

## **Elal Israel Airlines Ltd. Reports Third Quarter of 2006 Results**

**In spite of the hard blow suffered by the Company as a result of 2nd Lebanon war, the Company succeeded in showing a net profit of \$1.8 million.**

**Lod, Israel, November, 20, 2006**, Elal Israel Airlines Ltd. (TASE: ELAL) the Israeli national carrier reports third Quarter of 2006 Results.

The war, which broke out at the beginning of July, resulted in a drop of about 31% in incoming tourist traffic to Israel. During that period, El Al successfully managed to maintain its expenditure structure, while exploiting its flexibility and adjusting seat availability to match the lower demand. As a result, load factor on the Company's flights reached over 80%, and trimmed the impact on profitability.

Alongside the financial challenges facing the Company, El Al is fervently proceeding with its efficiency strategy; continues with its re-equipment plans; improving its product and standards of passenger service: All these with the aim of matching Company activities to the realities of market changes and improving El Al's competitive edge.

- Revenues for the quarter totaled approximately \$447 million
- Gross profit for the quarter totaled approximately \$73.1 million
- Net profit for the quarter totaled approximately \$1.8 million

There was an increase of about 9.5% in operating expenses, in spite of a drop of about 6% in flight hours.

Most of the increase resulted from fuel price increases which added approximately \$32.1 million in expenses during the quarter, after hedging activity.

The weakening of the dollar vis-à-vis other currencies caused an increase in expenditure of approximately \$7.1 million.

The security situation caused a sizeable increase in security expenditure.

**Haim Romano, Company President noted:** "During this quarter the Company confronted the realities of war in the North which resulted in a drop in incoming and outgoing tourism; a continuation of the trend of difficult market conditions; an unrelenting rise in fuel prices, fuel being the Company's main expense – an estimated 29.5% of turnover; and the strengthening of the shekel and the euro against the dollar.

During this period we managed to maintain the expenditure structure while exploiting our flexibility and adjusting seat availability to match the low demand.

As a result, seat- Load factor on the Company's flights reached over 80%, and reduced the impact on profitability. As a result of the lower demand, the Company reduced the number of seats offered, while on most regular foreign carriers, capacity increased by about 23% and they thus flew with low seat- scheduled occupancy rates".

Romano further noted that El Al is committed to continuing with its "El Al 2010" strategy, aimed at a significant improvement in the Company's financial results by increasing sales, improving profitability and increasing the rate of profit-on-turnover, thus placing El Al at the same level as the world's leading airlines. At the same time the aim is to implement the Company's rehabilitation plans designed to make Company activities suit the changing and dynamic realities of today's geo-political commerce.

Revenue from cargo transportation, amounted to approximately \$72.4 million, showed an increase of \$9 million, resulting largely from the increase in freight-tons flown. The increased cargo revenues are a fulfillment of, and support for, the Company's strategic plans to develop additional profit centers.

The Company continues to implement its growth policies and the orientation for a clear preference for premium passengers. There has been a 14% increase compared to the parallel period last year, and an increase of 13% compared to this year's second quarter. In addition, there has been a 5% increase in the Company's Frequent Flyer Club Membership compared to the second quarter of this year, reflecting the loyalty to, and preference for, El Al.

The Company added a Boeing 767 to the fleet, used on the North American routes; a non-stop route to Los Angeles was inaugurated, adding to the four existing non-stop North American routes; the internet check-in service has been expanded. In the summer of 2007, two new Boeing 777's are to be added to the fleet, to enhance service on the Company's long-distance routes. In addition, the Company continues to expand its cooperation with other airlines in order to offer passengers convenient onward connections to hundreds of destinations worldwide and thus increase El Al's competitive edge against other airlines.

Another achievement in this quarter was our ability to maintain the high ratio of on-time performance, about 85%, placing El Al among the top European airlines.

**El Al today published its financial reports for the third quarter of 2006.**

- **Revenues** for the quarter totaled approximately \$447 million, compared to approximately \$485 million for last year's parallel quarter, a reduction of about 8%. The reduced revenues stem from a reduction of about 31% in incoming tourism, as a result of the 2<sup>nd</sup> Lebanon war and the worsening trend in market conditions and sharp competition under which the Company operates.
- **The gross profits** for the quarter totaled approximately \$73.1 million, at about 16.3% of turnover, compared to \$143.6 million in the parallel quarter last year, at about 29.6% of turnover. Compared to last year's third quarter, there was an increase this year in operating expenditure, mainly due to the continuing increase in aviation fuel costs, and an increase in salary expenses caused, inter-alia, by the strengthening of the shekel and the euro against the dollar. During the quarter aviation fuel prices rose by an average of 30%, even after returns from hedging, compared to the parallel quarter last year. Fuel expenditure constitutes about 29.5% of turnover, compared to 23% of turnover in the comparative quarter last year. This increase added approximately \$32.1 million to the Company's quarterly expenses, even after the Company's hedging activities, which saved approximately \$17.5 million in fuel expenses.
- **Operating profits** for the quarter totaled approximately \$4.3 million, about 1% of turnover, compared to operating profits of \$64.6 million in the comparative quarter last year, about 13.3% of turnover.
- **Net profit** for the quarter totaled approximately \$1.8 million, compared to \$52.2 million for last year's third quarter.
- **The Company's cash balance** on 30<sup>th</sup> September 2006 totaled approximately \$120 million, after payments on account of aircraft purchases, fixed and other assets, in an amount of approximately \$84.7 million during the first nine months of the year, compared to a balance of \$198.4 million on the 31<sup>st</sup> December 2005.
- **Equity** on 30<sup>th</sup> September 2006 totaled approximately \$248.2 million.
- **Cash flow for regular Company activities** during the quarter totaled \$14.4 million.

**Mr. Nissim Malki, Vice President Finance for El Al stated:** "There is no doubt that the Lebanon War seriously harmed revenues and cash flow. But the management took all the necessary steps to minimize damage and reduce controllable expenses. Since the beginning of the year the Company has reduced its long-term obligations by approximately \$80 million, and over the last 12 months has paid a total of \$131 million on account of aircraft purchases and other assets. The Company is continuing determinedly with its efficiency plans aimed at improving its expenditure base, and to increase its competitiveness against other airlines".

### **About El Al**

El Al Israel Airlines is Israel's national carrier. The Company's annual revenues total about \$1.6 billion, and it flies over 1.8 million passengers a year. El Al serves more than 40 destinations directly, and many other destinations around the globe through cooperation agreements with other airlines. The fleet consists of 35 aircraft, 28 of



which are self-owned. El Al is Israel's leading cargo carrier. The Company is active in the charter market through its subsidiary Sun D'or.  
This is El Al's 58<sup>th</sup> year of activity