

## **Elal Israel Airlines Ltd. Reports First Quarter of 2007 Results**

- ❖ **Company revenues increased by about 4% and totaled about \$389 million for the quarter, compared to \$373 million for the parallel period last year.**
- ❖ **Cash flow from ongoing regular activities totaled about \$32 million.**
- ❖ **The Company's cash balance at the end of the first quarter of 2007 stood at about \$147 million.**

**Lod, Israel, May, 30, 2007, Elal Israel Airlines Ltd. (TASE: ELAL) the Israeli national carrier Reports First Quarter of 2007 Results.**

**Haim Romano, Company President, said: "The Company recorded record-breaking revenues for the quarter - \$389 million – in spite of the increasing competition; it cut back on unprofitable routes; it cut about 370 employee positions (representing about 6% of the Company's employees compared to the same period last year)."**

- **Revenues** for the quarter totaled about \$389 million, an increase of about 4% compared to the approximately \$373 million in revenues last year. The increase is largely the result of the increase in per-passenger revenue. On the other hand, this was offset by the drop in revenue from cargo activities, a result of the reduction in quantity of cargo flown, and a reduction in the per-ton revenues.
- **Gross profits** totaled about \$47.5 million, a ratio of about 12%, compared to about \$60 million in the parallel quarter last year.
- **Losses** for the quarter totaled about \$13.6 million compared to a loss of about \$9 million last year. This loss stems mainly from the dollar's devaluation against the shekel and the euro. This caused an increase in Company expenses of about \$13 million in comparison to the parallel quarter last year. In addition, fuel costs soared because of the continuing increase in the price of aviation jet fuel. These costs represent about 29% on turnover, compared to about 26% last year. The sharp increases in fuel costs alone added about \$26 million to the Company's expenses during the quarter. In addition, the Company made an accrual of \$2.1 million for early-retirement benefits for employees accepting retirement under the efficiency program.
- **Cash balances and deposits at 31/03/2007 totaled about \$147 million.** The increase during the quarter of cash balances and short-term investments result mainly from a positive cash flow from regular activities. These was achieved in spite of the investments in equipment and loan repayments during the quarter, amounting to about \$27 million.
- **The Company's cash flow** for the quarter stood at about \$32 million.

- **Company equity** at 31/03/2007 totaled about \$201 million.
- **Managerial expenses** totaled about \$22.5 million, compared to \$22.4 million. This represents a drop from 6% of last year's turnover, to 5.8%; this in spite of the increases in input prices.
- **Salary expenses** (after neutralizing the dollar's devaluation against the shekel and the euro) dropped by about \$6 million compared to the parallel quarter last year.

**Haim Romano, Company President, noted that:** "The Company recorded record first-quarter revenues, reflecting a growth of about 4% compared to the parallel quarter last year. The Company continues with its efficiency plans; cut out inefficient and unprofitable routes (because of high security costs), such as Istanbul and Larnaca; and increased frequencies on high-demand routes such as Hong Kong, Beijing, Bucharest, Vienna, and the non-stop routes to Miami and Los Angeles. In spite of the reduction in seat availability, occupancy increased with the resulting ongoing growth in revenues. The Company recorded a growth in Premium Passengers, identified the potential and the needs of those customers, and emphasized the required strategic direct destinations.

"As part of this plan, the Company reduced the number of employees by about 6% equaling about 370 positions. This reduction was achieved with employee cooperation. Concerning labor relations, I have no doubt that in the near future we shall reach a positive agreement with the employees' representatives. Our commercial results reflect reduced profits due to the fact that we have made a \$2.1 million allowance for employee early-retirement benefits.

"Israeli civil aviation faces increasing competition. Recently there has been an increase of about 24% in seat availability on foreign airlines, as well as in cargo capacity. In addition, there was a drop of about 5% in incoming tourism to Israel, the ongoing result of the second Lebanese War. Some of these factors resulted in a drop in our overall market share, especially on flights to neighboring areas. On the other hand, we managed to maintain a high load factor of about 82.4% on our aircraft, and to record a growth in revenues. We are confident that we can successfully contend with the increased competition during the coming months.

"We continue to invest major resources, with serious consideration, all with the aim of maintaining El Al's leading position in the sector. We continue with the implementation of our strategic plans, which include many activities geared towards our growth targets: The Company is readying itself to receive new Boeing 777's this summer; we have bought new seats for the aircraft; we have initiated the home check-in service; and we continue with our strategic cooperation in the field of customer service. The Company has upgraded its website - sales have doubled and now represent about 3% of the Company's ticket sales.

"Special emphasis has been placed on dealing with the Business sector and Premium Passengers, by adding frequencies on high-demand routes, introducing lavish breakfasts in cooperation with Strauss, and more."

**Haim Romano concludes:** "We believe that the steps we have taken shall continue to bear fruit in the foreseeable future, and that the continuing growth in the volume of passenger activity, together with the efficiency program and the process of ongoing improvement in the quality of our product and service excellence, are proof of the Company Management's undoubted ability to withstand the growing competition, so as to maintain El Al's leading position in civil aviation".

**Mr. Nissim Malki, El Al's Vice President Finance said:** "In addition to the competition factor, the results for the quarter were affected by the expenses of fuel for the Company; higher by about 17% compared to the parallel quarter last year. This, together with the shekel's strengthening against the dollar, affected the results to the tune of about \$39 million."

"The Company has strong cash reserves; we show a positive cash flow totaling about \$32 million, reflecting the Company's sound financial footing. The cash flow represents a robust base for additional investment to support the Company's growth plans," added Malki.

### **About El Al**

El Al Israel Airlines is Israel's national carrier. The Company's annual revenues total about \$1.7 billion, and it flies over 1.8 million passengers a year. El Al serves more than 40 destinations directly, and many other destinations around the globe through cooperation agreements with other airlines. The fleet consists of 35 aircraft, 28 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. This is El Al's 59<sup>th</sup> year.