, Meridiana S.p.A., have been shown separately on the balance sheet under “trade and other receivables with parent company” and “trade and other payables with parent company”. As a result, for the purposes of comparison, the receivables and payables with Meridiana as at 31 December 2007 and 30 June 2007 have also been reclassified into the same line items.

The segment of leisure international flights, particularly in Italy, is typically characterized by seasonal trends with contractions in demand in certain periods of the year.

In particular, Eurofly’s operations normally reach a peak in the third quarter of the year and a contraction in the second and fourth quarter, with the exception of periods near the holidays (Christmas/New Year, Easter, and long weekends). In order to optimize the use of aircraft during the first half of 2008, scheduled flights were gradually joined by the traditional charter business commissioned by tour operators, both for long range and medium to short-range routes.

3.2.3. Analysis of changes in the balance sheet

Non-current assets

Non-current assets at 30 June 2008 amounted to €47,875 thousand, decreasing by €5,732 thousand from 31 December 2007.

Note 1. **Property, plant and equipment**, in the amount of €13,666 thousand primarily includes the building for civil use in Milan (Via Ettore Bugatti, 15), which serves as the Company’s registered office and headquarters. These assets decreased by €5,900 thousand due primarily to the release of the prepayment made to Airbus (€4,929 thousand) following the termination of the related contract for the acquisition of the three A350 long range aircraft. The termination agreement called for the reimbursement in cash in the amount of €1,926 thousand, which took place during the first half of the year, and collection of the remaining receivable through the acquisition of aeronautical goods and services, classified among current receivables in the amount of €300 thousand under

“trade receivables and other receivables” and among non-current receivables in the amount of €2,703 thousand (net of discounting) under “other receivables”.

Net investments were limited to €183 thousand and primarily concerned the purchase of aircraft parts and furnishings, as well as computer equipment.

Euro/000	Gross value				Accumulated depreciation				Net value	Net value
	Gross value 31/12/07	Increases	Decreases / Write-	Gross value 30/06/08	Accumulated depreciation 31/12/07	Depreciation of the period	Decreases	Accumulated depreciation 30/06/08	30/06/08	31/12/07
1) Land and buildings	8,814	61	-	8,875	1,076	199	-	1,275	7,600	7,738
2) Installation and machinery	13,139	72	-	13,211	7,242	797	-	8,039	5,172	5,897
3) Equipment	819	-	-	819	533	47	-	580	239	286
4) Other assets	2,198	153	-	2,351	1,584	111	-	1,695	656	614
5) Tangible fixed assets under construction	5,032	103	4,929	-	-	-	-	-	-	5,032
Property, plant and equipment	30,001	183	4,929	25,256	10,435	1,155	-	11,590	13,666	19,567

Note 2. **Intangible assets**, in the amount of €1,993 thousand, declined from 31 December 2007 as a result of amortization and a reduction in investments during the period.

Euro/000	Gross value				Accumulated depreciation			Net value	Net value
	Gross value 31/12/07	Increases	Decreases	Gross value 30/06/08	Accumulated depreciation 31/12/07	Depreciation of the period	Accumulated depreciation 30/06/07	30/06/08	31/12/07
1) Start-up costs	5,681	64	9	5,737	4,744	291	5,035	702	937
2) Research, development and advertising costs	463	-	-	463	353	48	402	62	110
4) Concessions, licenses, trademarks and similar	2,104	-	-	2,104	1,196	151	1,349	756	908
7) Other intangible fixed assets	1,847	-	-	1,847	1,244	130	1,373	474	604
Intangible assets	10,096	64	9	10,152	7,537	621	8,158	1,993	2,559

Note 3. **Financial assets** came to €11,621 thousand, an increase of €676 thousand from the end of the year. The increase is primarily the result of security deposits temporarily given to secure operating leases on aircraft - replacing guarantees provided by letters of credit which were not renewed by the financial institutions and which were necessary following the renewal of the contracts for the A320s leased by Gecas - and subsequently returned by the lessor upon the issuance of sureties of the same amount (see Note 4).

Euro/000	30.06.08	31.12.07	Change
Security deposits on operative rentals	8,743	7,895	848
Other security deposits	2,878	3,050	(172)
Financial assets	11,621	10,945	676

Note 4. **Financial assets with parent company** Meridiana S.p.A., in the amount of €1,294 thousand, concern an interest-bearing security deposit for the pledge established by the parent company in one of its own current accounts as a guarantee for a financial institution in order to issue a surety regarding operating leases on aircraft signed by Eurofly S.p.A. It should be noted that, following the end of the period, an additional interest-bearing deposit was established as a pledge with the parent company in order to obtain the aforementioned surety (see Note 3).

Note 5. **Other receivables**, in the amount of €2,703 thousand, concern the non-current portion of the receivable from Airbus for the purchase of aeronautical goods and services following the agreement to terminate the purchase agreement for three A350 long range aircraft, as mentioned under Note 1 above.

Note 6. **Deferred tax assets** came to €8,598 thousand, a decline from the same figure at 31 December 2007 (€9,072 thousand) due primarily to a revision of the estimated fiscal loss which is likely to be recovered based on the taxable income estimated in the new 2008-2012 Business Plan (such deferred tax assets are related to past losses in the amount of €5,848 thousand).

It should be noted that failure to achieve the taxable income forecast in the 2008-2012 Business Plan could lead to the recovery of lower amount of deferred tax assets than recognized at 30 June 2008. See also section 2.11 for the effect of failure to meet the assumptions of business continuity on the measurement of deferred tax assets.

Note 7. **Equity investments**, in the amount of €8 million, is related to the 50% interests in Wokita S.r.l. and Sameitaly S.r.l., which have been transferred from Meridiana S.p.A. in the amounts of €2,925 thousand and €5,075 thousand, respectively, as part of the increase in capital in kind during the first quarter, as well as, to a lesser extent, to the direct 49% interest in the newly established EF-USA Inc. In consideration of current performance, as described in section 2.3, the carrying values of these investments have been confirmed.

The transfer, which falls within the scope of “common control”, has been recognized at present values given the additional cash flows resulting from the synergies developed between the Company and the associates.

The financial performance of the shareholdings for the period is presented in section 2.3. In light of the results achieved and the corrective action under way, we feel we can confirm the forecasts for the shareholdings and, therefore, the recognized values for these shareholdings, as well.

The members of the board will be monitoring the business performance of the shareholdings in order to evaluate, in a timely manner, any lasting deviations in the actual figures as compared to

the forecasts used for the purposes of the transfer, thereby also ensuring sufficient levels of capitalization in relation to the provisions of the Italian civil code.

Current assets

Current assets at 30 June 2008 amounted to €94,558 thousand, increasing by €13,417 thousand from 31 December 2007.

Note 8. **Inventories**, in the amount of €3,065 thousand, increased slightly from 31 December 2007 and are related primarily to aeronautical consumables.

Note 9. **Trade and other receivables**, equal to €62,947 thousand (net of provision for bad debts in the amount of €13,995 thousand), rose by €5,052 thousand compared to 31 December 2007. This increase is due both to the slowdown at the end of the period in the collection of U.S. credit card receipts – which transfer funds at less favourable conditions (in particular, the credit to credit-card processors increased by USD 5 million, or roughly €3.2 million) – for flights, as well as to advances to employees as part of the solidarity agreement (in the amount of €5,596 thousand at 30 June 2008, up €2,102 thousand over the end of last year) that had accrued but not yet been paid by the end of the period.

The more significant commercial disputes include the following:

- Litigation with Teorema Tour S.p.A. regarding Eurofly's receivable from Teorema Tour S.p.A. in the amount of approximately €3 million and USD 3 million, as well as penalties for flight cancellations in the amount of €14.7 million (not recognized on the balance sheet). Teorema Tour S.p.A. has challenged Eurofly's requests by claiming a credit of approximately €1.2 million.

With regard to the progress of this litigation, on 19 April 2006, Eurofly started the arbitration as envisaged by the agreement. The first hearing took place on 12 July 2006. During 2006 and 2007, a number of preliminary hearings were held in order to attempt to reach a settlement agreement. On 2 October 2007, the board of arbitrators re-examined a number of preliminary issues (aimed at clarifying whether the penalties are applicable).

On 20 May 2008, following the hearing of 11 March 2008 arranged for further discussion, the arbitrators issued a partial ruling confirming the Teorema obligation concerning the penalties, but reserved the right to rule on the amount of the penalty at a later date. At the following hearing on 13 June 2008, terms for filing pleadings were set, and with a subsequent order the filing deadline was postponed to 25 September 2008.

In the meantime, in order to ensure its rights to the receivables, Eurofly initiated various legal actions before the Milan courts, including for the purpose of preserving/rebuilding Teorema's capital. More specifically, Eurofly has:

- on 24 September 2007, filed a writ of summons against Teorema Tour S.p.A., BNP Paribas Lease Group S.p.A. (Locafit), and Esse Real Estate S.r.l. aimed at the declaration of inefficacy of the sale of a property, previously owned by Teorema, to Locafit and the consequent financial lease of the property by Locafit to Esse Real Estate. Following the most recent hearing of 15 July 2008, the court is now considering the admissibility of the items of evidence;
- on 10 June 2008, filed a writ of summons aimed at nullifying or, alternatively, revoking the surety granted by Teorema Tour S.p.A. to BNP Paribas Lease Group S.p.A. (Locafit) guaranteeing the financial lease granted to Esse Real Estate S.r.l. The summons set the hearing for 3 December 2008;
- on 31 July 2008, filed a writ of summons to oppose the merger of Teorema Tour S.p.A. and Essevi S.r.l. The hearing to discuss the summons has been set for 28 October 2008.

On 3 July 2008, Teorema proposed a general settlement agreement for all outstanding disputes between the parties. Eurofly has found the proposal to be inadequate, but the Company is willing to consider other settlement solutions that are still to be defined.

- Litigation with MG Viaggi S.p.A. regarding a Eurofly receivable from the company in the amount of roughly €2 million. Arbitration began in October 2006. In 2007, a number of preliminary hearings were held at which pleadings were filed and an expert was appointed to determine the accuracy of the amounts demanded by Eurofly. At the hearing on 19 March 2008, it was requested that a decision be made on the case or, alternatively, that a partial ruling be issued. The board of arbitrators then set a hearing on 18 June 2008, postponing the case to 5 September 2008 for further clarification of the conclusions and extending the deadline to 30 September for filing concluding arguments and to 24 October for filing related replies.
- Appeal against the Italian Ministry of Defence concerning commercial relations– started in July 2004 and ended in June 2006 – whereby Eurofly and the Ministry of Defence disagreed on the interpretation of contractual clauses, the effects of which on Eurofly's trade receivables as of 31 December 2006, equal to roughly €4.4 million, have been analysed with legal support. For a portion of this amount, Eurofly, on 5 October 2007, filed an appeal for an initial order of payment against the Ministry of Defence, concerning which the Rome courts issued an order in

early November. On 11 January 2008, the Ministry of Defence opposed the order of payment. The related hearing has been set for 24 September 2008.

For the remaining balance, a second appeal for order of payment was filed on 26 November 2007, and the Rome courts issued the relative order on 22 January 2008. On 21 March 2008, the Ministry of Defence opposed this second order of payment, as well. The initial hearing has been set for 4 November 2008.

- A new appeal against TO Maxitraveland S.p.A. regarding a Eurofly receivable from the company in the amount of roughly €5.5 million (for both aircraft rental and contract penalties). Between June and July 2008, the Company filed an enforcement order based on a cheque in the amount of €78.3 thousand and also filed two appeals for injunction totalling €5,379.9 thousand. In light of the above and based on the information currently available, the Company has, nonetheless, made a prudent allocation to allowances for doubtful accounts.

In the interest of full disclosure, the following should also be noted:

- a number of receivables from financial intermediaries involved in managing credit card sales in North America totalling roughly USD 2 million are currently being looked into, including through the courts;
- a writ of summons was issued to the Company in August 2005 by a tour operator concerning the payment of roughly €1.1 million for alleged defaults and breaches by the Company. At the hearing on 1 January 2008, the case went into deliberations, the outcome of which was announced on 5 June 2008. With this non-definitive ruling, the Naples courts upheld the jurisdiction (for arbitration) and declared the plaintiff's request to be inadmissible in certain aspects, setting a subsequent hearing for 6 October 2008 to continue proceedings with regard to the other aspects;
- a writ of summons was issued in November 2007 for roughly €1 million for alleged failure to make payment for agency services for the transfer of a financial lease for an A319 in June 2007. At the hearing of 30 April 2008, Eurofly appeared before the court, which set the next hearing for 15 October 2008;
- with regard to the writ of summons issued in September 2007 in the amount of roughly €1 million for compensation for damages due to delays in luggage delivery, an agreement with the other party was reached in March, and Eurofly has paid €30 thousand in settlement of all disputes;
- as concerns the suit filed by a customer airline, which had requested an injunction in response to the Company's demand for execution of sureties guaranteeing its receivables by the issuing bank, on 21 December 2007, the court, which had initially,

on 28 September 2007, issued an order provisionally upholding the injunction and preventing the issuing bank from paying the sums demanded by the Company and preventing the Company from executing the aforementioned sureties, issued a measure in favour of the Company revoking the previously issued injunction and rejecting the appeal. On that date, the Company therefore received payment from the issuing bank in the guaranteed amount of roughly €500 thousand. On 18 April 2008, the customer airline filed suit and issued a writ of summons to the Company. The summons sets the first hearing for 18 September 2008;

- finally, on 6 August 2008, a request for international arbitration was filed against Air Comet for failure to make full payment of the sub-lease for an A330 aircraft and related maintenance cost and interest. The total amount demanded is about USD 3.6 million, not counting the security deposit in the amount of USD 2.0 million paid by the counterparty at the time of beginning the lease in question.

With regard to the commercial disputes and past-due positions as at 30 June 2008, the provision for bad debts recognized for the period under review and in past years – based in part on the opinion of the Company's legal counsel – are believed to be appropriate. Allowances for doubtful accounts for the first half of the year totalled €3,124 thousand, of which €1,337 thousand was used during the period.

The purpose of these provisions is to adequately face the risk of default on certain specific positions, in addition to the general risk represented by customers' deteriorating solvency as a result of the difficult tour-operating market in Italy, as well as by disputes and litigations. Similarly, provision for bad debts consider the risk that the ongoing disputes on contract interpretations may lead to a reduction in the revenue already invoiced.

It should also be noted that there are bank sureties issued by clients in favour of the Company for a total of €404 thousand.

Other receivables include, among other things, the receivable for prepaid income taxes (IRAP) in the amount of €1,484 thousand (in line with the end of 2007), advances to suppliers in the amount of €844 thousand (€866 thousand at the end of 2007), advances to employees as part of the solidarity agreement to be refunded by INPS and by the special employment fund in the amount of €5,596 thousand (€3,493 thousand at 31 December 2007).

Note 10. **Trade and other receivables with parent company**, in the amount of €5,070 thousand, include amounts receivable from Meridiana S.p.A. for scheduled-flight sales gained by the parent company on Eurofly's behalf and increased by a total of €3,988 thousand.

Note 11. **Other assets**, in the amount of €7,891 thousand, declined by €4,443 thousand from the €12,334 thousand of the end of 2007 due to a decrease in prepaid expenses related, in particular, to a number of maintenance costs. This asset aggregate includes expenses, or portions of expenses, related to future periods in accordance with the principles of accruals-based accounting and which primarily concern costs of maintenance, rentals, and insurance.

Note 12. **Cash and cash equivalents** came to €15,585 thousand, an increase of €8,630 thousand from the end of December 2007 as a result of cash inflows from the paid increase in capital, as well as of advances received for the purchase of the 3 aircraft mentioned under Note 1 and of the optimization of net working capital.

Non-current liabilities

At 30 June 2008, the Company's non-current liabilities equalled €9,922 thousand, down €1,644 thousand from the €11,566 thousand posted as at 31 December 2007.

Note 14. **Long term borrowings** include the medium and long-term portions of the mortgage loan from Banca Profilo and came to €3,018 thousand, which is a €256 thousand decrease from 31 December 2007 as a result of the portion of the loan that became short-term during the period.

Note 15. **Deferred tax liabilities**, in the amount of €128 thousand, are unchanged from the previous year.

Note 16. **Provisions for risks and charges** came to €6,776 thousand and regard the non-current portion of the phase-out provisions for the fleet restoration, as well as the staff leaving indemnity.

Current liabilities

Current liabilities at 30 June 2008 totalled €130,374 thousand. The €13,251 thousand increase from 31 December 2007 is connected with the increase in trade payables.

Note 17. **Trade and other payables** totalled €110,315 thousand, for an increase over the previous year of €17,553 thousand. As shown in the table below, this change is due primarily to the increase in deferred income from scheduled and charter flights connected with flights to be made after the end of the period.

<i>Euro/000</i>	30.06.08	31.12.07	Change
Payments received on account	2,341	2,611	(270)
Amounts due to suppliers	55,150	50,239	4,911
Amounts due to tax authorities	2,092	1,808	284
Amounts due to social security and insurances	1,188	1,512	(324)
Other debt	4,098	6,336	(2,238)
Accrued expenses and deferred income	45,477	30,256	15,221
Total	110,315	92,761	17,554

The following is of note in relation to the main disputes outstanding:

- A dispute with ENI S.p.A. concerning the petroleum company's summons against a number of airlines, including Eurofly (for an amount of €242 thousand), to appear before the Rome courts. ENI S.p.A. has asked the court to rule that these airlines be required to pay ENI S.p.A. amounts related to the concession fee that the petroleum company is required to pay to airport management companies. On 20 April 2007, Eurofly filed an appearance and response with cross-complaint, asking the court to reject all of ENI S.p.A.'s demands and to order the company to refund the amounts paid by Eurofly beginning in 1997 as a surcharge on airport fuel supplies for an amount of approximately €3.5 million. At the hearing of 7 November 2007, the court postponed the case to a subsequent hearing on 30 January 2008 due to ENI S.p.A.'s failure to appear. At this hearing, the court set the deadline for filing pleadings to 31 March 2008. The next hearing has been set for 19 November 2008.
- As at 30 June 2008, orders for payment totalling €5.4 million were outstanding. These orders primarily concerned Alitalia (10 orders for payment totalling €2.6 million) and Aeroporto Valerio Catullo di Verona (one order for payment in the amount of €2.1 million), in addition to six additional parties. The Company has filed appeals of all orders of payment issued, claiming, depending on the situation, either compensation with receivables due or the invalidity of the amounts demanded by the counterparties.

- As concerns the orders of payment with Alitalia, the court to which order of payment no. 5996 in the amount of €251,987.14 was assigned has, by way of an order on 9 May 2008, granted provisional execution of the order and has submitted the case to the president of the court for the appropriate measures concerning the request to unite all outstanding proceedings (for seven orders of payment), as was discussed during the hearing of 29 May 2008. At this hearing, the court withheld judgment and set another hearing for 14 January 2009. On 9 and 29 October 2008 and 5 November 2008, hearings for the three other orders of payment will be held.
- It should also be noted that one of the other counterparties has obtained provisional execution, and the Company has filed an appeal as discussed in the hearing of 14 March 2008. The court has withheld judgment on the appeal and on additional issues raised. In anticipation of the hearing, this counterparty has petitioned to seize €580 thousand in assets. On 5 June 2008, the parties signed a settlement agreement.
- With regard to the order of payment with Aeroporto Valerio Catullo, the counterparty withdrew the injunction on 12 June 2008 and asked for an enforcement order to be granted. The court issued an order on 16 July 2008 provisionally granting execution and ordering Eurofly to make payment in the amount of roughly €2 million. On 6 August 2008, a letter of intent was signed regarding settlement of the dispute.
- The orders of payment mentioned above also included that of Augusto Angioletti, the Company's former managing director, in the amount of €200,000, which is equal to his monthly salaries due for the period of March to August 2007. At the hearing of 2 July 2008, a settlement agreement was signed, with the dispute being concluded without further charges to the Company.

It should also be noted that guarantees have been provided to suppliers totalling €9.2 million.

With regard to these disputes, and based in part on the opinions of the Company's legal counsel, it is believed that the Company will not incur further liabilities in addition to what is shown on the balance sheet as at 30 June 2008 through recognition of the liability to the other party.

Note 18. Trade and other payables with parent company, in the amount of €2,146 thousand, increased by €207 thousand from 31 December 2007 and refer to the liability for various services provided by Meridiana S.p.A., particularly regarding maintenance, supervision, handling, and various advisory services.

Note 19. **Bank debt**, in the amount of €15,000 thousand, is essentially in line with the same figure of 31 December 2007 of €15,914 thousand and concerns the stand-by revolving line of credit granted by a pool of three banks and signed on 27 November 2007, which includes the covenants described in greater detail under section 3.2.6 below. Failure to observe such covenants could, at the discretion of the lending banks, lead to the requirement of immediate payment in full.

Note 20. The **current portion of long-term borrowings** came to €526 thousand and is related to the portion of the loan on the building in Milan (Via Ettore Bugatti, 15) due within one year. This building serves as the Company's registered office and corporate headquarters.

Note 21. **Short term borrowings** as at 31 December 2007 totalled €4,323 thousand and concerned the outstanding shareholder financing from Meridiana. This amount was eliminated during the period as a result of offsetting the receivable from Meridiana as part of the paid increase in Eurofly capital.

Note 22. **Provisions for risks and charges** (current portion) amounted to €2,388 thousand, up €716 thousand from 31 December 2007. These provisions primarily include allocations for the costs of periodic maintenance on the Company's aircraft, as well as other charges for lesser risks.

For the sake of full disclosure, on 23 May 2006, the Lombardy regional office of the inland revenue authority began a partial audit of the income tax for fiscal year 2004. The audit was subsequently extended to fiscal years 2002 and 2003. The audit report was prepared on 16 January 2007 and included several tax findings – all rejected and appealed by Eurofly – which will be the subject of further analyses and defensive action. The items contested by the auditors of the Guardia di Finanza partly regard transactions with low-taxation countries, partly excessive provisions for future invoices, and a lesser portion regarded costs allocated to incorrect fiscal years. More specifically, the income contested by Eurofly is equal to €0.6 million for the 2002 tax period, €2 million for 2003, and €1 million for 2004. On 17 April 2007, Eurofly filed a petition for assessment in compliance with Legislative Decree no. 218/97. With regard to the 2002 taxes, the Company has settled the issue with the inland revenue office by paying taxes and penalties in the amount of roughly €10 thousand. For the other years, no notices of assessment have thus far been received. At present, the risk cannot be objectively quantified, and, in any event, it should be assessed in the light of past tax losses to be carried forward.

3.2.4. Analysis of financial performance

Performance for the first half of 2008

Note 23. **Revenue from sales and services** came to €162,968 thousand, for an increase of 10.6% over the same period of the previous year. With total hours being essentially constant between the two periods, this growth in revenues is due primarily to price adjustments related to rising fuel costs – net of the change in the euro-dollar exchange rate – as established by contract with the tour operators (see section 2.1.1).

The table below shows the strong performance of medium range revenues, which rose thanks to the performance of scheduled connections between Italian cities beginning in November. Long range revenues, on the other hand, fell due to the decline in business to Kenya and the interruption of the India route, which was operational in 2007.

Revenue from sales and services				
<i>Euro/000</i>				
	1st half 2008	1st half 2007	Change	% change
Medium Range	81,079	61,961	19,118	30.9%
Long Range	81,889	85,351	(3,462)	-4.1%
Total	162,968	147,312	15,656	10.6%

It should also be noted that this item includes sales of €938 thousand to related parties, €794 thousand of which for ACMI revenues from the parent company, Meridiana.

Note 24. **Other revenue**, in the amount of €5,821 thousand for the first half of the year, increased by €2,385 thousand over the first half of 2007 due to greater income on aircraft leases connected with the sub-lease of an A330 to other airlines, which began in April 2007.

This item also includes revenues from intercompany rebilling in the amount of €131 thousand.

Note 25. **Direct commercial expenses** came to €4,223 thousand, for an increase over the first half of 2007 both in absolute terms and in relative terms due to the increase in scheduled flights, which require greater intermediation costs than for charter flights.

This item also includes costs connected with related party transactions in the amount of €1,826 thousand, €1,560 thousand of which with the parent company related primarily to scheduled-flight sales commissions.

Note 26. The cost of **jet fuel**, in the amount of €60,695 thousand, increased by 37.2% over the same period of the previous year and reached 37.2% of sales (vs. 30% for the first half of 2007). This was caused by the significant increase in the cost of petroleum, which was only partially offset by a more favourable euro-dollar exchange rate during the period.

Note 27. **Staff costs** came to €18,220 thousand. Despite the increase in the average workforce (see section 2.4), these costs declined from the first half of 2007 due primarily to application of the solidarity agreement in effect since April 2007. As a percentage of sales, staff costs came to 11.2%, as compared with the 13.3% for the first half of 2007.

<i>Euro/000</i>	1st half 2008	1st half 2007	Change	% change
Salary and remuneration	14,270	15,775	(1,505)	-9.5%
Social charges	3,296	3,523	(227)	-6.4%
Staff leaving indemnity	654	791	(137)	-17.3%
Reclassification of A319 BU items after disposal	0	(488)	488	-100.0%
Total staff costs	18,220	19,641	(1,421)	-7.2%

Note 28. **Materials and maintenance services**, in the amount of €21,423 thousand, is essentially in line with the first half of 2007. These costs, as detailed below, benefited from the favourable trend in the euro-dollar exchange rate. However, maintenance services rose following the addition to the fleet at the end of March 2007 of the fifth A330, which has been sub-leased to third parties.

<i>Euro/000</i>	1st half 2008	1st half 2007	Change	% change
Other costs	125	168	(43)	-25.6%
Technical assistance and average	1,349	1,179	170	14.4%
Catering	5,415	6,082	(667)	-11.0%
Certification	296	338	(42)	-12.4%
Maintenance	6,408	5,259	1,149	21.8%
Aeronautical consumption materials	780	693	87	12.6%
Rentals of technical materials	448	861	(412)	-47.8%
Maintenance reserves	6,601	6,836	(235)	-3.4%
Reclassification of A319 BU items after disposal	0	(434)	434	-100.0%
Total materials and maintenance services	21,423	20,983	440	2.1%

It should be noted that this item includes costs for maintenance done by the parent company, Meridiana, in the amount of €305 thousand.

Note 29. **Operating costs and wet leases** came to €41,608 thousand, down €1,775 thousand compared to the first six months of 2007. It should be noted that wet lease costs for the first half of

2007 also included the charges related to the acquisition of seats as established by commercial agreements with the airline Livingston. In June, for the summer season, Eurofly acquired additional capacity through the wet lease of an MD-80 from ItAli Airlines.

<i>Euro/000</i>	1st half 2008	1st half 2007	Change	% change
Other operating costs	40,784	38,064	2,720	7.1%
Wet lease	824	5,319	(4,495)	-84.5%
Total	41,608	43,384	(1,776)	-4.1%

The increase in operating costs, as detailed below, is due to an increase in certain specific costs, including handling costs related to the greater contribution of medium range flights and boarding charges following the increase in the number of passengers served.

Operating costs include the costs of handling, supervision and leases provided, primarily, by the parent company, Meridiana, in the amount of €293 thousand.

<i>Euro/000</i>	1st half 2008	1st half 2007	Change	% change
Handling costs	11,654	10,742	912	8.5%
Assistance flight controll	9,658	9,817	(159)	-1.6%
Boarding charges	11,225	8,682	2,543	29.3%
Landing charges	2,850	2,975	(125)	-4.2%
Hotac and transport flight staff	2,952	3,674	(722)	-19.7%
Repro pax	1,567	1,821	(254)	-13.9%
Insurance	345	404	(59)	-14.6%
Insurance flight staff	258	279	(21)	-7.5%
Other operating costs	275	209	66	31.6%
Reclassification of A319 BU items after disposal	0	(538)	538	-100.0%
Total operating costs	40,784	38,064	2,720	7.1%

Note 30. **Commercial and corporate costs**, in the amount of €9,105 thousand, increased by 9.1% over the first half of 2007 due, in part, to the greater use of external consultants, as well as to employee training and recruiting and leasing costs.

The item includes costs for consulting services provided by Meridiana totalling €394 thousand.

Note 31. **Operative rentals**, totalling €20,957 thousand, are detailed in the following table:

<i>Euro/000</i>	1st half 2008	1st half 2007	Change	% change
Medium range	8,606	10,375	(1,773)	-17.1%
Long range	12,352	12,297	54	0.4%
Total	20,957	22,676	(1,719)	-7.6%

Lease payments for the A320 fleet fell primarily as a result of the favourable trend in the euro-dollar exchange rate, as the lease agreements are stated in dollars. As concerns the long range fleet, the positive effect of exchange rates was offset by the addition of the fifth A330 at the end of March 2007, which was immediately sub-leased to other airlines.

Notes 32-34-35. **Depreciation, amortization, other provisions and provisions for risks and charges** increased on the whole by €1,934 thousand over the first half of 2007.

Provisions allocated during the period include the effects of a worsening in the status of a number of receivables (in particular certain disputes with tour operators concerning past items, including the dispute with Maxitraveland, and the litigation under way with a US credit-card processor through which a portion of scheduled-flight sales were channelled in North America).

<i>Euro/000</i>	1st half 2008	1st half 2007	Change	% change
Tangible depreciation	1,153	2,065	(912)	-44.2%
Intangible depreciation	623	720	(97)	-13.5%
Reclassification of A319 BU items after disposal	0	(876)	876	-100.0%
Total	1,776	1,909	(133)	-7.0%

<i>Euro/000</i>	1st half 2008	1st half 2007	Change	% change
Bad debts provision	3,124	899	2,225	247.5%
Asset write down	0	167	(167)	-100.0%
Reclassification of A319 BU items after disposal	0	(167)	167	-100.0%
Total	3,124	899	2,225	247.5%

Note 36. **Financial (income)/charges** totalled €1,287 thousand, an increase over the €515 thousand of the first half of 2007. The change in other financial income and charges shown in the table below is due to the increase in banking expenses and interest on trade payables, as well as to a decline in other interest income.

<i>Euro/000</i>	1st half 2008	1st half 2007	Change	% change
Interests payable on A319 leasing	0	(921)	921	-100.0%
Commissions on granted credit lines	(64)	(261)	197	-75.5%
Other income and financial charges	(868)	(460)	(408)	88.7%
Gains/(loss) on exchange rates	(355)	(225)	(130)	57.8%
Reclassification of A319 BU items after disposal	0	1,095	(1,095)	-100.0%
Total income and financial (charges)	(1,287)	(772)	(515)	66.9%

Note 37. **Tax charges** came to €939 thousand and include current IRAP (the Italian regional business tax) in the amount of €243 thousand and the reversal of deferred IRAP and corporate income tax (IRES) in the amount of €697 thousand following a recalculation of the amount of recoverable deferred tax assets in light of the taxable income forecast by the new 2008-2012 Business Plan, as described under note 6 above.

Note 38. The **(profit)/loss from discontinued operations** which had a zero balance for the first half of 2008, was €355 thousand for the first half of 2007 and was related to the discontinued “All Business” business unit using an A319 aircraft, the lease for which was transferred last year to Alba.

The result from operating the aircraft on behalf of Alba in the first quarter of 2008 came to €217 thousand and is shown among profit from continuing operations, given that it is related to the provision of a service that is independent from the previous operations directed by the “All Business” business unit.

<i>Euro/000</i>	1st half 2008	1st half 2007
Revenue from sales and services	0	1,983
Other revenue	0	373
Total revenue	0	2,356
Direct commercial expenses	0	(26)
Jet fuel	0	(563)
Staff costs	0	(448)
Materials and maintenance services	0	(434)
Other operating costs and wet lease	0	(538)
Other commercial and corporate costs	0	(245)
EBITDAR	0	102
Operative rentals	0	(59)
EBITDA	0	43
Depreciation and amortization	0	(876)
Other provisions	0	(167)
Provisions for risks and charges	0	(73)
EBIT		(1,072)
Financial income/(charges)	0	(1,095)
Gains on A319 disposal	0	2,406
Tax charges	0	(593)
Total result on discontinued operations	0	(355)

Performance for the second quarter of 2008

In the second quarter of 2008, the number of flight hours fell 1.4% from the same period of 2007. This performance was the result of the interruption of the long range connection to India. Compared with 2007, medium range flights benefited from the start of scheduled flights between northern and southern Italy.

Flight hours by SBU

Flight hours

	II quarter 2008	II quarter 2007	Change	% change
Medium Range	7,323	6,945	377	5.4%
Long Range	4,432	4,935	(502)	-10.2%
All Business	0	45	(45)	-100.0%
Total flight hours	11,755	11,925	(170)	-1.4%

Revenue from sales and services, as detailed in the table below, increased by more than 11% over the second quarter of 2007 supported, again, by the new medium range scheduled flights in Italy.

In the long range segment, the effect of the disturbances in Kenya that broke out at the end of 2007 were lessened.

Revenue from sales and services				
<i>Euro/000</i>				
	II quarter 2008	II quarter 2007	Change	% change
Medium Range	46,251	38,439	7,812	20.3%
Long Range	37,272	36,601	671	1.8%
Total	83,523	75,040	8,483	11.3%

In order to better understand the performance for the quarter, EBITDAR, EBITDA and EBIT for the period are shown below and compared with the same quarter of 2007. EBITDAR worsened by 39% due to the increase in costs during the quarter, particularly in the area of fuel. The loss at the level of EBITDA decreased by roughly €242 thousand thanks to a decline in the cost of operating leases connected with the trend in the euro-dollar exchange rate. EBIT for the quarter worsened by €352 thousand due to the significant increase in allowances for doubtful accounts totalling €1,814 thousand for the quarter, which was the result of a worsening in the solvency of a number of tour operators and other parties.

<i>Euro/000</i>	II quarter 2008	II quarter 2007	Change	% change
EBITDAR	3,108	5,080	-1,972	-38.8%
<i>Percentage on revenue</i>	3.7%	6.8%		
EBITDA	-6,785	-7,027	242	-3.4%
<i>Percentage on revenue</i>	-8.1%	-9.3%		
EBIT	(9,632)	(9,280)	-352	3.8%
<i>Percentage on revenue</i>	-11.5%	-12.4%		

3.2.5. Analysis of changes in net equity

During the first half of 2008, the Company completed the increases in capital in cash and in kind. More specifically:

- as part of the paid increase in capital, 11,129,418 shares have been issued at a price of €1.347 per share (of which €0.47 to cover the implicit par value and €0.877 as share premium). Following this transaction, share capital came to €6,253,995.46 for 24,484,720 shares with no explicit par value;
- as part of the increase in capital in kind, 3,558,718 shares have been issued at a price of €2.248 per share (of which €0.07 to cover the implicit par value and €2.178 as share

premium). Following this transaction, share capital came to €6,503,105.72 for 28,043,438 shares with no explicit par value.

The charges related to these increases in share capital, which are recognized as a direct reduction to the amount of the capital increase in accordance with the IFRSs, totalled roughly €710 thousand.

Following these transactions, and including the result for the period, net equity totalled €2,137 thousand, broken down as follows:

- share capital in the amount of €6,503,105.72;
- share premium reserve in the amount of €17,025 thousand. This account, which benefited from both the increase in capital in cash and in kind, includes the costs for consulting services incurred in relation to said increases, net of the related deferred taxes;
- legal/statutory reserves and other reserves for a negative €486 thousand;
- losses carried forward in the amount of €5,943 thousand;
- net loss for the period of €14,962 thousand.

As a result of the losses incurred during the period, the Company finds itself in the equity situation described by Article 2446 of the Italian civil code (i.e. reduction of capital for losses in excess of one-third of the value).

However, this loss stems from the marked seasonality that characterizes the Company's activities, and the resulting relevant erosion of share capital pursuant to Article 2446 of the civil code has already been reabsorbed in the subsequent two months, i.e. July and August 2008. Consequently, as of the date of approval of this report, the Company does not fall under the provisions of Article 2446 of the civil code.

In that regard, it should be noted that the Board of Directors has called for a meeting of shareholders for 9 September 2008 (and, if a second call is necessary, on 10 September 2008) to authorize an increase in share capital of up to €55 million.

3.2.6. Financial position

Analysis of cash flow

As shown in the cash flow statement, which presents the change in cash and cash equivalents for the period using the indirect method, the first half of 2008 was characterized by an increase in liquidity in the amount of €9,544 thousand as a result of the changes described below.

- Cash flow from (used in) operating activities

During the period, these cash flows were negative in the amount of €261 thousand. This absorption of liquidity was due primarily to the pre-tax loss for the period in the amount of €14,022 thousand, while the optimization of working capital generated sufficiently positive cash flows (with a net change in net working capital of €12,224 thousand).

- Cash flow from (used in) investing activities

These cash flows came to a negative €195 thousand due primarily to the establishment of additional security deposits for lessors of aircraft, net of releases of advances paid for the Airbus A350s (see section 3.2.3 – Note 1).

- Cash flow absorbed by financing activities

During the period, the cash flow absorbed by financing activities came to €245 thousand, resulting from the net effect of payment of the mortgage loan.

- Cash flow from equity transactions

During the period, cash flows generated from equity transactions came to €10,245 thousand and concerned net cash flows resulting from the paid increase in capital completed in February 2008.

Net financial position

At 30 June 2008, net debt came to €2,959 thousand, which is markedly lower than the €17,065 thousand as at 31 December 2007, thanks, primarily, to the capital increase in cash completed in February 2008, which provided some €10.2 million in liquidity and cancelled the shareholder loan payable to Meridiana. The net financial position also benefited from the optimization of working capital and the reimbursement of advances paid for the purchase of new Airbus A350s.

1st half 07	Euro/000		1st half 08	2007	Change
13,297	A. Cash	(1)	15,585	6,955	8,630
	- B. Derivative contracts included in cash	(1)	-	-	-
13,297	C. Net cash and equivalents (A) + (B)		15,585	6,955	8,630
2,018	D. Current financial receivables		-	-	-
8,815	E. Current bank debt		15,000	15,914	(914)
	- F. Derivative contracts included in bank debt	(1) (2)	-	-	-
503	G. Current portion of non-current debt		526	514	12
4,500	H. Other current financial debt		-	4,323	(4,323)
13,819	I. Current financial debt (E) + (F) + (G) + (H)		15,526	20,751	(5,225)
(1,496)	J. Net current financial debt (I) - (C) - (D)		(59)	13,797	(13,856)
	- K. Non current financial receivables		-	-	-
3,528	L. Non current bank debt		3,018	3,268	(250)
	- M. Bonds issued		-	-	-
	- N. Other non current debt		-	-	-
3,528	O. Non current financial debt (L) + (M) + (N)		3,018	3,268	(250)
2,032	P. Net financial debt (J) - (K) + (O)		2,959	17,065	(14,106)
	Reconciliation with cash flow and balance sheet tables				-
4,481	(1) Net cash and equivalents		585	(8,959)	(3,896)
8,815	(2) Bank debt		15,000	15,914	6,185

More specifically, the net financial position is made up of the following components:

C – Cash and cash equivalents

Net cash and equivalents at 30 June 2008 amounted to €15,585 thousand, increasing by €6,955 thousand from 31 December 2007. This includes the balances of current accounts, which benefited from inflows from the capital increase in the amount of €10.2 million.

I – Current financial debt

This item, in the amount of €15,526 thousand, fell from the same figure of 31 December 2007 and is comprised of the following: i) bank debt in the amount of €15,000 thousand; ii) the current portion of non-current debt related to the mortgage loan in the amount of €526 thousand. At 31 December 2007, this item included the shareholder loan in the amount of €4,323 thousand payable to Meridiana, which used the financing as part of the increase in capital.

O – Non-current financial debt

Non-current financial debt is comprised of non-current bank debt, in the amount of €3,018 thousand, represented by the portion due beyond 12 months for the mortgage loan contracted with Banca Profilo related to the purchase of the Company's headquarters.

Negative pledges and covenants

On 27 November 2007, a debt restructuring agreement was signed with a pool of banks. The loan, which is backed by a letter of patronage from Meridiana S.p.A., includes a variety of clauses that are standard for similar transactions, including negative pledges and financial covenants. In particular, the latter are connected with the ratios of net debt to EBITDAR and net debt to net equity. The target values specified by contract are as follows:

1) net debt to EBITDAR:

o for 2007, no more than (0.80)

o for 2008, no more than (0.60)

o for 2009, no more than (0.15)

and

2) net debt to net equity:

o for 2007, no more than (2.80)

o for 2008, no more than (1.80)

o for 2009, no more than (0.35).

EBITDAR is taken every six months in order to calculate the ratio to net debt and refers to the 12 months prior to the date on which EBITDAR was calculated.

On 19 March 2008, the banks signing the Company's debt restructuring agreement declared that they did not wish to assess the financial covenants under that agreement related to 31 December 2007.

As concerns the calculation of the ratios at 30 June 2008, based on the condensed half-yearly financial statements, the Company is fully compliant with the covenants specified above, as follows:

1. net debt to EBITDAR (last 12 months) at 0.089

2. net debt to net equity at 1.385

The Company's capacity to respect the covenants in the future (particularly at 31 December 2008 and 30 June 2009) will depend on the achievement of the targets set in the 2008-2012 Business Plan, which is significantly affected by trends in variables that are beyond the Company's control, as well as on the achievement of the increase in share capital – for a maximum of €55 million – which is to be approved by the shareholders on 9 September 2008 (or on 10 September 2008 should a second call be necessary) – to a sufficient extent as envisaged by the 2008-2012 Business Plan.

It should also be specified that, today, Meridiana assumed an irrevocable commitment to subscribe

for its share of the increase in capital in the amount of €20 million – an amount that would largely satisfy the capital requirements underlying the 2008-2012 Business Plan, which are fundamental to the assumption of business continuity and to compliance with the financial covenants – while the remainder of the capital increase (€35 million) is subject to the uncertainty surrounding subscription by the market. In such context, compliance with the debt-to-equity ratio as at 31 December 2008 and 30 June 2009 is based on the condition that the assumptions concerning the exogenous variables of the 2008-2012 Business Plan are met and that, in addition to the portion of the capital increase subscribed by Meridiana, subscription by the market reaches at least the level specified in the plan or, alternatively, that a sale of Company property would make it possible to raise the additional funds required. Failure to achieve these objectives could lead to further interim and full-year losses and, consequently, failure to comply with the covenants, which could motivate the banks to exercise their right to require immediate payment of the €15 million line of credit. This would lead to a level of financial instability that, in the absence of corrective action currently not envisaged in the 2008-2012 Business Plan, would bring an end to the assumption of business continuity underlying the preparation of these condensed half-yearly financial statements at 30 June 2008.

3.2.7. Significant non-recurring events

The following table shows a breakdown of a number of significant non-recurring events, the consequences of which affected the financial performance and standing for the period.

Description	Net equity		Result of the period		Debt		Cash flow (*)	
	Abs. value	%	Abs. value	%	Abs. value	%	Abs. value	%
<i>Euro/000</i>								
Balance sheet values (A)	2,137		-14,962		-2,959		585	
Solidarity agreement	-4,145	-194.0%	-4,145	27.7%	-2,043	69%	-2,043	-349.40%
Tax charges due to events above	1,140	53.3%	1,140	-7.6%				
Total non-recurring operations (B)	-3,005	-140.6%	-3,005	20.1%	-2,043	69.0%	-2,043	-349.4%
Gross imputed balance sheet value (A+B)	-869		-17,967		-5,002		-1,458	

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

In addition to the items shown in this table and detailed below, it should also be noted that the results for the period were influenced by the situation in Kenya, which led to lower-than-expected revenues of roughly €5.9 million and lower EBITDA of about €1.5 million, as well as by the significantly negative impact of rising fuel costs, which led to an erosion of the Company's EBITDA as compared with the forecasts of the 2008-2010 Business Plan for the first half of 2008. Indeed, the cost of fuel during the first half of 2008 amounted to 37.2% of revenues, compared to the 31.2% estimated in the 2008-2010 Business Plan.

Solidarity agreement

Since 1 April 2007, and continuing for a period of twenty-four months, the solidarity agreement, which is one of the alternative instruments to collective dismissal provided for by Italian law 233/91, has been applied to all employee categories. During the periods of lower business volumes, and with abstention from work, the agreement provides for a series of compensation measures for employees and for the Company taken from the funds of the Italian Ministry of Labour (pursuant to Italian law 236/95) and from the special INPS fund for the air transportation industry (pursuant to Italian law 291/04). The methods for calculating the financial benefit involve applying a cost coefficient agreed upon with the Ministry of Labour to the days not worked in compliance with the provisions of the agreement. Performance for the first half of the year saw a positive contribution of roughly €4.1 million before tax effects.

3.2.8. Segment reporting

In accordance with the provisions of IAS 14, Eurofly supplies segment information split into medium and long range, given that the risks and rewards of the enterprise are significantly affected by the differences between these two business segments. The main features of each business segment are summarized as follows:

- 1) medium range: includes flights of less than 5 hours covering Europe and the Mediterranean and operated with the Company's A320 fleet or aircraft temporarily acquired by wet lease from third parties. The main destinations are Egypt, Greece, the Canary Islands and the Balearic Islands. Since November 2007, flights connecting northern and southern Italy, through a code sharing agreement with Meridiana, have joined these more traditional tourist segments.
- 2) long range: includes flights of more than 5 hours. The main destinations are the Maldives, Kenya, Mexico, Mauritius/Seychelles, and Santo Domingo, as well as flights between Italy and New York. The long range business segment is subject to weaker seasonal effects because of its destinations. In addition, the scheduled flights to New York further offset the winter peak of charter connections for exotic beach destinations. These routes are operated with the Company's A330 fleet. The Company has also recently obtained the rights from ENAC to carry out scheduled flights to the Seychelles.

The following table shows a breakdown of revenues and results for the medium and long range business segments.

Euro/000	Medium Range				Long Range				Total			
	1st half 2008	1st half 2007	Change	% change	1st half 2008	1st half 2007	Change	% change	1st half 2008	1st half 2007	Change	% change
Revenue from sales and services	81,079	61,962	19,117	30.9%	81,889	85,350	(3,461)	-4.1%	162,968	147,312	15,656	10.6%
Other revenue	1,458	782	676	86.5%	4,363	2,654	1,709	64.4%	5,821	3,436	2,385	69.4%
Total revenue	82,537	62,744	19,793	31.5%	86,252	88,005	(1,752)	-2.0%	168,789	150,748	18,041	12.0%
Direct commercial expenses	2,452	1,117	1,336	119.6%	1,771	1,670	101	6.0%	4,223	2,786	1,437	51.6%
Revenue net of direct commercial expenses	80,085	61,627	18,457	30.0%	84,481	86,335	(1,853)	-2.1%	164,566	147,962	16,604	11.2%
Jet fuel	24,518	15,517	9,001	58.0%	36,177	28,713	7,464	26.0%	60,695	44,230	16,464	37.2%
Staff costs	8,548	8,621	(72)	-0.8%	9,671	11,020	(1,349)	-12.2%	18,220	19,641	(1,421)	-7.2%
Materials and maintenance services	9,215	8,477	738	8.7%	12,208	12,506	(298)	-2.4%	21,423	20,983	440	2.1%
Other operating costs and wet lease	24,996	19,154	5,842	30.5%	16,612	24,230	(7,618)	-31.4%	41,608	43,384	(1,775)	-4.1%
Other commercial and corporate costs	5,364	3,890	1,474	37.9%	3,740	4,456	(715)	-16.1%	9,105	8,346	759	9.1%
Subtotal costs	72,641	55,658	16,983	30.5%	78,409	80,925	(2,516)	-3.1%	151,050	136,583	14,467	10.6%
EBITDAR	7,444	5,969	1,474	24.7%	6,072	5,409	663	12.3%	13,516	11,379	2,137	18.8%
Operative rentals	8,606	10,379	(1,773)	-17.1%	12,352	12,297	54	0.4%	20,957	22,676	(1,719)	-7.6%
EBITDA	(1,162)	(4,409)	3,247	-73.6%	(6,279)	(6,888)	609	-8.8%	(7,441)	(11,297)	3,856	-34.1%
Depreciation and amortization	462	631	(169)	-26.7%	1,313	1,278	35	2.8%	1,776	1,909	(133)	-7.0%
Other provisions	2,059	679	1,380	203.2%	1,064	220	845	384.1%	3,124	899	2,225	247.5%
Provisions for risks and charges	107	36	71	198.2%	288	516	(229)	-44.3%	394	552	(158)	-28.5%
EBIT (operating result)	(3,791)	(5,756)	1,965	-34.1%	(8,944)	(8,902)	(43)	0.5%	(12,735)	(14,657)	1,922	-13.1%
Financial (income)/charges									(1,287)	(772)	(515)	66.8%
Pre-tax profit									(14,022)	(15,429)	1,407	-9.1%
Tax charges									(939)	(514)	(425)	82.8%
Profit/(loss) from discontinued operations									0	(355)	355	-100.0%
Result of the period									(14,962)	(16,298)	1,336	-8.2%

3.2.9. Transactions with related parties

Transactions with related parties, for which the Company has adopted specific procedures, are conducted appropriately both in form and in substance.

In accordance with IAS 24, Meridiana S.p.A. is a related party, given that it can exercise significant influence over Eurofly's operating and financial decisions. Meridiana is Eurofly's main shareholder with an equity interest of 46.10%. It should also be noted that Eurofly is subject to management and coordination by Meridiana. Therefore, related parties also include the companies of the Meridiana Group, including the two associates (Wokita S.r.l. and Sameitaly S.r.l.), in which Eurofly S.p.A. hold 50% equity interests (with the other 50% being held by Meridiana).

Transactions between companies of the Group fall within the scope of ordinary business and are essentially comprised of the activities shown in the table below. These services are provided at market conditions and in compliance with agreements defined by the parties in a manner that safeguards the financial interests of the companies concerned.

The following table summarizes the balance sheet and income statement transactions with the Meridiana Group, along with the percentage of the related total carrying values.

Euro/000

Description	Total 30/06/08	Meridiana		Sameitaly		Wokita		EF Usa		Other		Total group	
		Absolute value	%	Absolute value	%	Absolute value	%	Absolute value	%	Absolute value	%	Absolute value	%
Trade receivables	68,016	5,070	7.5%	49	0.1%	2	0.0%	-	0.0%	-	0.0%	5,120	7.5%
Non-current financial assets	12,915	1,294	10.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,294	10.0%
Current financial assets	15,585	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Trade payables	112,461	2,146	1.9%	200	0.2%	7	0.0%	187	0.2%	50	0.0%	2,590	2.3%
Non-current financial liabilities	3,018	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Current financial liabilities	15,526	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%

Description	Total 30/06/08	Meridiana		Sameitaly		Wokita		EF Usa		Other		Total group	
		Absolute value	%	Absolute value	%	Absolute value	%	Absolute value	%	Absolute value	%	Absolute value	%
Total revenue	168,789	875	0.5%	49	0.0%	146	0.1%	-	0.0%	-	0.0%	1,070	0.6%
Total costs	181,524	2,400	1.3%	80	0.0%	-	0.0%	187	0.1%	7	0.0%	2,673	1.5%
Financial (income)/charges	1,287	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%

Description	Total 30/06/08	Meridiana		Sameitaly		Wokita		EF Usa		Other		Total group	
		Absolute value	%	Absolute value	%	Absolute value	%	Absolute value	%	Absolute value	%	Absolute value	%
Cash flow from operating activities	(2,407)	(3,781)	157.1%	181	-7.5%	16	-0.7%	187	-7.8%	34	-1.4%	(3,363)	139.7%
Cash flow from investing activities	(195)	(1,294)	662.4%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	(1,294)	662.4%
Cash flow from financial activities	(245)	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%

The main outstanding positions include the following:

- **Trade receivables/payables**

Trade receivables from Meridiana S.p.A. as at 30 June 2008, in the amount of €5.1 million, regard the receivable balance resulting from the leasing of Eurofly aircraft to Meridiana based on ACMI agreements and from the invoicing of scheduled-flight sales by Meridiana on behalf of Eurofly, for which Meridiana receives sales commission. Such sales are not to be considered intercompany sales.

Trade payables are connected to amounts due based on contracts for services provided by the parent company, including maintenance, supervision, handling, and various consulting services.

- **Financial assets/liabilities**

Non-current financial assets are related to a security deposit paid by Eurofly to Meridiana for a Meridiana pledge made to a financial institution as part of granting a surety for an aircraft operating lease.

- **Revenues and costs of purchases and services**

Revenues as at 30 June 2008 totalled €0.9 million, related primarily to the invoicing of flights based on ACMI agreements, whereas costs, which are related primarily to maintenance, handling, supervision, and consulting services provided by Meridiana S.p.A., as well as commissions payable to Meridiana for code-sharing sales for Eurofly flights, came to €2.4 million.

For the sake of greater clarity, the main operating and trade relationships with Meridiana, Wokita, Sameitaly, and EF-USA are presented below.

Transactions with Meridiana

Transactions with Meridiana concerned the following activities:

1. the provision of contact centre services (through Meridiana's call centre);
2. the provision of inventory management and space control services;
3. the provision of market analysis and commercial reporting services;
4. the provision of pricing, distribution and e-ticketing services;
5. the provision of revenue accounting and web management services;
6. code-sharing agreement and interline sales on medium and long range flights;
7. granting the use, free of charge, of a number of slots on the Milano Linate route;
8. the wet lease of one of Meridiana's A320 for the Moldova route (with the lease running from 9 October 2007 to 31 October 2009, with the option for the Company to withdraw from the lease by written notice at least 90 days prior to the date of withdrawal);
9. secondment of Meridiana employees to Eurofly and vice versa in order to cover positions in operations and sales;
10. sporadic consulting services concerning labour relations, purchasing, maintenance, operations, network planning, marketing and sales;
11. a letter of patronage issued by Meridiana for the purpose of restructuring debt as described under section 3.2.3 – Note 19.

Transactions with Sameitaly S.r.l.

Sameitaly holds a mandate from Eurofly to promote the sale of scheduled and chartered air transportation services to travel agencies and tour operators on a commission basis (based on rates that include the fuel surcharge) at the same rate as granted to Meridiana. The contract expires on 31 December 2012 and may be renewed.

Transactions with Wokita S.r.l.

Eurofly currently has trade relations with Wokita concerning the sale of "dead-freight" space. Agreements are being defined for the provision to Eurofly of additional services for online ticket and package sales in order to enable Eurofly to target consumers easily and directly for the Company's products to leisure destinations, thereby achieving significant savings by cutting out the middleman.

Transactions with EF-USA

EF-USA's business consists of the operation and management of sales and customer care services on behalf of Eurofly in North America, with payment being in the form of sales commission. The company's activities are allowing agency costs to be contained and are providing greater control over business in North America. The cash flows resulting from sales are also being submitted to Eurofly S.p.A. in a timely manner and in accordance with established procedures.

3.2.10. List of shareholdings

In application of Article 126 of CONSOB Resolution 11971, the following is a list of the equity interests in unlisted companies in excess of 10% of capital with voting rights as at 30 June 2008:

Name	Head quarter	Share capital	% owned	Possession
Wokita Srl	Olbia	€ 35,000	50%	Direct
Sameitaly Srl	Olbia	€ 95,000	50%	Direct
EF USA Inc	New Jersey	\$ 1.000	49%	Direct

Milan, 29 August 2008

For the Board of Directors

The Chairman

Lorenzo Caprio

4. Certification of the condensed half-yearly financial statements at 30 June 2008 in accordance with Article 81-ter of CONSOB Regulation 11971 of 14 May 1999 as amended

- i. The undersigned, Giovanni Rossi, Managing Director, and Maurizio Cancellieri, the financial reporting manager for Eurofly S.p.A., in accordance with Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998, hereby attest to:
- ii.
1. the appropriateness of the financial statements in relation to the characteristics of the business;
 2. the application of administrative and accounting procedures in the preparation of the condensed half-yearly financial statements throughout the period ended 30 June 2008.
- iii. No significant issues in that regard have been encountered.
- iv. We further attest that the condensed half-yearly financial statements as at 30 June 2008:
- a. have been prepared in compliance with the International Financial Reporting Standards endorsed by the European Community in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002;
 - b. correspond with the related company accounts;
 - c. have been prepared in accordance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) as endorsed by the European Union and that, as such, they provide a true and accurate representation of the financial performance and standing of Eurofly S.p.A.

The interim report on operations contains references to important events occurring during the first six months of the year and their impact on the condensed half-yearly financial statements, as well as a description of the main risks and uncertainties concerning the remaining six months of the year. The interim report on operations also contains information on significant transactions with related parties.

Milan, 29 August 2008

Giovanni Rossi
Managing Director

Maurizio Cancellieri
Financial Reporting Manager