

Elal Israel Airlines Ltd. Reports First Quarter of 2006 Results

- ❖ **A 17% growth in revenue totaling about \$372.5 million, stemming primarily from an increase of approximately 21% in the number of passengers and about 5% in cargo carried by the airline**
- ❖ **An increase of approximately 25.5% in gross profit for the quarter, which totaled \$57.7 million**
- ❖ **A decrease of about 33% in losses for the quarter, which totaled \$12.4 as compared with a loss of about \$18.5 million in the parallel period last year**
- ❖ **The company's cash balance as of March 31, 2006 totaled some \$166 million, as compared with \$198 million at the end of 2005, following a down payment of \$28 million on Boeing 777 aircraft**
- ❖ **The increase in the cost of fuel added \$18 million to the company's expenses, after hedging actions.**

Lod, Israel, May, 30, 2006, Elal Israel Airlines Ltd. (TASE: ELAL) the Israeli national carrier Reports First Quarter of 2006 Results.

Haim Romano, Company President, said: "The airline operates within a sophisticated commercial market, says Romano, which is characterized by ever-growing competition from both scheduled and charter foreign airlines who are increasingly interested in flying to and from Israel. While contending with the major challenges presented by this situation, we are continuing with implementation of the airline's "EL AL 2010" commercial plan. It is designed to significantly improve the EL AL product and service, so that EL AL maintains its position among the world's leading airlines".

"The consistent rise in market share and load factor attests to the trust and loyalty of EL AL's customers. It also reflects their strengthened ties as well as their growing satisfaction in all aspects related to product and service. The entire market grew by about 18% in this quarter, with EL AL recording a growth of 3% above this increase. The airline recorded a 14% improvement in load factor.

EL AL increased its cargo market share by 9%, mainly due to intensified activity to the USA and Europe".

- **Revenues** for the quarter grew by approximately 17% and totaled approximately \$372.5 million last year, in comparison with about \$319.4 million last year. The growth is attributable primarily to an increase in the number of passengers carried by EL AL, to a growth in the airline's market share from about 47% in the parallel period last year to about 48% in this quarter and to a massive increase in load factor, from approximately 72% to about 82%. Likewise, a 12% growth in revenues from cargo transport contributed to the increase.
- **The gross profit** grew by approximately 25.5%, and totaled approximately \$57.7 million, constituting about 15% of the turnover, as compared with about \$46 million last year, representing 14% of the turnover. The rise in gross profit occurred despite the increased disbursement for fuel:
Fuel expenditures, which are the most substantial component of company expenses, grew significantly as a result of the continued rise in the price of jet fuel and constituted approximately 26% of the turnover as compared with about 24% last year. The cost of jet fuel in the market increased at an average rate of approximately 27% in comparison with the parallel quarter last year. The sharp increases in fuel prices alone added approximately \$25 million to the company's expenses this year, before hedging, not including the increase in operations during the quarter. The hedging actions taken by the management in the first quarter of the year saved about \$16 million in fuel costs.
- **The operational loss** totaled about \$6 million, about 2% of the turnover, as compared with an operational loss of approximately \$15.7 million last year, representing about 5% of the turnover. The diminution of the loss and of its proportion of the turnover is attributable in part to the reduction in proportion of sales, administrative and general expenses, thanks to economizing and efficiency measures taken by the company during this period.
- **The loss** for the quarter totaled approximately \$12.4 million, in contrast with a loss of approximately \$18.5 million last year.
- The company's **cash balance** as of March 31, 2006 totaled about \$166 million, compared with approximately \$198 million at the end of 2005. This figure

includes the payment of financial commitments and a down payment for aircraft and an investment of about \$44 million in fixed assets and spare parts.

- **Equity** as of March 31, 2006 totaled some \$259 million.
- **Cash flow** from current activity for the quarter totaled approximately \$13.2 million.

EL AL President Haim Romano said: "The airline continues to be more and more attractive and maintain its market share of the overall passenger traffic at Ben-Gurion Airport. The number of passengers carried by the airline rose by approximately 21% and the supply of seats increased by about 4%. These data reflect the efficient utilization of the fleet, as can be seen in the load factor, which rose by 14%.

"The first quarter continues to be characterized by two opposing trends: on the one hand, a growth in the demand for seats to and from Israel, and on the other, a rise in the cost of disbursements. Looking forward, it may be that the rate of increase of disbursement costs will be higher than the expected growth in passenger traffic.

"The aviation industry in Israel has recently been exposed to increasing competition. We continue to invest heavily in resources and thought so that EL AL can maintain its leading position in the industry. We are continuing to implement the "EL AL 2010" commercial plan, as part of which many steps were taken towards implementing the growth policy: among others, we have continued to cultivate incoming tourism, which rose by approximately 18% and outgoing tourism, which rose by about 11%. We have added a 737-800 aircraft to increase frequencies on short-range flights; likewise we have added frequencies to meet our customers' needs during this quarter: to Moscow, Berlin, Vienna and Paris".

Mr. Romano concluded: "We believe that the steps we are taking to ensure constant improvement in the quality of the product and excellence in service will help EL AL to maintain its position among the leading airlines in the world."

Nissim Malki, CFO said: "The first quarter of the year is traditionally weak, in relation to the rest of the year. Nevertheless, the airline registered record revenues for a first quarter, reflecting a growth of about 17% as compared with the parallel quarter

last year. In addition to the seasonal element that is built in to the aviation industry, we also had to contend during this period with the continued rise in fuel prices – the airline's main disbursement. The average price of fuel in the market in the quarter under review was about 27% higher than the average price during the parallel period last year. During the period under review, the company repaid about \$6 million to a long term loan fund. The balance of long term loans as of March 31, 2006 totaled approximately \$619 million.

The loss rate of the total balance decreased from 5.8% to 3.3%. The current ratio improved from 64.3% on March 31, 2005 to 72.5% on March 31, 2006.

During the quarter, the company created \$13 million in cash from current operations. The airline's equity grew from about \$190 million on March 31, 2005 to some \$259 million on March 31, 2006.

In the area of risk management, the company chalked up impressive achievements, and especially in jet fuel hedging. During the quarter we succeeded through our hedging activities to receive about \$16 million in cash in compensation for the rise in the prices of jet fuel".

About El Al

El Al Israel Airlines is Israel's national carrier. El Al has annual revenues of about 1.6 billion dollars and it carries approximately 1.8 million passengers annually. The airline flies directly to more than 41 destinations around the world and to many additional destinations by means of partnership agreements with other airlines. It operates 35 aircraft, of which it owns 28. El Al is the leading airline in the cargo market in Israel. It is active in the charter flight market by means of its subsidiary, Sun D'Or. The airline is marking its 58th year of service.