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EUROFLY

14/11/2005 **Aviation** **Initial Public Offer**

Euro (000)	2003	2004	2005e	2006e	2007e
Total Revenues	160.143	233.301	277.176	364.888	435.966
Ebitdar	27.404	24.261	32.354	49.119	65.863
Ebitda	7.774	8.100	3.249	13.722	22.534
Ebit	3.577	4.262	-2.106	6.785	14.966
Net profit	2.722	6.835	-3.109	1.640	5.913
Sales growth		*45,7%*	*18,8%*	*31,6%*	*19,5%*
Ebitdar margin	*17,1%*	*10,4%*	*11,7%*	*13,5%*	*15,1%*
Ebitda margin	*4,9%*	*3,5%*	*1,2%*	*3,8%*	*5,2%*
Ebit margin	*2,2%*	*1,8%*	*-0,8%*	*1,9%*	*3,4%*

Source: Centrobanca

Landing to Borsa Italiana to take off to value ?

Founded in 1989, Eurofly S.p.A. is now the first Italian charter operator and the fourth carrier within the aviation industry in Italy. The company operates flights to both medium and long haul destinations with a unique focus on passengers travelling for leisure.

Stockholders features

Sh. (000) pre IPO	7.065
Sh. (000) post IPO	13.865
Shareh.post IPO (1)	
Spinnaker Lux.	42,54%
Singis Lda	4,81%
Other sharehold.	0,72%
Free Float	51,93%

(1) including greenshoe

The company operates through a leased fleet characterized by very young age and homogeneous plane standards. Airbus A 330 and A 320 aircrafts allow the company to gain flexibility and develop cost synergies.

Profitability of the first nine months of 2005 was affected by extraordinary events (i.e. Tsunami and Sharm El Sheikh terrorist attacks) which caused reduction of traffic volumes to the most important Eurofly destinations. Start-up costs related to the launch of new routes to New York and higher fuel costs also caused a reduction of pre tax income.

The company recently developed a new strategy to improve its competitive position and to match with independent holiday travellers demand. Such strategy aims at developing a new business model in order to become a more articulated leisure travel company and shift from the historical focused charter business model. New strategies should benefit from highly flexible production processes and from the traditional high quality reputation and expertise of the company.

Key operating figures

	2004
Fly hours	38.202
Medium h. product	2.855
Long h. product.	5.462
Passengers	1.474.341

The management expects a significant increase in revenues and passengers transported thanks to the shift toward the new business model; increasing volumes should also favour higher profitability. Thanks to the IPO, Eurofly should obtain new financial resources to increase the fleet, launch new routes and possibly take advantage from the consolidation process within the Italian aviation industry.

The company operates in a cyclical and highly competitive industry which, in recent years, has been characterized by low margins, poor financial results and crisis. However there is evidence that good strategies and well managed companies could led to both profitability and value enhancement.

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Company profile

Long term historical presence and expertise

Eurofly started operations in 1989 as the official charter operator for Alitalia, which was its main shareholder. The company focused on medium haul transport and was based at Orio al Serio and Milan Malpensa airports.

In 1998 the company developed long haul activities [1] according to Alitalia charter strategies; the launch of this new business caused a significant increase in personnel, a strengthening of the overall structure and the acquisition of new planes. In 2000 Eurofly became fully controlled by Alitalia.

The following years were characterized by a worsening in results mainly due to higher fixed costs and adverse market conditions which led to a reduction in air transport demand. A new management, currently in charge, was appointed in 2001.
A first relaunch plan was issued aiming at fleet renewal and development of in-house operating maintenance and fleet activities which previously were performed by Alitalia; at the same time new labour contract was signed with employees.

With two transactions in September 2003 and July 2004, Alitalia sold its entire stake to Spinnaker Luxembourg, a closed end fund.

The new shareholding structure brought about the launch of a second reorganization plan aiming at reducing operating costs, improving flexibility, developing a better strategic position and new business opportunities. This allowed an improvement of fly hours, passengers and productivity both in the medium and long haul activities.

Key operating figures

	2002	2003	2004
Fly hours	20.047	25.783	38.202
Medium h. product. [1]	2.365	2.476	2.855
Long h. product. [1]	4.276	4.932	5.462
Passengers	813.793	978.825	1.474.341

1. fly hours per plane
Source: Eurofly

Not only charter activities

At present, the Company's business mix is mainly based on charter flights, with a limited contribution from international point to point connections provided to supply holiday and leisure travel demand. Eurofly also operates international flights for the Italian Army and aviation services for Italy and Inter soccer teams and Ferrari F1 team.
Eurofly finally operates code share activities as marketing carrier [2] .

Charter and international leisure point to point connections are managed according to both medium and long haul leisure destinations.

[1] More than 5 fly hour to reach destination.
[2] Eurofly sells flights operated through its Linate airport slots by another airline company (i.e. the operating carrier). The marketing carrier receives a fee by the operating carrier based on the number of seats sold although a minimum fee is usually provided.

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Net Sales [1] breakdown

(Euro 000)	**2002**	**2003**	**2004**
Medium haul	75.831	83.710	135.060
Long Haul	43.761	74.439	97.053
Total net sales	**119.592**	**158.149**	**232.113**

1. net of operating code share revenues
Source: Eurofly

Leadership in Italy - Red Sea and Maldive links

The company retains a significant market share in connections between Italy - Egypt (Red Sea) and holds the leadership in the Italy – Maldive route. Other main destinations are represented by Greece, Mexico, Dominican Republic, Balearic and Canary Island (Spain) and Kenya.

Medium haul revenues

(Euro 000)	**2002**	**2003**	**2004**	**mrk share$_{04}$ [1]**
Egypt - Red Sea	25.908	36.158	55.723	*25,6%*
Greece	7.913	10.101	17.633	*8,0%*
Baleari	8.221	6.064	9.159	*13,8%*
Canarie	7.954	8.704	8.887	*23,3%*
Other destinations	25.835	22.684	43.658	*n.m.*
Total medium haul	**75.831**	**83.710**	**135.060**	

1. market share versus other Italian players. Source: Enac
Source: Eurofly

Long haul revenues

(Euro 000)	**2002**	**2003**	**2004**	**mrk share$_{04}$ [1]**
Maldive	17.183	25.786	35.281	*50,4%*
Mexico	9.782	18.880	18.531	*20,4%*
Santo Domingo	3.289	14.377	15.243	*21,7%*
Kenya	2.641	4.828	5.216	*26,3%*
Other destinations	10.866	10.568	22.782	*n.m.*
Total long haul	**43.761**	**74.439**	**97.053**	

1. market share versus other Italian players. Source: Enac
Source: Eurofly

Airports served

Milan Malpensa airport is the main base and departure place in Italy for charter business while Sharm El Sheikh is the main foreign airport both for arrivals from Italy and departures to several regional Italian airports according to a reverse charter model [3].

Reverse charter model allows to serve outgoing demand from several regional airports with direct point to point connections allowing to reduce significantly operating costs and waiting periods, and improve productivity per aircraft.

Eurofly was the first European company to adopt a reverse charter business model from Egypt. Currently three A320 airplane are based in Sharm El Sheikh airport.

[3] Reverse charter model allows to serve outgoing demand from several regional airports with direct point to point connections to the Sharm El Sheikh airport.

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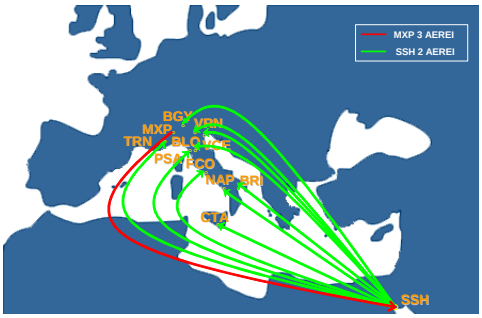
WINTER SEASON 2004/05



Several secondary airports (Bologna, Rome, Naples, Verona and Catania) are used during the year according to seasonal activities and routes. According to management strategies, the company should develop its presence at Naples airport to supply incoming demand.

Load factor risk mostly retained by tour operators

Charter flights are usually sold to Italian tour operators based on the "empty for full" scheme and according to contracts signed in a prior season. Tour operators can acquire all the plane seats, although they frequently buy only a part of the available seats, according to the split charter schemes.

The main client is represented by Teorema Tour (19,8% share of revenues in 2004), other main clients are Alpitour, Viaggi del Ventaglio, Costa Crociere and smaller tour operators were acquired thanks to the split charter opportunity.

In 2004 Eurofly started services to offer a number of seats on its flight connections directly to final consumers. This B2C distribution channel [4] has not yet reached significant volumes [5] although management aims at increasing this share in future.

3 couple of slot at Linate Airport

Eurofly holds three couples of slots at Linate Airport. Until 2004 the company operated scheduled flights for Alitalia as operating carrier [6] while …

Code share revenues as operating carrier

(Euro 000)	**2002**	**2003**	**2004**
Code share revenues	18.678	16.221	14.843

Source: Eurofly

… in 2005, Eurofly signed a new code share agreement with Air One and British Airways. Eurofly operates as marketing carrier while both Air One and BA operate (Milan Linate to Rome Fiumicino and Naples with Air One, Milan Linate to London Heatrow with British Airways). Contracts where Eurofly operates as a marketing carrier have an average length of six month and provide minimum guaranteed fees.

In house workforce training programs

As of 30 June 2005 the company had 626 employees, 434 of which flying personnel. Eurofly is currently pursuing an in-house flying workforce training program, which should allow a quite complete independence from third party training programs (excluding simulators). Training activities are also sold to third parties.

[4] Through travel agencies, call center, and Internet web site.
[5] In 2004 sales were around 1% of overall sales; in 2005 Eurofly estimates a 7% share.
[6] Eurofly managed the flights directly while Alitalia, as marketing carrier, were entitled to commercial activities and to have right to a royalty fee per each site sold.

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Young and homogeneous fleet

Currently Eurofly fleet is composed by twelve aircraft of which eight for medium haul destinations, three for long haul destinations and one for the All business strategy which is going to be developed in the near future; fleet age is young and all A320 and A330 are operated according to operating lease contracts. This number excludes passive wet lease planes which are operated during the summer according to contracts with third parties.

Airbus A330 planes (3,4 year average age) operate long haul routes, while medium haul is served by Airbus A 320 aircrafts (4,3 year average age).

In 2005, through a financial lease agreement, the company also acquired an Airbus A 319 Long Range / Corporate Jet which, in 2006, is due to provide business travel services on the Milan - New York route.

Eurofly is also going to lease two new A 330 aircrafts; one in 2006 and one in 2007.

Eurofly: direct operating fleet

(Euro 000)	**2003**	**2004**	**2005**
Medium haul - A320	5	5	8
Long haul - A330	2	3	3
MD - 82 (1)		7	
All Business - A319			1
Fleet number	**7**	**15**	**12**

(1) maximum number of MD - 82 used
Source: Eurofly

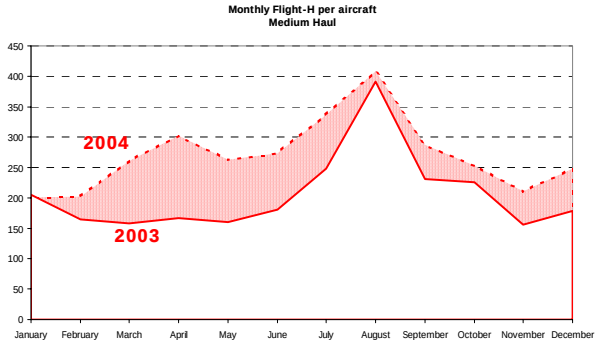
In 2004 Eurofly acquired 11 MD – 82 from Alitalia as arranged in the disposal agreement. Three of these planes were used during summer 2004 demand peak and after this period were sold to third parties for about 1 euro million gain. Further 1,6 euro million net profit resulted from the sale of 8 MD 82 in 2005.

Wet lease agreements

In summer and within the medium haul business, Eurofly also manages third party planes according to passive wet lease agreements [7] in order to satisfy charter demand peaks [8] and contain exposure to seasonal factors. Eurofly is currently negotiating the lease of four aircraft to operate next summer medium haul destinations.

Higher seasonality among medium haul

Due to the nature of business, medium haul activities are mostly developed in the third quarter of the year; the summer peak usually represents 2,5 times the winter demand.



[7] Lease agreement regarding both aircraft, crew, maintenance and insurance services.
[8] In 2002 Eurofly wet lease expenses were higher due to a delay in the supply of a new A 330 plane. In 2004 wet lease were quite high due to satisfy a contract signed with the Italian Defense Ministry to provide fly services and to supply planes which were stopped due to maintenance services.

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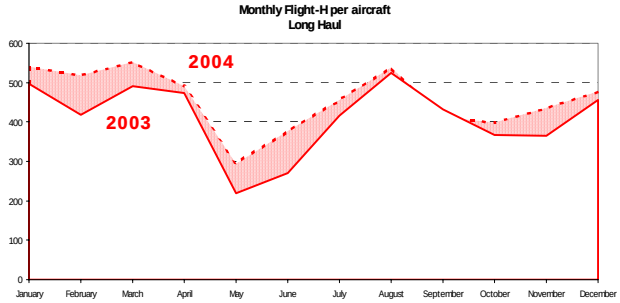
Long haul demand shows a lower seasonality with peaks within winter and summer months and lower demand in the April – June period.



As the graph shows, in 2004 the company reduced seasonality (i.e. improved monthly flight hours per airplane) thanks to the launch of new routes.

Maintenance

Base maintenance is provided by third part contractors while inspections during inter-flight waiting periods and line maintenance activities are managed directly by Eurofly personnel at the Milan Malpensa and Sharm El Sheikh airport bases.

Third party services

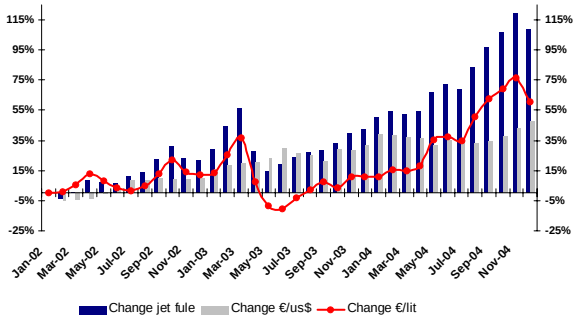
Other services provided by third party operators are related to cargo activities management, lost & found and foreign airports handling and assistance activities.

Internal hedging to limit exchange ratio risks

Eurofly is exposed to currency fluctuations since half expenses are paid in USD dollars. To reduce the currency risk, part of the revenues from tour operators are billed in USD dollars.

Partial hedge against oil price fluctuations

The company has an inexpensive implicit hedge against fuel and USD price fluctuations thanks to contracts with tour operators that provide automatic increase in price per seat. Hedging is however imperfect due to the calculation method and whenever fuel prices exhibit very high increases, as in the summer 2005 [9].
In 2005 Eurofly partly hedged fuel costs and related USD exposure thanks to derivative transactions.
In future the company should be more exposed to fuel price fluctuations to the extent of the development of independent leisure based flying connections.



[9] With respect to a 7 millions of euro of higher oil costs, Eurofly was able to increase its tour operators tariffs for an amount of 4 millions of euro.

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Valuation

Valuation challenges

Due to high operating leverage, aviation companies financial results are characterized by extremely marked cyclical features.
Due to limited visibility of financial results, valuation metrics are usually based on market multiples, notably asset side multiples such as EVadj/Ebitdar ratio.
Discounted cash flow valuation (DCF) is performed either for companies with significant growth expectations or in case of the company exhibits significant differences from the other listed competitors both in profitability and business model.

According to Eurofly characteristics, we chose to perform a DCF model estimate and compare the implied multiple to the market multiples from a comparable of a panel of comparables.

DCF model

Our DCF model provided estimates for the operating free cash flow 2005 - 2007 period.

The terminal value has been calculated according to a normalized cash flow [10] for the figure based on an average estimated Ebit (3%) and considering maintenance capex, adjusted lease, wet lease expenses, working capital needs and an ongoing tax rate.

Free cash flow estimate

Euro (000)	2005e	2006e	2007e
Ebit	-2.106	6.785	14.966
Non cash items	7.114	8.816	9.752
Taxes net of tax shield	-1.723	-3.302	-7.669
Working capital need	-11.799	5.550	3.307
Pension payments	-878	-952	-1.183
Other fund payments	-813	-542	-644
IAS 17 lease expenses	-1.579	-3.158	-3.158
CFO	**-11.784**	**13.196**	**15.370**
Investments (1)	-813	-6.507	-4.292
FCFF	**-12.597**	**6.689**	**11.078**

(1) adjusted for IAS 17 effects

Cost of capital is calculated according to the CAPM formula based on these parameters:

- beta 1,04 derived from a panel of listed companies operating in the aviation industry;
- risk free rate (4,3% [11]);
- equity risk premium (4,5%);
- debt / (debt + equity) ratio (0%).

The discounted cash flow model gives an implied range between 49 – 55 euro million.

Market multiples

We have also performed a sanity check valuation comparing the value obtained through our DCF model with the average market multiples obtained from a panel of listed European flag carriers and low cost operators.

[10] To take into account for cyclical patterns exhibited by the aviation industry.
[11] Italian 30 year BTP strip rate.

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Eurofly differentiated business model

Eurofly business model is very peculiar and it is difficult to find completely comparable companies among listed operators.

Analysis of market multiples could therefore lead to misleading results since the company differs from traditional flag carriers as for several main features such as:

- charter business mix;
- direct point to point connections instead of hub and spoke strategies;
- higher seasonality;
- lower cost structure.

Differences from low cost operators relate mainly to:

- charter business mix;
- higher seasonality;
- long haul activities.

Also, European aviation players differ significantly from US and Asian operators. Although similar in life cycle, US industry differs from the Europe mainly for a state of crisis which is currently affecting US traditional carriers.
Asian competitors are not included in our panel since their value is deeply influenced by the higher expected growth rates in demand.

With respect to value differences due to low cost and traditional flag carrier specialization, we divided our panel in two sections.

Company Sample	Ebitdar mrg 04
Low cost carriers	
Ryanair Holdings	*32%*
EasyJet	*17%*
Traditional carriers	
SAS	*8%*
Iberia	*18%*
Deutsche Lufthansa	*9%*
British Airways	*17%*
Austrian Airlines	*12%*
AIR France - KLM	*14%*

Source: Company figures

For each company, historical and leading values based on EVadj [12] / Ebitdar value are shown.

[12] According to the analyst practice within the aviation industry is to sum to Enterprise Value the value of yearly lease expenses multiplied for a ratio ranging between 7.0x - 8.0x times.

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Company Sample	Ev*/ Ebitdar 04	Ev*/ Ebitdar 05	Ev*/ Ebitdar 06
Low cost carriers			
Ryanair Holdings	9,17x	8,36x	6,91x
EasyJet	9,11x	8,76x	7,55x
Traditional carriers			
SAS	12,25x	10,12x	9,44x
Iberia	4,71x	4,61x	4,69x
Deutsche Lufthansa	4,20x	4,02x	4,01x
British Airways	5,98x	5,82x	5,33x
Austrian Airlines	8,23x	11,63x	7,67x
AIR France - KLM	4,93x	4,59x	4,53x
Mean - Low cost	9,14x	8,56x	7,23x
Mean - Traditional	6,72x	6,80x	5,94x
Median - Low cost	9,14x	8,56x	7,23x
Median - Traditional	5,45x	5,21x	5,01x

Source: Centrobanca on I.B.E.S.

We choose to compare 2006 in order to incorporate effects of future strategies and remove the impact of 2005 extraordinary events.

In our analysis Eurofly's implied multiple falls within a range the top of which is represented by low cost carriers figures while traditional carriers multiples represent the bottom end.
Moreover DCF value range is also compatible with multiple valuation.

Multiple Analysis

	Eurofly	Flag carriers	Low cost carriers
Ev*/ Ebitdar 04	**10,99x - 11,25x**	**5,45x**	**9,14x**
Ev*/ Ebitdar 05	**8,13x - 8,32x**	**5,21x**	**8,56x**
Ev*/ Ebitdar 06	**5,14x - 5,26x**	**5,01x**	**7,23x**

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Strategy

Long haul getting higher importance

Eurofly aims at a significant development of long haul activities thanks to the launch of new summer season routes to improve productivity and employ aircrafts which are used to connect Italy to leisure destinations during the winter season.
The company expects to replicate the positive experience of 2005 summer during which it connected New York to several Italian regional airports [13] with satisfying load factors ratios as a start-up.

Load factor ratios: NYC summer season 2005

NYC - Bologna	NYC - Palermo	NYC - Naples
63%	*75%*	*75%*

Source: Eurofly

The 2005 summer strategy has a potential for extension to serve a portion of the North American incoming traffic demand to Southern Italy which has been estimated in 2,5 millions yearly passengers.

The long haul fleet will be strengthened with 2 new Airbus A330. The entry of the new planes, through operating lease contracts, should also allow to establish new seasonal routes and improve frequency of connection, at least regarding the most profitable and highly demanded routes.

Italian launching partner for the new A 350

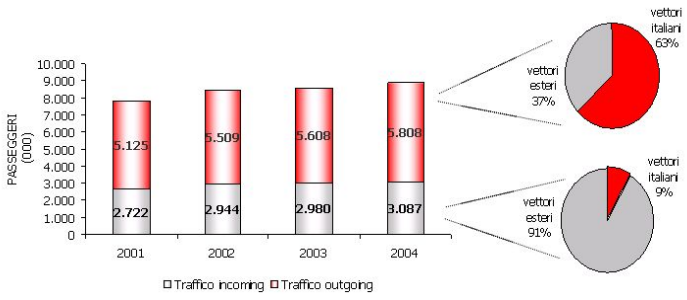
On October 2005 Eurofly signed a letter of intent (i.e. L.o.i.) with Airbus regarding the appointment as Italian launching partner for the new A 350 long haul plane [14]. Launching partner program is subject to IPO.
The L.o.i. agreement concerns 3 A350 aircrafts to be delivered in 2013 – 2014. Thanks to the technical features of the new planes, it will allow lower operating maintenance and fuel costs. The estimated prepayments for the 3 new planes sum up to 15 million euro in the next two years.

Maintain leadership in the medium haul

Although the medium haul fleet should not increase, Eurofly aims at maintain leadership within Egyptian destinations.
The company is also expected to limit the impact of seasonality through new wet lease agreements [15] and new routes which should serve both traditional outgoing demand (i.e. to Greece, Spain, Canary and Balearic Island destinations) and ingoing demand.

Charter still a significant business segment

The management expects that charter activities will maintain significant volumes and remain an important business area. Thanks to agreements with tour operators, market share should increase thanks to incoming traffic and by subtracting market share to foreign charter operators.



[13] In 2005 Naples, Bologna and Palermo.
[14] A 350 is going to substitute, from 2013, the long haul aircraft A 330.
[15] Eurofly should employ 4 wet lease aircraft during summer season.

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Further flexibility thanks to Egypt code share agreement

The company also signed agreements with EgyptAir and Air Cairo which should allow to operate code share connections from Egypt to several non Italian destinations (mainly Est Europe and Russia) and Egyptian domestic market. This will help in increase the productivity of the fleet.

Growing ancillary revenues

The management is also pursuing new opportunities to improve ancillary services (i.e. duty free, food and drink offer and marketing contribution from airports and municipalities) although most of the increase in ancillary revenues is expected to be driven by cargo services.
Cargo services, practically not operated since 2004, are outsourced to a third party operator according to a contract which provides minimum guaranteed fees for Eurofly and a variable fee based on volumes transported.

Strengthen capital structure and launch new projects

IPO resources will strengthen capital structure, thus allowing for better lease conditions and the development of the A 350 launching carrier project. As a consequence new resources should become available for core business activities.

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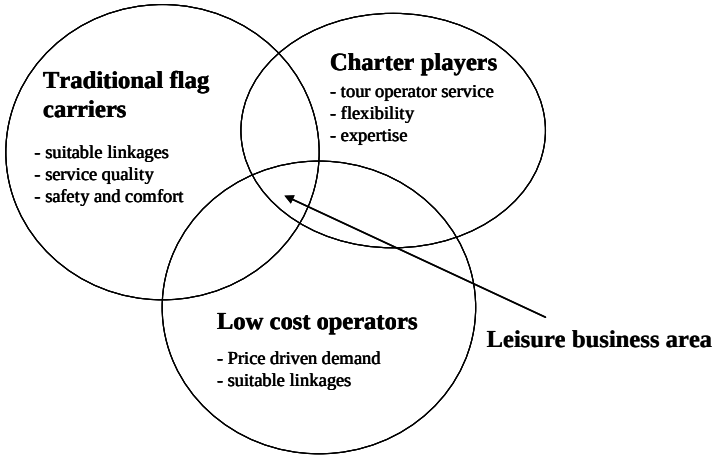
Towards a new business model

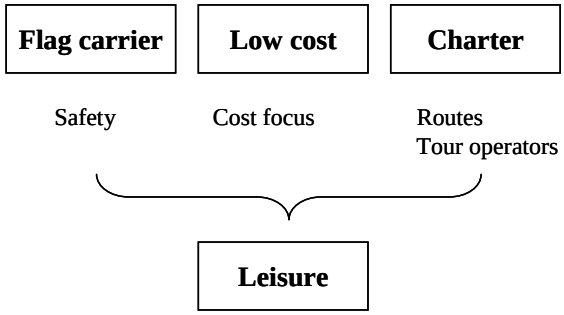
Developing a new business model

The company business model is currently evolving from traditional charter operator to a more articulated leisure player: the client base will include not only traditional customers (i.e. tour operators) but also independent holiday travel/ non business consumers and with a lesser extent to business travellers.

The new business model strategy implies a position on a ”border” segment among traditional aviation business models (i.e. charter players, traditional flag carrier and low cost operator) with strategic key factors represented by price, quality of the service, safety/security and comfortable linkages.



The new business model should enhance Eurofly strengths, such as flexibility and expertise, its long term history as quality charter operator. At the same time Eurofly is likely to develop a mix of features from the other traditional business areas such as cost efficiency focus and point to point connections, which are peculiar of low cost carriers and plane quality/security standards which are more similar to traditional flag carriers.



According to this new model, Eurofly will try to set destinations and flight timing independently, reducing the influence of tour operators that often require last minute changes that affect costs and efficiency of operations.

Charter business not significantly impacted by leisure development

An accurate selection of destinations should match leisure and holiday consumer demand to tour operators locations. Such selection will guarantee satisfaction of tour operator demand as well as providing opportunities for deeper split charter contract relationships. Therefore the business mix and organization of operations should not undergo any significant changes.

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A new segment: the All Business project

In February 2006, Eurofly is starting, a new service on the Milan to New York route (i.e. All Business project). The new connection will be operated by an A 319 (48 seats) which should be characterized by very high quality, client service standards and time efficient features.
The project aims to replicate recently established foreign services by foreign companies to serve demand from business customers which is currently not satisfied in a suitable manner. Moreover the Milan - New York route is the most important Italian long haul business route.

New multi-channel distribution to supply potential client demand basin

The business model shift is going to increase potential client base also by new different distribution channels.
The customer base should grow thanks to the development of the newly established multi – channel distribution model (i.e. travel agencies, internet and call center) which is going to serve independent flyers and is going to sum to the traditional demand arising from tour operators.

	traditional business model	NEW business model		
	charter segment	charter segment	leisure segment	All business segment
Distribution channels				
Tour operators	Leisure demand	Leisure demand	Leisure demand / non business demand	
Travel agencies			Leisure demand / non business demand	
B2C / internet / call center			Leisure demand / non business demand	business demand
Direct contracts with single companies			Leisure demand / non business demand	business demand

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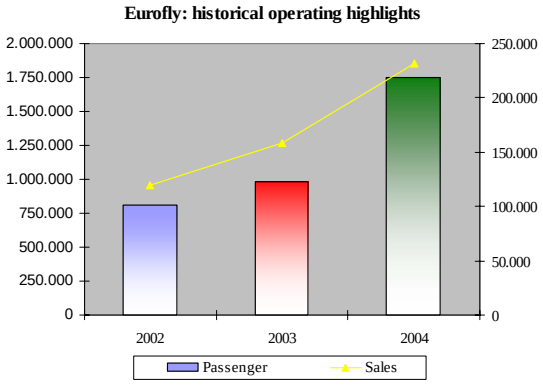
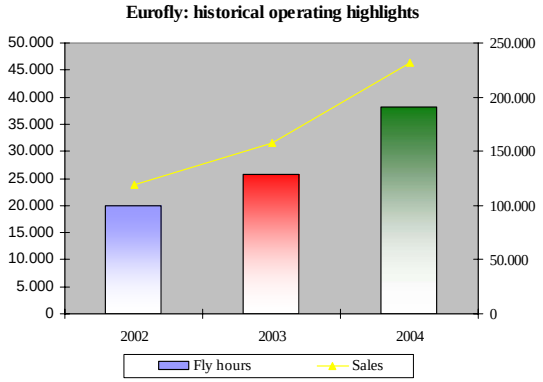
Financial Review

Pro forma statements

We took a financial survey based on pro-forma figures 2002 – 2004 as presented by the company. Schemes presented differ from published financial statements since these above mentioned statements exclude revenues and costs referring to the 2002 - 2004 operating carrier activity for Alitalia.
Eurofly terminated its operating carrier activity for Alitalia in early 2005 and therefore past published figures are not representative of the future business and financial conditions.

2002 - 2004 period was characterized by a significant sales growth thanks to a larger fleet and higher productivity which led to and increase in fly hours.





Profitability (i.e. Ebitdar and Ebitdar margin) increased in 2003 thanks to higher volumes, better fuel conditions and lower wet lease expenses. In 2004 due to higher fuel costs and wet lease expenses, Ebitdar lowered and its relative value turned back to 2002 levels. The strengthening of Euro against USD dollar also contributed to a reduction in fuel costs.

The Ebit margin historical trend is positive thanks to higher volumes, a lower impact of wet lease expenses than 2002 [16] and lower operating leases.

[16] Due to extraordinary events.

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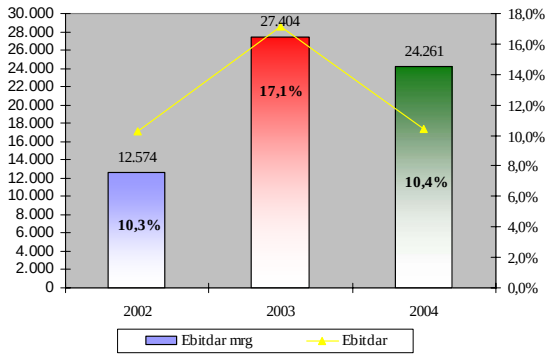
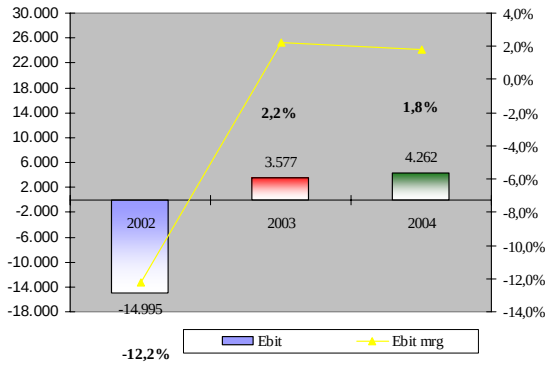
Eurofly: historical Ebitdar



Eurofly: historical Ebit



2005 nine months results

Profitability and financial figures presented by Eurofly are reported according to Italian Gaap. Hence they are not directly comparable with pro forma IAS figures for the 2002 - 2004 period and future year forecasts.

In the first nine months of 2005 Eurofly experienced a passengers rise (+3%). Net sales rose by 16% thanks to a higher share of long haul activities, higher productivity and price increases [17].

Profitability (i.e. Ebitda and Ebit margin) lowered slightly for the effects of Tsunami and Sharm El Sheikh. 2005 profitability figures were also affected by higher lease and passive wet lease expenses since in 2004 Eurofly operated activities with several MD aircrafts that had been previously acquired from Alitalia.

Excluding Tsunami and Sharm adverse events, Ebitdar margin would have risen to 12,7% and company should have reported a 2005 positive net income as in 2003 and 2004 exercises.

[17] To partially overcome higher oil prices

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Income Statement

Euro (000)	9m 2004	9m 2005	9m 2005 adj
Net Sales	194.503	224.656	240.952
Other revenues	1.973	3.548	4.026
Total Sales	**196.476**	**228.204**	**244.978**
yoy change		***16,1%***	
EBITDAR	**22.974**	**26.287**	**31.185**
Ebitda margin %	***11,7%***	***11,5%***	***12,7%***
EBITDA	**10.980**	**4.999**	
Ebitda margin %	***5,6%***	***2,2%***	
EBIT	**7.704**	**2.095**	

Source: Company figures

Financial reserves diminished due to the an enlargement of receivables terms, which is mainly related to receivables from Italian Army, to the lengthening of cash in from tour operators due to the Sharm accident and to the payment of an extraordinary dividend (5 euro million) to pre IPO shareholders.

Balance sheet

Euro (000)	31.12.04	9m 2005
Net Working Cap. [1]	**-36.106**	**-3.709**
Net Financial Pos.	**-4.891**	**12.351**

.1 excluding deferred taxes
Source: Company figures

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Estimates

We have elaborated a three-year economic and financial forecast on the basis of management declared strategies and without taking into account flotation proceeds and the A 350 launching carrier program.
Future developments, related to the use of listing proceeds, can modify economic figures substantially.
Finally, financial schemes presented are based on IAS accounting standards.

Limited visibility

Due to industry characteristics and multiple options within the Eurofly ordinary business and possible future strategies, our forecasts are characterized by limited visibility.

Revenues

We expect that most of the increase of revenues between 2005 - 2006 should derive from the development of long haul activities thanks to:

- significant increase in flight hours;
- higher revenues per flight hours thanks to counter seasonal actions;
- no impact from extraordinary events occurred in 2005 exercise;
- benefit from expected development of independent leisure demand.

Long haul contribution

In our opinion long haul strategies are the main driver of the potential increase of Eurofly revenues. The company is currently well positioned within the long haul business thanks to its historical expertise and could take profit from opportunities that arising from Alitalia crisis.
Furthermore other charter and long haul Italian competitor such as Linvingstone-Lauda Air, Volare and Blue Panorama show worse competitive position than Eurofly and are therefore less able to take advantage from consolidation opportunities. Finally the long haul segment is less exposed to competition from new comers because of the presence of technical barriers to entry represented by needed know how and higher complexity than medium haul activities.

Although the demand in the independent leisure/holiday industry is growing, long haul strategies currently pursued are however characterized by potential threats such as competitive pressure, price driven demand.
Eurofly has also the need to improve brand awareness among final clients. Moreover, the strategy to become a leisure operator needs for a strong ability to plan future routes and to enter in the most profitable point to point connections, although competition in the long haul is at present sensibly lower than in the medium haul.

Medium haul contribution

We expect that medium haul business opportunities will not present the same growth pattern as long haul opportunities, mainly due to higher competition from low cost carriers and traditional flight carriers. We believe that Eurofly's future demand and success opportunities in this segment are strictly related to its ability to set competitive prices, suitable hours and convenient products; moreover, the development of a more articulated commercial, productive and assistance network has a vital importance to strengthen independent flyer offer. At the same time, the company should focus on the cost control and a suitable pricing policy.
Finally, adoption of passive wet lease agreements to overcome seasonality during summer season can represent a potential threat whenever the company should not be able to sign suitable contracts to lease aircrafts from reliable and experienced operators. It should however be noticed that Eurofly up to now retains a track record of reliability and is negotiating with primary high standing operators.

Hence we take into account for management efforts in the medium haul business for the strengthening of counter cyclical and passive wet lease strategies should account for most of the estimated flight hours increase.

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We do not forecast higher revenues per flight hour in the medium haul to account for possible market competition and risks within the medium haul business that could limit efficiency/synergy gains.

Terrorism should not limit long term strategy

Terrorist attacks put pressures on 2005 medium haul business due to significant volumes made by Eurofly on the Egyptian Red Sea destinations; in our opinion this should not limit future activity due to the possibility for Eurofly to set new destinations according to market demand, at least in the medium term. Long term holiday demand trends do not seem really affected by these events; therefore the company should be able to profit from the restore of tourist friendly conditions in the Red Sea area and from the significant development program that is actually pursued by the Egyptian government and by several tour operators

Charter still contributing significantly to both medium and long haul activities

Although the charter industry is characterized by a significant price competition and several important tour operators have historically vertically integrated their activities through the acquisition of aviation companies, we expect Eurofly to maintain its competitive position thanks to higher quality standards and leading expertise and reputation.
We think the quality factor is becoming more and more important, at least in the medium term, due to last summer airplane disasters and this should favour Eurofly. Also, we do not retain vertical integration pursued by some tour operators could be profitably followed by many other competitors [18] and hence we do not assess significant threats and loss of market shares from this strategy.

We expect that the homogeneous and high quality fleet will provide several significant opportunities to grow over traditional carriers and charter companies from emerging countries. We do not expect the homogeneous fleet to represent a strength over other well know international medium haul low cost operators such Ryan Air and EasyJet and most of the western European traditional flight carriers.

All Business segment

The new All Business offer is going to compete with the traditional carrier business supply. Main success factors are represented by departure and arrival times, service quality, departure/arrival airport and also, although at a lesser extent, the presence of a frequent flyer program, which is not currently offered by the company.
Further, the organization structure and service are different from the services offered to leisure/charter travels; therefore Eurofly is opening a new business area with synergies relating mostly to maintenance and crew activities.
The segment shows significant business opportunities, mostly related to the acquisition of traffic demand currently managed in an unsatisfied way by traditional flight carriers.
Moreover, already owning a plane set for all business service represents a competitive advantage since the current supply of such airplanes leaves a large portion of demand unsatisfied.
At present, however, the company has not yet fully disclosed its strategy details; hence we are not able to assess the positioning of the offer and potential weaknesses.
We forecast a 30% load factor for the first year (i.e. 2006) while in the following years we assess a 50% load factor.

[18] There is also evidence of a deverticalization strategy to give more independence to aviation subsidiaries as in Hapaglloyd / Tui and Monarch.

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Revenues

(Euro 000)	**2004**	**2005e**	**2006e**	**2007e**	**cagr**
Medium haul	135.060	149.136	182.801	184.766	*11,0%*
YoY growth		*10,4%*	*22,6%*	*1,1%*	
Long Haul	97.053	121.999	163.576	218.724	*31,1%*
YoY growth		*25,7%*	*34,1%*	*33,7%*	
All business			15.120	25.704	*n.m.*
YoY growth				*70,0%*	

Source: Centrobanca estimates

Furthermore, our model accounts for higher contribution from ancillary revenues. We expect that most of the expected increase should occur during 2005-2006 thanks to the contribution of new cargo contract.

Sales and other revenues

	2004	**2005e**	**2006e**	**2007e**
Eurofly	233.301	277.176	364.888	435.966
YoY growth		*18,8%*	*31,6%*	*19,5%*

Source: Centrobanca estimates

Profitability

Future profitability is mainly related to the oil costs pattern, USD/euro exchange rate and the fulfilment of strategies announced by the management.
We account for higher profitability thanks to the contribution from long haul activities, which involves higher margins; our scenario also includes stable fuel prices and a modest strengthening of USD against Euro.

The development of new connections and benefits in term of lower seasonality should also favour an improvement in margins thanks to a lower contribution in fixed costs, although several connections developed to reduce seasonality are characterized by lower margins than traditional flights, at least according to historical figures.

Ebitdar margin

	2004	**2005e**	**2006e**	**2007e**
Ebitdar mrg	*10,4%*	*11,7%*	*13,5%*	*15,1%*

Source: Centrobanca estimates

2005 fiscal year is going to be negatively affected by extraordinary events and Eurofly should record a net loss interrupting the 2003 - 2004 net profit experience.
However, we expect that in absence of newer extraordinary adverse events, the future development of operations should allow to limit fixed costs exposure (i.e. depreciation/amortization and lease expenses) and allow net income turn again positive.

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Income Statement			IAS	IAS	IAS
Euro (000)	**2003**	**2004**	**2005e**	**2006e**	**2007e**
Net Sales	158.149	232.113	271.135	361.497	429.195
Other revenues	1.994	1.188	6.041	3.391	6.772
Total Sales	**160.143**	**233.301**	**277.176**	**364.888**	**435.966**
yoy change		*45,7%*	*18,8%*	*31,6%*	*19,5%*
EBITDAR	**27.404**	**24.261**	**32.354**	**49.119**	**65.863**
Ebitdar margin %	*17,1%*	*10,4%*	*11,7%*	*13,5%*	*15,1%*
EBITDA	**7.774**	**8.100**	**3.249**	**13.722**	**22.534**
Ebitda margin %	*4,9%*	*3,5%*	*1,2%*	*3,8%*	*5,2%*
EBIT	**3.577**	**4.262**	**-2.106**	**6.785**	**14.966**
Ebit margin %	*2,2%*	*1,8%*	*-0,8%*	*1,9%*	*3,4%*
Net Interests	-816	371	-880	-2.750	-2.065
Extraordinary items	1.354	3.270	1.600	0	0
Pre tax Income	**4.115**	**7.904**	**-1.386**	**4.034**	**12.901**
Income taxes	-1.393	-1.069	-1.723	-2.395	-6.988
Net Income	**2.722**	**6.835**	**-3.109**	**1.640**	**5.913**
Net margin%	*1,7%*	*2,9%*	*-1,1%*	*0,4%*	*1,4%*

Working capital

After 2005 year, we estimate working capital will be characterized by a reduction in receivable days, mainly favoured by the higher contribution of the all business/leisure activities, the higher volume of scheduled activity and the expiry of the contract with Italian Army. At the same time, according to management, favourable receivable conditions could be partly balanced by a possible reduction of the supplier payment periods.

Investments

Future investments will mainly cover need for maintenance materials and leased plane improvements. The company acquires planes through operating lease contracts, hence no significant investments are required in a given year.
We do not take into account for any possible investments for the A 350 launch program.

Tax rate

Our tax rate was estimated according to a 33% Ires and 4,25% Irap tax rate.

Payout

No payout is set since all expected earnings are going to be reinvested.

Balance Sheet			IAS	IAS	IAS
Euro (000)	**2003**	**2004**	**2005e**	**2006e**	**2007e**
Net Working Cap.	**-18.203**	**-32.769**	**-20.970**	**-26.521**	**-29.828**
PP & E (1)	10.575	22.975	49.032	44.978	40.659
Intangibles & goodwill	4.075	5.043	4.500	8.665	10.352
Investments	5.449	8.632	16.279	17.924	17.924
Fixed Assets	**20.098**	**49.418**	**69.811**	**71.568**	**68.935**
Employed Capital	**1.895**	**16.649**	**48.841**	**45.047**	**39.107**
Sewerance Funds	-2.579	-2.928	-3.808	-4.734	-5.734
Other allowances	-1.895	-2.387	-2.930	-2.930	-2.930
Net Employed Cap.	**-2.579**	**11.334**	**42.103**	**37.383**	**30.443**
Net financial posit.	**-11.968**	**-4.891**	**33.987**	**27.628**	**14.775**
Stockholders eq	**9.389**	**16.225**	**8.116**	**9.756**	**15.668**
Total Sources	**-2.579**	**11.334**	**42.103**	**37.383**	**30.443**

(1) A 319 financial lease accounted according to IAS 17

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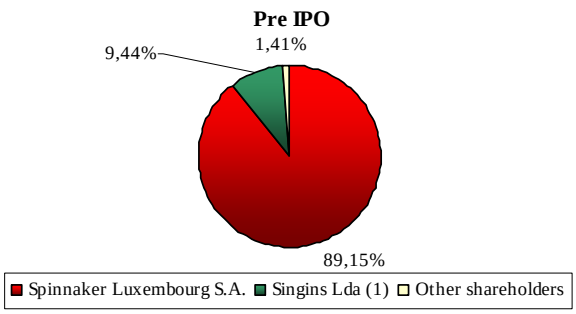
Offer structure

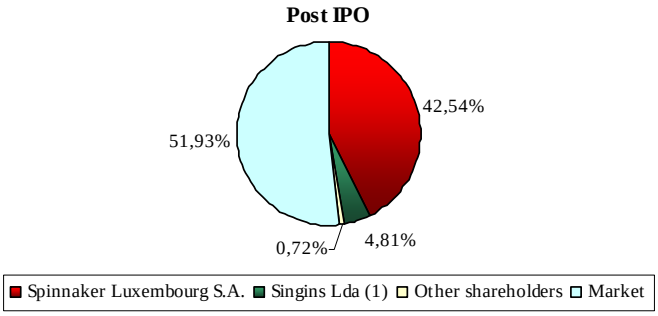
Outstanding shares: 7.065.302 common shares with a nominal value of € 1.00;
Global offering: 7.000.000 common shares;

Free float 6.300.000 common shares (7.200.000 in case of total greenshoe allotment);

Listing on the Italian Stock Exchange - Ordinary Segment;

Here follows both pre and post IPO shareholder structure:





Lock up period

As of the date of this document, Spinnaker has signed a 12 months lock up period on 20% portion and a 18 months lock up for the remaining 80% portion of its stake. A future disposal by the investor could trigger the interest of a trade buyer thus influencing stock prices.

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