

Elal Israel Airlines Ltd. Reports Fourth Quarter of 2007 and 2007 Financial Results

Record revenues since the Company's establishment – Company revenues totaled \$1.93 billion, compared to \$1.67 billion for the comparative period last year, an increase of 16%

- **Operating revenue for the year totaled \$71.4 million, compared to a loss of \$8.5 million last year**
- **Annual pre-tax profit totaled \$40.4 million, compared to a loss of \$40.7 million last year**
- **Annual after-tax profit totaled \$31.7 million, compared to a loss of \$33.9 million last year**
- **Cash flow from regular ongoing activities in 2007 totaled \$231.2 million, an increase of about 136% compared to last year**
- **Revenues for the fourth quarter totaled \$524.3 million, an increase of about 26%, compared to the same quarter last year**
- **Annual growth of about 4.4% in aircraft load factors (seat occupancy), from 81.3% to 84.9%**

Lod, Israel, March 26, 2007 - Elal Israel Airlines Ltd. (TASE: ELAL) the Israeli national carrier Reports Fourth Quarter of 2007 and 2007 financial Results.

Haim Romano, Company President noted that: "The Company made a remarkable recovery in 2007, even though the results of the Second Lebanese War, which reduced incoming tourism sharply in 2006, were still very apparent during the first half of the year. El Al's ability to show profits is the result of the determined effort to reduce expenses while increasing revenues, particularly through the growth engines the Company defined for itself - the business passenger segment and incoming tourism. All this, together with optimizing and reorganizing routes and fleets, brought about the increases in all the Company's growth engines and resulted in record growth in revenues and increases in load factors.

"We saw expressions of all these in 2007, in spite of the fierce new competition. Beginning in the second quarter of 2006, foreign carriers have increased their seat capacity by about 57%. Meeting the growing competition is a parallel challenge to facing other critical outside factors as well: The increase in the price of fuel, reaching new levels of over \$110; the sharp drop in the dollar to a low of 3.4 shekels; and if that were not enough – geopolitical conditions continue to destabilize tourism, and Israel is as vulnerable as always.

"In response, El Al stuck steadfastly to its "El Al 200" strategic policy, and continued to optimize all its activities; to reduce unprofitable activities; to add capacity for developing and increasing markets and destinations, such as the Far East.

During 2007, the Company increased the number of passengers and increased seat availability by 2%, while at the same time using the aircraft fleet at high efficiency. The Company attained a load factor of better than 85%.

As part of the efficiency plans, the Company reduced management and general expenses to about 4.7%. In addition, in 2007, the Company reduced average human resources requirements by about 230 manpower/years, compared to 2006. This reduction was achieved in cooperation with the employees."

Results for 2007:

- **Annual revenues** totaled \$1.93 billion, compared to \$1.67 billion last year, an increase of about 16%. The increase in revenues resulted mainly from the increase in passenger revenues, stemming from the increase in passenger-segments flown by the Company, and the average revenue increase per passenger/kilometer. In addition, there was an increase in other revenues, in particular from providing maintenance services to other airlines, and in duty-free sales.
- **Operating revenues** totaled \$1.54 billion, compared to \$1.39 billion last year, and increase of about 10%. The increase in operating expenses stem largely from the increase in the cost of jet fuel – the most significant expense of all the Company's expenditures. Another significant expenditure was on salaries, because of the revaluation of the shekel and the euro against the dollar, although this was partly offset by the reduction in the average number of employees throughout the year. Other costs included increased aircraft maintenance and flight equipment expenses, and also overflying (transit) fees. The ratio of operating costs to turnover dropped from about 83.7% last year to about 79.7% in 2007. The cost of aviation fuel for the Company in 2007, after hedging returns of about \$8.3 million, rose by about 19% compared to last year, and totaled \$556.3 million in 2007, compared to \$465.9 million in 2006. Aviation fuel expenses represented about 28.8% of turnover, compared to about 28% last year, and about 36.1% of operating expenditures, compared to about 33.4% of last year's operating expenditures. At the same time, the Company presents operating efficiencies, expressed as a growth of about 4.4% in aircraft load factors, from 82.3% last year, to 84.9% in 2007.
- **Gross profits** totaled about \$392.8 million (a ratio of about 20.3% on turnover), compared to about \$271.3 million last year (a ratio of about 16.3% on turnover), an increase of about 45%. The increase in gross profits and the ratio to turnover stem largely from increased revenues, which were higher than the increase in operating expenses.
- **Management & general expenses** dropped by \$1.2 million, and totaled \$90.8 million in 2007, compared to \$92 million last year. The ratio of these expenses to turnover dropped from about 5.5% last year to about 4.7% in 2007.

- **Operating Profits** totaled \$71.4 million, at a ratio of 4% on turnover, compared to an operating loss of \$8.5 million last year. Cost-of-sales expenditure rose by \$42.8 million, largely as a result of increased commissions to agents, on higher sales.
- **Pre-tax Profit** totaled \$40.4 million, a ratio of 2.1% on turnover, compared to a pre-tax loss of \$40.7 million last year.
- **Net profits** totaled \$31.7 million, compared to a loss of \$33.9 million last year. The 2007 net profit represents 1.6% of turnover.
- **Cash flow from current activities** totaled \$231.2 million, compared to \$98.1 million last year, an increase of about 136%. The increase stems largely from the pre-tax profits this year, compared to the pre-tax loss recorded last year, as well as from the increase in the balances of payable suppliers.
- **Cash balances for the Company** as at the 31st December 2007 stood at \$260.2 million, compared to \$143.4 million as at 31st December 2006, an increase of about 81%. This is after current repayments of loans totaling \$103.6 million, as well as investments in fixed assets and in purchasing aircraft, totaling \$248.6 million.
- **Company equity** as at 31st December 2007 totaled \$292.5 million, compared to \$214.1 million as at 31st December 2006, an increase of about 37%. The increase is largely the result of profits for the period; from deposits from the State of Israel in the employees' compensation funds; and from exercising share options to shares, and offsetting dividends paid and an additional dividend for shareholders that was announced (and paid in January 2008).

Fourth quarter results:

- **Revenues** totaled \$524.3 million, compared to \$416.7 million in the parallel quarter last year, and increase of about 26%. The increase stems from the increased passenger and cargo revenues, and other revenue sources.
- **Operating expenditure** totaled \$429.3 million (at a ratio of 81.9% on turnover), compared to \$349.3 million in the parallel quarter last year. (ratio of about 83.8% on turnover), an increase of about 23%. The increase in operating expenditure stems largely from the drastic increase in expenditure on aviation fuel. Nevertheless, as stated, the ratio of operating expenditure to turnover dropped.
- Allocations for bonuses to employees and managers totaled \$6.1 million
- **Net profits** totaled \$95.0 million (18.1% on turnover), compared to \$67.4 million in the comparative quarter last year (16.2% on turnover) an increase of 41%

- **The operating loss** totaled \$1.1 million, compared to an operating loss of \$9 million in the comparative quarter last year. Expenses on sales during the quarter totaled \$71.3 million, compared to \$52.1 million in the comparative quarter last year. The increases arose from the increase in sales, resulting in higher commissions paid to agents.
- **Losses** in the quarter totaled \$8.4 million, compared to a loss of \$15.9 million in the comparative quarter last year, a drop of about 49%

Haim Romano, El Al President, said: "The Company achieved the targets it set for itself in 2007: Increased revenues, reduced expense ratios, and correct handling of the Company's intrinsic value. The overall aim is to become profitable and financially powerful. The Company takes pride in offering attentive, quality service for passengers' benefit and the benefit of the employees and shareholders, while proceeding with its investment programs. The Company continued with its efficiency program, reduced inefficient and unprofitable routes, increased services to the Far East, and added flights on high-demand routes. As part of the efficiency program, the Company reduced the average human resources requirements in 2007, by about 230 manpower/years, in comparison to 2006. This reduction was achieved in cooperation with the employees.

"The Company recorded revenues of \$1.93 billion million in 2007, an increase of about 16% compared to the comparative quarter last year. The Company increased the number of passengers; increased seat availability by 2% while efficiently using the fleet of aircraft; and achieved extremely high load factors on its aircraft during the year - about 85%. In addition, the Company recorded its highest ever profits since its establishment in 1948. All this in spite of increasing competition, characterized especially by increased capacity offered by foreign carriers for both passengers and cargo. I must emphasize that these impressive results were achieved while facing challenges, record highs in fuel costs (that added \$86 million to the Company's expenses compared to last year), and changes in the currency rates that resulted in an increase of about \$26 million in expenditure for the Company.

In December 2007, a cooperative code-share agreement with American Airlines was signed. This will offer El Al passengers the possibilities of onward connections to more than 20 major destinations served by American Airlines, through the USA.

Haim Romano concluded: "I do believe that the steps we have taken will continue to bear fruit in the foreseeable future. The continued revenue growth and volume of passenger traffic, together with effectively meeting the challenges and influences of outside factors – soaring fuel costs, the weakening dollar – becoming more efficient and the ongoing steps taken to improve the excellent service, are proof of the Management and employees' ability to meet growing competition. We will preserve El Al's position as the leader in aviation. The Company will continue to meet all and every challenge brought on by the stiff competition of the foreign air carriers".

Mr. Nissim Malki, El Al's Vice President Finance, said: "We are proud to present these impressive results in 2007; increases in the Company's activities and

profitability, in spite of the many challenges and the outside influences that the Company had to face. These include the effective cost of aviation fuel (after a rebate of \$8.3 million through hedging) that rose by 18% this year; as well as the strengthening of the shekel and euro against the dollar, which led to an increase in expenditure of \$112 million. Some of this cash flow stems from obligations concerning employee/employer relations. The increase in the Company's shekel expenses in dollar terms is especially noticeable in the field of employee salaries, some of which was partly offset by a reduction of about 235 employees during the year. This was part of our efficiency efforts, and additional shekel obligations to payable suppliers in Israel. Fine revenue management capability brought about an impressive increase in revenue turnover. In view of this, and in spite of the increase in operating expenditure, we are able to present a significant improvement in gross profits, which totaled \$392.8 million, and operating profits of \$71.4 million – amongst the highest the Company has ever attained – compared to an operating loss last year. The substantial results are reflected in the bottom line, in the net profit of \$31.7 million, compared to the loss of \$33.9 million last year".

Mr. Malki concluded: "The Company's financial robustness is reflected in the strong cash flow from ongoing activities, totaling \$231.2 million, an increase of 136% compared to 2006. Within the strategic planning framework, we invested \$248.6 million this year in rejuvenating and renewing the aircraft fleet, and in fixed assets. This year we also repaid current debts, to the tune of \$103.6 million, including repayment of a balloon loan of \$40 million, in a one-time payment. Company equity totaled \$292.5 million, an increase of 37% compared to the previous year. This leaves the Company with a cash situation of \$260.2 million, as a powerful and stable base on which to continue the investment and growth policy, and to ensure the Company's position as the leader in the field."

About El Al

El Al Israel Airlines is the Israeli national carrier. The Company has annual revenues of about \$1.9 billion, and carries about 1.8 million each year. El Al serves more than 40 destinations directly, and many other destinations around the globe through cooperation agreements with other airlines. The fleet consists of 36 aircraft, 30 of which are self-owned. El Al is Israel's leading cargo carrier. The Company is active in the charter market through its subsidiary, Sun D'or. El Al is celebrating its 60th anniversary this year.