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El Al Israel Airlines: Results for the second Quarter of 2009

- Revenues for the second quarter of 2009 totaled \$399.4 million, a reduction of about 28% compared to last year.
- From the above, cargo revenues dropped by about 54%, largely from a drop of approximately 26% of the market in Israel.
- Operating expenditure in this quarter totaled \$353.1 million, compared to \$487 million in the corresponding quarter last year – a reduction of about 28%.
- Gross profits for the second quarter totaled \$46.3 million, compared to a profit of \$70.4 million in the equivalent quarter last year.
- The Company's expenditure on aviation fuel dropped by \$103.2 million, and totaled \$111.2 million, compared to \$214.4 million in the corresponding quarter last year - about 27.8% on turnover.
- The loss for the second quarter of 2009 totaled \$19.7 million, compared to a loss of \$12.8 million in the corresponding quarter last year.
- The company produced a positive cash flow from its activities during the second quarter of 2009 of 41.1M\$. Passenger traffic at Ben Gurion Airport dropped by about 12%. Nevertheless, competition in terms of seat capacity from foreign airlines at Ben Gurion Airport, increased by 2%.
- El Al managed to increase its market share to about 38%, compared to 34.6% in the equivalent quarter last year, an increase of 10%, without increasing its seat capacity
- El Al's load factors totaled 77.6%, in comparison with the overall load factors of the foreign carriers, which totaled about 72.6%.

Results for the second of 2009

Revenues for the quarter totaled \$399.4 million compared to \$557.5 million in the equivalent quarter last year, a drop of about 28%. The drop in revenues derives mainly from the reduction in the average income per passenger/kilometer, due to the reduced fuel surcharge, resulting from the drop in the price of aviation fuel. There was also a drop in the number of passengers, compared to the equivalent quarter last year. Cargo revenues declined by about 54% compared to the parallel quarter last year, as a result of worldwide depression in which the air cargo industry finds itself.

Operating expenses for this quarter totaled \$353.1 million, compared to \$487 million in the parallel quarter last year, a reduction of about 28%. The reduction is due predominantly to a lower aviation fuel expenditure, lower costs of salaries, and adjusting variable expenses to the decline in activity. The Company's expenditure for jet fuel dropped from \$214.4 million in the second quarter of 2008, to \$111.2 million in the second quarter of 2009, a drop of about 48%. The Company's total expenditure on fuel includes net hedging costs totaling about \$17.1 million. By adjusting the Company's activities to lowered demand, operating expenses dropped by about \$26 million, compared the equivalent quarter last year. The ratio of operating expenditure to turnover rose from 87.4% in the parallel quarter of 2008, to 88.4% in this quarter.

Cost of salaries dropped by about \$23.6 million, largely resulting from a drop in the average shekel/dollar exchange rate of about 19% compared to the parallel quarter last year and also as a result of efficiency steps, which brought about a reduction of about 320 positions.

Gross profits during the quarter reached \$46.3 million (ratio of 11.6% on turnover) compared to \$70.4 million in the equivalent quarter last year (12.6% on turnover), a decline of about 34%.

Cost of sales dropped from \$61.1 million in the second quarter of 2008, to \$47.6 million in the present quarter. The reduction derives from a decline in distribution costs (brought about by the decline in passenger and cargo revenues), but also from the increase in direct sales by the Company through the Call Center and the internet.

Management and general expenditure dropped from \$26.3 million in the parallel quarter last year, to about \$21.8 million in this quarter. The reduction stems largely from a decline in

salary costs, as a result of the average shekel devaluation vis-à-vis the dollar in this quarter, compared to the equivalent quarter last year.

The operating loss totaled \$24.5 million, compared to an operating loss of \$19.8 million in the equivalent quarter last year.

Financing expenses during this quarter totaled \$7.1 million compared to financing revenues of \$3.1 million in the equivalent quarter last year. The increase in financing expenses is largely the result of the drop in revenues from exchange rate, hedging costs and in interest, compared to the equivalent quarter last year. On the other hand there was a reduction in interest cost, as a result of the drop in LIBOR t rates.

The **net loss** for the second quarter of 2009 totaled \$19.7 million, compared to a net loss of \$12.8 million in the equivalent quarter last year.

Cash flow resulting from the Company's regular activities during the quarter ending on the 30th June 2009, totaled \$41.1 million, compared to the equivalent quarter last year.

On 30th June 2009 the Company's cash balance, value of cash and short-term deposits totaled \$157.3 million. In addition, the Company has pledged-deposits for aviation-fuel hedging totaling \$38.3 million. During the reported quarter the Company invested \$138.8 million in fixed and non-tangible assets. This amount includes the cost of purchasing three new Boeing 737-880s. The Company repaid long-term loans totaling \$17.4 million. At the same time, the Company received loans of \$113.3 million to finance the purchase of new aircraft.

Shareholders' equity at 30th June 2009 totaled \$108.2 million, compared to \$118.7 million as at 31st December 2008, a reduction of about \$10 million. The reduction in the Company's shareholder's equity derives largely from the loss in the quarter, after setting off the increase in capital funds for cash flow hedging as a result of the increase in the fair value of aviation fuel hedging, and interest, which are recognized under accounting principles as protective transactions. Shareholders' equity during the period increased by \$19.4 million, compared to the end of the first quarter of the year.

Mr. Haim Romano, El Al CEO, stated: "At a time when most of the world's airlines report huge losses and revenue reductions, our financial reports reflect vigorous activity and careful controlled expenditure management that succeeded in minimizing potential losses.

"During the second quarter, the Company continued to confront the results of the world financial crisis (that included civil aviation), and the aftermath of "Operation Cast Lead". Both these factors resulted in a significant reduction in passenger movements in general, and in Business passenger movements in particular. The quarter ended with a total reduction of 12.2% in international passenger movements at Ben Gurion Airport, although for El Al the reduction was less pronounced at "only" about 3.5%. In spite of the fact that foreign airlines increased their seat capacity by 2%, El Al, which did not increase capacity at all, managed to increase its market share by about 10%, to a market share of 38%. This is proof that the marketing strategy adopted by the Company over the last two quarters was successful, In July this year El Al recorded an increase of 5.15% in passenger traffic at Ben Gurion Airport, compared to July last year."

"Cargo movements at Ben Gurion Airport dropped sharply by 26% compared to the parallel quarter last year. This resulted in a dramatic drop in pricing, and to a significant impact on the Company's revenues from that source.

"During the first half of 2009 the Company continued to take steps to become more efficient, and to match itself to commercial reality. We succeeded in maintaining lower expenditure levels. The number of staffing positions dropped by an average of about 320 per quarter, compared to the parallel quarter last year. Overall, the volume of the Company's expenses dropped by about 28% compared to the parallel quarter last year. In addition to the expenditure cuts, and as part of the efficiency activities, fuel savings, improved service, and renewal and rejuvenating the aircraft fleets, the Company acquired three new Boeing 737-800s.

"In May this year the Company launched its newest route, to Sao Paulo. This is the first-ever direct scheduled service between Israel and South America. The flights, on the long-haul 777s, depart three times each week in both directions, and have proved a great success. Launching this route was a significant step for the Company, and in the light of the success, we are considering additional frequencies to that destination.

"Our Sun D'Or subsidiary, operating both scheduled and charter services, has increased its fleet, as part of its expansion in operations. Sun D'Or will begin offering scheduled flights.

The Company operates four Boeing 757s, and is the second largest international airline in Israel.

“As part of the Company’s strategy to develop and establish direct marketing channels, we can now report an impressive increase in internet sales and direct sales through the Call Center.

“We end the quarter with a cash flow from regular activities totaling about \$41.1 million, a solid basis on which to continue to advance and to develop the Company. Especially during these times, maintaining a respectable cash balance of around \$157.3 million is particularly important”.

Mr. Nissim Malki, CFO, VP Finance of El Al, commented: “We ended the quarter with a positive cash flow from regular activities of \$41.1 million. This represents a solid basis on which to advance and develop the Company. Maintaining a cash balance totaling \$157.3 million takes on an even more important meaning in these times. The cash balance is an important anchor, which in the future will help us to take advantage of opportunities to develop additional sources of revenue, matching the Company’s business strategy.

The Company carried out its investment plans in accordance with its 2009 working plans; we invested about \$139 million in fixed assets, and repaid long-term loans amounting to \$17 million.

I would like to special mention the Company’s ability to raise loans at preferential terms, in the amount of \$113 million, to finance aircraft purchases, even during this credit crunch. This is a strong indication of the belief of banking system has in the Company and its future.

I would also like to emphasize that the Company’s shareholder equity improved by about \$19 million during the quarter, compared to the end of the first quarter of 2009.”

About El Al

El Al Israel Airlines is Israel's national carrier. The Company's annual revenues total about \$2.1 billion, and it flies about 1.9 million passengers a year. El Al serves about 40 destinations directly and many other destinations around the globe, through cooperation agreements with other airlines. The Company operates 38 aircraft, 28 of which are self-



owned. El Al is Israel's leading cargo carrier. The Company is active in the charter market through its subsidiary Sun D'Or.