

eurofly

Report on operations at 30th September 2006

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

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

Registered Office in Milan – Via E. Bugatti, 15

Share Capital Euro 13,355,302 fully paid up

Registered in the Milan Company Register No. 05763070017 - R.E.A. No. 1336505

Introduction

This quarterly report at September 30, 2006 has been prepared in accordance with the Italian National Commission for Listed Companies and the Stock Exchange (CONSOB) Regulation No. 11971 and subsequent modifications with the purpose to provide information about the Company's economic, and financial situation. This report therefore fulfils the provisions of article 82 of the Regulation above and has been drawn up in compliance with IAS/IFRS, in particular with IAS 34.

The profit and loss figures for the nine-month period are compared with those of the same period in the past fiscal year, as well as the third quarter data. The net financial position and balance sheet items at September 30, 2006, are compared with the corresponding final results as of December 31, 2005. The historical comparable figures have been recalculated according to the new accounting principles.

The accounting principles, valuation criteria and estimates used by the Company to prepare its quarterly report at September 30, 2006 are the same as those detailed in the 2006 half year report on operations, to which reference should therefore be made.

We are presenting the main profit and loss/balance sheet data and business indicators for the first nine months of 2006 compared with those of the same period in 2005 and full year 2005.

Unless otherwise specified, Euro/000

2005	Significant Information	Jan-Sept 06	Jan-Sept 05	Δ	Δ %
42.060	Total flight hours	34.205	34.142	63	0,2%
1.603.240	Passengers carried	1.212.866	1.291.187	(78.321)	-6,1%
136	Available fleet rented and in wet lease (machine months)	105	107	(2)	-1,9%
5.335	Productivity Long Range fleet (in flight hours)	5.430	5.629	(199)	-3,5%
3.223	Productivity Medium Range fleet (in flight hours)	3.374	3.374	0	0,0%
2005	Summary Statement of Profits and Losses	Jan-Sept 06	Jan-Sept 05	Δ	Δ %
			(5)		
271.475	Revenue from sales and services	230.685	224.656	6.029	2,7%
277.461	Total revenue	236.367	228.204	8.163	3,6%
31.534	EBITDAR (1)	30.787	26.983	3.804	14,1%
11,6%	Percentage on revenue form sales and services	13,3%	12,0%		
4.500	EBITDA (2)	4.774	7.066	(2.292)	-32,4%
1,7%	Percentage on revenue form sales and services	2,1%	3,1%		
(2.896)	EBIT (3)	(2.199)	3.304	(5.504)	-166,6%
-1,1%	Percentage on revenue form sales and services	-1,0%	1,5%		
(2.775)	Result of the year / period	(6.565)	3.214	(9.779)	-304,2%
30.09.05	Summary Balance Sheet	30.09.06	31.12.05	Δ	Δ %
(5)					
93.435	Total fixed assets	85.703	103.009	(17.306)	-16,8%
83.622	Total current assets	107.097	95.282	11.816	12,4%
177.057	Total assets	192.800	198.291	(5.491)	-2,8%
14.439	Net equity	39.277	43.476	(4.200)	-9,7%
34.183	Total non current liabilities	36.710	38.108	(1.398)	-3,7%
128.435	Total current liabilities	116.814	116.707	107	0,1%
177.057	Total net equity and liabilities	192.800	198.291	(5.491)	-2,8%
2005	Investments	Jan-Sept 06	Jan-Sept 05	Δ	Δ %
66.622	Investments	2.792	57.015	(54.223)	-95,1%
30.09.05	Other financial data	30.09.06	31.12.05	Δ	Δ %
(40.296)	Net financial position (4)	(9.453)	(4.093)	(5.359)	-130,9%
(19.934)	Net cash and equivalents (short-term net financial debt)	12.545	14.077	(1.533)	-10,9%
(15.071)	Cash flows of the period	(1.532)	18.940		

(1) EBITDAR: *Earnings Before Interest, Taxes, Depreciation, Amortization and aircraft Rentals* (i.e. EBIT gross of aircraft operative rentals – excluding wet lease – and of amortization and provisions for risks and charges).

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

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

(4) Compared to "Net cash and equivalents", the net financial position includes financial fixed assets and the amount of mortgages and debt towards leasing companies.

(5) Both the balance sheet figures at September 30, 2005 and economic figures in the first nine months of 2005 have been prepared for the first time according to IAS/IFRS. For a reconciliation of net equity and the result of the period according to the Italian accounting principles and IAS/IFRS, please refer to paragraph 10 of this report. Both the financial figures at December 31, 2005 and the economic figures for full year 2005 have already been presented according to IAS/IFRS in the first quarterly report and in the first half-year report of 2006.

1. SCENARIO AND OPERATIONS

1.1. Macro-economic scenario

After the slowdown towards the end of 2005, global economy recovered in the first nine months of 2006, especially in the Euro Zone and Japan where the economic growth was robust, while the US have recently highlighted a slight slowdown. In this scenario energy costs followed a mixed trend: the price of crude oil has been strongly on the rise between January and August because of the crisis in the Middle East while falling back to early 2006 levels in September. The average values in the first nine months were however more than 20% higher compared to the same period in 2005.

Crude oil				
<i>US\$/barrel</i>				
2005	Crude oil	Jan-Sept 06	Jan-Sept 05	Δ %
56,64	WTI-USA	67,95	55,32	23%
54,57	Brent-Europe	66,97	53,60	25%

Source: Energy Information Administration – US Government

From the end of December 2005 to the end of September 2006 the Euro has appreciated vs the US dollar. Conversely, in the first nine months of 2006 the average exchange rate showed a weakening of the Euro vs the US dollar compared to the same period in 2005, as shown in the following table.

Exchange rate				
	Jan-Sept 06	Jan-Sept 05	30/09/06	31/12/2005
EUR/USD	1,24	1,26	1,27	1,18

Source: Il Sole 24 Ore

The rising trend of interest rates was confirmed both in the Euro Zone (3M Euribor from 2,51 points at the beginning of January 2006 to 3,37 at end September 2006, averaging 2,94 in the first nine months of 2006 vs 2,16 of the same period last year) and in the US (3M Libor on US\$ from 4,68 points at the beginning of 2006 to 5,37 in September, averaging 5,18 vs 3,38 in 2005).

Interest rate				
	Jan-Sept 06	Jan-Sept 05	Sept 06	Jan 06
EURIBOR	2,94	2,16	3,37	2,51
LIBOR	5,18	3,38	5,37	4,68

Source: British Bankers Association, European Bankers Federation

1.2. Industry scenario

As to global air traffic, the first nine months of 2006 recorded a sharp increase in the amount of passengers carried. According to IATA's (International Air Transport Association) September report, passengers carried grew by 5,9% compared to the previous year, given a +4,6% offer expansion and the resulting improvement of the load factor worldwide. It should be noted that the third quarter's figures grew more slowly, +6,7% in the first six months.

Similar data are recorded in Italy as well. Statistics by Assaeroporti (Italian airport association) highlighted a +8,7% traffic growth in the nine months with a sharper increase of international traffic (+10%) compared to domestic traffic, according to a long-established trend.

As for Eurofly's reference sector, the Astoi Observatory (Italian tour operator association) noted a reduction in the amount of passengers in summer of around -2,5% compared to the previous year and an extremely variable trend according to destinations. For the first time the traditionally most resistant period of the cycle showed signs of weakness:

- Sustained growth of the Maldives, which recovered to the level preceding the Tsunami, and Kenya.
- Mediterranean destinations were stable with an increase of bookings for Spain and Greece.
- Robust growth of Italian sea destinations.
- Decline of the Caribbean (especially Cuba and Mexico).
- Egypt showed a circa -20% decline in the period in spite of the comparison with the extremely negative August and September 2005 (terrorist attacks in Sharm in July 2005). Limiting the analysis to the May-July period, the fall is even stronger (approximately -35%). Please note that, analysing the Sharm El Sheikh airport's arrival data, the traffic drop was mainly due to the Italian market; indeed, overall traffic reported a smaller contraction (-12%) between January and July and was aligned with 2005 in January-August.
- As for charter traffic at the Malpensa airport – Eurofly's reference airport – the January-August period showed a -9% decrease compared to the previous year.

1.3. Regulatory framework

Please refer to the half year report on operations at June 30, 2006 for an analysis of the most important regulatory actions taken in the period. The elements of the regulatory framework subject to changes at September 30 are described as follows.

- **Law no. 248/2005 on “System requirements”**

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

1. cancellation of the surcharge, equal to 50% for night flights, on landing, take-off, stop-over and maintenance fees charged by domestic airports;
2. cancellation of so-called “royalties”, surcharges applied by airport companies and carrier service suppliers that are not connected to the costs actually sustained for the services provided; a typical example are royalties on fuel supplies;
3. reduction of airport fees (passengers, landing, take-off and stop-over) in an amount equal to the decline of royalty fees paid by airports;
4. reduction, related to production recovery and development targets, the level of the services offered and the amount of the sustained expenses, of terminal and route taxes;
5. acknowledgement of the airline carrier’s responsibility in safety matters, with the consequent attribution of a portion of the associated compensation to the latter. The Italian Ministry of Transportation and ENAC (National Agency for Civil Aviation) supplied indications to interpret the abovementioned law.

From a judicial point of view some domestic airport companies lodged an appeal to obtain the annulment – with a previous suspension as a precautionary measure - of law no. 248/05. In this context Eurofly – as the party benefiting from the application of said regulation – was also notified of an appeal from the Company “Aeroporti di Roma” with the Regional Administrative Court of Latium against ENAC and the Italian Ministry of Transportation. Following the Italian Board Airlines Representatives’ (IBAR) opposition during the October 26, 2006 hearing, the Court resolved to decide in respect of the request to integrate the cross examination and to fix a new hearing to discuss the reasons of the appeal.

In reference to the indications in point 2 related to the cancellation of the so-called royalties, we note that directives to explain the changes introduced in the regulation were issued by ENAC, Assaereo (Air Carrier Association) and other category associations.

To date, the provisions of the aforementioned regulations as well as the enforcement measures issued by the relevant public authorities (including ENAC's communications from September 15, 2006) are subject to procedures – already started or to be started – with the relevant judicial, ordinary and administrative authorities, whose outcome is uncertain.

In this respect it should be noted that the oil company ENI sued various air carriers, amongst which Eurofly, in the Court of Rome on the matter. They requested the Court to verify and declare that said carriers are obliged to reimburse the royalty fees that ENI must pay to the airport companies. The first hearing will be held on December 15, 2006.

1.4. Operations and operating activity

1.4.1. Aircraft fleet

In the first nine months of 2006 the Medium Range fleet was substantially the same as in the first nine months of 2005, because the current composition of eight aircraft had been reached in February 2005 after the entry of the A320 I-EEZK and the completion of the MD80 fleet disposal. In the first nine months of 2006 the configuration of the Long Range fleet remained unchanged at three A330 aircraft as in May 2005, when the last A330 was delivered.

On April 5, 2006 the A319 LR Corporate Jetliner aircraft entered the fleet. This aircraft had been acquired in finance leasing in May 2005 and then leased to the Saudi company NAS in 2005 and in the first quarter of 2006. The following table shows Eurofly's fleet between January 2005 and September 2006.

Registration mark	Type	Entry in fleet	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06	apr-06	May 06	Jun 06	Jul 06	Aug 06	Sep 06	
I-EEZB	A330	Aug 02																						
I-EEZA	A330	Sep 02																						
I-EEZJ	A330	May 05																						
I-EEZC	A320	Oct 02																						
I-EEZD	A320	Feb 03																						
I-EEZE	A320	Mar 03																						
I-EEZF	A320	Apr 03																						
I-EEZG	A320	May 03																						
I-EEZH	A320	Dec 04																						
I-EEZI	A320	Dec 04																						
I-EEZK	A320	Feb 05																						
I-DAVD	MD-82	May 04																						
I-DAVC	MD-82	Jun 04																						
I-ECJA	A319	Apr 06																						

In 2005 Eurofly took aircraft on wet lease with the goal to increase its Medium Range summer offer and to anticipate the Long Range fleet configuration of three aircraft, hence satisfying the market demand. In 2006 the Company did not take aircraft on wet lease because of the entry in fleet of the new A330 and of the evolution of the market scenario.

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

The eight A320 Medium Range aircraft currently in fleet were acquired in leasing. The most significant terms of the contracts are summarised as follows:

Registration mark	I-EEZC	I-EEZD	I-EEZE	I-EEZF	I-EEZG	I-EEZH	I-EEZI	I-EEZK
Year of construction	2002	2003	2003	2003	2003	1997	1997	1999
Start of leasing	Oct-02	Feb-03	Mar-03	Apr-03	May-03	Dec-04	Dec-04	Feb-05
End of leasing	Oct-08	Feb-09	Mar-09	Apr-08	May-08	Dec-09	Dec-09	Oct-09
Duration of leasing	6,0	6,0	6,0	5,0	5,0	5,0	5,0	4,7

The three A330 aircraft have also been acquired in leasing, as indicated in the following table:

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

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

1.4.2. Commercial activity

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

- minimizing the impact of the July 2005 terrorist attack in Sharm El Sheikh and of the hurricanes in the Caribbean area at the end of 2005

- minimizing the effect of the lapsed renewal of the agreement with Teorema Tour
- launching new routes to New York from Rome (A330 aircraft) and Milan (A319 Corporate Jet)

In particular the Medium Range capacity offered on the leisure market decreased as in 2005 the Company had already decided to lease two aircraft to the My Way carrier in ACMI¹ mode until April 2006. This business, launched for strategic purposes, has also been continued with other carriers in 2006 and given the good results will also be pursued in the future. Furthermore the Company did not take Medium Range aircraft on wet lease from third-party carriers, as acquiring extra capacity in summer was deemed risky in that market scenario, the low marginality expected from the deal and a more stringent regulatory framework regarding the use of other carriers' capacity.

Through these actions the Eurofly fleet's productivity remained substantially in line with the previous year, despite potentially adverse events such as the lapsed renewal of the agreement with Teorema Tour and the up-and-down trend of traffic towards the Red Sea, which was heavily penalized by cancellations in June and July following the crisis in the Middle East. In Medium Range the losing of the tender for the transport of the Italian Army troops caused a decrease of sold hours as of July, which were only partially recovered through specific actions on the seasonal peak.

Conversely, the interruption of business with Teorema Tour had a stronger impact on the Long Range segment especially until April. The contract, which was under negotiation until the break of the relationship, provided for Long Range sales of circa Euro 11 million in winter to be partially achieved through rotations fully acquired from Teorema Tour and partially through allotments (share of aircraft seats). While the rotations to be bought from Teorema Tour were not replaced as it turned out to be impossible just ahead of departures, almost all allotments have been sold through a massive use of multi-channel distribution. Indeed, Eurofly equipped itself with the necessary instruments to sell flights to Tour Operators, travel bureaus and final customers through various sales channels (call centre, web site, distribution with all GDS both in Italy and in flight destination countries) and managed to increase its seat offer on these channels dramatically, obtaining good results in terms of loading.

In summer however, the termination of the contract with Teorema Tour did not affect business significantly (as indicated by fleet productivity), since the rotations acquired from Teorema Tour were replaced by an increase of scheduled flights to New York from seven a week in 2005 to ten in 2006 over a longer execution period (from mid June to mid September in 2005 and from mid May to mid November in 2006). A Rome-New York flight has been added this

¹ A.C.M.I: Aircraft, Crew, Maintenance and Insurance. It is a type of contract to lease aircraft from or to third parties, whose rent is inclusive of aircraft, crew, maintenance and insurance costs.

year to the existing routes from Bologna, Naples and Palermo. This new connection turned Eurofly into the airline carrier offering the highest number of direct flights between Italy and New York.

Furthermore, in May 2006 Eurofly launched the new “All Business” connection between Milan and New York operated through aircraft A319 CJ. Eurofly should have acted as the reference carrier of the association Club Milano – Manhattan (MiMa) as from May 8, 2006 by making its 48-seat A319 CJ aircraft available as per a lease contract stipulated with MiMa.

MiMa is a non-profit cultural association, whose primary objective is to promote exchanges and networking between the Milan and New York business communities. Amongst the most relevant services that MiMa intended to offer to its members was the possibility of using private general aviation flights connecting Milano Linate and New York at a price compatible with the “business travel” segment. The agreement with MiMa provided that the A319 aircraft was based at the ATA general aviation terminal of the Milano Linate airport.

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

Following these statements by the US authorities, on May 29 Eurofly started to operate Milan – New York flights from the Malpensa Terminal 2 on its own. The greater distance between the airport and the city is counterbalanced by the possibility to sell the flight through all standard distribution channels directly, whereas all the distinctive features of this exclusive connection, i.e. rapid embarking, comfort on board, time of departure and arrival and customer care, remained guaranteed. However, the revision of the marketing policy shortly after the start of operations negatively affected revenues in the first business period and in general it prolonged its start-up, hence postponing the breakeven.

In summer the A319 aircraft was also used for weekly charter flights towards luxury tourist destinations (Bermudas).

Statistical data and unit revenues

Flight hours by type

In flight hours

2005		Jan-Sept 06	Jan-Sept 05	Δ	Δ %
36.827	Block hours (a)	32.705	30.251	2.453	8,11 %
1.565	ACMI (b)	1.459	328	1.132	na
3.669	REPRO (c)	41	3.563	(3.522)	-
42.060	Total flight hours	34.205	34.142	63	0,18%

(a) Eurofly's flight hours with own aircraft

(b) Flight hours for other Companies with Eurofly aircraft wet leased to other companies

(c) Eurofly's flight hours with other companies' aircraft wet leased to Eurofly

Flight hours by SBU

In flight hours

2005		Jan-Sept 06	Jan-Sept 05	Δ	Δ %
27.996	Medium Range	20.268	22.679	(2.411)	-10,63%
14.064	Long Range	12.235	11.464	771	6,73%
0	All Business	1.703	0	1.703	-
42.060	Total flight hours	34.205	34.142	63	0,18%

The trend of flight hours in the first nine months of 2006 was substantially aligned with the first nine months of 2005, although the mix varied significantly.

Eurofly's flight hours operated with Company aircraft both for own business (net flight hours) and on behalf of other operators (ACMI flight hours) increased, conversely Eurofly's flight hours operated with other companies' aircraft decreased (Repro flight hours). Differently from last year, when the Company took Medium and Long Range aircraft on wet lease (Repro hours weighted more than 10% of the total), the Company has not taken aircraft on wet lease, as specified in the "Aircraft Fleet" paragraph.

Also, the flight hour breakdown by SBU changed in the two periods analysed. The decline of Medium Range (which accounted for 66.4% of total flight hours between January and September 2005 and for 59.3% in 2006) was partly the result of the lower capacity offered in summer and partly of the market weakness, besides of the lacked renewal of the transportation contract with the Italian Army. The reduction of Medium Range flight hours was offset by a growth of Long Range hours also due to the increase of the fleet availability of one

machine month after the inclusion of the aircraft in wet lease present in 2005. The All Business activity, affected by the decision of the US Department of Transport, compensated for the decrease of Medium Range flight hours and weighted circa 5% of total hours in the period analysed.

Fleet productivity					
<i>Annualized flight hours</i>					
2005		Jan-Sept 06	Jan-Sept 05	Δ	Δ %
3.192	Medium Range	3.374	3.374	0	0,01%
5.441	Long Range	5.430	5.629	(199)	-3,53%
0	All Business	4.086	0	4.086	0,00%

Fleet productivity (including wet lease)					
<i>Annualized flight hours</i>					
2005		Jan-Sept 06	Jan-Sept 05	Δ	Δ %
3.153	Medium Range	3.374	3.308	66	2,00%
5.247	Long Range	5.430	5.356	74	1,37%

In the first nine months of 2006 the analysis of Medium Range fleet productivity referred to Eurofly's aircraft alone was aligned with the same period in 2005, whilst showing an improvement including the fleet in wet lease. Long Range productivity dropped slightly compared with last year as far as the proprietary fleet is concerned, whilst showing an improvement including the aircraft in wet lease used in the first months of 2005 in the comparison. This because the Company tried to concentrate operations on its two aircraft instead of using the three aircrafts available in the quarter more homogeneously, following the cancellations of operations on the Maldives.

Passengers carried					
2005		Jan-Sept 06	Jan-Sept 05	Δ	Δ %
1.603.240	Total passengers	1.212.866	1.291.187	(78.321)	-6,07%
1.496.293	Eurofly	1.117.315	1.269.800	(152.485)	-12,01%
106.947	Other carriers	95.551	21.387	74.164	346,77%
1.199.611	Medium Range	876.584	968.170	(91.586)	-9,46%
403.629	Long Range	333.500	323.017	10.483	3,25%
0	All Business	2.782	0	2.782	-

The total amount of passengers carried declined by circa 6% vs an increase of passengers carried by Eurofly on behalf of other carriers, following the increase of the ACMI flight hours, partially compensating for the drop of passengers carried by Eurofly for its own business. In respect of destinations, Medium Range passengers decreased as well as flight hours, whereas Long Range passengers increased following an expansion of the capacity offered and the load factor improvement. In this respect we highlight that the amount of Long Range passengers carried in 2005 was the result of the greater capacity of the Star aircraft (in wet lease) compared to Eurofly's aircraft (364 seats vs 282).

Passengers carried - NY scheduled leisure flights

2005		Jan-Sept 06	Jan-Sept 05	Δ	Δ %
36.764	Passengers carried	78.013	36.764	41.249	112,20%
54.144	Seats offered	111.672	54.144	57.528	106,25%
67,9%	Load factor	69,9%	67,9%	1,96	-

With reference to the scheduled leisure flights to New York – of great importance for the Company's product portfolio – the first nine months of 2006 highlighted that, despite a doubled offer capacity, the amount of passengers grew by a greater proportion almost hitting a 70% load factor. The volume increase was the result of an expansion of operations (from seven to ten flights a week), and by their start in mid May, one month earlier compared to last year. The increase of the average load factor in the period was satisfactory, considering that the Rome connection was launched in the low season and in competition with the main American and Italian carriers. By restricting the analysis to the same business period as last year (June-September), the load factor improved by almost 7 points.

The "All Business" connection from Milan to New York was operated regularly in the third quarter. The load factor, equal to 16% in the launch month, climbed up to 23% in the third quarter. The load factor was still suffering from the shift of the flight from Linate to Malpensa with a longer start-up period, also compared to other scheduled flights operated by Eurofly, to achieve targets at regime.

Revenue per flight hour

Euro

2005		Jan-Sept 06	Jan-Sept 05	Δ	Δ %
6.417	Total Eurofly *	6.699	6.411	288	4,49%
5.439	Medium Range	5.824	5.516	307	5,57%
8.255	Long Range	8.723	8.156	567	6,95%

* including A319 flight hours and revenues

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

The analysis of revenue per flight hour in January-September 2006 showed an improvement compared to the same period in 2005 both in Medium and Long Range. The 2005 Long Range figure was also influenced by a greater availability of seats on the Star aircraft used in the first four months of 2005. Such a positive result was the consequence of a sales policy focused on yield improvement in a scenario characterized by rising average costs, especially fuel.

1.4.3. Selection of a new partner for maintenance

Negotiations between Eurofly and EADS Sogerma Services started in 2005 and aimed at creating a company based at the Malpensa airport providing maintenance services to all carriers present at the airport, broke off at the end of the first half of 2006. This was the consequence of Sogerma's difficulties and the declared intention of its parent company EADS to reduce maintenance activities and to sell the company by 2006. Hence, Eurofly decided to terminate the maintenance contract with Sogerma in advance. As a result, Eurofly sent an offer request to the most reliable European suppliers in order to find a new partner able to provide maintenance services to the aircraft and components of Eurofly's fleet.

1.4.4. Tax police inspection

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

2. FINANCIAL RESULT ANALYSIS

2.1. Nine months' results

The results of the first nine months of 2006 compared to the same period in 2005 must also be analysed considering the different fleet configuration and employment. Between January and September 2005 Eurofly's fleet was integrated by the use of aircraft acquired through wet lease in ACMI mode (operating and fuel costs borne by Eurofly) both in Medium and Long Range. After the entry in fleet of the third Long Range aircraft in May 2006 and the new Medium Range market scenario, in 2006 Eurofly stopped this practice and even wet leased two aircraft to the My Way carrier in ACMI mode until April 2006.

Despite the smaller commercial fleet, revenue from sales and services rose +2,7% in the first nine months of 2006 compared to the same period in 2005, going from Euro 224,6 million to Euro 230,7 million.

The different fleet configuration and employment described above caused a reduction of wet lease costs. This, together with an operating cost decline obtained, amongst others, from the renewal of some supply contracts, compensated for the fuel price increase through an EBITDAR improvement of more than +14% from Euro 27 million in the first nine months of 2005 to Euro 30,8 million in the same period in 2006 with a margin expansion from 12,0% to 13,3%.

The expansion of the fleet in operative rentals, the rising trend of interest rates (to which some leasing agreements are indexed) and of the Euro/US dollar exchange rate were the main drivers of the operative rental cost increase and, consequently, of the EBITDA decline from Euro 7,1 million in the first nine months of 2005 to Euro 4,8 million in the same period in 2006. The EBIT decline of circa Euro 5,5 million was the result of the higher depreciation after the entry in fleet of the A319 aircraft in May 2005 and the increased accruals to the bad debt reserve, besides the negative EBITDA performance.

The net loss of Euro 6,6 million (vs Euro 3,2 million profit in the same period in 2005) was also affected by Euro 3,8 million of financial expenses, which, amongst others, also include Euro 1,2 million of interests payable related to the A319 leasing and Euro 1,7 million of negative forex differences linked to the Euro appreciation between December 2005 and September 2006 (hence, mainly to the write-off of the assets in US dollar).

		Reclassified income statement						
2005	% on revenues	<i>Euro/000 UNAUDITED</i>	Jan - Sept 2006	% on revenue	Jan - Sept 2005	% on revenue	Δ	Δ %
271.475	100,0%	Revenue from sales and services	230.685	100,0%	224.656	100,0%	6.029	2,7%
5.986	2,2%	Other revenue and income	5.682	2,5%	3.548	1,6%	2.134	60,1%
277.461	102,2%	Total revenue	236.367	102,5%	228.204	101,6%	8.163	3,6%
2.674	1,0%	Direct commercial expenses	5.437	2,4%	2.718	1,2%	2.719	100,0%
72.535	26,7%	Jet fuel	70.899	30,7%	59.193	26,3%	11.705	19,8%
39.143	14,4%	Staff costs	30.442	13,2%	30.588	13,6%	-146	-0,5%
33.137	12,2%	Materials and maintenance services	30.912	13,4%	27.182	12,1%	3.730	13,7%
84.156	31,0%	Other operating costs and wet lease	55.015	23,8%	72.313	32,2%	(17.298)	-23,9%
14.280	5,3%	Other commercial and corporate costs	12.876	5,6%	9.227	4,1%	3.649	39,5%
27.034	10,0%	Operative rentals	26.014	11,3%	19.918	8,9%	6.096	30,6%
4.836	1,8%	Depreciation and amortization	4.758	2,1%	3.026	1,3%	1.732	57,2%
2.000	0,7%	Other provisions	1.487	0,6%	300	0,1%	1.187	395,6%
559	0,2%	Provisions for risks and charges	728	0,3%	435	0,2%	293	67,3%
280.357	103,3%	Total costs	238.566	103,4%	224.900	100,1%	13.667	6,1%
(2.896)	-1,1%	Operating results	(2.199)	-1,0%	3.304	1,5%	(5.504)	-166,6%
(225)	-0,1%	Financial income / (charges)	3.862	1,7%	123	0,1%	3.739	3043,7%
(2.671)	-1,0%	Pre-tax profit	(6.061)	-2,6%	3.182	1,4%	(9.243)	-290,5%
1.685	0,6%	Tax charges	504	0,2%	1.548	0,7%	(1.044)	-67,5%
(1.581)	-0,6%	(Profit) / loss on sales of assets	0	0,0%	(1.581)	-0,7%	1.581	-100,0%
(2.775)	-1,0%	Net profit / (loss)	(6.565)	-2,8%	3.214	1,4%	(9.779)	-304,2%

Translated from the original version in Italian

Revenue

In 2006 revenue from sales and services grew by Euro 6.029 thousand compared to the first nine months of 2005, despite substantially aligned flight hours in the two periods. This was mainly the result of the good performance of the Long Range business and the start of the All Business activity, absent last year, which more than offset the decline of Medium Range revenue.

Revenue from sales and services

Euro/000

2005		Jan-Sept 06	Jan-Sept 05	Δ	Δ %
-	All Business	3.168	-	3.168	0,00%
149.204	Medium Range	113.851	125.668	(11.817)	-9,40%
122.271	Long Range	113.666	98.988	14.678	14,83%
271.475	Total	230.685	224.656	6.029	2,68%

The decline of Medium Range revenue was the effect of the volume and flight hour mix. The first factor was linked to a decrease of flight hours as a consequence of the lower capacity

offered (no aircraft given on wet lease in summer). The second was related to the higher weight of the ACMI business, that involves a lower unit revenue for charter flights (as per ACMI contracts, operating and fuel costs are borne by the buyer), in the six months. Conversely, it should be noted that the average revenue per flight hour of Eurofly's flights was up 6% in the period compared to last year.

As to Long Range, the increase of revenue from sales and services was due to the combined effect of the increase in flight hours of 6,7% and in the average revenue per flight hour of approximately 7%.

The All Business activity, which includes revenue from both scheduled and charter flights (the latter are operated as a complementary activity in summer, which represents the low season of business traffic) is experiencing start-up problems, as described in the previous paragraphs.

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

Other revenue reported a significant increase of Euro 2.134 thousand, which include higher penalties charged to Tour Operators for cancellations as required by contractual provisions, and contributions for operating expenses obtained in support of the All Business activity.

Costs

- **Direct commercial expenses**

Commercial expenses rose by Euro 2.719 thousand and their weight on revenue went from 1,2% in the first nine months of 2005 to 2,4% in 2006. The expansion of the scheduled Long Range business and the start of the All Business mainly caused a significant growth of commercial and distribution costs.

- **Jet fuel**

Fuel costs rose by Euro 11.705 thousand with a weight on revenue from sales and services rising from 26,3% to 30,7%. This growth must be ascribed to the increased price of crude oil and refined products that affect jet fuel quotations and to the strengthening of the US dollar in the first nine months of 2006 vs 2005, which were only partially offset by the positive effect of the carrying out of part of the Medium Range business through ACMI contracts (fuel and other operating costs borne by the client).

- **Staff costs**

Staff costs were substantially aligned with the first nine months of 2005 and their weight on revenue dropped slightly. As analysed in paragraph 10, despite the fleet expansion, the average flight staff increased modestly reflecting a more efficient use of the resources.

- **Materials and maintenance services**

The costs of materials and maintenance services increased by Euro 3.730 thousand following the entry in fleet of the third A330 in operative rental at the end of May 2005 that replaced the 2005 wet leases (whose maintenance costs were not borne by Eurofly), the entry in fleet of the A319 and the structural increase of the maintenance costs of a few A320 aircraft related to the maturity factor, i.e. the reaching of age limits associated with cost increases in maintenance contracts. Maintenance costs were also penalized by the US dollar exchange rate. The increase of catering costs, included among the costs of materials in the income statement, should be added to this, as a consequence of the start of the All Business activity and the increase of scheduled flights.

- **Other operating costs and wet lease**

As indicated in the table below, this cost item reported a 23,9% decrease compared to the previous period.

2005	% on revenue		Jan-Sept 06	% on revenue	Jan-Sept 05	% on revenue	Δ	Δ %
71.172	26,3%	Other operating costs	54.825	23,8%	59.584	26,5%	(4.759)	-8,0%
12.984	4,8%	Wet lease	190	0,1%	12.729	5,7%	(12.539)	-98,5%
84.156	31,0%	Total	55.015	23,8%	72.313	32,2%	(17.298)	-23,9%

As already pointed out, in 2005 Eurofly took aircraft on wet lease both in Medium (in summer, to profit by the peak of demand) and Long Range (in the first four months of the year, to anticipate the effect of the entry in fleet of the last A330 acquired). In 2006 the Company did not resort to this instrument, considering the expansion of the Long Range fleet and the evolution of the market scenario. Also, in 2006 aircraft wet leases declined significantly as a way to cope with the operational needs. As a result, the associated wet lease costs diminished by circa Euro 12.539 thousand.

The reduction of the other operating costs of Euro 4.759 thousand was mainly due to the replacement of the own business with ACMI activities on behalf of third parties (operating costs borne by the client), to the renewal of contracts with some suppliers (especially airport service suppliers) and to the implementation of the “System requirements” regulations (law no. 248/2005 of December 2, 2005). On the other hand, insurance costs increased as a result of

the fleet expansion, and some types of costs were penalized by the US dollar appreciation vs the Euro.

- **Other commercial and corporate costs**

This cost item rose by approximately Euro 3.649 thousand mainly due to an increase of the expense for commercial campaigns and sponsorships, amongst which those related to the National Italian Football Team, to costs previously suspended and related to the start of A319, and to additional charges linked to the LAG acquisition project represented by consultancy fees paid.

- **Operative rentals**

The increase of operative rentals is detailed in the table below:

2005		Jan-Sept 06	Jan-Sept 05	Δ	Δ %
17.581	A320	16.101	12.447	3.654	29,4%
9.435	A330	9.913	7.471	2.441	32,7%
27.034	Total	26.014	19.918	6.096	30,6%

The increase of Medium Range aircraft rentals was the result of various factors, such as the interest rate increase (to which the rentals of five of the eight A320 leased are indexed), the increase of machine months compared to last year and the renegotiation of some contracts expired in 2005, which caused an increase of the lease values of the three aircraft, as well as the aforementioned appreciation of the US currency. As to the Long Range fleet, the increase was principally linked to the entry in fleet of the new A330, besides the aforementioned forex trend. The higher costs partly offset the decrease of wet lease costs sustained in the first half of 2005 to expand the Long Range fleet to three aircraft.

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

The increase of depreciation and amortization, equal to Euro 1.732 thousand, was mainly the result of the entry in fleet of the A319 CJ (generating D&A costs of approximately Euro 1,5 million in the first nine months of 2006 vs Euro 0,8 million in the first nine months of 2005), besides by higher D&A costs deriving from investments for modifications to the A330 fleet in the second half of 2005.

The increase of the other provisions was mainly the result of the accruals to the bad debt reserve.

Operating result

Following the aforementioned trends the operating result of the first nine months of 2006 was negative for Euro 2.199 thousand, falling by Euro 5.504 thousand compared to the same period in 2005.

- **Financial income and expenses**

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

<i>Euro/000</i>	Jan-Sept 06	Jan-Sept 05	Δ
Interests payable on A319 leasing	(1.234)	(509)	(725)
Fair value on derivatives	(126)	285	(410)
Commissions on granted credit lines	(349)	(226)	(123)
Other income and financial charges	(396)	(554)	158
Loss/(gains) on exchange rates	(1.757)	881	(2.638)
Total income and financial expenses	(3.862)	(123)	(3.739)

The increase of financial charges was mainly the consequence of the higher interests payable on the A319 leasing, of costs for credit lines replacing securities deposits, of the valuation of US dollar derivatives at fair value, of other income and financial charges and of the net loss on exchange rates.

The loss on exchange rates mainly derived from unrealized items related to the write-down of the guarantee deposits following the US dollar devaluation vs the Euro compared with the end-2005 figure and the figure at the end of September 2006.

- **Tax charges of the period**

In the first nine months of 2006 taxes were negative for Euro 504 thousand. The amount was generated by the allocation of current taxes, related to IRAP alone (regional tax for productive activities), worth approximately Euro 1.287 thousand, against the payment of deferred tax assets worth Euro 783 thousand net.

Result of the period

Based on the aforementioned, the result of the first nine months of 2006 was negative for Euro 6.565 thousand compared to a positive result of Euro 3.214 thousand in the previous period, which also benefited from Euro 1.581 thousand of capital gains on the sale of the MD80/82.

2.2. Third quarter results

Reclassified income statement						
<i>Euro/000 UNAUDITED</i>	III quarter 2006	% on revenue	III quarter 2005	% on revenue	Δ	Δ %
Revenue from sales and services	99.813	100,0%	96.797	100,0%	3.016	3,1%
Other revenue and income	1.066	1,1%	2.785	2,9%	(1.718)	-61,7%
Total revenue	100.879	101,1%	99.582	102,9%	1.297	1,3%
Direct commercial expenses	2.243	2,2%	1.274	1,3%	969	76,0%
Jet fuel	29.880	29,9%	26.445	27,3%	3.435	13,0%
Staff costs	11.015	11,0%	11.269	11,6%	(254)	-2,3%
Materials and maintenance services	12.214	12,2%	10.885	11,2%	1.329	12,2%
Other operating costs and wet lease	23.704	23,7%	29.626	30,6%	(5.921)	-20,0%
Other commercial and corporate costs	4.729	4,7%	2.909	3,0%	1.819	62,5%
Operative rentals	8.550	8,6%	8.043	8,3%	507	6,3%
Depreciation and amortization	1.481	1,5%	1.519	1,6%	(39)	-2,6%
Other provisions	0	0,0%	(22)	0,0%	22	-100,0%
Provisions for risks and charges	293	0,3%	(83)	-0,1%	375	-454,1%
Total costs	94.108	94,3%	91.866	94,9%	2.242	2,4%
Operating results	6.771	6,8%	7.715	8,0%	(944)	-12,2%
Financial income / (charges)	238	0,2%	451	0,5%	(213)	-47,2%
Pre-tax profit	6.533	6,5%	7.264	7,5%	(732)	-10,1%
Tax charges	1.105	1,1%	850	0,9%	256	30,1%
(Profit) / loss on sales of assets	0	0,0%	(1)	0,0%	1	-100,0%
Net profit / (loss)	5.428	5,4%	6.416	6,6%	(988)	-15,4%

Translated from the original version in Italian

In the third quarter 2006 the total amount of flight hours remained unchanged compared to the same period in 2005, despite the different mix. The amount of Medium Range flight hours decreased by 1.480 hours due to the reduced fleet availability (in the third quarter of 2005 Eurofly took aircraft on wet lease for four machine months). The amount of Long Range flight hours increased by 224 hours with unchanged fleet availability thanks to the increased productivity. The start of the All Business activity added 1.286 flight hours.

Flight hours by SBU*In flight hours*

2005		III quarter 2006	III quarter 2005	Δ	Δ %
27.996	Medium Range	8.073	9.553	(1.480)	-15,49%
14.064	Long Range	4.548	4.324	224	5,18%
0	All Business	1.286	0	1.286	0,00%
42.060	Total flight hours	13.906	13.876	30	0,22%

The revenue of the period reflects the hours' trend. The total increase of circa Euro 3 million was mainly the result of Long Range (growing by more than Euro 7,3 million vs the same period last year) and All Business (absent last year), whose growth was partially offset by the decline of Medium Range revenue of approximately Euro 7 million.

Revenue from sales and services*Euro/000*

2005		III quarter 2006	III quarter 2005	Δ	Δ %
-	All Business	2.728	-	2.728	0,00%
149.204	Medium Range	51.053	58.110	(7.057)	-12,14%
122.271	Long Range	46.032	38.687	7.345	18,99%
271.475	Total	99.813	96.797	3.016	3,12%

The Euro 1,7 million decrease of other revenue was mainly due to the lease of the A319 aircraft to the Saudi company NAS in the third quarter 2005 and not performed in 2006.

In order to better understand the trend of the third quarter, the following table shows the EBITDAR and EBITDA figures.

<i>Euro/000</i>	III quarter 2006	III quarter 2005	Δ	Δ %
EBITDAR	17.094	17.173	(79)	-0,5%
Percentage on total revenue	16,90%	17,20%		
EBITDA	8.544	9.130	(586)	-6,4%
Percentage on total revenue	8,50%	9,20%		

The EBITDAR alignment with the third quarter of 2005 derived from the improved results of the traditional Business Units, which compensated for the All Business performance. The EBITDA decline was caused by the higher leasing costs because of the indexation to interest rates and of contract renewals. The higher provisions to maintenance funds further contributed to the Euro 944 thousand drop in the operating result.

The quarter closed with a net profit of Euro 5,4 million. The decrease compared to the same period in 2005 was broadly in line with the EBIT.

3. STAFF

Between January and September 2006 the average paid Ground Staff decreased compared to the same period last year. Indeed, in the first nine months of 2006, the Company reduced its average paid staff through an improvement of the organizational structures' efficiency, despite having hired new people following the IPO and having strengthened some positions in order to cope with the business growth.

The average paid Flight Staff increased slightly compared to same period in 2005, especially as far as Flight Staff is concerned. This figure ought however to be analysed in the light of the entry in fleet of the two aircraft, an A330 in June 2005 and an A319 in 2006, both used for Long Range destinations. The following table summarizes the average paid staff figure in the period.

2005	Category	Jan-Sept 06	Jan-Sept 05	Change 06-05
7,9	Managers	11,5	7,8	3,7
187,3	Employees	179,5	188,7	-9,2
195,2	Total ground staff	191,0	196,5	-5,5
128,2	Pilots	131,4	129,2	2,2
266,1	Flight assistants	295,4	277,2	18,2
394,3	Total flight staff	426,8	406,3	20,5
589,5	Total staff	617,7	602,8	14,9

4. FINANCIAL ITEMS AND OTHER BALANCE SHEET ITEMS

4.1. Net Financial Position

The Company's net financial position at the end of September 2006 has evolved as follows:

30 Sept 05	<i>Euro/000</i>	30 Sept 06	31 Dec 05	Δ
18.489	RECEIVABLES CLASSIFIED AS FINANCIAL FIXED ASSETS	8.175	18.906	(10.731)
-	RECEIVABLES CLASSIFIED AS CURRENT ASSETS	5.000	-	5.000
5.386	CASH AND EQUIVALENTS	21.243	32.272	(11.029)
17.824	DERIVATIVES CONTRACTS INCLUDED IN CASH EQUIVALENTS	17.315	8.477	8.838
<u>23.210</u>	<u>SUB-TOTAL CASH AND EQUIVALENTS</u>	<u>38.558</u>	<u>40.749</u>	<u>(2.190)</u>
(25.605)	AMOUNTS DUE TO BANKS	(8.908)	(18.529)	9.622
(17.539)	DERIVATIVES CONTRACTS INCLUDED IN BANK DEBTS	(17.106)	(8.142)	(8.964)
<u>(43.144)</u>	<u>SUB-TOTAL BANK DEBTS</u>	<u>(26.013)</u>	<u>(26.671)</u>	<u>658</u>
(28.230)	AMOUNTS DUE TO LEASING COMPANIES	(26.398)	(27.816)	1.417
-	AMOUNTS DUE TO SHAREHOLDERS	(4.500)	(4.500)	-
(5.860)	AMOUNTS DUE TO FACTORING COMPANIES	-	-	-
(4.761)	AMOUNTS DUE TO OTHER CREDITORS	(4.275)	(4.761)	486
<u>(40.296)</u>	<u>NET FINANCIAL POSITION</u>	<u>(9.453)</u>	<u>(4.093)</u>	<u>(5.359)</u>

The decrease of receivables classified as financial fixed assets is to be ascribed to the assignment of a capitalization contract with lump sum premium of approximately Euro 10,8 million included in receivables classified as financial fixed assets.

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

The deposit related to the Livingston acquisition project was reclassified among receivables included in the "other assets" item of current assets due to the unblock in October 2006, while it was previously included in "financial fixed assets" among the non current assets. The unblock of the deposit is better described in paragraph 9.1.

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

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

30 Sept 05	<i>Euro/000</i>	30 Sept 06	31 Dec 05	Δ
(40.296)	NET FINANCIAL POSITION	(9.453)	(4.093)	(5.359)
(18.489)	RECEIVABLES CLASSIFIED AS FINANCIAL FIXED ASSETS	(8.175)	(18.906)	10.731
-	AMOUNTS DUE TO SHAREHOLDERS	4.500	4.500	-
	AMOUNTS DUE TO LEASING COMPANIES			
26.528	<i>Non current portion</i>	24.603	26.104	(1.501)
	AMOUNTS DUE TO OTHER CREDITORS			
4.270	<i>Non current portion</i>	3.767	4.270	(503)
(27.986)	SHORT TERM NET FINANCIAL POSITION	15.241	11.875	3.367
-	RECEIVABLES CLASSIFIED AS CURRENT ASSETS	(5.000)	-	(5.000)
	AMOUNTS DUE TO LEASING COMPANIES			
1.702	<i>Current portion</i>	1.796	1.712	84
	AMOUNTS DUE TO FACTORING COMPANIES			
5.860	<i>Current portion</i>	-	-	-
	AMOUNTS DUE TO OTHER CREDITORS			
491	<i>Current portion</i>	508	491	17
(19.934)	NET CASH AND EQUIVALENTS	12.545	14.077	(1.532)

Analysis of receivables and of net cash and equivalents

i. Receivables classified as financial fixed assets

At September 30, 2006 the receivables classified as financial fixed assets, amounting to Euro 8.175 thousand, were represented by a restricted deposit with Unicredit, pledged as a collateral to obtain a credit line from Unicredit as security for the leasing stipulated with Locat S.p.A. for the purchase of the A319 CJ. The credit line lasts until the thirtieth day following the expiry of the aforementioned ten-year leasing agreement.

Besides the value of the restricted deposit with Unicredit, at December 31, 2005 these receivables, equal to Euro 18.906 thousand, included a capitalization contract with lump sum premium worth Euro 10.841 thousand, pledged as a collateral for the credit lines granted by Banca Profilo.

In February 2006 the Company decided to extinguish the credit line granted by Banca Profilo, since the spread between the cost of money related to the use of the credit line and the yield of the above-mentioned capitalization contract, pledged as security for the credit line, could no longer justify that transaction. The proceeds generated by the assignment of the contract were used to pay off the aforementioned credit line worth Euro 10.000 thousand.

ii. Receivables classified as current assets

These receivables, equal to Euro 5.000 thousand, are represented by the deposit made in the second quarter of 2006 for the LAG acquisition. In particular, Euro 4.0 million were transferred in a term escrow account linked to the payment of the purchase price, while Euro 1 million were paid to "I Viaggi del Ventaglio S.p.A". directly, subject to a pledge on avionic spare parts in favour of Eurofly. In October 2006 Eurofly recovered these amounts. The receivable was reclassified among current assets following the Company's decision to give up the acquisition project and the subsequent refund of the deposit, as better described in paragraph 9.1.

iii. Net cash and equivalents

Net cash and equivalents at September 30, 2006, equal to Euro 38.558 thousand, consisted of credit balances of bank accounts, worth Euro 21.243 thousand, which benefited from the greenshoe exercise. Net cash and equivalents also included US dollar derivatives forward exchange contracts amounting to approximately Euro 17.315 thousand in total as of September 30, 2006, valued at fair value. As of December 31, 2005 net cash and equivalents included US dollar derivative forward exchange contracts in the amount of Euro 8.477 thousand, valued at fair value.

The valuation of these contracts at fair value had an overall impact on the income statement equal to a Euro 126 thousand loss in the first nine months of 2006.

Analysis of financial debts

iv. Amounts due to banks

The amounts due to banks were equal to Euro 26.013 thousand and included bank overdrafts worth Euro 8.908 thousand, as well as US dollar derivatives forward exchange contracts for Euro 17.106 thousand as of September 30, 2006, valued at fair value. As of December 31, 2005 the US dollar derivatives forward exchange contracts amounted to Euro 8.142 thousand, valued at fair value.

At September 30, 2006 total credit lines amount to Euro 50.800 thousand, of which Euro 34.463 thousand have already been used. More specifically, these amounts were split into advance payments of invoices for Euro 8.891 thousand, bank guaranties for Euro 20.407 thousand and advances on factoring for Euro 5.165 thousand.

As of September 30, 2006, 38,53% of the credit lines and advances had been used vs 74,21% at December 31, 2005.

v. Amounts due to leasing companies

The amounts due to leasing companies were equal to Euro 26.398 thousand and represented the non-due instalments of the aforementioned leasing agreement for the A319 CJ aircraft stipulated with LOCAT S.p.A.

vi. Amounts due to shareholders

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

vii. Amounts due to other creditors

The amounts due to other creditors were equal to Euro 4.275 thousand, of which Euro 508 thousand payable in 12 months, and included a mortgage loan contracted with Banca Profilo for an initial amount of Euro 5 million in December 2003 for the purchase of the headquarters' building located in Via Bugatti, 15 - Milan. The mortgage loan has a ten-year maturity split in 20 deferred six-monthly instalments. The interest rate is equal to an annual fixed rate of 1% until the second instalment and, subsequently, to the six-month Euribor increased by 130 Bp every year. This debt is guaranteed by a senior mortgage on the building worth Euro 10.000 thousand. The variation compared to December 31, 2005 was due to the payment of the two six-month instalments for a total amount of Euro 486 thousand.

The portion of debt due beyond five years amounts to Euro 1.880 thousand.

4.2. Cash Flow Statement

The analysis of the cash flows is represented as follows:

CASH FLOW STATEMENT		30-Sep-06	31-Dec-05
30-Sep-05			
(4.863)	A. - CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	14.077	(4.863)
	B.- CASH FLOWS (TO) / FROM OPERATIONS		
3.214	Profit / (loss) of the period	(6.565)	(2.775)
3.026	Depreciation and amortization	4.758	4.836
(1.581)	Gains from fixed asset disposals	-	(1.581)
-	Write-down of fixed assets	-	-
(21.445)	Net change in working capital	(9.269)	(7.820)
315	Net variation of staff leaving indemnity	434	121
(16.471)		(10.641)	(7.218)
	C.- CASH FLOWS FROM / (FOR) DISPOSALS / (INVESTMENTS) IN FIXED ASSEST		
	Investments in fixed assets:		
(3.508)	* Intangible	(623)	(2.622)
(40.122)	* Tangible	(1.248)	(46.710)
(13.385)	* Financial	(921)	(17.290)
25.262	Proceeds from the sales of fixed assets	5.534	25.199
(31.753)		2.742	(41.423)
	D.- CASH FLOWS FROM FINANCIAL ACTIVITY		
-	Shareholder loans	-	4.500
-	Financial receivables for LAG acquisition	(5.000)	-
28.773	Withdrawal of A319 financial loan	-	28.773
4.302	Sale of capitalization contracts	10.841	4.302
5.860	Opening of loan with factoring company	-	-
(239)	Payment of loan instalments	(486)	(239)
(543)	Payment of A319 financial loan instalments	(1.417)	(957)
38.152		3.937	36.379
	E. - CASH FLOWS FROM OPERATIONS ON EQUITY		
-	Increase of share capital	390	5.900
(5.000)	Dividends	-	(5.000)
-	Share capital variations connected to the finalization of the listing process	2.039	30.303
(5.000)		2.429	31.203
(15.071)	F. - CASH FLOWS OF THE PERIOD (B+C+D+E)	(1.532)	18.940
(19.934)	G. - CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+F)	12.545	14.077

Please note that as from its report on operations as of June 30, 2006, the Company modified the structure of its Cash Flow Statement highlighting the variations of net cash and equivalents instead of the short-term net financial position, as required by IAS/IFRS.

The cash flow items for the period are analyzed below.

i. Cash flows (to)/from operations

In the first nine months of the year this cash flow item was negative for Euro 10.641 thousand, mainly due to the Euro 6.565 thousand loss of the period and to the increase of the working

capital of Euro 9.269 thousand. In particular, the growth of working capital was influenced by the increase of credit related to the scheduled business, mainly towards credit card managers for sales in North America that are characterized by worse collection conditions compared to the Italian market, as well as by the increase of other assets in the balance sheet such as higher deferred tax assets.

ii. Cash flows from/(for) disposals/(investments) in fixed assets

In the first nine months of the year this cash flow item was positive for Euro 2.742 thousand. The investments in the period amounted to Euro 2.792 thousand vs disposals for Euro 5.534 thousand.

The most important investments, however quite small, were comprised of Euro 414 thousand of software upgrades and hardware purchases, Euro 336 thousand of aircraft improvements and approximately Euro 921 thousand of guarantee deposits.

As to disposals, the period benefited from the talks that the Company started at the end of 2005 with its main service providers to replace the guarantee deposits - granted to suppliers in exchange for special contractual clauses - with bank or insurance guaranties. This generated a positive cash flow of approximately Euro 4,7 million in the period under analysis.

iii. Cash flows from financial activity

This cash flow item was positive for Euro 3.937 thousand in the period as a result of: i) the disposal of the already mentioned capitalization contract with lump-sum premium worth Euro 10.841 thousand; ii) the payment of the short-term instalments of the A319 leasing and of the mortgage; iii) the aforementioned reclassification, creation of two deposits related to the LAG acquisition project, of which the former worth Euro 1.000 thousand paid directly and the latter worth Euro 4.000 thousand transferred to an escrow account that guarantees the acquisition project. As already pointed out, both deposits were re-included in Eurofly's net cash and equivalents in October.

iv. Cash flows from operations on equity

This cash flow item was positive for Euro 2.429 thousand mostly represented by proceeds deriving from the greenshoe exercise in January 2006 to complete the listing process.

4.3. Balance Sheet

The following table shows the main variations of the Balance Sheet. For an analysis please refer to the paragraphs describing the net financial position and the cash flow statement.

30.09.05	<i>Euro/000</i>	30.09.06	31.12.05	Δ
54.707	Tangible fixed assets	57.662	59.902	(2.240)
6.549	Other intangibles	4.484	5.240	(756)
31.007	Other long-term and financial investments	19.635	34.981	(15.346)
1.172	Deferred tax assets	3.922	2.887	1.035
93.435	Total non current assets	85.703	103.009	(17.306)
2.063	Stocks	2.782	2.140	642
53.369	Trade receivables and other receivables	50.372	45.978	4.395
4.979	Other assets	15.385	6.415	8.970
23.210	Cash and cash equivalents	38.558	40.749	(2.190)
83.622	Total current assets	107.097	95.282	11.816
0	Non current assets for disposal	0	0	0
177.057	Total assets	192.800	198.291	(5.491)
7.065	Share capital	13.355	12.965	390
4.159	Reserves	32.486	33.285	(799)
3.214	Profit / (loss)	-6.565	-2.775	(3.790)
14.439	Total net equity	39.277	43.476	(4.200)
30.811	Long-term loans	32.869	34.874	(2.005)
130	Deferred tax liabilities	357	185	172
3.243	Long-term provisions for risks and charges	3.483	3.049	434
34.183	Total non current liabilities	36.710	38.108	(1.398)
70.250	Trade payables and other liabilities	81.040	80.590	451
43.144	Short-term loans	26.013	26.671	(658)
8.040	Current portion of long-term loans	2.304	2.203	101
7.001	Short-term provisions for risks and charges	7.457	7.243	214
128.435	Total current liabilities	116.814	116.707	107
0	Non current liabilities for disposal	0	0	0
177.057	Total net equity and liabilities	192.800	198.291	(5.491)

5. RESEARCH AND DEVELOPMENT

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

6. TREASURY OWNED SHARES

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

7. RELATIONSHIPS WITH SUBSIDIARIES, AFFILIATES, HOLDINGS AND COMPANIES SUBJECT TO THEIR CONTROL

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

8. RELATIONSHIPS WITH RELATED PARTIES

Because of the changes in the Board structure on July 7, 2006, since then Banca Profilo has become a related party.

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

Profilo Spinnaker Investment Fund owns a 99,7% stake of Spinnaker Holding S.A.'s share capital, which controls 100% of Spinnaker Luxembourg S.A.'s capital, which in turn owns 44% of the Company's capital.

Profilo Spinnaker Investment Fund – of which Banca Profilo directly holds a 57,9% stake - is managed by the company Profilo Management Company S.A., approximately 9,9% owned by Banca Profilo S.p.A.

As asset manager Banca Profilo (as at June 30, 2006) holds a stake in the Company equal to 2,8%.

The following table summarizes the amount and nature of the transactions carried out with companies of the Banca Profilo Group between January and September 2006.

BANCA PROFILO GROUP	31/12/2005	30/09/2006
Trade receivables	39.883	-
Trade payables	(300.000)	(100.000)
Financial receivables	30.306.078	18.498.538
Financial payables	(10.102.756)	-
Mortgage loan	(4.761.128)	(4.274.864)
Other revenue	(71.482)	-
Costs of services	(992.029)	(249.920)
Financial income / (charges)	(392.059)	229.165

These transactions have been carried out at market conditions and are analysed as follows.

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

Trade receivables and payables at December 31, 2005 have been extinguished in the first quarter of 2006. More specifically, the Euro 300 thousand debt for IPO advisory services was settled in January 2006. Until September 30, 2006 the Company sustained costs of services equal to Euro 250 thousand, which included payments for financial advisory services related to the acquisition project of the carrier Livingston and fees related to the greenshoe exercise upon completion of the listing process.

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

Eurofly has financial receivables towards Banca Profilo.

A portion of the IPO proceeds has been deposited in a special account with Banca Profilo, (EONIA is the credit rate). As of December 31, 2005 these funds amounted to Euro 30.306 thousand. During the first nine months the funds have been used and transferred to other Company accounts. On the whole, at September 30, 2006 Eurofly's position towards Banca Profilo was positive for Euro 18.499 thousand, from which the mortgage – whose characteristics are described in paragraph 4.1 and of which Euro 4.275 thousand are still due – must be deducted. We highlight that the mortgage loan does not envisage financial covenants or negative pledge clauses.

In 2005 Banca Profilo had granted the Company a cash credit line worth Euro 10.000 thousand (revocable at any time, interest rate equal to the 3M Euribor increased by 1 percentage point and, with regard to the amounts extra credit line, equal to the 3M Euribor increased by 3,5 percentage points), guaranteed by a pledge on a capitalization contract with lump-sum premium. In February 2006 the Company decided to extinguish that credit line, since the spread between the cost of money related to the use of the funds and the yield of the capitalization contract with lump-sum premium pledged as credit guarantee, could no longer justify the transaction. Therefore, the Company decided to sell said contract. Banca Profilo expressed interest in acquiring the contract and paid its counter-value at market

conditions. The proceeds from the contract assignment have been used to extinguish the above-mentioned credit line of Euro 10.000 thousand. Before its assignment the contract had generated an interest income worth Euro 48 thousand in the period.

The net financial income reported in the first nine months of 2006 amounted to Euro 229 thousand and included Euro 426 thousand of interest receivables accrued on credit accounts of IPO proceeds and the aforementioned capitalization contract, net of Euro 197 thousand of interest payables accrued on the cash credit lines and on the mortgage.

In 2005 Banca Profilo granted the Company a stand-by credit line with 18 months minus one day maturity reimbursable upon expiry in the amount of Euro 2.500 thousand, which was partially used during the first months of 2006. At September 30, 2006, the credit line had not been used.

In 2005 the Company stipulated derivatives with Banca Profilo to hedge against foreign exchange fluctuations. At December 31, 2005 said contracts amounted to USD 10.500 thousand. In the first quarter of 2006 these were fully extinguished, while, at September 30, 2006 the Company had no forward exchange derivatives with Banca Profilo.

9. MAIN EVENTS OCCURRED AFTER FIRST NINE MONTHS 2006 END AND PREDICTABLE DEVELOPMENT OF OPERATIONS

9.1. Repayment of the deposit related to the Livingston acquisition

After the stop of negotiations for the Livingston acquisition project, the amounts set aside for the project were unblocked. On October 2 the deposit of Euro 4.000 thousand paid in a term escrow account linked to the payment of the purchase price was unblocked. On October 31 “I Viaggi del Ventaglio” returned an amount of Euro 1.000 thousand paid by Eurofly directly after the return of avionic spare parts pledged to Eurofly worth approximately Euro 1,5 million.

9.2. Evolution of the relationship with Teorema Tour S.p.A.

According to the decisions taken by Eurofly’s Board of Directors in regard to the legal actions aimed at recovering credit from Teorema, an arbitration was started in April 2006 in accordance with the contract. At the beginning of October the parties exchanged memorandums that included questions, evidences and documents. The deadline to submit the reply memorandums was fixed in mid November 2006. The hearing for the treatment and potential conciliation attempt will take place on December 5 in front of the board of arbitrators.

9.3. New partner for maintenance

The search for a new maintenance partner replacing EADS Sogerma led the Company to choose the Swiss company SR Technics, one of the world's leaders in the maintenance of aircraft, engines and components, with which Eurofly stipulated a ten-year maintenance agreement in force as from November 2, 2006. Simultaneously, SR Technics committed itself to setting up a maintenance firm for scheduled aircraft based at the Malpensa airport.

9.4. Predictable development of operations

Considering business seasonality with the fourth quarter marking the end of the high season for Medium Range and its start for Long Range (as from the second half of December), the Company expects a decline of operations towards the end of the year compared to the third quarter. For this reason and due to the aforementioned events that penalized the results in the first part of the year, amongst which the external variables and the extension of the A319's start-up period, the Company confirmed its expectations for a loss at year end, with a negative result that should even worsen compared to the result achieved in the first nine months of the year.

10. RECONCILIATION BETWEEN PREVIOUSLY USED ITALIAN ACCOUNTING PRINCIPLES AND IAS/IFRS WITH REFERENCE TO THE NINE-MONTH PERIOD ENDED ON SEPTEMBER 30, 2005

The effect on net equity at September 30, 2005 and on the result of the first nine months of 2005 are set out below:

	Net equity as of 01/01/05	Distribution of dividends	Jan-Sept 05 result	Net equity as of 30/09/05
Previous principles	16.224	-5.000	2.963	14.187
Accounting of contracts for exchange risk management			285	285
Accounting for financial leased fleet			97	97
Total fiscal effect			-130	-130
IAS/IFRS principles	16.224	-5.000	3.214	14.439