

EL AL ISRAEL AIRLINES LTD.

FINANCIAL STATEMENTS

AS OF JUNE 30, 2010

(unaudited)

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SECTION A - UPDATE OF CHAPTER A TO 2009 ANNUAL REPORT

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Update to Chapter A (Description of Corporate Business)¹
Of the 2009 Periodic Report ("Periodic Report")
Of EL AL Israel Airlines Ltd. ("the Company")

The following are additional updates to Chapter A - a Description of Corporate Business:

General

The Group's Concise Consolidated Financial Statements (hereinafter: "the Interim Financial Statements") have been prepared in accordance with IAS 34, "Interim Financial Reporting".

In the preparation of these Financial Statements the Group implemented accounting policies, rules of presentation and calculation methods identical to those implemented in the preparation of its Financial Statements for December 31 2009 and the year ending that date.

To Item 3.4 – Changes in Interested Parties' Holdings

On June 10 2010 Borrowers' Assets Ltd. (hereinafter: "Borrowers' Assets") ceased being an interested party in the Company by virtue of its holdings, as a result of the sale of the entirety of its shares to A.L. Aviation Assets Ltd., a Company interested shareholder holding after the purchase of 11,084,671 regular Company shares (constituting as of August 12 2010 2.24% of the Company's issued and redeemed capital. A.L. Aviation Assets Ltd. is held in equal portions by Borrowers' Assets and by Miella Venture Partners, a company fully owned by a foreign trust the beneficiaries of which are the members of the Effi Arzi family.

The Ginsburg Group (Y. Hillel & Co. Ltd., a company fully owned by Mr. Pinchas Ginsburg, a Company director, along with individuals of the Ginsburg family) carried out several stock purchasing and sales activities, so that as of August 12 2010, the Ginsburg Group holds 8.24% of the Company's issued and paid-up capital.

The El Al Employees' Trust Holdings Corporation Ltd. (hereinafter: "the Employees' Corporation") carried out several sales of shares, so that as of August 12 2010, the Employees' Corporation holds 6.17% of the Company's issued and paid-up stock capital.

Mrs. Tamar Moses Borowitz, Deputy Chairperson of the Company and a controlling shareholder of Knafaim and the Company, carried out several stock actions, so that as of August 12 2010 Mrs. Borowitz holds 0.33% of the Company's issued and paid-up capital.

To Item 6.1 – Movement in the International Aviation Industry and to Item 7.1.3.(a) – Changes in the Extent of Activity in the Field and its Profitability – International Developments

According to the IATA data, as of June 2010 it seems as though global passenger traffic continues to show positive results. Following the damage caused by the volcanic cloud in April 2010, global airlines listed growth in May and June 2010. Notwithstanding, there are significant gaps between the recovery rates in various geographical regions. Thus, for instance, European passenger traffic listed a 3.3% increase compared to Asian passenger traffic which leapt 10.5% in the first half of 2010.

According to IATA numbers, first half of 2010 saw a 7.9% increase in international passenger traffic and a 28.3% increase in international airborne cargo shipping compared to the corresponding period last year.

¹ This update is in accordance with Regulation 39a of the Securities Regulations (Periodic and immediate reports), 1970 and includes material changes or additions which have occurred in corporate business on any matter which is to be described in the periodic report. The update refers to item numbers in Chapter A (Description of Corporate Business) in the Group's 2009 annual report.

Airlines increased capacity by only 2% and therefore an improvement was listed in the weighted load factor for passenger flights which as of the first half of 2010 amounted to 77.1% compared to 72.6% in the first half of 2009.

Note that the significant increase in international passenger traffic, airborne cargo shipping and load factor derives from the comparison with the first half of 2009, which was influenced dramatically by the global financial crisis.

By regional cross-section: January-June 2010 compared to January-June 2009:

Region	Passengers			Cargo	
	RPK Growth	ASK Growth	PLF	FTK Growth	AFTK Growth
	YTD 2010 vs. YTD 2009			YTD 2010 vs. YTD 2009	
Africa	13.2%	8.6%	67.9%	46.3%	14.8%
Asia/Pacific	10.5%	1.0%	77.2%	35.1%	14.8%
Europe	3.3%	-0.4%	77.3%	12.6%	-4.6%
Latin America	10.2%	3.8%	74.8%	48.2%	24.9%
Middle East	20.1%	13.2%	75.0%	34.1%	15.8%
North America	5.9%	0.1%	81.0%	29.4%	0.6%
Industry	7.9%	2.0%	77.1%	28.3%	6.8%

Divided by region, Middle Eastern airlines listed the largest growth rate (20.1%). Asian airlines listed a 10.5% increase in passenger traffic, with China continuing to serve as the growth engine for the entire region. African airlines listed a 13.2% increase in the first half of 2010, with a 21.3% increase in passenger traffic in June alone as a result of the World Cup games held in South Africa during that month. South American airlines increased their traffic by 10.2%. Note that the results of the second quarter of 2009 were negatively impacted by the "Swine Flu". North American airlines noted a 5.9% increase in passenger traffic and maintained stability in their seat capacity while listing the highest load factor (81%), which contributed to the improvement of their financial results. European airlines listed the lowest rate of growth (3.3%), in light of their response to the euro crisis, the consequences of the volcanic dust cloud and strikes that slowed down the recovery rate of European airlines.

In June 2010 IATA published an updated forecast, according to which the airlines are expected to earn \$2.5 billion in 2010, a significant improvement over IATA's previous projection from March 2010, when IATA projected that airlines would suffer a loss of \$2.8 billion.

According to the new projection, airline revenues are expected to reach \$545 billion in 2010 compared to \$483 billion in 2009 (+13%). At the same time, expected revenues for 2010 are still 4% lower than the aviation industry's revenues in 2008, which amounted to \$564 billion.

The main reasons for the improvement in the projection are:

Traffic: passenger traffic is expected to increase 7.1% in 2010 and cargo traffic is expected to increase by 18.5%; this is a significant improvement over the previous projection, which predicted a 5.6% increase in passenger traffic and 12% in cargo traffic. The first quarter of 2010 saw a 7.9% increase in passenger traffic and 28.3% in cargo traffic.

Yields: IATA predicts that yields both in the passenger sector and in the cargo sector will increase by 4.5% compared to the previous projection which predicted a 2% increase in average yield per passenger, and a 3.1% increase in average yield per cargo. The expected 4.5% increase in yields is higher than the inflation rate and therefore the increase in yield constitutes a significant factor in the 13% increase in airline revenues as mentioned above.

Load factor: according to IATA estimates, seat capacity will increase by 5.4% in 2010 in light of 1,340 new aircrafts that will be added to the aircraft fleets. Some 500 of them are replacing aircrafts that are out of service and the remainders constitute added capacity. As well, additional potential capacity exists as a result of low aircraft utilization in long-distance routes. On the other hand, IATA predicts an average 10.2% increase in traffic (passenger and cargo), and therefore load factors are expected to be high.

The volcanic dust cloud - the closure of European airspace as a result of the volcanic cloud eruption slowed down recovery in April 2010, with the cancellation of over 100,000 flights during the six day shutdown in April 2010. Nevertheless, during the months May and June 2010 results indicate recovery and returned traffic for European airlines.

Business traffic - despite early concerns that the global financial crisis would lead to structural changes in business travel, it seems as though business traffic is recovering along with the increase in global trade. Premium traffic increased by 20% in the first quarter of 2010 and tourist traffic returned to pre-crisis levels. It seems that the increase in premium traffic also assisted the recovery in economy classes.

Fuel - IATA predicts that the average price of fuel will be \$79 per barrel of oil in 2010, with no changes in relation to the previous projection.

March 2010 projection compared to June 2010 projection - central subjects:

	March 2010 Forecast	June 2010 Forecast
Revenues (billions \$)	522	545
Passenger demand growth	+5.6%	+7.1%
Cargo demand growth	+12.0%	+18.5%
Passenger yields	+2.0%	+4.5%
Cargo yields	+3.1%	+4.5%
Oil (\$/barrel)	79\$	79\$
Fuel cost (billions \$)	132	140
Net profit (billions \$)	-2.8	+2.5
% Net profit	-0.5%	0.5%

Despite the above, IATA warns that the projected profit of \$2.5 billion represents a net profit margin of just one half of a percent and that the road to financial stability is still long. Second of all, a large portion of the global aviation industry is still experiencing significant losses. The economy's slow recovery rate, strikes, natural disasters and the global crisis left European airlines with an expected loss of \$2.8 billion in 2010.

To Item 6.2 – Movement in the Israeli Aviation Industry and to Item 7.1.3.(b) – Changes in the Extent of Activity in the Field and its Profitability – Developments in the Israeli Market

According to data provided by the Central Bureau of Statistics, the second quarter of 2010 saw 882,000 exits of Israelis via air, a slight 1% decrease compared to the same quarter last year. The decrease in the number of Israelis was caused by the fact that the Passover holiday fell in late March (first quarter) while last year the holiday fell in April (second quarter), as well as by the volcanic cloud eruption in April 2010 which led to the cancellation of most flights between Israel and Europe for 6 days.

In addition, this quarter saw 630,000 tourists entering via air (BGN and Eilat), a 17% increase compared to the same period last year.

In this regard note that the second quarter of 2009 was influenced by the events of Operation Cast Lead and the global economic crisis; therefore, comparison shall be made between data from the second quarter of 2010 and data from the second quarter of 2008, before the effects of Cast Lead and the financial crisis were felt.

Compared to the second quarter of 2008, which was a record year in terms of tourist arrivals and Israeli departures, the number of Israelis traveling abroad via air in the second quarter of 2010 was 12% lower while the number of tourists (including day visitors) entering Israel via air was 4% higher.

Note that following the deterioration of relations between Israel and Turkey and the flotilla events, all charter flights between Israel and Turkish resort destinations have been cancelled until further notice. For now, scheduled flights operated by Turkish Airlines to Istanbul continue, as do, in a limited capacity, charter flights operated by Turkish airlines bringing day visitors to Israel; these are mainly tourists from the CIS arriving to vacation at Antalya, and arriving for a day at Israel as part of their package.

According to Airports Authority data, international traffic through BGN increased by 9% in the second quarter of 2010 compared to the second quarter of 2009, but was still 4% lower than the second quarter of 2008.

The average load factor for passenger flights was 79.4% compared to 76.9% in Q2 2009 and 81% in Q2 2008.

To Item 6.3 – Fluctuations in Jet Fuel Prices, and to Item 9.5.1 – Raw Materials and Suppliers – Fuel

In the quarter ending June 30 2010, there was a 34% increase in jet fuel market prices in the Med region compared to the same quarter last year. The effective average jet fuel price paid by the Company rose, after hedging activity, by 32% compared to the same quarter last year. In the reported period, fuel costs made up 31.2% of the Company's turnover (in the second quarter of 2009 fuel costs constituted 27.8% of turnover). The following data refers to jet fuel prices in the Med region, as quoted by Platts¹. For further details, see Section b.1.(3) of the Board of Directors Report.

As of June 30 2010 the Company held an inventory of jet fuel purchased from suppliers in Israel and abroad worth \$4.3 million.

To 6.4 – Fluctuations in Foreign Currency Rates

As of June 30 2010, the exchange rate of the U.S. dollar vs. the NIS was revaluated by 1.1% relative to June 30 2009, and was devaluated by 2.6% relative to December 31 2009.

As of June 30 2010, the exchange rate of the U.S. dollar vs. the euro was revaluated by 13.1% relative to June 30 2009, and by 17.4% relative to December 31 2009. For further details, see Section b.1.(5) of the Board of Directors Report.

^[1]To the best of the Company's knowledge, Platts is a member of the McGraw-Hill Group which has provided information on the energy industry for over 75 years. Platts provides information and up-to-date analyses, among other things, on international prices and events pertaining to the petroleum, petrochemical, natural gas and electric and nuclear power markets.

To item 6.5 – Interest Rate Fluctuations

The average 3-month Libor rate dropped by 48.1% in the quarter ending June 30 2010 compared to the same quarter last year. For further details, see Section b.1 of the Board of Directors Report.

1. Passenger Aircraft Activity

To Item 7.1.4 - Developments in Markets in the Field of Activity, or Changes in the Characteristics of its Customers, Item 7.1.10, Structure of Competition in the Field of Activity and Changes Occurring Thereof, the Open Sky Policy – Implementation of Open Sky Policy, Item 7.2 – Services in the Field of Activity

The following is a description of the main changes deriving from the Ministry of Transportation's Open Skies Policy:

Romania - Israel and Romania signed a new aviation agreement, in which up to 14 weekly flights shall be operated by the countries' two designated carriers to destinations between the two countries with no commercial or capacity limitations. In addition, each country may appoint an additional airline to carry out up to 7 passenger flights to each destination between Romania and Israel, with no commercial or capacity restrictions.

Ukraine - starting July 1 2010, DonbassAero, which operated 11 weekly flights on the Kiev route, will discontinue its activity on this route while AeroSvit (controlled by the same owners), which operated 2 weekly flights, shall resume operating 13 weekly flights on this route.

Note also that in July 2010 Israel and Ukraine signed an agreement cancelling the need for visas between Israel and Ukraine. According to Ministry of Tourism's estimations, this may lead to a significant increase in tourist traffic between the two countries.

Russia - Aeroflot began operating charter flights on the Tel Aviv-Moscow route in August 2010.

Sun D'Or began operating scheduled flights to Minsk starting June 2010, this following its appointment as designate carrier for this route.

In the second quarter of 2010, a number of new airlines began operating regular flights on routes to Israel: German Wings began operating regular flights on the Cologne-Tel Aviv route starting late March 2010; Air Berlin, which replaced Hapag Fly, began operating 7 weekly frequencies from various German destinations (instead of 2 frequencies from Berlin); Spanish airlines Apanair and Vueling, which began operating regular flights on the Barcelona-Tel Aviv route starting May 2010; and Ukraine International Airlines, which began operating 5 regular weekly flights on the Kiev-Tel Aviv route in May 2010.

In addition to the above, other airlines operating on routes to Israel increased their seat capacities. Among the most prominent airlines increasing their capacities were: Lufthansa, which added a fifth flight to Munich starting late April 2010, operating a total of 19 weekly frequencies, 14 of which are to Frankfurt; Austrian Airlines, which increased its capacity (+26%) starting Mat 2010 by shifting to larger aircraft; Alitalia, which operated 3 daily flights on the Tel Aviv-Rome route (in total 21 weekly frequencies) compared to 19 frequencies (14 to Rome and 5 to Milan) in the second quarter of 2009; Air Canada, which increased its seat capacity by 32% by adding a weekly flight on the Toronto route and in total operates 5 weekly flights instead of 4 in the same period last year; and Delta, which increased its capacity on the New York route starting June 2010.

In addition, a number of airlines operating in the second quarter of 2009 discontinued their activity on Israeli routes over the course of the year.

In total, scheduled foreign airlines increased their capacity by 5% in the second quarter of 2010 and passengers increased 10% compared to the second quarter of 2009. Compared to the second quarter of 2008 the capacity of foreign airlines increased by 8%, and their passenger traffic increased by 6%

The Group increased its seat capacity by 8% in the second quarter of 2010 and increased its passenger traffic by 14% compared to the first quarter of 2009. Compared to the second quarter of 2008 the Group's seat capacity decreased by 5%, and accordingly, a slight 5% increase was noted in Group passenger traffic.

Pursuant to Section 7.2 of the Periodic report - Services in the Area of Activity, the following is data regarding developments in passenger traffic by central destination groups:

In total, passenger traffic through BGN increased by 9% compared to the second quarter of 2009 and was still 4% lower than the second quarter of 2008 (for further details see Section 6.2 above). Passenger traffic in the second quarter of 2010 was divided between the airlines as follows: El Al and Sun D'Or – 37.7%; other scheduled airlines – 50.7%; charter airlines – 11.6%.

Western European Routes

Western European routes saw a 6% increase in total passenger traffic in the second quarter of 2010, compared to the same period last year and with no changes compared to the second quarter of 2008. Foreign scheduled airlines saw a slight 2% increase in passenger traffic, with their seat capacity increasing 3% compared to the second quarter of 2009.

In light of the global financial crisis and the estimations of the airlines that more time is needed until global passenger traffic recovers, the airlines conducted a conservative policy regarding their seat offerings and even reduced their seat capacity slightly, and as a result their load factor increased to 79.8% compared to 76.0% in the second quarter of 2009.

Compared to the second quarter of 2008, which was a record year in terms of traffic arriving and departing from BGN (before the implications of the economic crisis were felt), the capacity of regular foreign airlines increased by 2%, their passenger traffic remained almost unchanged.

Foreign charter airlines, which severely reduced their activity on these routes in the second quarter of 2009, significantly increased their activity in the second quarter of 2010 (a 39% increase in seat capacity and 38% in passengers). At the same time, relative to Q2 2008 their seat capacity was 21% lower and their passenger numbers were similarly reduced (-19%).

The Group increased its seat capacity by 5% (+7% compared to the second quarter of 2008) in the second quarter of 2010 and listed an increase of 11% in passenger traffic (9% compared to the second quarter of 2008).

Note that Sun D'Or significantly increased its activity (+64%) on this route network relative to the comparable quarter last year and in particular on routes to Barcelona and Rome.

The Group's average load factor in Q1 2010 was 83.8% and its share of total passenger traffic in this route network was 40.2%.

Routes to Central and Eastern Europe

Routes to Central and Eastern Europe listed a 4% increase in the seat capacity of scheduled foreign airlines and a 12% increase in passenger traffic. The average load factor for passenger flights was 67.8% in Q2 2010 compared to 62.9% in Q2 2009. Compared to the second quarter of 2008 the scheduled airlines increased their seat capacity by 7% and their passenger numbers remained essentially unchanged (-1%).

Foreign charter airlines increased their seat capacity by 8% in the second quarter of 2010 and their passenger traffic increased by 5%, but compared to the second quarter of 2008 the seat capacity of these companies was 20% lower, and their passenger numbers had decreased at a similar rate (-21%).

The Group did not make any changes to its seat capacity and listed a moderate 3% increase in passenger traffic on these routes. Compared to 2008 the Group increased its seat capacity by 17% and listed an 8% increase in passenger traffic. In total, passenger traffic on this route network increased 7% in Q2 2010 compared to the same quarter last year, an 8% decrease compared to Q2 2008. The Group's market share in this route network in the second quarter of 2010 reached 33.5%.

Routes to the CIS

Scheduled foreign airlines operating on routes to the CIS increased their seat capacity by 9% compared to the second quarter of 2009, listed a 15% increase in passengers. In addition, their load factor reached 65% compared to 61.4% in the second quarter of 2009 (compared to the second quarter of 2008, seat capacity increased 16% and passenger traffic increased 19%).

Furthermore, a number of new airlines which had not been operating in the second quarter of 2009 began operating on these routes in this quarter: Ukraine National Airlines, which began operating 5 weekly flights on the Kiev-Tel Aviv route in May 2010 and Russian airlines UT Air and Tartarstan Airlines, which began operating regular flights on the Tel Aviv-Samara route and Tel Aviv-Kazan route, respectively.

During this period, the Group (El Al and Sun D'Or) increased the number of seats offered in this route network by 22% and the Group's passenger numbers increased by 13% compared to the same period last year. The Group significantly increased its activity mainly on the Tel Aviv-Moscow and Tel-Aviv St. Petersburg routes. On the Moscow route, the Company operated 17 weekly flights compared to 12 in the second quarter of 2009 and on the Tel Aviv-St. Petersburg route, the Company operated 4 weekly flights compared to 2 weekly frequencies on this route in the second quarter of 2009.

Also note that Sun D'Or also operated charter flights to Moscow in addition to starting regular flights on the Minsk route.

Competition on the Russian routes is expected to worsen with the beginning of activity by Aeroflot on the Tel Aviv-Moscow route on August 1 2010. Aeroflot is expected to operate 5 weekly flights on this route on a charter basis. Aeroflot will be the first Russian airline to operate flights on this route.

Compared to 2008 the Group increased its seat capacity by a moderate 3% and listed a 2% increase in passenger traffic on these routes. The Group's share of passenger traffic on these routes in Q2 2010 was 33.2%.

Transatlantic Routes

A 14% increase in passenger traffic on transatlantic routes was listed in the second quarter of 2010 compared to the second quarter of 2009. Compared to the second quarter of 2008, no change occurred in the number of passengers in this route network. Foreign airlines operating on these routes increased their seat capacity and passenger traffic by 28% in this quarter compared to the second quarter of 2009 (a 9% increase and seats and 11% in passengers compared to 2008). Most of the increased capacity derived from the entry of US Airways into the Tel Aviv-Philadelphia route starting July 2009, in addition to increase capacity by other airlines.

At the same time, the Company's seat capacity and passenger traffic in the second quarter of 2010 remained essentially unchanged (+1%). Compared to 2008 the Company reduced its capacity by

10% (due to the discontinuation of activities on the Miami route starting September 2008) and its passenger numbers dropped accordingly.

East Asian Routes

An increase of 15% occurred in passenger traffic on East Asian routes in April-June 2010 despite a 3% decrease in seat capacity in this route network. The increase in passenger traffic derived mainly from the increase in passenger traffic on the Seoul route (as detailed below), while the decrease in seat capacity derived from the decrease in the Company's seat capacity on the Hong Kong route (the Company operated 4 weekly flights on the Hong Kong route compared to 5 weekly flights in the second quarters of 2009 and 2008).

Compared to the same period in 2008, seat capacity increased 19% and passenger traffic on the East Asian routes increased by a similar rate (20%), this as a result of the entry of Korean Air, which began operating 3 weekly flights on the Tel Aviv-Seoul route starting September 2008.

Note in this regard that Korean Air increased its passenger traffic significantly (+73%) in the second quarter of 2010, while increasing its load factor on this route, which reached 72% in the second quarter of 2010 compared to just 42% in the second quarter of 2009.

As stated, the Company reduced its seat capacity by 4% compared to the second quarter of 2009 and 2008, and its passenger traffic increased by 8% compared to the second quarter of 2009, but remained unchanged compared to the same period in 2008.

Regional Network

A slight 4% increase in passenger traffic was listed in this route network along with similar increase in seat capacity compared to the second quarter of 2009. The slight increase in traffic in this route network derives mainly as a result of increased traffic to Greece and the Greek islands. A 32% decrease was listed on these routes compared to the second quarter of 2008, in light of the decrease in passenger traffic between Israel and Turkey.

Note in this regard that in the first quarter of 2010, passenger traffic to Turkey began to recover (a 64% increase over Q1 2009), but following the flotilla events in May 2010 and the deterioration of relations between Israel and Turkey, all charter flights to Turkish resort destinations were stopped. At this stage, regular flights operated by Turkish Airlines on the Istanbul route continue, but at a limited scope. Furthermore, charter flights operated by Turkish airlines have continued.

A 51% decrease in passenger traffic between Israel and Turkey was listed on these routes compared to the second quarter of 2008.

During this period, the Company operated flights on routes to Cairo and Greece and increased its activity on these routes. The Company listed a 66% increase in passenger traffic on the Cairo route compared to the second quarter of 2009 (an 80% increase over 2008). The Company increased its frequencies on the Athens route to 5 starting May 2010 (compared to 3 weekly frequencies in the second quarter of 2009 and 4 weekly frequencies in 2008) and its passenger traffic increased by 50% in the second quarter of 2010 compared to the same quarter last year (a 10% increase over 2008). On the other hand, Sun D'Or passenger traffic on the Rhodes and Crete routes decreased significantly.

The Group's share on these routes was just 10.9%.

In all, the Group's (El Al and Sun D'Or) seat capacity on the regional network decreased by 3% compared to the second quarter of 2009 and its passenger numbers decreased by a similar rate (-4%). Compared to the second quarter of 2008, the Group increased its seat capacity by 26% and the passenger number on this route network increased by a similar rate (+27%).

To Item 7.1.5 – Technological Changes that May have a Material Impact on the Field of Activities

A new flight planning system entered use in the control center in late June 2010. The system performs optimal route planning taking all required parameters into account: various costs, flight distance and required amounts of fuel. The system is interactive, interfaces with other Company systems and offers a very high level of accuracy. The system is expected to save fuel costs and passage fees.

On June 1 2010 the Company joined the BSP, the IATA clearance system.

As part of regular efforts to improve service processes, a new system was placed at the entrance to the Company's lounge at BGN. The system identifies the customer visiting the lounge and can offer personally-adapted services.

The Company has completed its transition to the Amadeus system at stations in Israel and around the world. This move constitutes a comprehensive solution for sales and for the passenger reception processes at the airport. As a result, the Carmel system's activities were discontinued.

Following that stated in the 2009 Financial Statements regarding the cancellation of the agreement to carry out the ERP Project, in June 2010 the Company signed a settlement with IBM constituting a solution to the financial dispute between the parties resulting from the cancellation of the agreement which includes, among other things, payment by the Company for the purchase of rights to interim products produced prior to the project's cancellation, dismissal of the mutual claims and arrangement of compensation between the Company and IBM. The Company is conducting talks with Remco regarding the settlement agreement and the dismissal of mutual claims between the parties.

To Item 7.1.10 – Structure of the Field of Activity and Changes Occurring Therein

Pursuant to the Company's reports dated March 9 2010 regarding petitions filed against the decision by the Minister of Transportation and Road Safety to grant the Company a license to operate flights to Eilat, on June 2010 27 the High Court of Justice ruled to reject the petition filed by Arkia and Israil against the ruling, and ruled to reject the petition filed by the Company on the matter of the conditions set in the decision, and charged the petitioners for court expenses. The Company began operating flights to Eilat, in accordance with the conditions set in the ruling, starting August 1 2010.

To Item 7.4 – New Services

Following the Company's reports regarding the code sharing agreement signed December 2009 with Turkish airline Atlas Jet, which was expected to come into effect in June 2010, the Company and Atlas Jet decided via mutual consent and in light of the situation following the flotilla events not to activate the agreement until further notice.

The Company began operating its domestic flights on the Eilat route on August 1 2010.

The Company signed a cooperation agreement (on an interline basis) with JetBlue Airlines, which operates a large volume of domestic U.S. flights departing from JFK Airport in New York. The new agreement is expected to come into effect in October 2010 and will allow the Company to offer a variety of new destinations throughout the United States, Latin America and the Caribbean.

As part of preparations for preventing online fraud, a fraud detection system was activated to support the orders system. Likewise, credit card verification by VBV (Verified by Visa) was integrated, and the Company is highly compatible with PCI standards.

The Company began marketing tourist packages to outgoing tourism through a call center and sales shops and for incoming tourism on the Company website as well. Packages offered to departing Israelis include flights and hotels only at this stage, while tourists are also offered car rental and domestic travel opportunities.

To Item 7.10 – Manufacturing Ability

The Company increased its ASK by 3.2% in the second quarter of 2010 and the Company's RPK increased by 6.2% compared to the same quarter last year. As a result, a 2.8% increase was listed in its weighted load factor to 80.1%, compared to 77.9% in the same quarter last year.

To Item 7.11 – Aircraft Fleet in the Passenger Aircraft Field

In May 2010 the Company signed a contract with the International Lease Finance Corporation to lease a 767-300 aircraft for a period of 65 months. The aircraft was manufactured in 1997 and will feature 237 seats in El Al's service. The plane was received by the Company on June 21 2010 and began service on July 11 2010.

In July 2010 the Company decided to exercise its option to extend the lease of a M.K. Aviation S.A. 757-200 aircraft, starting December 2010, for an additional 12-month lease.

In July 2010 the Company signed a memorandum of understanding with CIT Aviation Finance I Limited for the lease of a 737-800 aircraft for a 68 month leasing period with the option to extend the period by an additional 24 months. The aircraft, manufactured in 2006 shall be reconfigured to El Al configuration upon receipt.

The U.S. aviation authorities have required the Company to perform alterations on the fuel tanks of the Company's planes. The cost of the changes is \$9.3 million. The change must be carried out on one half of the aircraft by the end of 2014, with the end date for all aircraft set for the end of 2017. Over the course of 2010 the Company plans to purchase 3 kits at a cost of \$1.1 million to carry out alterations on 3 aircraft.

2. Cargo Aircraft Activity

To Item 8.1.1 – Structure of the Field of Activity and Changes Occurring Therein

Pursuant to Item 8.1.1 of the Periodic Report, according to the Company's estimates, the Group's share of cargo transport in April-June 2010 of all cargo shipped to and from Israel by air (including cargo carried in the holds of passenger aircraft, including mail activity but not including Sixth Freedom) amounted to 35.2%, this in comparison with 32.9% in the same period last year.

To Item 8.1.2 – Legislative Restrictions, Standards and Special Constraints Applying to the Field of Activity

Pursuant to Section 8.1.2 of the Periodic Report regarding the Company's request from the Government Companies Authority for the consent of the holder of the Special State Share, as required by the Company's articles, to remove two 747-200 cargo aircraft from Company service, the Company approached the holder of the Special State Share for approval of the leased aircraft in the Company's possession. The State contacted the Company with a request to provide answers to several questions required to achieve the State's consent and the Company has provided all the requested information.

To Item 8.1.3 (a) – Extent of Global Cargo Transport

According to IATA reports, in January-June 2010, international transportation of cargo (including in passenger aircraft holds) increased by 28.3% compared to the same period last year, an increase in activity at a higher rate than the projected yearly rate according to IATA estimates (3.9%).

To Item 8.1.3.(b) – Extent of Cargo Transport on Aircraft to and from Israel.

Airport Authority data indicates that in April-June 2010, cargo traffic through BGA increased by 18.3% relative to the same period last year.

To Item 8.10 – Aircraft Fleet

Following the Company's reports, on April 24 2010 a leased 747-400 aircraft began operating in the Company's service.

3. Information on Both Fields of Activity

To Item 9.4.1 - Organizational Structure

In August 2010 it was decided to establish a new branch at the Company, the Planning and Organization Branch (title).

To Item 9.4.2 – Employees

Pursuant to Item 9.4.2 of the Periodic Report, the following is an updated table on the Company's employees:

December 31, 2009	June 30 2010	
3,733	3,824	Regular employees
2,074	2,138	Temporary employees
5,807	5,962	Total employees

To Item 9.4.9 - Legislation Amendment in the Field of Labor Relations

On March 31 2010 Amendment 15 to the Equal rights for Persons with Disabilities Law, 1998 came into effect, establishing that an employer with over 25 employees (except for the State or an employer to whom the State Service law (Appointments) applies), the employees of whom do not have adequate representation, under the circumstances, of persons with disabilities, shall act to promote the adequate representation of persons with disabilities, including requisite adjustments.

On June 28 2010 the Knesset passed Amendment 15 to the Labor Equal Opportunities Law, 1988, regarding the reversal of the burden of proof in claims of discrimination, shifting it from the employee to the employer.

To Item 9.4.16 – Executives and Senior Management

Pursuant to Note 9.4.16 of the 2009 Financial Statements, regarding the discontinuation of the service of Company CEO Mr. Chaim Romano, note that in accordance with the departing CEO's entitlement to result-dependent bonus payment for a six month period out of the advance notice period according to his employment agreement, the Company's Board of Directors decided that the bonus shall be calculated on the basis of the months of January through June 2010. In accordance with the Company's financial results, the bonus in question amounts to \$647,000, to be paid near the publication of the Company's Q2 Financial Statements.

On June 10 2010 Captain Rami Iskov concluded his service as the CEO's Chief of Staff due to the cancellation of the position of Chief of Staff by the Company's CEO.

To Item 9.8.3 – Credit Frameworks

The Company's credit frameworks amounted to \$35 million as of June 30 2010, \$24 million of which were guaranteed frameworks.

To Item 9.8.4 – Guarantees against Collateral

With the drop in jet fuel prices below price levels defined by hedging agreements with international institutions, the Company was required to provide collateral to guarantee its upholding hedging refunds to which it was obligated in accordance with its agreements with hedging institutions. As of June 30 2010, the total collateral requirement amounted to \$13.6 million granted using deposits and letters of credit, and in addition, the hedging institutions

provided non-guaranteed frameworks to the amount of \$29 million. The restricted assets (aircraft and deposits) to the required extent for banks in Israel and abroad.

To Item 9.8.5 – Loans for Unique Use

As of June 30 2010, the balance of loans from banking and other corporations, including short term borrowings, amounted to \$766.5 million.

To Item 9.11.2 (a) - Limitations and Supervision of the Corporation's Business - the Aviation Law, 1927

As of this report, the Knesset Economics Committee and the Civil Aviation Authority are deliberating on the proposed Aviation Bill, 2010. Likewise, the Civil Aviation Authority has presented the public with the proposed amendment to the Aviation Regulations (Aircraft Operation and Rules of Flight), 2010.

To Item 9.11.2.(g) – Limitations and Supervision of the Corporation's Business – Regulatory Arrangements – the Airports Authority Law, 1977

In June 2010 the Airports Authority announced that it would be closing Runway 26 for renovations for a period estimated at 20 months. Closing the runway requires that the Company carry out adjustments to its regular operations, adjustments requiring to bear additional expenses and/or financial losses, as detailed below: 1) Added fuel required to operate its flights due to changes in arriving flight planning definitions; a 15 minute increase in loitering time during busy periods at the airports; and an increase in the amount of eastward takeoffs (flight routes for flights taking off eastward and heading westward must be extended); 2) The runway used for takeoff during the repair period is shorter, which limits the possible takeoff weight, and therefore a reduction is required in amounts of cargo that can be carried by long-distance flights; 3) Takeoffs on the shorter runway headed east leads to higher engine wear and increases repair expenses; 4) Unavoidable use of greater engine force during takeoffs from a shorter runway may lead to a failure to comply with permitted BGN noise thresholds set by the aviation authorities, and may lead to fines for the Company.

To Item 9.11.2 (j) - Limitations and Supervision of the Corporation's Business - the Consumer Protection Law, 1981

In June-July 2010 the Knesset Economics Committee held discussions regarding Consumer Protection Regulations (Transaction Cancellation), 2010, intended to expand the cancellation right at the consumer's disposal regarding the purchase of a variety of services and goods. Despite the fact that the Economics Committee vote has concluded, the regulations have yet to be published as of this report. In accordance with the Economics Committee decision, at this stage tourism and aviation services outside of Israel are not covered by the regulations, and it was established that the Ministry of Industry, trade and Employment, which is concentrating treatment of the regulations, must formulate, in conjunction with the Ministry of Tourism and various elements active in the industry, a comprehensive arrangement regarding cancellation of tourism and aviation services as quickly as possible, within no more than six months from the publication of the regulations.

To Item 9.14 – Legal Proceedings

In March 2010 a lawsuit was filed against the Company as part of arbitration proceedings in the U.S. to the amount of \$700,000 on behalf of a hotel that had provided hospitality services to the Company's air crews, which include arguments regarding accounts that require settlement between the parties. The parties have decided to engage in arbitration with the intent of solving the dispute. The Company has listed a provision for this claim in the Financial Statements, based on the advice of its legal counsel.

El Al Israel Airlines Ltd.
Report of the Board of Directors on the State of the Corporation's Affairs
For the Period Ending June 30 2010

We hereby present the Report of the Board of Directors on the State of the Corporation's Affairs for the three month period ending June 30, 2010.

The second quarter of 2010 saw the continued extraction from the economic crisis that started in late 2009, which had a positive impact both on passenger and cargo traffic.

Total passenger traffic through Ben Gurion Airport in the second quarter of 2010 amounted to 2.8 million passengers compared to 2.6 million passengers in the second quarter of 2009, an 8.9% increase, while airborne cargo increased by 18.3% from 62.4 thousand tons in the second quarter of 2009 to 79.3 thousand ton in the reported quarter.

The Group flew some 1,025 thousand passenger legs and 25.6 thousand tons of cargo, a 7.5% and 28.8% increase, respectively, compared to the same quarter last year.

The Company's market share in scheduled and charter flights amounted to 37.7% and the average load factor for the quarter was 80.1% compared to 77.9% in the same quarter last year.

Key exogenous factors impacting the Company's operating results in the reported period compared to the same period last year were: a 34% increase in the average price of jet fuel in the Mediterranean Basin, a 48.1% average drop in Libor rates and a 7.2% revaluation of the NIS vs. the USD.

The Company has continued with its activity for promoting service and improving commercial and operational systems. Over the course of the reported period, the new Lido flight planning system, which plans optimal flight routes, was introduced to the Company's control center. The system is interactive, interfaces with other Company systems and allows a higher level of precision. The system is expected to save fuel costs and passage fees. On June 1 El Al joined the IATA clearance system, the BSP. The Company completed its shift to the Amadeus system in stations in Israel and around the world. This move constitutes a comprehensive solution for sales and client reception processes at the airport. The Company began marketing tourist packages to outgoing tourists through its center and sales shops and to incoming tourists on the Company's website as well. In April 2010 a leased 747-400 aircraft entered Company service. In June 2010 the Company signed an agreement to lease a 767-300 aircraft for a 65 month leasing period. The aircraft entered service in July 2010.

In the second quarter of 2010 the Company saw an operational profit of \$25.0 million compared to an operational loss of \$24.5 million in the comparable period last year. Net profit for the reported period amounted to a total of \$14.8 million compared to a loss of \$19.7 million in the second quarter of 2009.

In the second quarter of 2010 the Company saw a cash flow from operating activities to the amount of \$82.9 million (\$41.1 million in the second quarter of 2009).

The Group's cash balances, cash equivalents and short term deposits as of June 30 2010 amounted to \$183.5 million, a \$68.9 million increase relative to balances as of December 31 2009 while equity as of June 30 2010 amounted to a total of \$139.1 million compared to \$123.8 million on December 31 2009.

1. General

1.1 Changes in International Financial Standards (IFRS)

Starting from the first quarter of 2009, the Company has applied in its financial statements, retroactively, changes in accounting policy deriving from the application of new standards and interpretations of International Financial Reporting Standards (IFRS), which came into effect in 2009, including IFRS 8 "Operating Segments", IAS 1 (Revised) - "Presentation of Financial Statements", IFRIC 13 - "Customer Loyalty Plans" and the revision to IAS 19 - "Employee Benefits", in the framework of the IFRS improvements in 2008. For further details on the standards and the impact of their application to the Group's Financial Statements, see Note 4 to the December 31 2009 Financial Statements. Regarding the early adoption of International Accounting Standard IFRS 9, see Note 3a. Of the June 30 2010 Financial Statements

1.2 The Company and its Business Environment

The Company serves as the designated air carrier of the State of Israel on most of the international routes operating to and from Israel.

The key activities of the Company and its subsidiaries are the transport of passengers and freight, including baggage and mail, through scheduled flights, and on the matter of the transport of passengers, also on charter flights between Israel and other countries. The Company is also engaged in providing security services and maintenance services, including for other airlines at Ben Gurion Airport, in the sale of duty-free products, in the leasing of aircraft, and through investees – in ancillary activities, mainly the manufacture and supply of airline food and the management of several overseas travel agencies.

The business environment in which the Company operates is the international civil aviation industry, and inbound and outbound tourism, which is characterized by a seasonal nature and strong competition, which grows stronger in periods of over-capacity, as well as high levels of sensitivity to the economic, political and security situation in Israel and around the world.

The Group has two operating sectors reported as operating segments in the Company's consolidated Financial Statements:

- a) **Passenger aircraft activity** – In this segment, the Group transports passengers, as well as freight, in the hold of passenger aircraft, and provides ancillary services, such as the sale of duty-free products and the leasing of planes. In the field of passenger transport, the Company competes in its flights to and from Israel with 2 Israeli airlines (Arkia and Israir) and over 50 foreign airlines that operate scheduled flights, of which 30 are held on a regular basis. Revenues from this segment constituted 90.5% of the Group's total revenues in the second quarter of 2010.

- b) **Cargo aircraft activity** – In this segment, the Group transports cargo in cargo aircraft. In the field of cargo transport, the Company competes with 5 airlines operating cargo aircraft, and with most of the scheduled airlines that operate passenger planes that carry cargo in their holds. Revenues from this segment constituted 4.3% of the Group's total revenues in the second quarter of 2010.

The Group has additional revenues not allocated to the major segments, accounting for 5.2% of total revenues in second quarter of 2010.

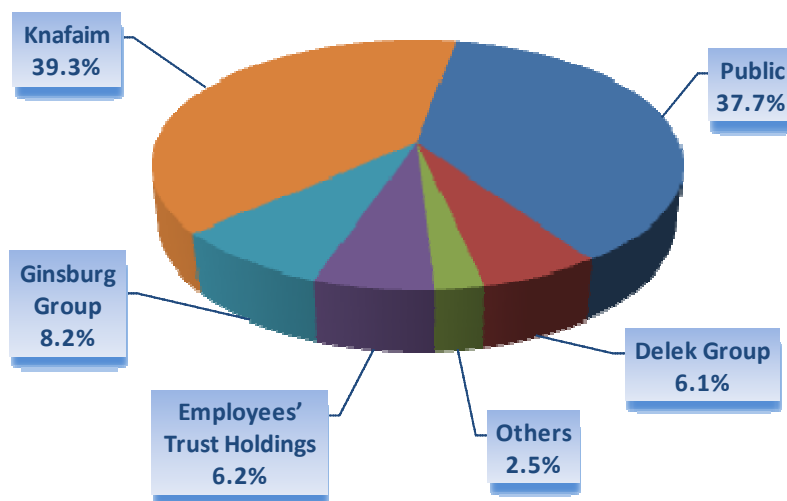
For further information on the Company's fields of activity, see Section a.5 of the Report of the Board of Directors and Note 37 to the December 31 2009 Financial Statements.

1.3 Holdings of Company Shareholders

As of June 30, 2010, holdings in the Company were:

Knafaim Holdings Ltd. ("Knafaim") – 39.3%, the Ginsburg Group – 8.2%, a Company employee corporation called "Holdings in Trust of El Al Employees Ltd." ("Employees Corporation") – 6.2%, the Delek Group - 6.1%, others – 2.5%, the public – 37.7%.

Ratio of Holdings In Company Shares as of June 30, 2010 (Undiluted):



a. Explanation of the Board of Director's for the Corporation's State of Affairs

a.1 Financial Position (Consolidated Financial Statements)

	30.06.2010 in thousands US dollars	31.12.2009 in thousands US dollars	change in thousands US dollars	
			US dollars	%
Current assets				
Cash and cash equivalents	175,767	106,687	69,080	65%
Short-term deposits	7,776	7,933	(157)	(2%)
Restricted deposits	1,500	7,003	(5,503)	(79%)
Trade receivables	180,350	112,086	68,264	61%
Other receivables	16,738	16,155	583	4%
Current derivative financial instruments	4,779	11,206	(6,427)	(57%)
Prepaid expenses	34,034	24,873	9,161	37%
Inventories	13,104	21,947	(8,843)	(40%)
Non-current assets				
Long-term bank deposits	1,725	1,839	(114)	(6%)
Investment in affiliated companies	648	648	-	0%
Investments in another company	1,343	1,357	(14)	(1%)
Derivative financial instruments	2,520	2,255	265	12%
Fixed assets, net	1,267,539	1,312,930	(45,391)	(3%)
Intangible assets, net	6,573	7,504	(931)	(12%)
Assets due to employee benefits	33,353	34,501	(1,148)	(3%)
Prepaid expenses	2,554	2,578	(24)	(1%)
Total Assets	1,750,303	1,671,502	78,801	5%
Current liabilities				
Short-term borrowings and current maturities	95,469	106,016	(10,547)	(10%)
Trade payables	152,847	128,970	23,877	19%
Other payables	68,730	54,444	14,286	26%
Provisions	58,272	57,217	1,055	2%
Derivative financial instruments	31,899	55,643	(23,744)	(43%)
Employee benefit obligations	92,030	81,379	10,651	13%
Unearned revenues	290,308	204,444	85,864	42%
Non-current liabilities				
Loans from financial institutions	661,346	704,194	(42,848)	(6%)
Employee benefit obligations	63,434	65,835	(2,401)	(4%)
Loans from others	51	-	51	
Other payables	10,587	13,318	(2,731)	(21%)
Derivative financial instruments	18,329	20,135	(1,806)	(9%)
Deferred tax	10,215	5,313	4,902	92%
Long-term unearned revenues	57,735	50,813	6,922	14%
Shareholders' equity	139,051	123,781	15,270	12%
Total liabilities and equity	1,750,303	1,671,502	78,801	5%

The main changes in asset, liability and shareholders' equity items as of June 30, 2010 compared to December 31, 2009 are:

Current Assets

- An increase in the balance of cash, cash equivalents and short-term deposits, due mainly to a positive cash flow from operating activities, offset mainly by investment in fixed assets and the repayment of long term loans. For further details, see Item 7a below.
- A decrease in deposits restricted in favor of jet fuel hedgers, as a result of hedging agreements, mainly as a result of the repayment of transactions in the reported period.
- The increase in trade receivables, derived mainly from the seasonal increase in passenger sales while cargo sales increased slightly.
- The following changes occurred to the Company's derivative financial instruments (presented in the Financial Statements under current and non-current assets and current and non-current liabilities):

The total net change of the fair value of jet fuel, interest and foreign currency hedging was expressed in a \$19.4 million increase over the fair value at the end of 2009, as a result of transactions reaching redemption, from additional transactions occurring in the reported period and from changes in the fair value of transactions still open on the balance sheet date. The increase in fair value of derivative financial instruments was expressed in a \$16.5 million increase (net after tax) in the capital reserve in respect of cash flow hedges recognized directly in equity, in the \$5.5 increase in the deferred tax liability and the \$2.6 million net increase in fuel and financing expenses in the Statement of Operations. For further details regarding hedging transactions conducted by the Company see b.1.(3), b.1.(4) and b.1.(5) below.

- The increase in the balance of prepaid expenses derives mainly from the increase in advance commissions for flight tickets as a result of the seasonal increase in passenger sales.
- The decrease in inventories derived largely from the decrease in jet fuel reserves.

Non-Current Assets

- Fixed assets decreased mainly due to depreciation costs and the consumption of parts and accessories in the reported period, offset by the purchase of parts and accessories.
- Intangible assets decreased mainly as a result of the erasure of part of the investment in the ERP project. For further details, see Note 4c to the financial statements.

Current Liabilities

- Short-term loans and current maturities of long-term loans decreased mainly as a result of the repayment of short-term bank credit, offset by an increase in current maturities of long-term loans.

- Trade payable balances increase mainly as a result of the increase in activity.
- Other payables increase mainly as a result of the increase in airport tax liabilities due to the seasonal increase in passenger sales, along with an increase in interest expenses payable.
- Current liabilities due to employee benefits increased mainly as a result of the payment of the December 2009 salary on the 31st instead of on January 1 as it is usually paid over the normal course of business. The payment was pushed forward as a result of the weekend falling near the banks' closing date for the end of the year.
- Unearned revenues increased mainly as a result of a seasonal increase in passenger sales.

Non-Current Liabilities

- The balance of loans from financial institutions decreased as a result of current repayments of loans as well as the classification of loans to current maturities.
- The decrease in other payables occurred mainly as a result of payment due to signing the settlement for the U.S. cargo claim.
- The increase in short-term deferred tax assets, resulted mainly from the increase in the fair value of financial agreements recognized as hedging agreements, offset by deferred tax revenues listed as a result of the loss in the first quarter of 2010.
- Unearned revenues mainly increased as a result of an increase in non-current liabilities to frequent flier club members.

Shareholders' equity

- The increase in the Company's shareholders' equity is primarily due to an increase in capital reserves due to cash flow hedging as a result of the increase in the fair value of hedging agreements recognized as hedging, offset by the loss for the year.

As of June 30 2010 the Company has a working capital deficit of \$355.5 million, compared to a deficit of \$380.2 million on December 31, 2009. The Company's current ratio as of June 30, 2010 amounted to 55.0% compared to 44.7% on December 31 2009. Among the reasons for the decrease in the working capital deficit, one might note the increase in cash and short-term deposits and in the balance of trade receivables, offset by the increase in unearned revenues and suppliers. The working capital deficit is due to the Company's current liabilities, which feature two material elements: prepaid income from the sale of airline tickets including airport taxes and frequent flyer clubs, as well as employee vacation obligations. These elements, which are characterized by a cyclical nature, are included in current liabilities, and essentially explain most of the working capital deficit.

a.2 Analysis of El Al's Business Results

a.2.1 Market Data

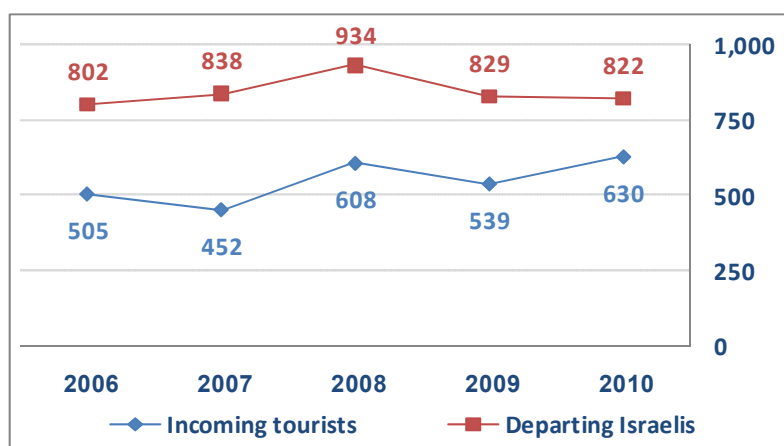
Passenger and cargo traffic at BGA	Apr - Jun 2010	Apr - Jun 2009	change	
	in thousands	in thousands	in thousands	%
Incoming tourists *	630	539	91	17%
Departing Israelis *	822	829	(7)	(1%)
Cargo import - tons **	33	27	6	25%
Cargo export - tons **	41	36	5	13%

Passenger and cargo traffic at BGA	Jan - Jun 2010	Jan - Jun 2009	change	
	in thousands	in thousands	in thousands	%
Incoming tourists *	1,133	917	216	24%
Departing Israelis *	1,488	1,378	110	8%
Cargo import - tons **	67	56	11	20%
Cargo export - tons **	88	76	12	16%

* Source: Central Bureau of Statistics.

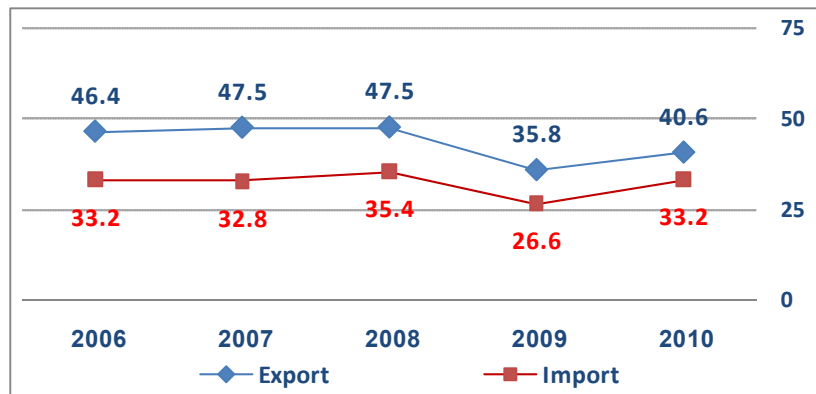
** Does not include cargo in transit.

Incoming Tourist & Departing Israeli Traffic, in the Second Quarters of: (In Thousands):



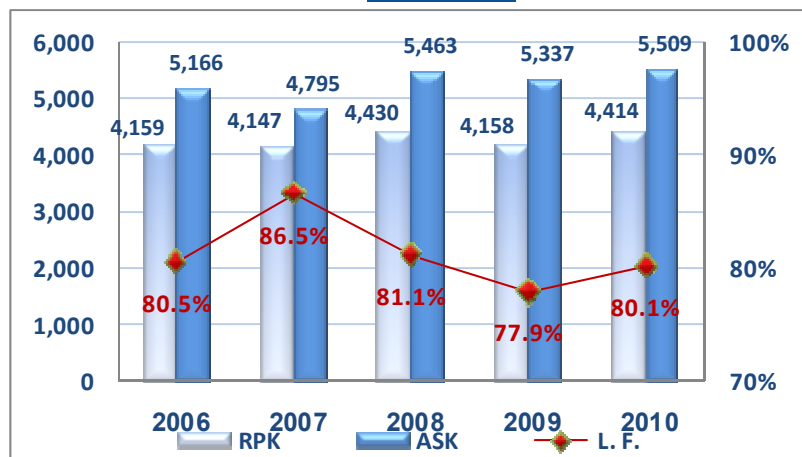
* Source: Central Bureau of Statistics.

Imports & Exports of Cargo by Air to and from Israel, in the Second Quarters of: (In Thousands of Tons):



Source: Civil Aviation Authority.

Operating Data, for the Second Quarter of:
(In Millions)



a.2.2 Company Operating Data

	Apr - Jun 2010	Apr - Jun 2009	change
Passenger leg (scheduled and chartered) - in thousands	1,025	953	8%
RPK (scheduled) - in millions	4,414	4,158	6%
ASK (scheduled) - in millions	5,509	5,337	3%
Load factor (scheduled)	80.1%	77.9%	3%
The Company's market share (scheduled and chartered)	37.7%	38.0%	(1%)
Flown cargo, in thousand tons	25.6	19.9	29%
RTK - in millions	137.2	97.3	41%
Weighted flying hours (including leased equipment) - in thousands (*)	41.7	40.2	4%
<u>Average man-years (EI AL only):</u>			
Permanent	3,826	3,782	1%
Temporary	2,032	2,098	(3%)
Total	5,858	5,880	(0%)

	Jan - Jun 2010	Jan - Jun 2009	change
Passenger leg (scheduled and chartered) - in thousands	1,869	1,700	10%
RPK (scheduled) - in millions	8,171	7,583	8%
ASK (scheduled) - in millions	10,138	9,666	5%
Load factor (scheduled)	80.6%	78.4%	3%
The Company's market share (scheduled and chartered)	39.0%	40.0%	(3%)
Flown cargo, in thousand tons	50.9	43.6	17%
RTK - in millions	267.1	211.1	27%
Weighted flying hours (including leased equipment) - in thousands (*)	77.9	74.9	4%
<u>Average man-years (EI AL only):</u>			
Permanent	3,818	3,785	1%
Temporary	1,953	1,985	(2%)
Total	5,770	5,770	0%
Aircraft in operation - end of period - number of units			
	39	38	1
Average age of owned fleet at the end of the period - in years			
	13.0	12.6	0.4

Glossary:

Passenger Leg – Flight coupon in one direction.

RPK – Revenue Passenger Kilometer – number of paying passengers multiplied by distance flown.

ASK – Available Seat Kilometer – number of seats offered for sale multiplied by distance flown.

RTK – Revenue Ton Kilometer – weight of paid flown cargo in tons multiplied by distance flown.

Passenger Load Factor (occupancy) – flown passenger-km is expressed as a percentage of available seat-km.

** Weighted flight hours in terms of Boeing 767/757.*

Weighted value of the planes: Boeing 767/757 = 1.0; Boeing 747 = 2.0; Boeing 777 = 1.6; Boeing 737 = 0.6.

These weighted values were determined based on an estimate of the total expenses of each type of aircraft, and are used consistently to calculate weighted flight hours as an indicator of the volume of aviation activity.

a.3 Statement of Operations Data For the Quarter Ending June 30 2010 (Consolidated Financial Statements):

Key factors that influenced the business results in the three-month period ending June 30, 2010 compared with the same period last year:

	<u>Apr - Jun</u> 2010		<u>Apr - Jun</u> 2009		<u>change</u>	
	in thousands US dollars	% of operating revenues	in thousands US dollars	% of operating revenues	in thousands US dollars	%
Operating revenues	498,526	100%	399,432	100%	99,094	25%
Operating expenses	(400,946)	(80.4%)	(353,107)	(88.4%)	(47,839)	14%
Gross profit	97,580	19.6%	46,325	11.6%	51,255	111%
Selling expenses	(49,080)	(9.8%)	(47,629)	(11.9%)	(1,451)	3%
General and administrative expenses	(22,760)	(4.6%)	(21,783)	(5.5%)	(977)	4%
Other operating revenues (expenses), net	(737)	(0.1%)	(1,373)	(0.3%)	636	(46%)
Operating profit (loss) before financing	25,003	5.0%	(24,460)	(6.1%)	49,463	
Financing expenses	(8,449)	(1.7%)	(10,056)	(2.5%)	1,607	(16%)
Financing income	3,190	0.6%	2,958	0.7%	232	8%
Company's equity in earnings of affiliates, net	-	0.0%	37	0.0%	(37)	
Profit (loss) before income taxes	19,744	4.0%	(31,521)	(7.9%)	51,265	
Tax benefit (income taxes)	(4,902)	(1.0%)	11,777	2.9%	(16,679)	
Profit (loss) for the period	14,842	3.0%	(19,744)	(4.9%)	34,586	

The Company's operating data, as it appears in Section a.2.2. above, indicates that an increase has occurred in the Company's activity in the first three and six months of 2010 compared to corresponding periods last year, both in terms of numbers of passengers and amounts of cargo and in weighted flight hours.

The load factor in passenger aircraft increased while the average worker years remained unchanged.

This data, to which were also added increases in yield per passenger kilometer and per ton of cargo, led to improvements in the Company's operating results.

Operating revenues – operating revenues increased 24.8% compared to the same quarter last year. Passenger revenues increased both as a result of the increase in passenger traffic and the increase in yield per passenger kilometer. Cargo shipping revenues also increased, mainly as a result of the increase in cargo traffic and the increase in yield per ton kilometer. The Group's other revenues increased, mainly as a result of maintenance services provided other airlines.

Operating expenses – the second quarter of 2010 saw a 13.5% increase in the Company's operating expenses compared to the corresponding period last year, mainly as a result of the increase in jet fuel expenses as detailed below as well as the increase in activity in the reported period. At the same time, the share of operating expenses from turnover decreased from 88.4% in the second quarter of 2009 to 80.4% in the reported quarter, as a result of the increase in revenues as explained above.

Gross profits increased from 11.6% of turnover in the second quarter of 2009 to 19.6% in the reported period.

- * Salary expenses in the second quarter of 2010 increased relative to the same period last year, mainly as a result of the revaluation of the NIS relative to the U.S. at an average rate of 7.2%, which increased salary expenses in dollar terms. In addition, salary expenses increased as a result of the increase in activity and provisions due to salary agreements. The average number of employees remained almost unchanged. Regarding the impact of the changes in the NIS/USD rate of exchange on the Company's employee benefit obligations, see a.4 below.
- * The Company's jet fuel expenses increased mainly as a result of the increase in jet fuel prices in the reported quarter relative to the corresponding quarter last year. The market prices for jet fuel in the Med region increased by an average of 34% compared to the same quarter last year, while the Company's effective price after hedging activity increased by 32.2%. In the reported quarter the Company made jet fuel hedging payments to the amount of \$19.7 million, which were charged to gain/loss. Furthermore, the change in the fair value of transactions assigned to the statement of operations increased jet fuel expenses by \$0.3 million (in the second quarter of 2009 jet fuel expenses due to hedging agreements increased by \$31.1 million and decreased as a result of changes in fair value to the amount of \$14.0 million). In addition, jet fuel expenses increased as a result of the increase in activity.

For further information on jet fuel price hedging see b.1.(3) below

Selling expenses – selling expenses increased compared to the same quarter last year, mainly as a result of the increase in distribution expenses as a result of the increase in activity as well as the increase in payments to global distribution systems. At the same time the share of distribution costs from turnover decreased. The rate of sales expenses from turnover amounted to 9.8% compared to 11.9% of turnover in the same quarter last year.

Administrative and general expenses – administrative and general expenses saw a moderate increase relative to the same quarter last year, primarily due to the increase in salary expenses as detailed above, but at the same time their share of the Company's turnover reached 4.6% compared to 5.5% in the second quarter of 2009.

Other revenues and expenses - over the course of the reported quarter the Company listed other net expenses to the amount of \$0.7 million, mainly as a result of retroactive updating of pension payments to early retirees as a result of changes in legislation. In the second quarter of 2009 the Company listed other expenses to the amount of \$1.4 million mainly as a result of the change in the dollar value of obligations due to early retirement plans.

Operational profit in the reported quarter amounted to \$25.0 million, 5.0% of turnover, compared to an operational loss in the comparable period last year of \$24.5 million, (6.1%) of turnover.

Financing expenses - the decrease in financing expenses in the second quarter of 2010 relative to the same quarter last year derives mainly from expense due to exchange rate differences in the second quarter of 2009, while the Company listed exchange rate incomes in the reported quarter. On the other hand, the Company accrued expenses in the reported quarter due to interest hedging while in the same quarter last year the Company saw incomes from this component. As for interest rate and exchange rate hedging, see b.1.(4) and b.1.(5) below.

Financing income - an increase occurred in the Company's financing income, mainly due to exchange rate hedging and exchange rate differences. On the other hand, the Company saw incomes from interest hedging in the same quarter last year, while the Company had expenses due to the interest hedging transactions in the reported quarter.

Profit before income taxes in the second quarter of 2010 amounted to \$19.7 million compared to a loss before income taxes of \$31.5 million in the corresponding quarter last year. **Net profit** amounted to \$14.8 million, 3.0% of turnover, compared to a \$19.7 million loss, (4.9%) of turnover, in the second quarter of 2009.

Key factors that influenced the business results in the six-month period ending June 30, 2010 compared with the same period last year:

	<u>Jan - Jun</u> 2010		<u>Jan - Jun</u> 2009		<u>change</u>	
	in thousands US dollars	% of operating revenues	in thousands US dollars	% of operating revenues	in thousands US dollars	%
Operating revenues	919,020	100%	746,099	100%	172,921	23%
Operating expenses	(764,528)	(83.2%)	(681,041)	(91.3%)	(83,487)	12%
Gross profit	154,492	16.8%	65,058	8.7%	89,434	137%
Selling expenses	(94,961)	(10.3%)	(89,034)	(11.9%)	(5,927)	7%
General and administrative expenses	(46,621)	(5.1%)	(43,131)	(5.8%)	(3,490)	8%
Other operating revenues (expenses), net	(2,622)	(0.3%)	161	0.0%	(2,783)	
Operating profit (loss) before financing	10,288	1.1%	(66,946)	(9.0%)	77,234	
Financing expenses	(16,372)	(1.8%)	(14,532)	(1.9%)	(1,840)	13%
Financing income	3,992	0.4%	4,631	0.6%	(639)	(14%)
Company's equity in earnings of affiliates, net	-	0.0%	36	0.0%	(36)	
Loss before income taxes	(2,092)	(0.2%)	(76,811)	(10.3%)	74,719	(97%)
Tax benefit	402	0.0%	17,227	2.3%	(16,825)	(98%)
Loss for the period	(1,690)	(0.2%)	(59,584)	(8.0%)	57,894	(97%)

Operating Revenues - operating revenues in the first six months of 2010 increased 23.2% relative to the same period last year. The increase in passenger revenues is both from the increase in passenger traffic and the increase in yield per passenger kilometer. Revenues from cargo shipping increased, mainly as a result of the increase in cargo traffic as well as the increase in yield per to kilometer. The Group's other revenues increased, mainly as a result of aircraft leases and maintenance services provided other airlines.

Operating expenses – the first half of 2010 saw a 12.3% increase in the Company's operating expenses compared to the corresponding period last year, mainly as a result of the increase in jet fuel and salary expenses as detailed below as well as the increase in activity in the reported period. At the same time, the share of operating expenses from turnover decreased from 91.3% in the first half of 2009 to 83.2% in the reported period, this as a result of the increase in revenues as explained above.

Gross profits increased from 8.7% of turnover in the first half of 2009 to 16.8% in the reported period.

* Salary expenses in the first half of 2010 increased relative to the same period last year. Most of the increase derives from the 7.6 % revaluation of the NIS relative to the dollar, which increased salary expenses in dollar terms. In addition, salaries increased as a result of payment of differences due to vehicle possession as well as provisions to salary agreements. The average number of employees remained unchanged. Regarding the impact of the changes in the NIS/USD rate of exchange on the Company's employee benefit obligations, see a.4 below.

- * The Company's jet fuel expenses increased mainly as a result of the increase in jet fuel prices in the reported period relative to the corresponding period last year. The market prices for jet fuel in the Med region increased by an average of 42% compared to the first half of 2009, while the Company's effective price after hedging activity increased by 22.5%. The Company made jet fuel hedging payments to the amount of \$38.4 million in the reported period, which were charged to gain/loss. Furthermore, the change in the fair value of transactions assigned to the statement of operations reduced jet fuel expenses by \$0.4 million (in the first half of 2009 jet fuel expenses due to hedging agreements increased by \$69.9 million and decreased as a result of changes in fair value to the amount of \$16.6 million). In addition, jet fuel expenses increased as a result of the increase in activity.

For further information on jet fuel price hedging see b.1.(3) below.

Selling expenses – selling expenses increased compared to the same period last year, mainly as a result of the increase in salary expenses as explained above, the increase in distribution expenses as a result of the increase in activity and the increase in payments to global distribution systems (GDS). At the same time the share of distribution costs from turnover decreased. The rate of sales expenses from turnover amounted to 10.3% compared to 11.9% of turnover in the same period last year.

Administrative and general expenses – administrative and general expenses increased relative to the first six months of 2009, primarily due to the increase in salary expenses, but at the same time their share of the Company's turnover reached 5.1% compared to 5.8% in the first half of 2009.

Other revenues and expenses - over the course of the reported quarter the Company listed other net expenses to the amount of \$2.6 million, mainly as a result of writing off an investment in an unrealized software module and retroactive updating of pension payments to early retirees as a result of changes in legislation, see Note 6d. to the June 30 2010 Financial Statements. In the first half of 2009 the Company listed other net income to the amount of \$0.2 million.

Operational profit for January-June 2010 amounted to \$10.3 million, 1.1% of turnover, compared to an operational loss in the comparable period last year of \$66.9 million, (9.0%) of turnover.

Financing expenses - the increase in financing expenses in the first half of 2010 relative to the same period last year derives mainly from interest hedging transactions.

Financing income - a decrease occurred in the Company's financing income. On the one hand this income increased as a result of income due to exchange rate hedging, on the other no exchange rate income was listed as in the same quarter last year and exchange rate difference incomes decreased. As for interest rate and exchange rate hedging, see b.1.(4) and b.1.(5) below.

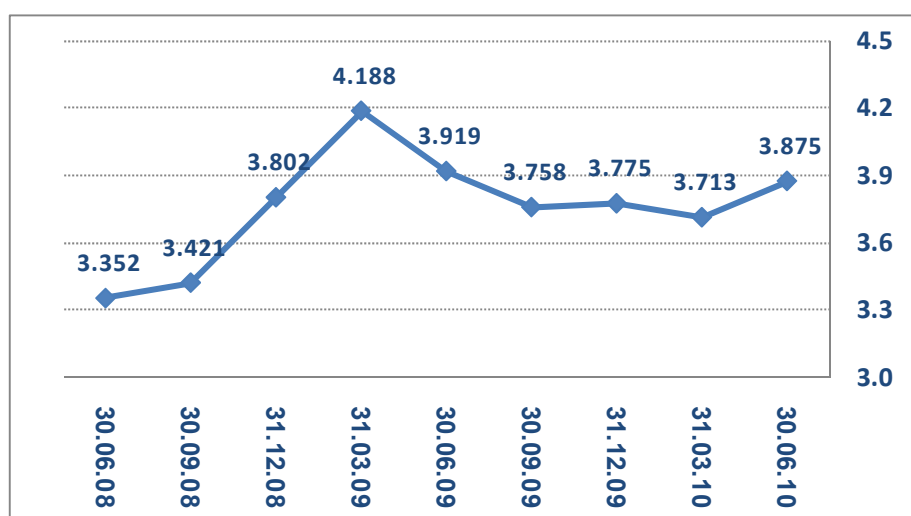
Loss before income taxes for January-June 2010 amounted to \$2.1 million compared to a loss before income taxes of \$76.8 million in the corresponding period last year. **Loss for the period** amounted to \$1.7 million, (0.2%) of turnover, compared to a loss of \$59.6 million, 8.0% of turnover in the corresponding period last year.

a.4 Effect of Changes in the Exchange Rate on the Company's Accrued Severance Pay Liability

In the three month period ending June 30 2010 the exchange rate of the shekel decreased against the dollar by 4.4%, compared to an increase in the exchange rate of the shekel against the dollar of 6.4% in the same quarter last year.

In the six month period ending June 30 2010 the exchange rate of the shekel dropped by 2.6% versus the dollar, alongside depreciation in the exchange rate of the shekel against the dollar of 3.1% in the same period last year.

US Dollar - NIS Exchange Rate:



The Company has obligations to its employees for severance pay, retirement plans, sick pay, and vacation pay as of June 30, 2010 to the amount of \$78 million. Since most of these obligations are denominated in shekels, whereas the functional currency of the Company is the dollar, these obligations must be translated into dollars, which causes differences deriving from changes in the exchange rate of the shekel versus the dollar. Exchange rate changes are not one-directional, and cause the listing of incomes or expenses in the Company's Financial Statements. These incomes or expenses do not impact cash flow or operating costs of the Company in the short run. In order to enable a comparison of the Company's business results for the long run, these incomes or expenses should be neutralized.

The quarter ending June 30 2010 saw a decrease in expenses for this element to the amount of \$2.7 million, compared with the same period last year, in which the expenses for this element amounted to \$4.3 million.

The first half of 2010 saw a decrease in the expenses for this element to the amount of \$1.7 million, compared to the corresponding period last year, in which the expenses for this element decreased by \$2.9 million.

Presented below are details of the business results, after neutralizing the effect of the exchange rate on the accrued severance pay element, as described above:

Three-month period ended June 30,	<u>Before</u>		<u>After</u>	
	<u>neutralizing the exchange-rate effect</u>			
	<u>on the accrued severance pay</u>			
	2010	2009	2010	2009
	(in thousands US dollars)			
Operating expenses	400,946	353,107	402,836	350,570
Gross profit	97,580	46,325	95,690	48,862
<i>Gross profit rate</i>	19.6%	11.6%	19.2%	12.2%
Selling, general and administrative expenses	71,840	69,412	72,094	69,082
Other operating income (expenses), net	(737)	(1,373)	(1,317)	88
Operating profits (loss) before financing expenses	25,003	(24,460)	22,279	(20,132)
<i>Operating profits (loss) rate before financing</i>	5.0%	(6.1%)	4.5%	(5.0%)
Profit (loss) for the period	14,842	(19,744)	12,118	(15,416)
profit (loss) for the period rate	3.0%	(4.9%)	2.4%	(3.9%)

Six-month period ended June 30,	<u>Before</u>		<u>After</u>	
	<u>neutralizing the exchange-rate effect</u>			
	<u>on the accrued severance pay</u>			
	2010	2009	2010	2009
	(in thousands US dollars)			
Operating expenses	764,528	681,041	765,696	682,560
Gross profit	154,492	65,058	153,324	63,539
<i>Gross profit rate</i>	16.8%	8.7%	16.7%	8.5%
Selling, general and administrative expenses	141,582	132,165	141,741	132,460
Other operating income (expenses), net	(2,622)	161	(2,979)	(939)
Operating profits (loss) before financing expenses	10,288	(66,946)	8,604	(69,860)
<i>Operating profits (loss) rate before financing</i>	1.1%	(9.0%)	0.9%	(9.4%)
Loss for the period	(1,690)	(59,584)	(3,374)	(62,498)
<i>Loss for the period rate</i>	(0.2%)	(8.0%)	(0.4%)	(8.4%)

a.5 Segment Reporting

Presented below is operational segment data on a consolidated basis:

a. General:

The Group has applied IFRS 8, "Operating Segments" (hereinafter "IFRS 8") starting January 1 2009.

According to IFRS 8, operational segments are identified based on internal reports on the Group's components, which are reviewed on a regular basis by the Group's chief operating decision maker for the purpose of allocating resources and assessing the performance of the operational segments.

The report array conveyed to the Group's chief operating decision maker, for the purpose of allocating resources and assessing the performance of the operational segments based on the

difference between revenues from passenger aircraft, cargo aircraft, charter flights (through subsidiary Sun D'Or) and other revenues. In light of the above, the following are the Company's reported operating segments in accordance with IFRS 8:

Segment A – passenger aircraft activity.

Segment B – cargo aircraft activity.

In the reported year, Company Management has decided that in determining the results of the reported operating segments, a number of components not part of the direct costs involved in operating the flights, which have been included to date under "unattributed costs", such as depreciation as a result of aviation equipment, fixed maintenance costs and fixed costs at overseas offices must also be allocated.

Operating segment results for the reported period as well as the comparison numbers in this report were adapted retroactively in accordance with the format established and as presented to the Company's chief operational decision maker.

b. Analysis of income and results by operating segments:

For Three-month period ended :					
30.06.2010	<u>passenger aircraft</u>	<u>cargo aircraft</u>	<u>others</u>	<u>Adjustment</u>	<u>Total consolidated</u>
	in thousands US dollars				
operating revenues					
revenue from external customers	451,162	21,455	9,054	16,855	498,526
inter-segment revenues	-	-	16,663	(16,663)	-
Total segment revenues	451,162	21,455	25,717	192	498,526
segment results	62,005	78	6,386		68,469
Unassigned expenses					(43,466)
Operating profit before financing					25,003
Financing expenses					(8,449)
Financing income					3,190
Company's equity in earnings of affiliates, net					0
Profit before income taxes					19,744
Income taxes					(4,902)
Profit for the period					14,842
For Three-month period ended :					
30.06.2009	<u>passenger aircraft</u>	<u>cargo aircraft</u>	<u>others</u>	<u>Adjustment</u>	<u>Total consolidated</u>
	in thousands US dollars				
operating revenues					
revenue from external customers	363,660	11,936	8,784	15,052	399,432
inter-segment revenues	-	-	14,239	(14,239)	-
Total segment revenues	363,660	11,936	23,023	813	399,432
segment results	8,789	(8,059)	6,481		7,211
Unassigned expenses					(31,671)
Operating loss before financing					(24,460)
Financing expenses					(10,056)
Financing income					2,958
Company's equity in earnings of affiliates, net					37
Loss before income taxes					(31,521)
Tax benefit					11,777
Loss for the period					(19,744)

The Company's revenues in the reported quarter increased by 24.1% in the passenger aircraft segment, by 79.8% in the cargo aircraft segment and by 11.7% in other revenues. Likewise, improvement occurred in the results of the passenger aircraft and cargo aircraft segments. Other revenues saw a slight drop in profitability.

The improvement in the results of the passenger plane segment derives both from the increase in the number of passengers and in the improvement of yield per passenger and ton of cargo. Likewise, the load factor increased in both segments.

For Six-month period ended :					
30.06.2010	<u>passenger aircraft</u>	<u>cargo aircraft</u>	<u>others</u>	<u>Adjustment</u>	<u>Total consolidated</u>
in thousands US dollars					
operating revenues					
revenue from external customers	826,162	39,499	20,494	32,865	919,020
inter-segment revenues	-	-	33,230	(33,230)	-
Total segment revenues	826,162	39,499	53,724	(365)	919,020
segment results	<u>94,016</u>	<u>(868)</u>	<u>14,513</u>		107,661
Unassigned expenses					(97,373)
Operating profit before financing					10,288
Financing expenses					(16,372)
Financing income					3,992
Company's equity in earnings of affiliates, net					0
Loss before income taxes					(2,092)
Tax benefit					402
Loss for the period					(1,690)

For Six-month period ended :					
30.06.2009	<u>passenger aircraft</u>	<u>cargo aircraft</u>	<u>others</u>	<u>Adjustment</u>	<u>Total consolidated</u>
in thousands US dollars					
operating revenues					
revenue from external customers	669,055	31,136	18,584	27,324	746,099
inter-segment revenues	-	-	25,839	(25,839)	-
Total segment revenues	669,055	31,136	44,423	1,485	746,099
segment results	<u>6,369</u>	<u>(14,643)</u>	<u>13,389</u>		5,115
Unassigned expenses					(72,061)
Operating loss before financing					(66,946)
Financing expenses					(14,532)
Financing income					4,631
Company's equity in earnings of affiliates, net					36
Loss before income taxes					(76,811)
Tax benefit					17,227
Loss for the period					(59,584)

In the six month period ending June 30 2010 revenues from the passenger aircraft segment increased by 23.5%, from the cargo aircraft segment by 26.9% and by 20.9% in other revenues. Furthermore, improvement occurred to operating results in all operating segments, deriving mainly from an increase in passenger number and in tons of cargo and from the improvement in yield per passenger kilometer and ton of cargo.

For year ended:					
31.12.2009	<u>passenger aircraft</u>	<u>cargo aircraft</u>	<u>others</u>	<u>Adjustment</u>	<u>Total consolidated</u>
in thousands US dollars					
operating revenues					
revenue from external customers	1,489,496	58,317	37,874	70,146	1,655,833
inter-segment revenues	-	-	68,051	(68,051)	-
Total segment revenues	1,489,496	58,317	105,925	2,095	1,655,833
segment results	<u>112,453</u>	<u>(27,457)</u>	<u>27,457</u>		112,453
Unassigned expenses					(187,421)
Operating loss before financing					(74,968)
Financing expenses					(30,297)
Financing income					3,999
Company's equity in earnings of affiliates, net					442
Loss before income taxes					(100,824)
Tax benefit					24,524
Loss for the year					(76,300)

a.6 Seasonal Factors

The Group's activity is seasonal and focuses on peak periods. Heavy traffic of Israeli residents traveling abroad occurs primarily during the summer months and during holidays, while heavy incoming tourist traffic occurs during the summer months and during Jewish or Christian holidays or vacation time in their countries of origin.

a.7 Liquidity and Financing Sources

Movement in cash flow for the three month period ending June 30 2010 compared to the same period last year is as follows:

	Apr - Jun 2010 in thousands US dollars	Apr - Jun 2009 in thousands US dollars	change in thousands US dollars
Cash flows from operating activities	82,851	41,090	41,761
Cash flows used for investing activities	(7,548)	(48,427)	40,879
Cash flows (used for) from financing activities	(43,301)	88,215	(131,516)
Net increase in cash and cash equivalents	32,002	80,878	(48,876)

Operating Activities

The Group received a cash flow from operating activity to the amount of \$82.9 million in the quarter ending June 30 2010 (compared to a cash flow from operating activity to the amount of \$41.1 million in the same quarter last year). The change derives mainly from the profit before tax in the reported period compared to loss before tax in the comparable period last year, from a seasonal increase in unearned revenues from the sale of flight tickets and from changes in

employee benefit obligations, inventories and suppliers offset by the balance of trade receivables and payables.

Investment Activities

In the second quarter of 2010, the Company invested a net sum of \$7.5 million. Investment in fixed and intangible assets amounted to \$12.8 million. On the other hand, the Company received \$3.6 million from the realization of restricted deposits and \$1.2 million from the realization of fixed assets.

In the second quarter of 2009, the Company invested \$48.4 million in investment activity, mainly in the purchase of fixed and intangible assets to the amount of \$138.8 million offset by the proceeds from the realization of restricted deposits to the amount of \$77.4 million and proceeds from the sale of an airplane and other fixed assets to the amount of \$13.4 million.

Financing Activities

In the second quarter of 2010 the Company used \$43.3 million for financing activity, mainly for the redemption of long-term loans to the amount of \$19.3 million and the repayment of short-term bank credit to the amount of \$24.1 million.

In the second quarter of 2009 the Company derived \$88.2 million from financing activities, mainly as a result of loans received for the purchase of 3 new 737-800 aircraft to the amount of \$113.3 million, offset by the repayment of long-term loans to the amount of \$17.4 million and payments for loan recruitment expenses to the amount of \$7.2 million.

Movement in cash flow for the six month period ending June 30 2010 compared to the same period last year is:

	Jan - Jun 2010 in thousands US dollars	Jan - Jun 2009 in thousands US dollars	change in thousands US dollars
Cash flows from operating activities	136,726	24,918	111,808
Cash flows used for investing activities	(13,172)	(14,563)	1,391
Cash flows from (used for) financing activities	(54,474)	94,216	(148,690)
Net increase in cash and cash equivalents	69,080	104,571	(35,491)

Operating Activities

The Group received a cash flow from operating activity to the amount of \$136.7 million in the six months ending June 30 2010 compared to a cash flow from operating activity to the amount of \$24.9 million in the same period last year. The change derives mainly from the decrease in loss before tax in the first half of 2010 compared to the loss before tax in the corresponding period last year. In addition, changes in employee benefit obligations and fair value of financial derivatives items increased the cash flow from operating activity while the decrease in depreciation expenses and net changes in assets and liabilities offset the increase in cash flow.

Investment Activities

In the first half of 2010, the Company invested a net sum of \$13.2 million. Investment in fixed and intangible assets amounted to \$21.3 million. On the other hand the Company received \$5.5 million from the realization of restricted deposits and \$2.4 million from the realization of fixed assets.

In the first half of 2009, the Company used \$14.6 million for investment activity, mainly in the purchase of fixed and intangible assets to the amount of \$152.2 million offset by the proceeds from the realization of restricted deposits to the amount of \$114.7 million and proceeds from the sale of fixed assets to the amount of \$22.5 million.

Financing Activities

In the first half of 2010 the Company used \$54.5 million for financing activity, mainly for the redemption of long-term loans to the amount of \$31.0 million and the repayment of short-term bank credit to the amount of \$25.9 million. On the other hand, the Company received loans to the amount of \$2.5 million in the reported half.

In the first half of 2009 the Company derived \$94.2 million from financing activities, mainly as a result of loans to the amount of \$113.3 million for the purchase 737-800 aircraft and from the receipt of short-term bank credit to the amount of \$14.5 million, offset by the repayment of long-term loans to the amount of \$26.4 million and payments for loan recruitment expenses to the amount of \$7.2 million.

In total the balance of cash and cash equivalents for June 30 2010 increased by \$69.1 million and reached a total of \$175.8 million, compared to \$106.7 million as of December 31 2009.

B. Market Risk Exposure and Management

b.1 Qualitative Reporting on Exposure to and Management of Market Risks

b.1. (1) General – Description of Market risks to which the Company is Exposed

Presented below is a summary of the market risks to which the Company is exposed:

Changes in prices of jet fuel, which constitutes a significant element of the Company's operating expenses, have a material effect on the Company's profitability. In the Company's estimation, at its current level of activity, every 1 cent change in the price of a gallon of jet fuel during an entire year influences the Company's fuel expenses by \$2.3 million, and in addition, this change impacts the amount of collateral the Company is required to deposit with jet fuel hedgers. The Company has taken hedging measures to reduce the exposure, as detailed in b.1.(3) below.

Exposure to changes in interest rates – most of the Company's long-term loans are at variable interest. Therefore, an increase in the LIBOR rate could impact the Company's profitability.

At the present level of activity, every 1% increase in the Libor rate for a full year increases the Company's financing expenses by \$6.6 million.

The Company has adopted hedging measures to reduce the exposure, as shown in Section b.1.(4) below.

Currency exposure – Most of the Company's revenues and expenses are in foreign currency (mainly the U.S. dollar), except for several shekel expenses, mainly salary expenses and payments to local suppliers in Israel. Accordingly, a change in the shekel/dollar exchange rate influences the Company's shekel expenses in dollar terms. In the Company's estimation, at the present level of activity, appreciation of the exchange rate of the shekel relative to the dollar of each 1% for an entire year increases the Company's annual expenses by \$3.5 million. Likewise, a surplus of receipts exists for payments in Euros, but at insignificant rates.

The Company has adopted hedging measures to reduce the exposure, as provided in Section b.1.(5) below.

Exposure in long-term loan frameworks – according to the provisions of the loan agreements, the Company must maintain a minimal collateral ratio between the market value of the planes and the balance of the loans that financed their purchase. Likewise, the Company is required to comply with certain covenants, which, if not complied with, can be used to compel the Company to immediately repay the loans. The Company's exposure to market risks in this area derives from changes that occur in the global market value of aircraft, due to exceptional security events, and to the overcapacity of seats on airlines around the world. For further details, see Note 16.g. and note 22.g.1. To the December 31 2009 Financial Statements

b.1.(2) El Al Market Risk Management Policies, Officials Responsible for their Management and Means of Controlling and Executing Policy

The Company has a Board of Directors committee for Market Risks Management headed by the Chairman of the Finance, Budget and Financial Statements Committee, Mr. Nadav Palti, which is responsible for prescribing the policy for covering the existing exposure. The CFO is responsible for executing the policy and reporting to the market risks management committee.

From time to time, the Market Risk Management Committee evaluates the Company's status in the area of jet fuel, interest and exchange rate exposure, the need to invest in derivatives, to reduce the exposure in accordance with policy, as well as the financial instruments used to perform the required hedging.

The Company's policy as regards jet fuel hedging is as follows: hedging jet fuel quantities for up to 24 months forward, so that for every period, a minimum and maximum percentage to be hedged out of total expected consumption gradually decreases. Therefore, the maximum hedge percentage at the beginning of the period is 80% and the minimum percentage at the end of the period is 20%.

The Company's policy with respect to interest hedging is to hedge about half of the Company's credit portfolio, so that half will be at variable interest and half at fixed interest, for a period of up to 5 years.

The Company's policy with respect to exchange rates is to hedge up to half of its shekel exposure for one year forward.

From time to time the Market Risk Management Committee instructs Company Management to exceed these rates set for jet fuel, interest and exchange rates for limited periods of time in accordance with market developments.

For details on the policy adopted, see Sections b.1.(3), b.1.(4) and b.1.(5) below.

For implications of the crisis in capital markets and market risks after the balance sheet date, see Section e. below.

b.1.(3) Hedging Jet Fuel Prices

The Company executes financial transactions to hedge against changes in jet fuel prices, in accordance with its policy as described in Section b.1.(2) above.

As of June 30, 2010, the Company entered into several agreements, in order to hedge jet fuel prices, at 56% of expected consumption for July-December 2010, 35% of expected consumption in 2011 and 20% of expected consumption in the first quarter of 2012. These transactions are recognized as hedging agreements for accounting purposes. The fair value of all jet fuel hedging instruments as of June 30 2010 is a net negative sum of \$16.8 million, presented in the Financial Statements in the framework of current assets, non-current assets, current liabilities and non-current liabilities under "Derivative Financial Instruments". The Company paid a total of \$19.7 million for these hedging agreements in the reported quarter. For further details, see Note 31.g. to the December 31 2009 Financial Statements.

For details regarding changes occurring subsequent to the balance sheet date, see Section e.2 of the Board of Directors report.

b.1.(4) Hedging Interest on Loans

The Company executes hedges of the exposure in its long-term credit portfolio, due to changes in interest rates, in accordance with its policy as laid out in Section b.1.(2) above.

Some of these financial instruments are recognized for accounting purposes as hedge transactions and some are not. The fair value of all interest hedging instruments as of June 30 2010 is a negative sum of \$26.7 million, which is presented in the Financial Statements in the framework of current liabilities and long term liabilities under "Derivative Financial Instruments".

After executing these hedges, as of June 30 2010, 44% of the balance of the Company's loans is at fixed interest for a period of up to 2.5 years. In addition, the Company has, as of June 30 2010, a balance of loans to the amount of \$103.8 million at fixed interest for a period of 11 years constituting 14% of all of the Company's loans.

The Company paid refunds for these hedging agreements to the amount of \$2.3 million in the reported quarter.

For additional information on these transactions, see Note 31.f. to the December 31 2009 Financial Statements.

For information on changes occurring subsequent to the balance sheet date, see Section e.(3) of the Board of Directors Report below.

b.1.(5) Exchange Rate Hedges

The Company executes hedges to protect its currency exposure due to changes in the exchange rate of the NIS versus the USD, in accordance with its policy as laid out in Section b.1.(2) above.

In August 2009 the Company entered into financial transactions intended to protect the Company from drops in the exchange rate of the USD vs. the NIS for a 15 month period. These transactions are recognized as hedges for accounting purposes.

The fair value of these instruments as of June 30 2010 is \$0.6 million, presented in the Financial Statements as part of current and non-current assets under "Derivative Financial Instruments". In the reported period the Company received refunds for these hedging agreements to the amount of \$0.9 million.

For additional information on these transactions, see Note 31.e. to the December 31 2009 Financial Statements.

For information on changes occurring subsequent to the balance sheet date, see Section e.(4) below.

b.1.(6) Sensitivity Analysis Reporting

Presented below is a sensitivity analysis of the fair value of the financial instruments sensitive to possible changes in the risk factors to which they are exposed. The analyses are relative to the fair value of the financial instruments as of June 30 2010.

Presented below are sensitivity analysis tables for instruments sensitive to changes in market factors:

a) Sensitivity to changes in shekel/dollar exchange rate - thousands of dollars:

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase 10%	Increase 5%		Decrease 5%	Decrease 10%
	4.263 NIS/\$	4.069 NIS/\$		3.681 NIS/\$	3.488 NIS/\$
Cash and cash equivalents	(318)	(166)	3,495	184	388
Short-term deposits	(707)	(370)	7,776	409	864
Trade receivables	(89)	(47)	983	52	109
Other receivables	(772)	(404)	8,493	447	944
Current derivative financial instruments	(55)	(29)	608	32	68
Long-term bank deposits	(157)	(82)	1,725	91	192
Total financial Assets	(2,098)	(1,100)	23,080	1,215	2,563
Short-term borrowings and current maturities	158	83	(1,742)	(92)	(194)
Trade payables	2,805	1,469	(30,854)	(1,624)	(3,428)
Other payables - Current	182	95	(2,003)	(105)	(223)
Total financial liabilities	3,145	1,648	(34,599)	(1,821)	(3,844)
Exposure in linkage balance sheet due to surplus financial liabilities over financial assets	1,046	548	(11,519)	(606)	(1,281)

b) Sensitivity to changes in euro/dollar exchange rate - thousands of dollars:

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase 10%	Increase 5%		Decrease 5%	Decrease 10%
	0.896 Euro/\$	0.855 Euro/\$		0.774 Euro/\$	0.733 Euro/\$
Cash and cash equivalents	(1,326)	(695)	14,585	768	1,621
Trade receivables	(1,458)	(764)	16,041	844	1,782
Other receivables	(106)	(55)	1,165	61	129
Total financial Assets	(2,890)	(1,514)	31,791	1,674	3,532
Short-term borrowings and current maturities	43	23	(475)	(25)	(53)
Trade payables	1,573	824	(17,300)	(911)	(1,922)
Other payables	369	193	(4,062)	(214)	(451)
Total financial liabilities	1,985	1,040	(21,837)	(1,148)	(2,426)
Exposure in linkage balance sheet due to surplus financial liabilities over financial assets	(905)	(474)	9,954	525	1,106

c) Sensitivity to changes in jet fuel prices on inventory (dollar/gallon) – in thousands of dollars:

Type of instrument	Gain from changes		Fair value	Loss from changes	
	Increase 10%	Increase 5%		Decrease 5%	Decrease 10%
	2.296	2.191	2.087 *	1.983	1.878
	\$/gallon	\$/gallon	\$/gallon	\$/gallon	\$/gallon
Jet fuel Inventorie	434	217	4,336	(217)	(434)

* The price of jet fuel according to a moving weighted average for the period ending June 30 2010.

d) Sensitivity of jet fuel hedge to changes in jet fuel prices - in thousands of dollars:

According to the model's principles, jet fuel hedges that react in a similar manner to market factors were grouped together, since there was no loss of material information required to understand the Company's exposure to market risks as a result of the grouping. On January 5 2009 jet fuel prices changed by 14%, and therefore the following sensitivity analysis includes a 15% change in jet fuel prices.

Type of instrument	Gain from changes			Fair value*	Loss from changes		
	Increase 15%	Increase 10%	Increase 5%		Decrease 5%	Decrease 10%	Decrease 15%
	2.398 , 2.313	2.294 , 2.212	2.189 , 2.112	2.085 , 2.011 *	1.981 , 1.910	1.877 , 1.810	1.772 , 1.709
	\$/gallon	\$/gallon	\$/gallon	\$/gallon	\$/gallon	\$/gallon	\$/gallon
SWAP transactions - designed for hedging	52,510	35,006	17,503	(16,791)	(17,503)	(35,006)	(52,510)

* The price of jet fuel in the Mediterranean Basin and in Northwest Europe as of June 30 2010, according to which the fair value of the Company's hedge transactions is computed.

e) Sensitivity of an interest hedge to changes in market interest rates – in thousands of dollars:

According to the principles of the model, the Group executed interest hedges that respond in a similar way to market factors (IRS agreements intended for hedging, IRS agreements not intended for hedging), since no loss of significant information is sustained that is required to understand the Company's exposure to the market risk, as a result of the grouping. On December 16 2008 a 75% change occurred to the dollar monetary interest rate, and therefore the following sensitivity analysis included a 75% change in interest rates.

Type of instrument	Gain from changes			Fair value *	Loss from changes		
	Increase 75% in interest rate	Increase 10% in interest rate	Increase 5% in interest rate		Decrease 5% in interest rate	Decrease 10% in interest rate	Decrease 75% in interest rate
IRS transactions - designed for hedging	54	7	3	(3,273)	(3)	(7)	(56)
IRS transactions - not designed for hedging	4,058	549	259	(18,199)	(260)	(550)	(4,160)
Cylinder transactions - not designed for hedging	410	60	27	(5,273)	(22)	(54)	(398)
Total	4,522	617	289	(26,746)	(286)	(611)	(4,614)

* Fair value was calculated according to the market Libor rate as of the balance sheet date, at the following rates: 3-month Libor: 0.53%, 6-month Libor: 0.75%, and 12-month Libor 1.17%, all as applicable and according to the relevant transaction.

f) Sensitivity of NIS/USD exchange rate hedge to changes in market interest rates – in thousands of dollars:

Type of instrument	Loss from changes		Fair value NIS/\$ *	Gain from changes	
	Increase 10% in exchange rate	Increase 5% in exchange rate		Decrease 5% in exchange rate	Decrease 10% in exchange rate
	4.263	4.069	3.875	3.681	3.488
FORWARD transactions - designed for hedging	(6,009)	(3,003)	608	3,005	6,008

* The sensitivity analysis was carried out in shekel terms, and the profit or loss in the event of a 5% or 10% decrease or increase was translated according to an exchange rate of 3.875 NIS per USD on June 30 2010.

b.2. Linkage Basis Report

The following is the consolidated linkage basis report for June 30 2010:

	In, or linked to the US dollar	In Israeli currency	In, or linked to the euro	In, or linked to the other currencies	Non-monetary items	Total
(in thousands US dollars)						
Current assets						
Cash and cash equivalents	148,283	3,495	14,585	9,404		175,767
Short-term deposits		7,776				7,776
Restricted deposits	1,500					1,500
Trade receivables	149,381	983	16,041	13,945		180,350
Other receivables	4,929	8,493	1,165	2,151		16,738
Derivative financial instruments	4,171	608				4,779
Prepaid expenses					34,034	34,034
Inventories					13,104	13,104
Non-current assets						
Bank deposits		1,725				1,725
Investment in affiliated companies					648	648
Investments in another company	1,343					1,343
Derivative financial instruments	2,520					2,520
Fixed assets, net					1,267,539	1,267,539
Intangible assets, net					6,573	6,573
Assets due to employee benefits	118	33,235				33,353
Prepaid expenses					2,554	2,554
	312,245	56,315	31,791	25,500	1,324,452	1,750,303
Current liabilities						
Short-term borrowings and current maturities	(93,237)	(1,742)	(475)	(15)		(95,469)
Trade payables	(92,062)	(30,854)	(17,300)	(12,631)		(152,847)
Other payables	(57,476)	(2,003)	(4,062)	(5,189)		(68,730)
Provisions	(6,548)	(51,724)				(58,272)
Derivative financial instruments	(31,899)					(31,899)
Employee benefit obligations	(2,380)	(88,657)	(580)	(413)		(92,030)
Unearned revenues					(290,308)	(290,308)
Non-current liabilities						
Loans from financial institutions	(661,346)					(661,346)
Employee benefit obligations	(8,029)	(49,877)	(677)	(4,851)		(63,434)
Loans from others	(51)					(51)
Other payables	(10,587)	0				(10,587)
Derivative financial instruments	(18,329)					(18,329)
Deferred taxes					(10,215)	(10,215)
Unearned revenues					(57,735)	(57,735)
Shareholders' equity					(139,051)	(139,051)
	(981,944)	(224,857)	(23,094)	(23,099)	(497,309)	(1,750,303)
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)	(669,699)	(168,542)	8,697	2,401	827,143	-

Free Translation of the Hebrew Language Financial Report - **Hebrew Wording Binding**

The following is the consolidated linkage basis report for June 30 2009:

	In, or linked to the US dollar	In Israeli currency	In, or linked to the euro	In, or linked to the other currencies	Non-monetary items	Total
(in thousands US dollars)						
Current assets						
Cash and cash equivalents	130,834	14,094	2,050	8,193		155,171
Short-term deposits		7,617				7,617
Restricted deposits	38,291					38,291
Trade receivables	110,142	967	15,733	12,466		139,308
Other receivables	17,101	6,548	1,397	1,726		26,772
Prepaid expenses					34,393	34,393
Inventories					16,921	16,921
Non-current assets						
Bank deposits		1,921				1,921
Investments in affiliated companies	1,229				1,543	2,772
Investments in another company	1,563					1,563
Fixed assets, net					1,368,045	1,368,045
Intangible assets, net					8,737	8,737
Assets due to employee benefits	148	33,830				33,978
Prepaid expenses					2,704	2,704
	299,308	64,977	19,180	22,385	1,432,343	1,838,193
Current liabilities						
Short-term borrowings and current maturities	(108,615)	(44)	(841)	(46)		(109,546)
Trade payables	(87,649)	(27,616)	(18,907)	(12,719)		(146,891)
Other payables	(58,236)	(6,470)	(2,792)	(3,965)		(71,463)
Provisions	(7,827)	(46,818)				(54,645)
Derivative financial instruments	(76,898)					(76,898)
Employee benefit obligations	(2,695)	(79,350)	(505)	(337)		(82,887)
Unearned revenues					(276,679)	(276,679)
Non-current liabilities						
Loans from financial institutions	(750,380)					(750,380)
Employee benefit obligations	(7,650)	(53,259)	(901)	(5,389)		(67,199)
Other payables	(12,689)					(12,689)
Derivative financial instruments	(31,733)					(31,733)
Deferred taxes					(1,532)	(1,532)
Unearned revenues					(47,424)	(47,424)
Shareholders' equity					(108,227)	(108,227)
	(1,144,372)	(213,557)	(23,946)	(22,456)	(433,862)	(1,838,193)
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)	(845,064)	(148,580)	(4,766)	(71)	998,481	-

The following is the consolidated linkage basis report for December 31 2009:

	In, or linked to the US dollar	In Israeli currency	In, or linked to the euro	In, or linked to the other currencies	Non-monetary items	Total
(in thousands US dollars)						
Current assets						
Cash and cash equivalents	80,342	8,494	7,496	10,355		106,687
Short-term deposits		7,933				7,933
Restricted deposits	7,003					7,003
Trade receivables	92,993	788	9,301	9,004		112,086
Other receivables	7,119	5,915	1,744	1,377		16,155
Derivative financial instruments	6,469	4,737				11,206
Prepaid expenses					24,873	24,873
Inventories					21,947	21,947
Non-current assets						
Long-term bank deposits		1,839				1,839
Investment in affiliated companies					648	648
Investments in another company	1,357					1,357
Derivative financial instruments	2,255					2,255
Fixed assets, net					1,312,930	1,312,930
Intangible assets, net					7,504	7,504
Assets due to employee benefits	118	34,383				34,501
Prepaid expenses					2,578	2,578
	197,656	64,089	18,541	20,736	1,370,480	1,671,502
Current liabilities						
Short-term borrowings and current maturities	(105,437)		(521)	(58)		(106,016)
Trade payables	(69,030)	(25,099)	(23,298)	(11,543)		(128,970)
Other payables	(46,010)	(1,819)	(3,231)	(3,384)		(54,444)
Provisions	(5,911)	(51,306)				(57,217)
Derivative financial instruments	(55,643)					(55,643)
Employee benefit obligations	(2,819)	(77,671)	(510)	(379)		(81,379)
Unearned revenues					(204,444)	(204,444)
Non-current liabilities						
Loans from financial institutions	(704,194)					(704,194)
Employee benefit obligations	(7,794)	(52,035)	(893)	(5,113)		(65,835)
Other payables	(13,318)					(13,318)
Derivative financial instruments	(20,135)					(20,135)
Deferred tax					(5,313)	(5,313)
Unearned revenues					(50,813)	(50,813)
Shareholders' equity						
	(1,030,291)	(207,930)	(28,453)	(20,477)	(384,351)	(1,671,502)
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)						
	(832,635)	(143,841)	(9,912)	259	986,129	-

C. Aspects of Corporate Governance:

c1. Disclosure in the Report of the Board of Directors Regarding the Financial Statements Approval Process

The body charged with ultimate control in the Company is its Board of Directors.

Within the framework of the Board of Directors, the Company operates several committees, including the Audit Committee, the Market Risks Management Committee, the Human Resources and Appointments Committee, the Security Committee, Government Affairs and Regulations Committee and the Finance, Budget and Financial Statements Committee, consisting of four members, including an outside director. As of this report, three out of the four members of the committee have accounting and financial expertise, as defined in the Companies Law, 1999, and the regulations promulgated as a result.

A draft of the Financial Statements is sent in advance for the review of the members of the Board of Directors.

The Finance, Budget and Financial Statements Committee meets for extensive and thorough discussion of the draft Financial Statements, in the presence of the auditing accountant. The Chief Executive Officer and the Chief Financial Officer present the members of the committee with extensive details on the Financial Statements, including detailed financial analyses about the Company's performance during the reporting period.

The committee examines the significant financial reporting issues, including material transactions that are not in the ordinary course of business – if any, the significant assessments and critical estimates that were applied in the Financial Statements, the reasonableness of the data, the accounting policy applied and the changes that occurred in them, if any, the application of the principle of fair disclosure in the Financial Statements and various aspects of control and management of risks.

When complex or significant issues are on the agenda, special discussions are held by the Finance, Budget and Financial Statements Committee about the issue on the agenda with the participation of the independent auditor.

The committee holds a discussion about the Financial Statements presented to it, including directing questions to the members of management present and to the independent auditor. Likewise, the independent auditor is asked to present his comments, if any, to the committee members – including accounting policy applied and special events that arose during the audit.

The committee adopts a resolution to recommend to the Company's Board of Directors to approve the Financial Statements, subject to making corrections, changes and supplements – if so requested by the members of the committee.

The Financial Statements are presented to the members of the board in a separate meeting, in which the CEO, the CFO and other officers of the Company participate, also attended by the independent auditor.

A discussion is also held in this forum regarding the Financial Statements, including questions addressed to the auditing accountant and members of the Company's management, and special issues in the reporting period are presented. At the end of the discussion, the Board of Directors adopts a resolution on approval of the Financial Statements.

c2. Disclosure Regarding the Implementation of Securities Regulations (Periodic and Immediate Reports) (Amendment 3), 2009 - Second Milestone

Revision 3 of the Securities Regulations (Immediate and Periodic Reports), 2009 (hereinafter “the Regulations”) was published on November 24 2009, requiring enclosure with annual and periodic reports of a report on effectiveness of internal control over financial reporting and disclosures, individual certifications by the CEO and by the most senior financial officer with regard to effectiveness of internal control over financial reporting and disclosures, as well as a statement by the independent auditor with regard to the effectiveness of internal control over financial reporting - starting with periodic reports as of December 31, 2010.

As part of the transition instructions contained in the regulations, the Securities Authority set two main milestones, the first in the Board of Directors' Report attached to the 2009 Financial Statements and the second in the Interim Board of Directors' report attached to the second 2010 quarterly report.

Following the disclosure provided in the Company's Board of Directors' Report attached to the 2009 Periodic Report published March 28 2010, the Company began implementing its preparations for the regulation's requirements as formulated by Company Management and approved by the Board of Directors.

As of the current report, the Company has carried out the following:

- Mapping processes the Company considers highly material to financial reporting and disclosure.
- Conducting risk assessments by internal control and documenting the business processes most material to financial reporting and disclosure, including controls at the organizational level (ELC), general controls of information systems (ITGC) and controls in the closing and reporting process.
- A process of analyzing existing gaps in planning internal controls of financial reporting and disclosure.
- The project's steering committee deals in studying the existing gaps in the internal controls of financial reporting and disclosure, as they arose from the risk assessment process carried out at the Company, with the goal of prioritizing the gaps discovered and establishing actions to correct the gaps.

d. Disclosure Provisions with Regard to Financial Reporting by the Corporation:

d1. Events Subsequent to the Balance Sheet Date

Regarding events subsequent to the balance sheet date, see Note 13 to the June 30 2010 Interim Financial Statements.

d2. Critical Accounting Estimates

The implementation of accounting standards by the Company's management upon preparing financial statements occasionally involves various assumptions, assessments and estimates influencing levels of the assets and liabilities and the business results reported in the Financial Statements. Some of the assumptions, assessments and estimates are critical to the financial position or operating results reflected in the Group's Financial Statements, due to their materiality, complexity of the calculations or likelihood of realization of uncertain issues.

For details on the material estimates employed by the Company, see Note 4 to the December 31 2009 Financial Statements.

d3. Explanation of the Matter to which the Company's Independent Auditors Draw Attention in their Report on the Financial Statements

The Company's accountants direct attention, in their opinion on the Financial Statements, to Note 8 to the Interim Financial Statements - regarding pending legal proceedings against the Company.

Although the matter to which the independent auditors drew attention does not constitute a change in the uniform wording of the auditor's report, attention must be paid to it due to its possible material effect on the Company.

e. Additional information:

Disclosure regarding Changes in the Economic Environment, the Implications of the Capital Market Crisis, Market Risks and Special Events

a) The international aviation industry is affected by the global security situation and by political and unusual events, such as the outbreak of epidemics and natural disasters in the world, in general, and in specific areas, in particular, as well as by the economic situation in Israel and around the world.

Following the eruption of the volcano in Iceland and the diffusion of volcanic dust through European skies, starting April 15 2010 most European airports gradually closed to air traffic, this in accordance with European aviation authority directives. European airspace was completely closed for 6 days with thousands of flights cancelled a day. In addition, restrictions were placed on takeoffs, landings and aviation traffic in and around Europe. These events caused financial damage to the global economy and to the aviation industry in particular.

The events in question also had an impact on the Company's European activities and led to the cancellation of dozens of flights to various European destinations. The Company continued with its usual activity to its destinations in America, Asia and South Africa as well as European airports open for traffic and reinforced its flights to these destinations.

The following are changes occurring to jet fuel prices, interest rates and NIS exchange rates from the end of the second quarter until immediately before the publication of the June 30 2010 Financial Statements.

b) As of the Balance Sheet date (June 30 2010), the price of jet fuel in the Med region was 201.1 cents per gallon, while as of immediately prior to the approval of the report for the second quarter of 2010 this price has reached 200.5 cents per gallon, a 0.3% decrease.

The effective price the Company is expected to pay for jet fuel consumption (after hedging) in July and August 2010 is 7% lower than the average effective price paid in the reported quarter, as a result of the Company's hedging agreements. At the same time, the fair value of jet fuel hedging instruments shall be set in accordance with price changes which occurred since the end of the year and the completion of accounting for some of the transactions. In February and May 2010 the Company carried out additional hedging agreements for part of the fuel consumption projected for next 24 months.

Following the drop in jet fuel prices beginning in the second half of 2008, the Company provided, as collateral to guarantee its meeting, hedging payments owed in accordance with its agreements with the hedging institutions, consisting mainly of letters of credit issued by Israeli banks in return for the restriction of assets and cash, and in part from interest-bearing deposits deposited directly in the hedging banks.

Subsequent to the balance sheet date, the deposit updating mechanism continued on a regular basis in accordance with daily fluctuations in jet fuel market prices. Note that the amount of the collateral changes from day to day according to jet fuel market prices and the Company makes daily calculations regarding the changes required in the collateral and their extent. As of a date immediately prior to the approval of the Q2 2010 Financial Statements, this collateral amounted to a sum of \$5.2 million, mainly through letters of credit issued by foreign banks in return for the restriction of aircraft at local banks.

c) Subsequent to the balance sheet date, a decrease occurred in three-month Libor interest rates from 0.53% on June 30 2010 to 0.36% on a date immediately prior to the approval of the Q2 2010 Financial Statements.

The impact of the change in Libor rates in the payment of interest on loans shall be evident in the next repayment date for each loan. The interest payments on Company loans for the third quarter of 2010 shall be made according to interest rates in previous quarters. The Company possesses hedging agreements for Libor rates (see Section b.1.(4) above), the fair value of which is expected to drop as a result of the decrease in Libor interest rates.

d) Immediately prior to the approval of this report, the NIS dropped 1.9% relative to the USD compared to the rate as of June 30 2010.

In addition to the above, the revaluation of the NIS relative to the dollar increases the Company's shekel liabilities in dollar terms (see Section b.1.(1) above), thus increasing or decreasing the Company's salary and financing expenses. The Company has hedging agreements on the NIS/USD exchange rate (see b.1.(5) above), the fair value of which may change according to changes in exchange rates. Note that the impact of exchange rates on next quarter's operating results shall be determined based on exchange rates in effect throughout the quarter and at its conclusion (September 30 2010).

Amikam Cohen
Chairman of the Board

Elyezer Shkedi
CEO

August 17, 2010

Appendix to the Report of the Board of Directors on the State of the Corporation's Affairs for the Quarter Ended June 30 2010

Minimal Disclosure Required for Value Estimates an in their Regard, and Rules Pertaining to their Addition to Reports according to Securities Authority Guidelines in Accordance with Section 36a to the Securities Act, 1968

Assessment of the Total Value of the 777-200 and 747-400 Fleets

a. Introduction

International Accounting Standard 36 establishes rules regarding the accounting treatment, presentation and disclosure required in the event of the impairment of assets.

The purpose of the standard is to establish procedures the corporation must implement in order to ensure that these assets are not presented in sums higher than their recoverable amount. An asset is presented in the Financial Statements at higher than its recoverable amount when its book value is higher than the sum received from the use or sale of the asset. In the event that the asset has an impairment, IAS 36 demands that the corporation recognize an impairment loss.

The following document presents the key points of the value estimate performed by El Al Israel Airlines Ltd. Management (hereinafter "El Al" or "The Company") in order to determine whether the impairment of its 777-200 and 747-400 fleets (hereinafter "the Fleets") was to be recognized according to IAS 36, in accordance with Securities Authority directives.

This document was prepared in accordance with guidelines from the Securities Authority as per Section 36a of the Securities Law, 1968, regarding minimal required disclosure for value assessments and rules regarding their addition to reports in accordance with the Securities Law, 1968.

b. Specification and Identification of Asset Group

The asset group for which the test was conducted includes the 777-200 fleet which consists of 6 aircraft owned by the Company and the 747-400 fleet which consists of 5 aircraft owned by the Company.

c. Opinion Validity Date

June 2010. The value estimate was based on financial projections for 2010 and coming years.

d. Value Assessor

The value assessment was performed by EI AI management.

e. Circumstances under which the IAS 36 Value Assessment was Conducted

The book value of the aircraft fleet is higher than its market value as appearing in price lists published by AVAC – the Aircraft Value Analysis Company (according to the latest price list published April 2010) and Airclaims - ASCEND World Wide.

Note that use of the market value of the aircraft on the basis of AVAC and Airclaims price lists is common practice among airlines around the world as well as among financing banks and has been used by EI AI in its various commitments with banks.

IAS 36 states that a provision for impairment must be made when the book value of an asset exceeds its recoverable amount. A recoverable amount is calculated as the asset's net selling price or value in use, whichever is higher.

The net selling price is the sum that may be received from the sale of the asset in a good faith agreement between a willing buyer and a willing seller. The value in use of an asset is the current value of estimated future cash flow expected to derive from continuous use of the asset and its sale at the end of the period of use. The Company considers the market value of the assets as published by AVAC and Airclaims as representing the net sales price of its assets. As of this value assessment, the Company has examined the value in use of the aircraft in its possession and in its service, the depreciated value of which in the Company's June 30 2010 Financial Statements is greater than their selling price.

As of this value assessment, the selling price of the 777-200 fleet amounts to a total of \$484 million, compared to the depreciated retained cost in the books of those aircraft as of June 30 2010, which amounts to a total of \$530 million.

The selling price of the 747-400 fleet amounts to a total of \$154 million, compared to the depreciated retained cost in the books of those aircraft as of June 30 2010, which totals \$249 million.

f. Assessment Method

The value assessment was conducted according to the discounted cash flow method. According to this approach, assessed cash flows expected for the Company from the use of the aircraft fleet were discounted. The following are key assumptions used in calculating value:

- Useful life: for the 777-200 fleet - 13 years of activity (and sale of the aircraft at net selling price at the end of the 13 year period), for the 747-400 fleet - 6 years of activity (and sale of the aircraft at net selling price at the end of the 6 year period).
- Cash flow expected from activity: Management calculated that the projected cash flow from the operation of the 777-200 aircraft fleet will amount to \$91 million in 2010, and the cash flow from the operation of the 747-400 aircraft fleet will amount to \$103 million. This cash flow was calculated based on revenues from the aircraft fleet less commissions and variable expenses that may be assigned to the fleet in question and less fixed cash flow expenses such as security and maintenance expenses that may be allocated relative to the cost of these aircrafts' operation.
- Residual value at the end of useful life (meaning after 13 years for the 777-200 fleet and 6 years for the 747-400 fleet): calculated based on AVAC and Airclaims projections and totaling \$202 million for the 777-200 fleet and \$83 million for the 747-400 fleet (non-discounted values).
- Growth rate: no real future growth in the Company's activities from the aircraft fleet in question was taken into account, and it is based on the projection for 2010.

- Discount rate: an 8% discount rate was assumed. According to Company Management's estimates, this discount rate adequately reflects the capital price component for the Company.
- The load factor for coming years was assumed to equal the same fixed rate as in the 2010 projection.
- The current tax rate expected for the Company for the coming 6-13 year period is zero.
- The Company assumes that the aircraft in question shall be used as passenger aircraft for the next 6-13 years.
- The Company did not assume the need to make any unexpected investments in these aircraft in order to permit their continued use.

g. Value set using the Discounted Cash Flow Method for the 777-200 fleet (in millions of dollars):

*	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Total</u>
Total discounted cash flow	88	81	75	70	65	60	55	51	47	44	41	38	35		750
Total residual value (after 13 years)														74	74

Total value of the above assets based on the discounted cash flow method: \$824 million.

* Referring to the period from July 1 to June 30 of the following year.

The following is a sensitivity analysis of the value of these aircraft for changes in discount price, changes in jet fuel prices and for changes in the contribution of cash which according to the Company constitute key elements that may alter value in use projections:

Discount Rate	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%
Yearly Contribution								
In Millions of Dollars								
80	824	799	776	753	731	711	691	673
85	870	844	819	795	773	751	730	711
91	926	899	873	848	824	801	779	758
95	961	932	905	879	855	831	809	787
100	1,006	977	948	921	896	871	848	825
105	1,052	1,021	992	964	937	911	887	863

Fuel price sensitivity analysis, use of the asset across 13 years:

Difference of NPV vs. Reduced Value	Reduced Value	NPV	Yearly Contribution	Fuel Price (Cent per Gallon)
In Millions of Dollars				
325	530	855	95	224
309	530	839	93	237
294	530	824	91	249
279	530	808	89	262
263	530	793	87	274

h. Value set using the Discounted Cash Flow Method for the 747-400 fleet (in millions of dollars):

*	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	Total
Total discounted cash flow	99	92	85	79	73	67		495
Total residual value (after 6 years)							52	52

Total value of the above assets based on the discounted cash flow method: \$547 million.

* Referring to the period from July 1 to June 30 of the following year.

The following is a sensitivity analysis of the value of these aircraft for changes in discount price, changes in jet fuel prices and for changes in the contribution of cash which according to the Company constitute key elements that may alter value in use projections:

Discount Rate	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%
Yearly Contribution								
In Millions of Dollars								
90	514	506	499	492	485	478	471	464
95	539	531	524	516	509	501	494	487
100	565	556	548	540	533	525	518	511
103	580	571	563	555	547	539	532	525
110	615	606	598	589	581	573	565	557
115	641	631	622	613	605	596	588	580

Fuel price sensitivity analysis, use of the asset across 6 years:

Difference of NPV vs. Reduced Value	Reduced Value	NPV	Yearly Contribution	Fuel Price (Cent per Gallon)
In Millions of Dollars				
316	249	565	107	225
307	249	556	105	238
298	249	547	103	251
289	249	538	101	263
281	249	530	99	276

i. Summary

The following table presents the summarized value assessment as of June 30 2010 for the 777-200 fleet:

Recoverable amount calculation:

Net Selling Price	Value in Use for EI AI	Recoverable Amount - Whichever is Higher for EI AI
In Millions of Dollars		
484	824	824

Should impairment be listed in the Books?

The Aircrafts' Depreciated Retained Cost as of June 30 2010	The Recoverable Amount of the Same Aircraft to EI AI, on June 30 2010	Should Impairment be Listed in the Books?
In Millions of Dollars		
530	824	No

The following table presents the summarized value assessment as of June 30 2010 for the 747-400 fleet:

Recoverable amount calculation:

Net Selling Price	Value in Use for EI AI	Recoverable Amount - Whichever is Higher for EI AI
In Millions of Dollars		
154	547	547

Should Impairment be listed in the Books?

Should Impairment be Listed in the Books?	The Recoverable Amount of the Same Aircraft to EI AI, as of June 30 2010	The Aircrafts' Depreciated Retained Cost as of June 30 2010
In Millions of Dollars		
No	547	249

This value assessment is accurate on the date of its preparation and is based upon projected monetary details for 2010 and on projected income and expenses for the next 6-13 years. Changes in the projected assessments detailed above may alter the value assessment and the Company may subsequently be required to perform impairment.

EL AL Israel Airlines Ltd.

**Concise Interim Consolidated Financial Statements
As of June 30, 2010**

(Unaudited)

EL AL Israel Airlines Ltd.

**Concise Consolidated Interim Financial Statements (Unaudited)
As of June 30, 2010**

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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
EL AL Israel Airlines Ltd.**

Introduction

We have reviewed the attached financial information on **El Al Israel Airlines Ltd.** and its subsidiaries ("the Group"), which includes the concise consolidated report on its financial status as of June 30 2010 and its consolidated concise Statement of Operations and Comprehensive Income, Changes in Equity and Cash Flows for the three month period and six month period ending that date. The Company's Board of Directors and management are responsible for the preparation and presentation of financial information for this interim period in accordance with International Accounting Standard 34 "Interim Financial Reporting, as well as for the preparation of financial information for this interim period in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. We are responsible for expressing our conclusion with regard to the financial information for this interim period, based on our review.

We have not reviewed the condensed interim financial information for subsidiaries whose assets included in the consolidation account for 1.3% of total consolidated assets as of June 30, 2010, and whose revenues included in the consolidation account for 1% of total consolidated revenues for the three-month period and six-month period then ended. The financial statements of those subsidiaries were reviewed by other auditors whose reports have been provided us, and our opinion, insofar as it relates to the amounts included in respect thereof, is based on the reports of those other auditors.

Scope of the Review

We conducted our reviews in accordance with Review Standard 1 of the Israeli Institute of Certified Public Accountants, "Reviews of Financial Information for Interim Periods Prepared by the Entity's Auditor." A review of financial information for interim periods consists of inquiries, mainly from people responsible for finances and accounting, and from the application of analytical and other reviewing procedures. This review is significantly limited in scope compared to audits prepared in accordance with generally accepted Israeli auditing standards and therefore does not allow us to achieve assurance that we have become aware of all material issues that may be identified in an audit. Accordingly, we cannot express our opinion on the review.

Conclusion

Based on our reviews and the reports of other CPAs, nothing has come to our attention leading us to believe that the financial information in question has not been prepared, in all material aspects, in accordance with IAS 34.

In addition to the above, based upon our review and that of other CPAs, nothing has come to our attention causing us to believe that the financial information in question does not fulfill, in all material aspects, the disclosure directives laid out in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying the above opinion, we direct your attention to Note 8 of these Financial Statements regarding legal proceedings pending against the Company.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, August 17, 2010.

משרד אילת	משרד באר שבע	משרד חיפה	משרד ירושלים	משרד רמת-גן	משרד ראשי - תל אביב
המרכז העירוני ת.ד. 583 אילת, 88104	פארק תעשיית עומר, כניון 10, ת.ד. 1369 עומר, 84965	מעלה השחרור 5 ת.ד. 5648 חיפה, 31055	שרי ישראל 12 ירושלים, 94390	הרקון 6 רמת-גן, 52521	מרכז עזריאלי 1 תל אביב, 67021 ת.ד. 16593 תל אביב, 61164
טלפון: 08-6375676 פקס: 08-6371628 info-eilat@deloitte.co.il	טלפון: 08-6909500 פקס: 08-6909600 info-beersheva@deloitte.co.il	טלפון: 04-8607333 פקס: 04-8672528 info-haifa@deloitte.co.il	טלפון: 02-5018888 פקס: 02-5374173 info-jer@deloitte.co.il	טלפון: 03-7551500 פקס: 03-5759955 info-ramatgan@deloitte.co.il	טלפון: 03-6085555 פקס: 03-6094022 info@deloitte.co.il

EL AL Israel Airlines Ltd.
Concise Consolidated Balance Sheet

	As of June 30		As of
	2010	2009	December 31
	2009		
	Thousands of USD		
	(Unaudited)		
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	175,767	155,171	106,687
Short-term deposits	7,776	7,617	7,933
Restricted deposits	1,500	38,291	7,003
Trade receivables	180,350	139,308	112,086
Other accounts receivable	16,738	26,772	16,155
Derivative financial instruments	4,779	-	11,206
Prepaid expenses	34,034	34,393 *	24,873
Inventories	13,104	16,921	21,947
Total current assets	434,048	418,473	307,890
<u>Non-Current Assets</u>			
Bank deposits	1,725	1,921	1,839
Investment in affiliated companies	648	2,772	648
Investment in another company	1,343	1,563	1,357
Derivative financial instruments	2,520	-	2,255
Fixed assets, net	1,267,539	1,368,045	1,312,930
Intangible assets, net	6,573	8,737	7,504
Assets due to employee benefits	33,353	33,978	34,501
Prepaid expenses	2,554	2,704 *	2,578
Total non-current assets	1,316,255	1,419,720	1,363,612
Total assets	1,750,303	1,838,193	1,671,502

(*) Restated - see Note 5

The accompanying notes are an integral part of the concise consolidated financial statements.

EL AL Israel Airlines Ltd.
Concise Consolidated Balance Sheet

	As of June 30		As of December 31
	2010	2009	2009
	Thousands of USD		
	(Unaudited)		
<u>Liabilities and Shareholders' Equity</u>			
<u>Current Liabilities</u>			
Borrowings and current maturities	95,469	109,546	106,016
Trade payables	152,847	146,891 *	128,970
Other payables	68,730	71,463 *	54,444
Provisions	58,272	54,645 *	57,217
Derivative financial instruments	31,899	76,898	55,643
Employee benefit obligations	92,030	82,887	81,379
Unearned revenues	290,308	276,679	204,444
Total current liabilities	789,555	819,009	688,113
<u>Non-Current Liabilities</u>			
Loans from financial institutions	661,346	750,380	704,194
Employee benefit obligations	63,434	67,199	65,835
Loans from others	51	-	-
Other payables	10,587	12,689 *	13,318
Derivative financial instruments	18,329	31,733	20,135
Deferred taxes	10,215	1,532	5,313
Unearned revenues	57,735	47,424	50,813
Total non-current liabilities	821,697	910,957	859,608
Total liabilities	1,611,252	1,729,966	1,547,721
<u>Shareholders' equity</u>			
Share Capital	155,012	155,012	155,012
Share premium	28,007	28,007	28,007
Capital reserve from transactions with a former controlling shareholder	237,122	237,122	237,122
Capital reserve in respect of share-based payment	6,858	5,999	6,414
Capital reserve in respect of cash flow hedging	(14,306)	(62,677)	(30,822)
Accumulated loss	(273,642)	(255,236)	(271,952)
Total shareholders' equity	139,051	108,227	123,781
Total liabilities and equity	1,750,303	1,838,193	1,671,502

(*) Restated - see Note 5

Amikam Cohen
Chairman of the Board

Elyezer Shkedi
CEO

Nissim Malki
CFO

Certification date of interim financial statements: Ben-Gurion Airport, August 17, 2010

The accompanying notes are an integral part of the concise consolidated financial statements.

EL AL Israel Airlines Ltd.
Concise Consolidated Statement of Operations

	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30		For the Year Ending December 31
	2010	2009	2010	2009	2009
	Thousands of USD				
	(Unaudited)		(Unaudited)		
Operating revenues	919,020	746,099	498,526	399,432	1,655,833
Operating expenses	(764,528)	(681,041)	(400,946)	(353,107)	(1,444,250)
Gross profit	<u>154,492</u>	<u>65,058</u>	<u>97,580</u>	<u>46,325</u>	<u>211,583</u>
Selling expenses	(94,961)	(89,034)	(49,080)	(47,629)	(182,962)
General and administrative expenses	(46,621)	(43,131)	(22,760)	(21,783)	(88,562)
Other operating revenues (expenses), net	(2,622)	161	(737)	(1,373)	(15,027)
	<u>(144,204)</u>	<u>(132,004)</u>	<u>(72,577)</u>	<u>(70,785)</u>	<u>(286,551)</u>
Operating profit (loss) before financing	10,288	(66,946)	25,003	(24,460)	(74,968)
Financing expenses	(16,372)	(14,532)	(8,449)	(10,056)	(30,297)
Financing revenues	3,992	4,631	3,190	2,958	3,999
Financing expenses, net	<u>(12,380)</u>	<u>(9,901)</u>	<u>(5,259)</u>	<u>(7,098)</u>	<u>(26,298)</u>
Company's equity in earnings of affiliates, net	-	36	-	37	442
Profit (loss) before income taxes	(2,092)	(76,811)	19,744	(31,521)	(100,824)
Tax benefit (income taxes)	402	17,227	(4,902)	11,777	24,524
Profit (loss) for the period	<u>(1,690)</u>	<u>(59,584)</u>	<u>14,842</u>	<u>(19,744)</u>	<u>(76,300)</u>
Profit (loss) per NIS 1 par value share, in USD.					
Basic profit (loss) per share	<u>(0)</u>	<u>(0.12)</u>	<u>0.03</u>	<u>(0.04)</u>	<u>(0.15)</u>
Diluted profit (loss) per share	<u>(0)</u>	<u>(0.12)</u>	<u>0.03</u>	<u>(0.04)</u>	<u>(0.15)</u>
Weighted average of equity of shares issued for calculation of profit (loss) per share					
Basic	495,719	495,719	495,719	495,719	495,719
Diluted	<u>495,719</u>	<u>495,719</u>	<u>495,898</u>	<u>495,719</u>	<u>495,719</u>

The accompanying notes are an integral part of the concise consolidated financial statements.

EL AL Israel Airlines Ltd.
Concise Consolidated Statement of Comprehensive Income

	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30		For the Year Ending December 31
	2010	2009	2010	2009	2009
Thousands of USD					
(Unaudited)		(Unaudited)			
Profit (loss) for the period	(1,690)	(59,584)	14,842	(19,744)	(76,300)
Other comprehensive income (loss)					
Earnings in respect of cash flow hedging, net of tax	16,516	48,928	2,423	39,149	80,783
Other comprehensive income for the period, net of tax	16,516	48,928	2,423	39,149	80,783
Comprehensive income (loss) for the period	14,826	(10,656)	17,265	19,405	4,483

The accompanying notes are an integral part of the concise consolidated financial statements.

EL AL Israel Airlines Ltd.
Consolidated Statement of Changes in Shareholders' Equity

For the Six Month Period Ending June 30 2010

<u>Share Capital</u>	<u>Share Premium</u>	<u>Capital Reserve from Transactions with a Former Controlling Shareholder</u>	<u>Capital Reserve in Respect of Share-Based Payment</u>	<u>Capital Reserve in Respect of Cash Flow Hedging</u>	<u>Accumulated Loss</u>	<u>Total</u>	
Thousands of USD							
(Unaudited)							
Balance as of January 1 2010	155,012	28,007	237,122	6,414	(30,822)	(271,952)	123,781
Loss for the period	-	-	-	-	(1,690)	-	(1,690)
Other comprehensive income for the period	-	-	-	-	16,516	-	16,516
Total loss for the period	-	-	-	-	16,516	(1,690)	14,826
Share based payment	-	-	-	444	-	-	444
Total transactions with parent company shareholders pursuant to their positions as shareholders	-	-	-	444	-	-	444
Total shareholders' equity as of June 30 2010	<u>155,012</u>	<u>28,007</u>	<u>237,122</u>	<u>6,858</u>	<u>(14,306)</u>	<u>(273,642)</u>	<u>139,051</u>

The accompanying notes are an integral part of the concise consolidated financial statements.

EL AL Israel Airlines Ltd.
Consolidated Statement of Changes in Shareholders' Equity

For the Six Month Period Ending June 30 2009

<u>Share Capital</u>	<u>Share Premium</u>	<u>Capital Reserve from Transactions with a Former Controlling Shareholder</u>	<u>Capital Reserve in Respect of Share-Based Payment</u>	<u>Capital Reserve in Respect of Cash Flow Hedging</u>	<u>Accumulated Loss</u>	<u>Total</u>	
Thousands of USD							
(Unaudited)							
Balance as of January 1 2009	155,012	28,007	237,122	5,780	(111,605)	(195,652)	118,664
Loss for the period	-	-	-	-	(59,584)	(59,584)	(59,584)
Other comprehensive income for the period	-	-	-	-	48,928	-	48,928
Total loss for the period	-	-	-	-	48,928	(59,584)	(10,656)
Share based payment	-	-	-	219	-	-	219
Total transactions with parent company shareholders pursuant to their positions as shareholders	-	-	-	219	-	-	219
Total shareholders' equity as of June 30 2009	<u>155,012</u>	<u>28,007</u>	<u>237,122</u>	<u>5,999</u>	<u>(62,677)</u>	<u>(255,236)</u>	<u>108,227</u>

The accompanying notes are an integral part of the concise consolidated financial statements.

EL AL Israel Airlines Ltd.
Consolidated Statement of Changes in Shareholders' Equity

For the Three Month Period Ended June 30 2010

<u>Share Capital</u>	<u>Share Premium</u>	<u>Capital Reserve from Transactions with a Former Controlling Shareholder</u>	<u>Capital Reserve in Respect of Share-Based Payment</u>	<u>Capital Reserve in Respect of Cash Flow Hedging</u>	<u>Accumulated Loss</u>	<u>Total</u>	
Thousands of USD							
(Unaudited)							
Balance as of April 1 2010	155,012	28,007	237,122	6,644	(16,729)	(288,484)	121,572
Income for the period	-	-	-	-	14,842	-	14,842
Other comprehensive income for the period	-	-	-	-	2,423	-	2,423
Total income for the period	-	-	-	-	2,423	14,842	17,265
Share based payment	-	-	-	214	-	-	214
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	214	-	-	214
Total shareholders' equity as of June 30 2010	<u>155,012</u>	<u>28,007</u>	<u>237,122</u>	<u>6,858</u>	<u>(14,306)</u>	<u>(273,642)</u>	<u>139,051</u>

The accompanying notes are an integral part of the concise consolidated financial statements.

EL AL Israel Airlines Ltd.
Consolidated Statement of Changes in Shareholders' Equity

For the Three Month Period Ended June 30 2009

<u>Share Capital</u>	<u>Share Premium</u>	<u>Capital Reserve from Transactions with a Former Controlling Shareholder</u>	<u>Capital Reserve in Respect of Share-Based Payment</u>	<u>Capital Reserve in Respect of Cash Flow Hedging</u>	<u>Accumulated Loss</u>	<u>Total</u>	
Thousands of USD (Unaudited)							
Balance as of April 1 2009	155,012	28,007	237,122	5,982	(101,826)	(235,492)	88,805
Loss for the period	-	-	-	-	(19,744)	(19,744)	(19,744)
Other comprehensive income for the period	-	-	-	-	39,149	-	39,149
Total income for the period	-	-	-	-	39,149	(19,744)	19,405
Share based payment	-	-	17	-	-	-	17
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	17	-	-	-	17
Total shareholders' equity as of June 30 2009	<u>155,012</u>	<u>28,007</u>	<u>237,122</u>	<u>5,999</u>	<u>(62,677)</u>	<u>(255,236)</u>	<u>108,227</u>

The accompanying notes are an integral part of the concise consolidated financial statements.

EL AL Israel Airlines Ltd.
Consolidated Statement of Changes in Shareholders' Equity

	For the Year Ended December 31 2009						Total
	Share Capital	Share Premium	Capital Reserve from Transactions with a Former Controlling Shareholder	Capital Reserve in Respect of Share- Based Payment	Capital Reserve in Respect of Cash Flow Hedging	Accumu- lated Loss	
Thousands of USD							
Balance as of January 1 2009	155,012	28,007	237,122	5,780	(111,605)	(195,652)	118,664
Loss for the year	-	-	-	-	-	(76,300)	(76,300)
Other comprehensive income for the year	-	-	-	-	80,783	-	80,783
Total comprehensive income for the year	-	-	-	-	80,783	(76,300)	4,483
Share based payment	-	-	-	634	-	-	634
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	634	-	-	634
Total shareholders' equity as of December 31 2009	<u>155,012</u>	<u>28,007</u>	<u>237,122</u>	<u>6,414</u>	<u>(30,822)</u>	<u>(271,952)</u>	<u>123,781</u>

The accompanying notes are an integral part of the concise consolidated financial statements.

EL AL Israel Airlines Ltd.
Concise Consolidated Statements of Cash Flows

	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30		For the Year Ending December 31
	2010	2009	2010	2009	2009
	Thousands of USD				
	(Unaudited)		(Unaudited)		
Cash Flows from Operating Activities					
Income (loss) for the period	(1,690)	(59,584)	14,842	(19,744)	(76,300)
Appendix A - Adjustments required for presentation of cash flow from operating activities	138,416	84,502	68,009	60,834	98,699
Cash deriving from operating activities, net	136,726	24,918	82,851	41,090	22,399
Cash flow for investment operations					
Acquisition of fixed assets (including general engine overhauls and payment on account of aircraft)	(20,344)	(151,434)	(12,094)	(138,202)	(178,679)
Proceeds from realized fixed assets	2,401	22,517	1,168	13,426	22,803
Investment in intangible assets	(972)	(726)	(661)	(597)	(1,955)
Realization of restricted deposits	5,503	114,678	3,630	77,355	145,966
Decrease (increase) in short-term deposits, net	157	204	310	(497)	(112)
Investment in deposits for service providers and long-term	(73)	(50)	(16)	(17)	(176)
Repayment of deposits for service providers and long-term	156	248	115	105	727
Decrease in investments and loans to investee companies, net	-	-	-	-	1,229
Yield from the sale of affiliate	-	-	-	-	571
Cash used for investment activities, net	(13,172)	(14,563)	(7,548)	(48,427)	(9,626)
Cash Flows from (for) Financing Activities					
Receipt of long-term loans from financial institutions	-	113,259	-	113,259	113,259
Repayment of long-term loans from financial institutions	(30,444)	(26,234)	(18,733)	(17,315)	(74,615)
Receipt of other long-term loans	2,452	-	61	-	-
Repayment of other long-term loans	(586)	(184)	(559)	(91)	(254)
Payment for loan raising costs	-	(7,159)	-	(7,159)	(7,159)
Increase (decrease) in short-term credit, net	(25,896)	14,534	(24,070)	(479)	12,083
Cash deriving from (used for) financing activities, net	(54,474)	94,216	(43,301)	88,215	43,314
Increase in cash and cash equivalents	69,080	104,571	32,002	80,878	56,087
Balance of cash and cash equivalents at the beginning of the period	106,687	50,600	143,765	74,293	50,600
Balance of cash and cash equivalents at the end of the period	175,767	155,171	175,767	155,171	106,687

The accompanying notes are an integral part of the concise consolidated financial statements.

EL AL Israel Airlines Ltd.
Concise Consolidated Statements of Cash Flows

	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30		For the Year Ending December 31
	2010	2009	2010	2009	2009
Thousands of USD					
	(Unaudited)		(Unaudited)		
Appendix A					
Income and expenses not involving cash flows:					
Depreciation and amortization (including disposal of accessories, disused components, consumables used and impairment of fixed and intangible assets)	66,700	75,177	32,474	36,000	160,987
Adjustment of value of long-term deposits	45	72	75	(126)	7
Share of earnings of affiliated companies, less dividends received, net	-	(36)	-	(37)	(284)
Deferred taxes, net	(594)	(17,412)	4,776	(12,019)	(24,604)
Increase (decrease) in liabilities in respect of employee benefits and in provisions	12,635	(22,110) *	(6,480)	(99) *	(18,754)
Net capital gains from realized fixed assets	(333)	(494)	(121)	(394)	(582)
Benefit value of employee stock option program	444	219	214	17	634
Loss (gain) from adjustment of fair value of derivatives recognized in the statement of operations	2,624	(20,056)	1,055	(18,230)	(23,542)
Changes in asset and liability items:					
Increase in trade receivables	(68,264)	(33,262)	(23,437)	(4,269)	(6,040)
Decrease (increase) in other accounts receivable	(583)	(7,079)	1,405	(7,061) *	4,110
Decrease (increase) in prepaid expenses	(9,137)	(7,645)	(3,378)	(2,106) *	2,001
Decrease (increase) in inventories	8,843	(5,449)	4,544	(639)	(10,475)
Increase (decrease) in trade payables	23,877	15,998 *	17,340	23,374 *	(1,923)
Increase in other payables	9,373	32,821 *	4,758	19,272 *	12,252
Increase in unearned revenues	92,786	73,758	34,784	27,151	4,912
	<u>138,416</u>	<u>84,502</u>	<u>68,009</u>	<u>60,834</u>	<u>98,699</u>

(*) Restated - see Note 5

Appendix B – Non-Cash Transactions

Yield not yet received from the realization of affiliated company	-	-	-	-	572
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Appendix C – Cash Payment (Receipt) of Interest, Taxes and Dividends, Classified Under Cash Flow from Operating Activities

Interest payments	<u>8,327</u>	<u>10,441</u>	<u>4,824</u>	<u>5,479</u>	<u>28,283</u>
Interest receipts	<u>(319)</u>	<u>(763)</u>	<u>(173)</u>	<u>(322)</u>	<u>(1,072)</u>
Tax payments – advances in respect of extraneous expenses	<u>50</u>	<u>33</u>	<u>31</u>	<u>18</u>	<u>203</u>
Dividend receipts	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(159)</u>

The accompanying notes are an integral part of the concise consolidated financial statements.

EL AL Israel Airlines Ltd.

Notes to the Concise Consolidated Financial Statements

Note 1 - General

- a. EL AL Israel Airlines Ltd. is primarily engaged, through its subsidiaries (hereinafter – "the Group") in the transport of passengers and cargo, including luggage and mail, on scheduled flights and charter flights between Israel and foreign countries. Further information on the Group's operating segments is presented in Note 11 below.
- b. Passenger traffic through Ben Gurion Airport (BGN) is characterized by a high level of seasonality. Most activity is during summer months, peaking July-September. Winter months (January-March) are characterized by low passenger activity levels.
- c. These concise statements must be seen in context with the Company's yearly Financial Statements dated December 31 2009 and the year ending that date, and the attached notes.

d. Failure to Include Separate Financial Information:

In accordance with Regulation 4 of the Periodic and Immediate Reports Regulations, the Company did not include in its periodic report for the period ending June 30 2010 separate financial information as per Regulation 38.d of the Securities Regulations (Periodic and Immediate Reports), 1970.

The reason due to which no separate information was included was in light of the negligible impact the financial statements of the investee companies have on the Consolidated Financial Statements.

The parameters used by the Company in order to establish the impact in question are: assets, revenues, profits and cash flow from regular operations of up to 5% of all assets, revenues, profits and cash flow from regular operations in the consolidated statements – accordingly, ignoring the impact of uncommon exceptional occurrences.

For information regarding transactions and commitments between the Company and its consolidated companies see Note 10 below.

Note 2 - Significant Accounting Policies

a. Basis for the preparation of the Financial Statements:

The Group's concise interim consolidated financial statements (hereinafter: "Interim Statements") have been compiled in accordance with International Accounting Standard 34, "Interim Financial Reporting" (hereinafter: "IAS 34")

In the preparation of these Interim Financial Statements, the Group implemented an accounting policy, rules of presentation and calculation methods identical to those applied in the preparation of its Financial Statements for December 31 2009 and for the year ending that date. Regarding a periodic examination of depreciation and residual estimates and its impact on the Financial Statements from this point onward, see Note 7.c below.

- b. The Consolidated Concise Financial Statements have been prepared in accordance with the provisions of Chapter D of the Securities Regulations (Immediate and Periodic Reports), 1970.

c. Exchange rates and linkage basis:

- (1) Balances in foreign currency, or linked to foreign currency, are included in the Financial Statements according to official exchange rates published by the Bank of Israel and in effect as of the balance sheet date.

EL AL Israel Airlines Ltd.**Notes to the Concise Consolidated Financial Statements**

- (2) Balances linked to the Consumer Price Index are presented using the most recent known CPI value upon the balance sheet date (the CPI for the month preceding the month of the balance sheet date).
- (3) Below are data for USD exchange rates and CPI in Israel:

	<u>As of June 30</u>	<u>As of June 30</u>	<u>As of</u> <u>December 31</u>
	<u>2010</u>	<u>2009</u>	<u>2009</u>
CPI (in points)	105.9	103.4	105.2
USD/NIS exchange rate	3.875	3.919	3.775
USD/EUR exchange rate	0.815	0.708	0.694
USD/pound sterling exchange rate	0.665	0.602	0.618

Change in %:

	<u>For the Six</u> <u>Month Period</u> <u>Ending June 30</u>	<u>For the Six</u> <u>Month Period</u> <u>Ending June 30</u>	<u>For the Year</u> <u>Ended</u> <u>December 31</u>
	<u>2010</u>	<u>2009</u>	<u>2009</u>
CPI	0.7%	2.1%	3.9%
USD vs. NIS	2.6%	3.1%	(0.7)%
USD vs. EUR	17.4%	(1.2)%	(3.3)%
USD vs. pound sterling	7.6%	(12.1)%	(9.9)%

	<u>For the Three</u> <u>Month Period</u> <u>Ended June 30</u>	<u>For the Three</u> <u>Month Period</u> <u>Ended June 30</u>
	<u>2010</u>	<u>2009</u>
CPI	1.6%	2.3%
USD vs. NIS	4.4%	(6.4)%
USD vs. EUR	9.5%	(5.7)%
USD vs. pound sterling	0.5%	(13.9)%

Note 3 - New Financial Reporting Standards and Clarifications Published

- a. **New standards and clarifications, already in effect, that have no material impact on the current period and/or previous reporting periods:**

The following standards, clarifications and revisions which came into the effect this current year have no material impact on the current period and/or previous periods, but their coming into effect may influence future periods.

- **IAS 17 (Revision) "Leases"**

As part of the 2009 yearly improvement project, IAS 17 "Leases" was amended.

EL AL Israel Airlines Ltd.

Notes to the Concise Consolidated Financial Statements

IAS 17 "Leases" states that land leases shall be classified as financial leases or operational leases using the general principles of the standard, taking into account that land is an asset with an infinite financial lifespan. Pursuant to the revision the general prohibition of classifying land leases as financial leases when the land does not pass on to the lessee at the end of lease period.

The revision shall apply retroactively to yearly reporting periods starting January 1 2010.

The revision shall be applied retroactively to existing leases when the required information is available at the beginning of the lease. When the required information is not available, land leases shall be reexamined on the date the revision is adopted.

Implementation of the revision had no impact on the Group's financial statements.

▪ **IFRS 3 (Revised) "Business Combinations"**

The new standard establishes new rules for the accounting treatment of business combinations. The standard is applied to business combinations occurring starting January 1 2010 or subsequently.

▪ **IAS 27 (Revised) "Consolidated and Separate Financial Statements"**

The new standard establishes the accounting treatment of consolidated and separate financial statements. The standard applies to yearly reporting periods starting January 1 2010 or subsequently. The standard is applied retroactively, with a number of exceptions, to which the standard is applied on a "here onward" basis.

▪ **IAS 28 (Revision) "Investment in Affiliated Companies" (Regarding the Loss of Material Influence in Affiliated Company).**

As part of the adoption of the revised IAS 27 as stated above, certain provisions of IAS 28 "Investments in Affiliated Companies" were revised. The revision establishes the accounting treatment in the matter of loss of material influence in an affiliate, when the entity continues to hold a certain stake in the invested company. This revision is applied on a "here onward" basis to yearly reporting periods beginning January 1 2010 or subsequently.

▪ **IAS 39 (Revision) "Financial Instruments: Recognition and Measurement" (regarding the designation of exposure to inflationary risks as hedging items")**

This revision states, among other things, that changes in cash flows deriving from exposure to inflationary risk can be designated hedging items. In addition the revision states that the internal value, unlike the time value of options purchased, is fit to serve as a hedging item of one side deriving from a projected transaction. The revision is applied retroactively to yearly reporting periods starting January 1 2010 or subsequently.

▪ **IFRS 9 "Financial Instruments"**

The new standard specifies classification and measurement directives for financial assets. The standard requires that all financial assets be treated in the following manner:

- Debt instruments shall be classified and measured after first recognition according to amortized cost or according to fair value by way of the statement of operations. Determining the measurement model shall take into account the business model of the entity on the matter of financial asset management and in accordance with the characteristics of the contractual cash flows deriving from those financial assets.

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Notes to the Concise Consolidated Financial Statements

- A debt instrument which according to the tests is measured at amortized cost may be designated to fair value by way of the statement of operations only if the designation cancels a lack of continuity in recognition and measurement that would have been created if the asset had been measured at amortized cost. Capital instruments shall be measured at fair value by way of the statement of operations.
- Capital instruments may be designated on the date of first recognition to fair value when profits or losses are charged to other total earnings. Instruments designated in such a manner shall no longer be subject to examination for devaluation and resulting gain or loss shall not be passed on to the statement of operations, including upon realization.
- Embedded derivatives shall not be separated from a host contract covered by the standard. Instead, mixed contracts shall be measured as a whole at amortized cost or at fair value, in accordance with the business model tests and contractual cash flows.
- Debt instruments shall be reclassified from amortized cost to fair value and vice versa only when the entity changes its business model to the management of financial assets.
- Investments in capital instruments without a quoted price in an active market including derivatives of these instruments shall always be measured at fair value. The option to measure by cost under certain circumstances has been cancelled. At the same time, the standard notes that under specific circumstances cost may be an appropriate estimate of fair value.

The standard applies retroactively with the exception of exceptional cases as detailed in the standard for yearly reporting periods starting January 1 2013 or subsequently. Early application is possible. Entities implementing the standard by way of early application prior to January 1 2012 may apply it non-retroactively.

The Company decided upon early adoption of this standard starting from 2010, with the start date set at January 1 2010.

Likewise, the Company has decided not to retroactively adopt the comparison data.

The standard's application has no material impact on the Company's financial status and operating results in the current and prior periods.

b. New standards and clarifications, published and not yet in effect, and not adopted early by the Group, which are expected to have or may have an impact on future reporting periods:

▪ **IFRIC 19 " Extinguishing of Financial Liabilities with Equity Instruments"**

The interpretation establishes the accounting treatment regarding the extinguish of financial liabilities by issuing equity instruments. The interpretation established that in the event of such an occurrence, the liability shall be subtracted when the difference between its book value on the clearance date and the fair value of the yield paid, measured at the height of the fair value of the capital instruments issued, shall be charged to the Statement of Operations.

This interpretation shall be applied retroactively to yearly reporting periods starting January 1 2011 or subsequently. Early application is possible.

At this stage the Company cannot estimate the impact of application of the interpretation on its financial status and operating results.

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- **IFRIC 14 (Revision) "Advance Payments on Account of Minimal Deposit Requirements"**

This interpretation establishes that when measuring a plan's assets as regards a defined benefit plan, advance payments on account of minimal deposit requirements shall be included as part of the economic benefits available as part of refunds from the plans or a reduction in future deposits to the plan. This interpretation shall be applied retroactively to yearly reporting periods starting January 1 2011 or subsequently.

At this stage the Company cannot assess the impact of application of the interpretation on its financial status and operating results.

- **IFRS 7 (Revision) "Financial Instruments: Disclosure" – Disclosure Clarifications**

As part of this revision, a disclosure requirement has been added regarding the impact on securities and other credit reinforcements received on the sum best representing the maximum exposure to risk on the date of the report

Likewise, several disclosure requirements were omitted as detailed below:

- When the book value of a financial asset best represents the maximum exposure to credit risk on the report date, no disclosure is required regarding the maximum exposure to credit risk ignoring held securities and other credit reinforcements received.
- Disclosure regarding the book value of financial assets the terms of which were set in advance, which otherwise would have been delayed or the value of which would have been harmed is no longer required.
- When an entity receives possession of a security held as a guarantee, or appropriates collateral received as a credit reinforcement, no further disclosure is required regarding the nature and book value of the assets received and the sale policy of these assets, in the event that these assets are no longer held as of the report.

At this stage the Company cannot assess the impact of application of the interpretation on its financial status and operating results.

- **IAS 1 (Revised) "Presentation of Financial Statements" – Clarifications Regarding the Report on Changes in Equity.**

The revision establishes that other comprehensive earnings items shall be presented in the Report on Changes in Equity or as part of the Notes, according to the company's accounting policy. Accordingly, companies can choose whether to present the details of the other comprehensive earnings items charged directly to equity over the course of the presented reporting periods in the Report on Changes in Equity or in the Notes

At this stage the Company cannot assess the impact of application of the interpretation on its financial status and operating results.

- **IAS 34 (Revised) "Interim Financial Reporting" – Material Events and Transactions**

The revision emphasizes the principles detailed in IAS 34, that the purpose of the information presented regarding events and transactions material to understanding the changes in the entity's financial status and performance since the last yearly report date is to update the information referring to them in the latest yearly financial statement. Furthermore, the manner of the implementation of this principle in the matter of financial instruments was clarified, including the addition of the following disclosure requirements:

- Changes in business or economic circumstances influencing the fair value of financial assets and liabilities, independent of their measurement at fair value or depreciated cost.

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- Transfers of financial instruments measured at fair value between the levels detailed in the fair value grade in IFRS 7 "Financial Instruments: disclosure" are significant events requiring disclosure as part of the interim reports.
- Changes in the classification of financial assets deriving as a result of a change in the reasons for holding them or changes in them.

At this stage the Company cannot assess the impact of application of the interpretation on its financial status and operating results.

▪ **IFRIC 13 (Revised) " Customer Loyalty Programmes " – Fair Value of award Credits**

As part of the revision, it was made clear that assessing the fair value of bonus credits shall take into account the sums of discounts and incentives offered clients who have not accumulated bonus credits, and projected seizure levels of bonus credits.

At this stage the Company cannot assess the impact of application of the interpretation on its financial status and operating results.

Note 4 - Critical Accounting Considerations and Key Sources for Estimates of Uncertainties

In applying Group accounting policy, as set forth in Note 2 above, company management is sometimes required to exercise considerable judgment with regard to estimates and assumptions about the carrying amount of assets and liabilities, which may not be available from other sources. These estimates and related assumptions are based on past experience and other factors deemed relevant. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed by management. Changes in accounting estimates are only recognized in the period in which a change was made to the estimate, if the change only affects that period, or are recognized in said period and in subsequent periods in cases where the change affects both the current period and the subsequent periods.

For further details regarding critical accounting considerations employed by the Company, see Note 4 of the December 31 2009 Financial Statements.

Note 5 - Reclassification of Balance Sheet Balances

The following are balance sheet items the balances of which were reclassified as of June 30 2009:

1. Prepaid expenses for frequent flyer points to the amount of \$2,704 were reclassified from Current Prepaid Expenses to Non-Current Prepaid Expenses.
2. Real estate lease incentives to the amount of \$3,762 thousand were reclassified from Trade Payables to Non-Current Payables.
3. a) Current liabilities due to an agreement pertaining to a \$3,016 thousand cargo claim were reclassified from Current Provisions to Current Payables.

b) Non – current liabilities due to an agreement pertaining to a cargo claim to the amount of \$8,927 thousand were reclassified from Non-Current Provisions to Non-Current Payables.

Note 6 - Material Transactions and Events over the Course of the Reported Period

a. Framework Agreement with Cargo Terminals and Handling Ltd. ("Maman")

Following Note 41.a of the December 31 2009 yearly Financial Statements, on April 12 2010 the Company announced that it had signed an agreement paper ("the Agreement Paper") with Maman, according to which, subject to the ratification of its General Meeting and the approval of the Stock

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Exchange, options shall be allocated by Maman to a trustee ("the Trustee Options") exercisable as Maman shares, this in lieu of allocation to the Company of first and second portion shares as defined in the framework agreement. It was also agreed that subject to the receipt of the approvals in question, the trustee shall be provided with the options Maman undertook to grant the Company in accordance with the framework agreement ("the Options in the Agreement").

The Agreement Paper states that the Trustee Options shall be exercised and converted to first and second portion shares and that the trustee would provide the Company with the Options in the Agreement, on the earlier of the following two dates: (a) August 31 2010, so long as no decision is reached by the Israel Antitrust Authority according to which the allocation of first and/or second portion shares constitutes a restrictive arrangement or misuse of a monopoly; or (b) the date on which approval is granted by the Israel Antitrust Authority according to which it believes that nothing in Restraint of Trade law precludes the allocation of the shares and options in question or that it does not intend to take any action pertaining to the allocation of shares and options in question, or that it was stopping its investigation into the matter of the framework agreement. Prior to the date in question no use shall be made of the Trustee Option and of the Options in the Agreement and no shares shall be allocated as a result.

The trustee agreement in question was adopted by the parties after the Israel Antitrust Authority informed Maman and the Company that the arrangements included in the framework agreement on the matter of the allocation of shares and discounts could apparently constitute a restrictive arrangement and misuse of a monopoly, in accordance with the Restrictive Trade Practices Act, 1988, and in light of this proposed that the parties avoid acting in accordance with the Framework Agreement. The trustee mechanism in question was adopted in order to provide the Israel Antitrust Authority with additional time for the purpose of examining the framework agreement and formulating its conclusions in our matter.

On April 14 2010 the Company received notice from the Israel Antitrust Authority that establishing a trustee, transferring options to the trustee and establishing a date for their exercise in accordance with the Agreement Paper are not compatible with the position of the Israel Antitrust Authority and that such an action may constitute a violation of the Restrictive Trade Practices Act, 1988 by the parties, their executives and the trustee appointed in accordance with the Agreement Papers and exposes them to means of enforcement resulting from the law in question. As a result of the notice from the Israel Antitrust Authority, no allocation of securities as per the framework agreement has yet occurred.

b. The Minister of Transportation's decision to approve scheduled flights to Eilat:

Pursuant to Notes 17.c.a and 41.b. to the December 31 2009 Financial Statements, on June 27 2010 the High Court of Justice ruled to reject the petition filed by Arkia and Israil against the ruling, and ruled to reject the petition filed by the Company on the matter of the conditions set in the decision, and charged the petitioners for court expenses.

The Company began operating flights to Eilat, in accordance with the conditions set in the ruling, starting August 1 2010.

c. Cargo plane lease:

Following Note 41.c of the December 31 2009 Financial Statements, on March 28 2010 the Company signed an agreement for the leasing of a Boeing 747-400 aircraft, manufactured in 1994 ("the Agreement" and "the Plane", respectively), with an Irish aircraft leasing company. According to the agreement, the leasing period is from the date of the aircraft's receipt until June 30 2012 with the option (held by the Company) to extend the lease for an additional 36 month period. Note that during the period between April 2010 and the end of June 2010 the leasing fees were paid relative to the Plane's operation, in accordance with the commercial understandings achieved between the parties. In addition, pursuant to the agreement the Company was granted the right of first refusal and options to purchase the aircraft, in accordance with the agreements between the parties. The Plane was received

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Notes to the Concise Consolidated Financial Statements

on April 24 2010. In accordance with the terms of the agreement, the lease was classified as an operational lease.

d. ERP Project

Following that stated in the 2009 Financial Statements regarding the cancellation of the agreement to carry out the ERP Project, in June 2010 the Company signed a settlement with IBM constituting a solution to the financial dispute between the parties resulting from the cancellation of the agreement which includes, among other things, payment by the Company for the purchase of rights to interim products produced prior to the project's cancellation, dismissal of the mutual claims and arrangement of compensation between the Company and IBM. The Company is conducting talks with Remco regarding the settlement agreement and the dismissal of mutual claims between the parties.

The Company listed \$1.3 million in expenses in the consolidated financial statements of June 30 2010 as a result of the erasure of investment components that failed to reach realization and an additional sum of \$0.3 million as a provision for a final payment as a result of the project agreement.

e. Appointment of CEO:

On January 6 2010 the Company's Audit Committee and Board of Directors approved the terms of the employment of incoming Company CEO, Mr. Elyezer Shkedy. For details regarding the terms of the agreement and the allocation of stock options to the CEO, see Note 30.i.7 and Note 38.l to the December 31 2009 Financial Statements.

f. The Eruption of the Volcano in Iceland

Following the eruption of the volcano in Iceland and the diffusion of volcanic dust through European skies, starting April 15 2010 most European airports gradually closed to air traffic, this in accordance with European aviation authority directives. European airspace was completely closed for 6 days with thousands of flights cancelled a day. In addition, restrictions were placed on takeoffs, landings and aviation traffic in and around Europe. These events caused financial damage to the global economy and to the aviation industry in particular. The events in question also had an impact on the Company's European activities and led to the cancellation of dozens of flights to various European destinations. The Company continued with its usual activity to its destinations in America, Asia and South Africa and reinforced its flights to European airports open for traffic.

In light of the short duration of the event, the event had no material impact on the Company's operating results.

Note 7 - Fixed Assets

a. Acquisition of fixed assets:

Pursuant to Note 16.e.1 of the Yearly Financial Statements, due to material changes occurring in the aviation industry since the signing of the agreement with Boeing for the purchase of 4 777-200ER aircraft in March 2008 (hereinafter: "the Agreement"), including the global crisis impacting the world's markets, and due to the impact of these changes on the economic, business and financial environment in which the Company is active, and after a reevaluation of the Company's existing fleet of aircraft and necessary adaptations to it, the Company contacted Boeing and they acceded to the Company's request and on April 29 2010 the parties signed a letter of agreement to cancel the agreement and set the terms according to which the Company shall be entitled to make use of a sum equal to the advance payments paid as part of the agreements, this as a result of new aircraft purchase transactions in the coming years.

Cancellation of the agreement in question shall have no impact on the Company's Financial Statements.

A strong and extensive relationship exists between the Company and Boeing and the cancellation of the agreement was out of mutual understanding and in light of the good relationship between the parties.

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The Company continues to study its business strategy and long and short term equipping needs, adopting to general market trends and in accordance with the Company's needs.

b. Devaluation of fixed assets:

Over the course of the reported period, the Company examined the recoverable value of aircraft fleets in which signs of deterioration were evident, which include, *inter alia*, aircraft price lists published from time to time. As regards the recoverable sum of these aircraft fleets, in which signs of deterioration were detected, it was found that the recoverable sum for each aircraft fleet surpasses its depreciated cost as of that date. Accordingly, no provision for the devaluation of aircraft assets was made in these Financial Statements.

c. Depreciation Policy

In accordance with the Company's up-to-date projections regarding the decommissioning of the three 757s and four 767s owned by the Company, the residual values of these aircraft and resulting depreciation costs were updated. Additionally, in light of the relatively close decommissioning date of these fleets, the continuing global aviation crisis and concrete price offers received by the Company regarding the aircraft, it was decided that the residual values of these fleets shall be set according to the aircraft price lists in "market value" values reflecting a lower value, and not in "MID" values, as was former practice regarding these fleets (and all fleets).

Following the above changes in assessment, the Company recognized additional depreciation expenses of \$1.2 and \$0.6 million for the three and six month periods, respectively, ending June 30 2010.

The added depreciation costs for 2010 following the change in estimate are expected to amount to \$2.4 million.

d. Ratio of Loan Balance to Guarantees

As of the reported period, the Company meets the ratio of top loans to guarantees required in accordance with the agreements with the lending banks.

e. Unrestricted Assets

The value of the Group's total fixed assets as of June 30 2010 is \$1,268 million.

The Group's key assets are aircraft and spare engines, the depreciated cost of which as of June 30 2010 is \$1,131 million. The depreciated cost of the Group's main assets that are not restricted by a third party amounts to a total of \$27 million.

In addition, as of the balance sheet date, the Group possesses parts and fixed assets to the amount of \$137 million, free of any encumbrance.

f. Cargo Aircraft Activity

- (1) In July 2009 the Company submitted a request to the Government Companies Authority for the consent of the holder of the Special State Share, as required by the Company's articles of association, to retire two 747-200 cargo aircraft from Company service. In addition, the Company sought the approval of the holder of the Special State Share regarding the leased cargo aircraft in the Company's possession. The State contacted the Company with a request to provide answers to several questions required to achieve the State's consent and the Company has provided all the requested information. The State's decision on this issue has no impact on the Company's Financial Statements.
- (2) In January 2010 the cargo aircraft marked AXK carried out its last flight and at this stage is not active.
- (3) Regarding the lease of a 747-400 Cargo aircraft, see 6.c. above.

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Notes to the Concise Consolidated Financial Statements

g. Aircraft Leases

In May 2010 the Company signed a letter of intentions with Aviation Capital Group Ltd. to extend the lease agreement for a 737-800 aircraft starting November 2010 by an additional 5 years. The agreement features (the Company) the option to end the agreement after 3 years.

In May 2010 the Company signed letter of intentions with International Lease Finance Corporation to extend the lease agreement for a 737-800 aircraft starting December 2010 by an additional 45 months.

In May 2010 the Company signed a contract with the International Lease Finance Corporation to lease a 767-300 aircraft for a period of 65 months. The aircraft was manufactured in 1997 and in El Al's service will feature 237 seats. The plane was received by the Company on June 21 2010 and began service in July 10 2010. The lease was classified as an operational lease in the Financial Statements. Minimal leasing fees for the full lease period, not including payment for maintenance reserves, are expected to amount to \$18 million.

h. Changes to Fuel Tanks of Company Aircraft

The U.S. aviation authorities have required the Company to perform alterations on the fuel tanks of the Company's planes. The cost of the changes is \$9.3 million. The change must be carried out on one half of the aircraft by the end of 2014, with the end date for all aircraft set for the end of 2017. Over the course of 2010 the Company plans to purchase 3 kits at a cost of \$1.1 million to carry out the change on 3 aircraft.

Note 8 - Legal Proceedings

- a. As of June 30 2010, claims filed against the Company amount to a total of \$137 million, for which the Company listed a \$3.5 million provision in its financial statements, this based on the opinions of the Company's legal counsel.
Legal claims non-quantified in monetary amounts have also been filed against the Company. The above provision in the financial statements also includes provisions for non-quantified claims, as estimated by Company management.
In the assessment of Company management, based upon the opinions of its legal counsel, the Company does not anticipate that it will be exposed to an additional loss with respect to the abovementioned claims in excess of the above provisions recorded in the financial statements.
- b. In March 2010 a civil suit was filed before the Jerusalem District Court by Mishpacha Newspaper Ltd. and Mishpacha Magazine (2005) Ltd. against a cargo agent and against the Company for a sum of 6.5 million NIS (of which \$980,000 is against the Company), containing claims regarding cargo airway bills issued for cargo shipments. The Company has listed a provision for this claim in the Financial Statements, based on the advice of its legal counsel.
- c. In March 2010 a lawsuit was filed against the Company as part of arbitration proceedings in the U.S. to the amount of \$0.7 million on behalf of a hotel that had provided hospitality services to the Company's air crews, which include arguments regarding accounts that require settlement between the parties. The parties have decided to engage in arbitration with the intent of solving the dispute. The Company has listed a provision for this claim in the Financial Statements, based on the advice of its legal counsel.
- d. In addition to b. and c. above, additional lawsuits were filed against the Company in the six-month period ending June 30 2010, to the amount of \$0.7 million, of which \$0.5 million are in the opinion of Company Management, based on the advice of legal counsel, have a risk level of over 50%. The Company has listed provisions in its Financial Statements for these claims based on the advice of its legal counsel.
- e. Over the course of the six month period ending June 30 2010, legal proceedings have been concluded in eleven suits, the total financial scope of which amounted to \$0.5 million. The Company was charged with a payment of \$0.2 million for these suits.

EL AL Israel Airlines Ltd.**Notes to the Concise Consolidated Financial Statements**

- f. Regarding other material legal proceedings against the Company, see Note 27.d. to the December 31 2009 Financial Statements.

Note 9 - Taxes on Income

Not applying International Financial Reporting Standards for tax purposes:
Amendment 174 to the Income Tax Ordinance - Temporary Order to Tax Years 2007, 2008 and 2009 (hereinafter: "The Amendment") was published on February 4 2010. In accordance with the Amendment, Israeli Accounting Standard 29 on the matter of adoption of IFRS shall not apply to the determination of taxable income in the years in question even if applied for the purpose of preparing the financial statements. No law has yet been established pertaining to the issue of applying International Financial Reporting Standards in the determination of taxable income in 2010.

Note 10 - Transactions and Commitments with Subsidiaries

- 1) As stated in Note 1.d, the Company did not include separate financial information in its report for the period ending June 30 2010, in accordance with Regulation 9c of the Regulations, due to the negligibility of the added information.

The Company fully owns several companies the activity of which complements the primary activity conducted within the framework of the Company. These companies do not act independently, but are in effect specific components of the Company's array of activities consolidated in the form of companies and this from regulation and other administrative reasons (salary agreements etc.). These companies are not material relative to the Company as the extent of assets, liabilities and revenues managed as part of the subsidiaries are negligible relative to the extent of the assets, liabilities and revenues managed within the framework of the Company. Therefore, publication of separate Financial Statements will not provide additional material information to the reasonable investor.

- 2) The Company has entered into agreements with its subsidiaries as follows:

a. Activity between the parent company and its subsidiaries:

<u>Company</u>	<u>Type of Activity</u>	<u>For the Six Month Period Ending</u>		<u>For the Three Month Period Ending</u>		<u>For the Year Ending</u>
		<u>June 30</u>		<u>June 30</u>		<u>December 31</u>
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>
<u>Thousands of USD</u>						
Sun D'Or	Leasing aircraft and associated services	33,228	26,260	16,828	14,732	68,051
	Commissions from parent company	530	420	322	260	648
TAMAM	Purchasing food for Company flights at BGN	9,937	8,776	5,483	4,770	19,608
Borenstein	Purchasing food for Company flights from New York	3,215	3,390	1,789	1,850	6,352
	Management fees to the parent company	56	70	28	35	188
Superstar	Sale of flight tickets	5,286	4,174	2,342	2,364	8,578
Katit	Purchasing food for employees and food services in the King David Lounge in Terminal 3	1,429	1,295	732	714	2,767

EL AL Israel Airlines Ltd.**Notes to the Concise Consolidated Financial Statements**

<u>Company</u>	<u>Type of Activity</u>	<u>Investment Account</u>		<u>Investment Account</u>		<u>Credit and Debit Account</u>		<u>Credit and Debit Account</u>	
		<u>As of June 30</u>		<u>As of December 31</u>		<u>As of June 30</u>		<u>As of December 31</u>	
		<u>2010</u>	<u>2009</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>		
		Thousands of USD							
Sun D'Or	Leasing aircraft and associated services	3	3	3	8,225	981	6,543		
TAMAM	Purchasing food for Company flights at BGN	1,287	1,856	1,617	5,651	4,730	4,310		
Borenstein	Purchasing food for Company flights from New York	4,629	4,230	4,367	716	442	191		
	Loan to parent company (1)	2,600	2,600	2,600					
Superstar	Sale of flight tickets	(54)	192	(32)	526	578	189		
	Loan from parent company (2)	308	340	332					
Katit	Purchasing food for employees and food services in the King David Lounge in Terminal 3	-	-	-	1,093	860	946		

(1) In December 2008 the Company received a \$2,600 thousand loan from Borenstein for a period of three years, at a 2.3% annual interest rate paid December 15 every year.

(2) In September 2007 the Company provided Superstar with a £205,000 loan. This loan does not have a repayment date and bears no interest.

a. Collateral:

Sun D'Or guarantees the Company's liabilities to the Customs Authorities, to an amount of \$100,000.

The Company has granted Sun D'Or a letter of indemnification in which it undertakes to compensate Sun D'Or for any sum Sun D'Or is required to pay for the collateral.

Tamam provided bank guarantees to the IAA for licensing fees to the amount of \$0.7 million.

The Company provided Tamam with counter-guarantees for the sum in question.

b. Mutual activity between subsidiaries:

<u>Companies</u>	<u>Type of Activity</u>	<u>For the Six Month Period Ending</u>		<u>For the Three Month Period Ending</u>		<u>For the Year Ending</u>
		<u>June 30</u>		<u>June 30</u>		<u>December 31</u>
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>
		Thousands of USD				
TAMAM-Katit	Food purchasing	22	32	8	15	58
Superstar-Sun D'Or	Flight Ticket Purchasing	1,845	953	933	656	2,095

EL AL Israel Airlines Ltd.**Notes to the Concise Consolidated Financial Statements**

	<u>Credit and Debit Account</u>		<u>Credit and Debit Account</u>
<u>Companies</u>	<u>As of June 30</u>		<u>As of December 31</u>
	<u>2010</u>	<u>2009</u>	<u>2009</u>
	<u>Thousands of USD</u>		
TAMAM-Katit	13	25	20
Superstar-Sun D'Or	1,320	1,209	788

Note 11 - Segment-Based Reporting**a. General:**

The Group has applied IFRS 8, "Operating Segments" (hereinafter "IFRS 8") starting January 1 2009. According to IFRS 8, operational segments are identified based on internal reports on the Group's components, which are reviewed on a regular basis by the Group's chief operational decision maker for the purpose of allocating resources and assessing the performance of the operational segments.

In light of the above, the following are the Company's reported operating segments in accordance with IFRS 8:

Segment A - passenger aircraft activity.

Segment B - cargo aircraft activity.

In the reported year, Company Management has decided that in determining the results of the reported operating segments, a number of components not part of the direct costs involved in operating the flights, which have been included to date under "unattributed costs", such as depreciation of aviation equipment, fixed maintenance costs and fixed costs at overseas offices must also be allocated.

Operating segment results for the six-month period and three-month period ended in June 30 2010, as well as the comparison numbers in this report were adapted retroactively in accordance with the format set and as presented to the Company's chief operational decision maker.

EL AL Israel Airlines Ltd.**Notes to the Concise Consolidated Financial Statements****b. Analysis of revenues and results according to operating segments:**

	For the Six Month Period Ending June 30 2010				
	Passenger Aircraft	Cargo Aircraft	Others	Adjust- ments	Total
	Thousands of USD (Unaudited)				
Revenues					
Revenues from outside customers	826,162	39,499	20,494	32,865	919,020
Inter-segment revenues	-	-	33,230	(33,230)	-
Total segment revenues	<u>826,162</u>	<u>39,499</u>	<u>53,724</u>	<u>(365)</u>	<u>919,020</u>
Segment results	<u>94,016</u>	<u>(868)</u>	<u>14,513</u>	<u>-</u>	<u>107,661</u>
Unassigned expenses					(97,373)
Operating profit					<u>10,288</u>
Financing expenses					(16,372)
Financing revenues					3,992
The Company's share of the profits of subsidiaries, net					-
Loss before taxes on income					(2,092)
Tax benefit					402
Loss for the period					<u>(1,690)</u>

	For the Six Month Period Ending June 30 2009				
	Passenger Aircraft	Cargo Aircraft	Others	Adjust- ments	Total
	Thousands of USD (Unaudited)				
Revenues					
Revenues from outside customers	669,055	31,136	18,584	27,324	746,099
Inter-segment revenues	-	-	25,839	(25,839)	-
Total segment revenues	<u>669,055</u>	<u>31,136</u>	<u>44,423</u>	<u>1,485</u>	<u>746,099</u>
Segment results	<u>6,369</u>	<u>(14,643)</u>	<u>13,389</u>	<u>-</u>	<u>5,115</u>
Unassigned expenses					(72,061)
Operational loss					<u>(66,946)</u>
Financing expenses					(14,532)
Financing revenues					4,631
The Company's share of the profits of subsidiaries, net					36
Loss before taxes on income					(76,811)
Tax benefit					17,227
Loss for the period					<u>(59,584)</u>

EL AL Israel Airlines Ltd.**Notes to the Concise Consolidated Financial Statements****For the Three Month Period Ended June 30 2010**

	Passenger Aircraft	Cargo Aircraft	Others	Adjust- ments	Total
	Thousands of USD				
	(Unaudited)				
Revenues					
Revenues from outside customers	451,162	21,455	9,054	16,855	498,526
Inter-segment revenues	-	-	16,663	(16,663)	-
Total segment revenues	451,162	21,455	25,717	192	498,526
Segment results	62,005	78	6,386	-	68,469
Unassigned expenses					(43,466)
Operating profit					25,003
Financing expenses					(8,449)
Financing revenues					3,190
The Company's share of the profits of subsidiaries, net					-
Profit before income tax					19,744
Income taxes					(4,902)
Income for the period					14,842

For the Three Month Period Ended June 30 2009

	Passenger Aircraft	Cargo Aircraft	Others	Adjust- ments	Total
	Thousands of USD				
	(Unaudited)				
Revenues					
Revenues from outside customers	363,660	11,936	8,784	15,052	399,432
Inter-segment revenues	-	-	14,239	(14,239)	-
Total segment revenues	363,660	11,936	20,023	813	399,432
Segment results	8,789	(8,059)	6,481	-	7,211
Unassigned expenses					(31,671)
Operational loss					(24,460)
Financing expenses					(10,056)
Financing revenues					2,958
The Company's share of the profits of subsidiaries, net					37
Loss before taxes on income					(31,521)
Tax benefit					11,777
Loss for the period					(19,744)

EL AL Israel Airlines Ltd.**Notes to the Concise Consolidated Financial Statements**

	For the Year Ended December 31 2009				
	Passenger Aircraft	Cargo Aircraft	Others	Adjust- ments	Total
	Thousands of USD				
	(Audited)				
Revenues					
Revenues from outside customers	1,489,496	58,317	37,874	70,146	1,655,833
Inter-segment revenues	-	-	68,051	(68,051)	-
Total segment revenues	<u>1,489,496</u>	<u>58,317</u>	<u>105,925</u>	<u>2,095</u>	<u>1,655,833</u>
Segment results	<u>112,453</u>	<u>(27,457)</u>	<u>27,457</u>	<u>-</u>	<u>112,453</u>
Unassigned expenses					(187,421)
Operational loss					<u>(74,968)</u>
Financing expenses					(30,297)
Financing revenues					3,999
The Company's share of the profits of subsidiaries, net					<u>442</u>
Loss before taxes on income					(100,824)
Tax benefit					<u>24,524</u>
Yearly loss					<u><u>(76,300)</u></u>

Note 12 - Bonus for the Departing CEO

Pursuant to Note 38k of the 2009 Financial Statements, regarding the discontinuation of the service of Company CEO Mr. Chaim Romano, note that in accordance with the departing CEO's entitlement to result-dependent bonus payment for a six month period out of the advance notice period according to his employment agreement, the Company's Board of Directors decided that the bonus shall be calculated on the basis of the months of January through June 2010. In accordance with the Company's financial results, the bonus in question amounts to \$647,000, to be paid near the publication of the Company's Q2 Financial Statements.

Note 13 - Events Subsequent to the Balance Sheet Date

- a. In July 2010 the Company decided to exercise its option to extend the lease of a M.K. AVIATION, S.A 757-200 aircraft, starting December 2010, for an additional 12-month lease.
- b. In July 2010 the Company signed a memorandum of understanding with CIT Aviation Finance I Limited for the lease of a 737-800 aircraft for a 68 month leasing period with the option to extend the period by an additional 24 months. The aircraft, manufactured in 2006, is equipped with CFM56-7B26 engines and shall be reconfigured to EI Al configuration upon receipt.
- c. In August 2010 the Company signed a cooperation agreement (on an interline basis) with Jet Blue, which operates a large volume of domestic U.S. flights departing from JFK Airport in New York. The new agreement is expected to come into effect in October 2010 and will allow the Company to offer a variety of new destinations throughout the United States, Latin America and the Caribbean, along with the option of adding frequencies and new routes.