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ELAL Israel Airlines Ltd. Reports Fourth Quarter and 2008 Results

Tel-Aviv, Israel, March 25, 2009 - Elal Israel Airlines Ltd. (TASE: ELAL) the Israeli national carrier Reports Fourth Quarter and 2008 financial Results.

- **Record revenues of \$2.1 billion, an increase of about 9% compared to the last year.**
- **The major portion of the Company's expenses stemmed from the approximately 45% increase in aviation fuel costs, from about \$532.8 million in 2007, to about \$771.2 million in 2008, and from accounting registration expenses related to the drop in fair value of hedging transactions for aviation fuel and interest transactions that are not recognized under accounting principles as protective transactions, totaling about \$50 million, resulting from the transfer to the IFRS (international accounting standards system)**
- **Annual gross profits totaled about \$325.3 million, compared to gross profits of \$414.8 million in the previous year**
- **The losses for 2008 totaled about \$38.8 million, compared to a profit of \$44.8 million last year**
- **Cash flow from the Company's regular activities in 2008 totaled about \$118.9 million**
- **Net hedging returns for aviation fuel totaled about \$6.4 million, compared to hedging returns of \$8.3 million last year**
- **The loss for the 4th quarter totaled about \$9.4 million, compared to a loss of \$5.3 million in the parallel quarter last year, largely as a result of the financial crisis and hedging payments.**
- **Aircraft passenger load factors, amongst the highest in the aviation industry, totaled 82.3%**



- **The annual results were influenced by making a provision of \$15 million as a result of an agreement with the USA Justice Department, concerning an investigation into cargo services**

Haim Romano, Company President said: “In 2008, Company revenues grew by 9%, totaling about \$2.1 billion. The Company had a positive cash flow, totaling about \$118.9 million; this after paying about \$160 million for investments in aircraft purchases and other fixed assets (about \$83 million for new aircraft). The Company also repaid about \$65 million in loans. More than anything else, these parameters are an indication of El Al’s ability to face the challenges – past and future – as well as the changes in the international and domestic aviation markets and the global financial crisis.

“El Al recorded a drop in most expense items, aside from fuel prices, which comprised about 37% of turnover and totaled about \$771.2 million. In 2008, Management’s hedging transactions resulted in a return of about \$6.4 million. The annual results were influenced by, among other factors, the rise in salary expenses, caused by currency fluctuations, even though there was a reduction in staffing. In addition, the annual results were influenced by accounting expenses related to the drop in fair value of hedging transactions for aviation fuel, that are not recognized under accounting principles as hedging transactions, totaling about \$50 million, and by making a provision of \$15 million for the cargo claim.

“During the year we took a number of steps to become more efficient and suit ourselves to the new reality of the world crisis and the growing competition. One of these steps was to reduce staffing during the 4th quarter of 2008, by about 200 positions.

“In the final quarter we received a new Boeing 747-400 and two leased Boeing 737-800s, all part of our “El Al 2010” strategic plan to renew our fleet and to increase our long-haul flight activities.

“Beginning May 2009, we will inaugurate a new route to Sao Paulo – the first direct scheduled flight between Israel and South America. Opening this route is a significant step for El Al, for Israeli residents and for millions of potential tourists from all over South America.

“In spite of the massive increase – about 20% - in seating capacity by foreign scheduled airlines operating to and from Israel, we managed to maintain a load factor of about 82.3% on our aircraft this year. This is one of the highest load factors in the entire aviation industry worldwide.

“As part of the development and underpinning of the Company’s direct ticket marketing and distribution plan, we have recorded an impressive growth of over 130% in internet sales, which totaled \$58 million in 2008. In addition, El Al recorded an increase of about 60% through the telephone Call Center, totaling about \$59 million.

“The Management’s and the employee’s efforts at becoming more efficient, and to overcome the challenging market conditions and increasing competition helped the Company to successfully face the global crisis. Company employees and Management have demonstrated their determination and ability to meet targets. We advance with the strategic plans we prepared, and adapt ourselves to the new reality, so as to maintain El Al’s leading position in the industry.”

Results for 2008

- **Revenues** totaled \$2101.1 million, compared to \$1932.5 million last year, a growth of about 9%. The growth in revenues stems mainly from an increase of about 12% in passenger revenues, as well as an increase of about 34% in other revenues such as duty free sales. Cargo revenues shrank as a result of the Company’s initiative to halt cargo flights to the East.
- **Operating expenses** totaled \$1775.8 million, compared to \$1517.7 million in the previous year, an increase of about 17%. The increase in operating expenditure stemmed largely from the increase in the costs for aviation fuel – a fundamental and significant factor in the Company’s expenditure. In 2008, aviation fuel prices rose by about 43% compared to 2007. Company expenditure on aviation fuel rose by about 45%, from \$532.5 million in 2007, to \$771.3 million in 2008; this after a return of \$ 6.4 million for hedging (\$8.3 million in 2007). These expenses include recorded accounting expenses of \$41.3 million for the drop on the fair value of hedging transactions for aviation fuel, which are not recognized as accounting expenses for 2008. Expenditure on aviation fuel represented 36.7% on turnover, compared to 27.6% in the previous year. The ratio of operating expenses on turnover rose from 78.5% in 2007, to 84.5% in 2008. Aircraft load factors, one of the highest in the industry, totaled 82.3%.
- **Annual gross profits** totaled \$325.2 million (a ratio of 15.5% on turnover), compared to \$414.8 million in the previous year (21.5% on turnover), a reduction of 22%.
- **Cost of sales** diminished from \$230.9 million in 2007 to \$228.8 million in 2008. The ration on turnover dropped from 11.9% to 10.9% in 2008. The reduction was due to the increase in direct sales and the drop in distribution charges and commissions.
- **The ratio of Management & General expenditure** on turnover dropped from 4.7% in 2007 to 4.6% in 2008, and totaled \$97.1 million
- **The number of employees**, as at the end of 2008, had been reduced by about 180 positions, compared to the end of 2007.
- **The operating loss** totaled \$1.6 million, compared to an operating profit of \$94.7 million in the previous year

- **Gross financing costs** for 2008 totaled \$44.6 million, an increase of \$8 million compared to the previous year. The increase was largely the result of recorded accounting expenses following a drop in the fair value of hedging activity, the result of a sharp drop in the LIBOR rate from 5% to 2.8%. On the other hand, there was a reduction in interest on the Company's loans.
- **The net loss** in 2008 was \$ 38.8 million compared to a net profit of \$44.8 million in the previous year.
- **Cash flow** from regular activities in 2008 totaled \$118.9 million
- **The cash balance** for the Company as at the 31st December 2008 stood at \$54.5 million. In addition, the Company has deposits of \$153 million which are pledged towards aviation fuel hedging, as per hedging agreements. This compares to the \$260.2 million cash balance on 31st December 2007. The drop in cash balances resulted largely from investments in fixed and other assets, totaling \$165 million, and from repayment of long-term debts totaling \$65 million, after offsetting a positive cash flow from regular activities totaling \$118.9 million, and a loan from an overseas banking institution totaling \$36 million for the purpose of purchasing a 747-400 aircraft.
- **Shareholders' equity** as at the 31st December 2008 stood at \$161 million, compared to \$319 million at 31st December 2007. The decline in shareholder's equity derives largely from the decline of \$119.9 million in the cash flow hedge capital reserve, mainly as a result of the decline in fair value of aviation fuel, and interests rates hedge transactions in the financial statements, as well as from the loss incurred in 2008.

Financial results for the Quarter

- **Revenues** for the 4th quarter of 2008 totaled \$465.3 million, a reduction of about 11%, resulting from the reduction in passenger and cargo revenues.
- **Operating expenses** totaled \$402.0 million, (a ratio of about 86.4% on turnover), compared to \$421.2 million in the parallel quarter last year (about 80.3% on turnover) – a reduction of 4.6%. There was a reduction in operating expenses compared to the parallel quarter last year, resulting from a reduction in activity. Nevertheless, the ratio of expenses to turnover rose, mainly because of the increase in aviation fuel costs. The ratio of fuel costs to turnover was 38.3% in the reported quarter, compared to 30.3% in the parallel quarter last year. Hedging payments for aviation fuel in the 4th quarter of 2008 totaled \$35.6 million, compared to hedging receipts on fuel of \$6.7 million in the parallel quarter last year.
- **Gross profits** totaled \$62.3 million (a ratio of about 13.6% on turnover), compared to \$103 million in the parallel quarter last year (19.7% on turnover) – a reduction of 38.6%
- **Cost of sales** for the quarter totaled \$48.4 million, a reduction of about 32% compared to the parallel quarter last year, where they totaled \$71.3 million. The reduction resulted from the increase in direct sales and the drop in distribution costs and in commissions.

- During the reported quarter, the Company registered **other net revenues** totaling about \$17.7 million, resulting mainly from cancelling salary provisions of about \$11.4 million; from adjusting the provision for the cargo claim, totaling about \$5 million; and from capital gains totaling \$2.4 million, as a result of selling two engines. On the other hand, the Company registered accounting expenditures totaling \$31.6 million resulting from a drop in the fair value of hedging transactions for aviation fuel hedging (an increase in operating expenses), and \$18.3 million as a result of the drop in the fair value in interest hedging transactions (an increase in financing expenses).
- The average number of employees in the 4th quarter is about 200 positions less than the average number in 2007.
- **Operating profits** rose by \$6.2 million, and totaled \$11.2 million, compared to an operating profit of \$5.0 million in the parallel quarter last year.
- **The loss for the quarter** totaled \$9.4 million, compared to a loss of \$5.3 in the parallel quarter last year.
- **Cash flow** from regular activities during the 4th quarter of 2008 totaled \$21 million.

Mr. Nissim Malki, Vice President Finance for El Al noted: “During 2008 oil prices continued to increase, reaching a record high of about \$147 a barrel in July 2008. From then, prices suddenly began to drop sharply, reaching \$33 a barrel in December. The drop in jet fuel prices contributed to the drop in flight operating expenses, but because the Company maintains a long-term hedging policy, as is common practice in the aviation industry and is practiced by most other companies, the actual price that the Company had to pay for fuel (taking into account the costs of hedging) was higher than the market price. The average market price for jet fuel in 2008 rose by about 43% in comparison to 2007. As a result, the Company’s expenditure on fuel rose by about 45%, and totaled \$771.2 million.

“The Company has demonstrated its financial strength and stability. El Al ended 2008 with a positive cash flow from regular activities totaling about \$119 million, even after investments during the year on fixed and other assets, totaling \$165 million, and long-term debt repayments totaling \$65 million. The Company is taking all necessary steps to adjust to the new world financial crisis, and matches the cost of its existence to its revenues, so that when the crisis ends, we will be better prepared for the competition, on a solid and resilient foundation.”

About El Al

El Al Israel Airlines is Israel's national carrier. The Company's annual revenues total about \$2.1 billion, and it flies about 1.9 million passengers a year. El Al flies directly to about 40 destinations worldwide, and serves many other destinations around the globe through cooperation agreements with other airlines. The fleet consists of 37 aircraft, 29 of which are self-owned. El Al is Israel's leading cargo carrier. The Company is active in the charter market, through its subsidiary Sun D'or.